
Finance Advisory Committee Revenue and Budget Update

April 13, 2023



Key Points of the April Update

- Based on the strength of year-to-date collections, FY 23 base revenue growth is projected to be 8.8%, up from 7.5% in the January forecast.
- The FY 24 and FY 25 outlook remains very cautious with revenue growth rates of 2.1% and 3.6%, respectively.
- Due to the higher FY 23 base, the April update increases the level of available resources to \$2.5 B
 - \$750 M higher than the January estimate, but we recommend reserving up to \$100 M for a cash balance
- Over 3-year budget period, January or April estimates are plausible

FY 23 Trends

- Through March, General Fund revenues are \$284 M above the January forecast.
- The April update would raise FY 23 revenues by \$233 M above the January forecast.
- There are 2 main drivers of the FY 23 growth rate that are difficult to interpret
 - Corporate Income Tax collections are up 64% year to date – much higher than the 10% increase in federal collections
 - Since January, Individual Income Tax refunds are 54% higher than last year. Due to the tax cut, we had only anticipated a 17% increase

Forecasters' Assessment of Recession Risk

- Difficult to Translate into AZ General Fund Impact

- National Association for Business Economics (NABE)
 - Comparable to the December survey, 58% of respondents believe probability of a recession starting in CY 2023 is greater than 50%
- Bloomberg's Monthly Survey of Economists
 - Survey respondents see a 65% risk of recession in CY 2023 - down from 70% in December
- IHS Markit Forecasting
 - Their perspective remains unchanged since December. In CY 2023, the risk of a mild recession is 55% and a severe recession is 25%

Forecasting State Revenues

January vs. April 4-Sector Forecasts

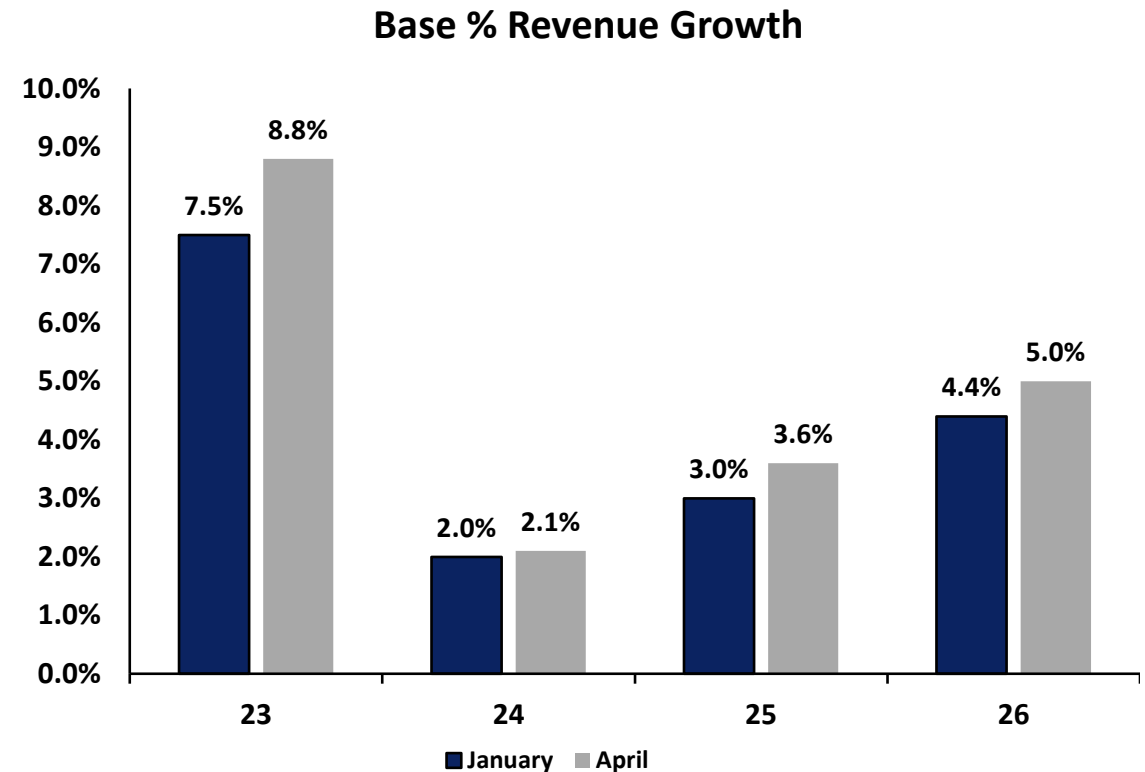
- April Estimates Raise the Forecast in Each Year

4-Sector Components

- Finance Advisory Committee
- UA model – base
- UA model – more cautious
- JLBC Staff

Other Considerations

- Rates are Prior to Enacted Tax Cuts
- With Tax Cuts, FY 24 net growth is negative



Excludes balance forward, one-time transfers, tax law changes and urban revenue sharing

See Appendix A and B

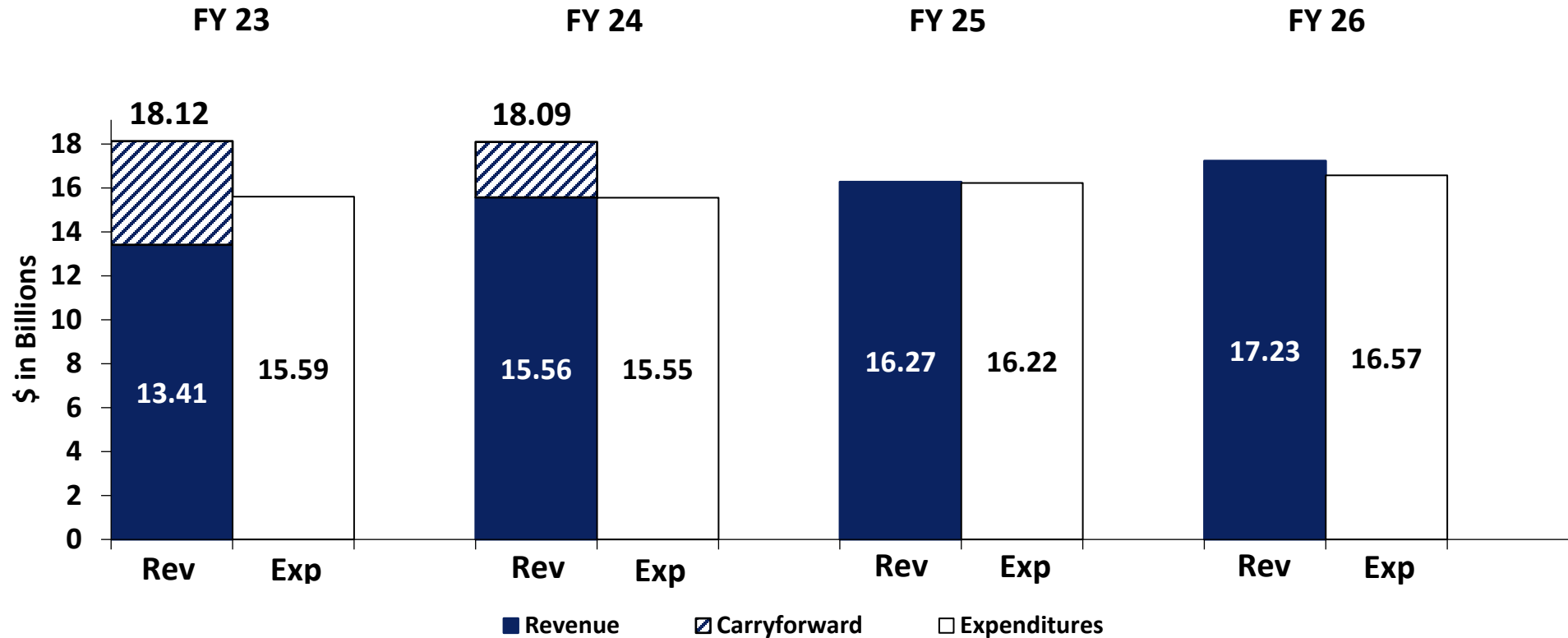
Projected Ending Balances

Excludes \$1.4 B in Budget Stabilization Fund

More Information in Appendix C

Available FY 24 Balance is \$2.5 B

- FY 25 Balance Declines to \$50 M



Cash Balance

\$2.5 B

\$2.5 B

\$48 M

\$663 M



STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

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Office Manager.....	Linda Monsanto
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Assistant Directors.....	Micaela Larkin
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.....	Maggie Rocker
Economist.....	Ben Newcomb
Fiscal Analysts.....	Nate Belcher
.....	Chandler Coiner
.....	Cameron Mortensen
Senior Administrative Assistant / JLBC Clerk.....	Kristy Paddack
Administrative Assistant / JCCR Clerk.....	Jennifer Burns

Appendix A: April 4-Sector Revenue Forecast

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Sales Tax				
JLBC Forecast	7.4%	2.5%	4.2%	4.7%
UA – Low	7.1%	1.7%	2.8%	4.4%
UA – Base	7.5%	3.6%	4.3%	4.9%
FAC	7.5%	4.5%	4.9%	6.8%
Average:	7.4%	3.1%	4.1%	5.2%
Individual Income Tax with Deferral				
JLBC Forecast	5.2%	2.2%	4.1%	4.6%
UA – Low	4.9%	2.5%	4.9%	5.4%
UA – Base	5.4%	4.2%	5.5%	5.7%
FAC	4.3%	2.7%	5.0%	6.0%
Average:	5.0%	2.9%	4.9%	5.4%
Corporate Income Tax				
JLBC Forecast	36.6%	-5.9%	1.4%	2.6%
UA – Low	30.1%	-0.8%	3.4%	5.2%
UA – Base	32.2%	2.4%	3.8%	5.4%
FAC	24.8%	-3.8%	2.6%	11.1%
Average:	30.9%	-2.0%	2.8%	6.0%
Insurance Premium Tax				
JLBC Forecast	5.8%	-0.7%	-0.6%	2.8%
UA – Low	4.9%	-1.4%	3.5%	3.4%
UA – Base	5.2%	0.1%	4.6%	3.7%
FAC	8.0%	5.5%	4.9%	6.9%
Average:	6.0%	0.9%	3.1%	4.3%

JLBC Weighted Average	8.4%	1.5%	3.7%	4.4%
UA Low Weighted Average	7.6%	1.7%	3.8%	4.9%
UA Base Weighted Average	8.2%	3.3%	4.8%	5.3%
FAC Consensus Weighted Average	7.3%	3.1%	4.8%	6.8%
“Big-4” Weighted Average	7.9%	2.5%	4.3%	5.3%
Consensus Weighted Average	8.8%	2.1%	3.6%	5.0%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: 4-Sector '22 - '24

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2022	% CHANGE PRIOR YR	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,208,853.5	15.4%	7,739,322.8	7.4%	530,469.2	7,978,082.4	3.1%	238,759.6
Income - Individual	7,530,010.7	15.3%	6,414,621.2	-14.8%	(1,115,389.5)	5,881,112.8	-8.3%	(533,508.5)
- Corporate	1,163,468.9	37.4%	1,523,271.6	30.9%	359,802.7	1,492,241.9	-2.0%	(31,029.7)
Property	26,787.4	19.7%	23,573.0	-12.0%	(3,214.5)	23,054.3	-2.2%	(518.6)
Luxury - Tobacco	20,941.2	-6.8%	20,103.5	-4.0%	(837.6)	19,902.5	-1.0%	(201.0)
- Liquor	43,720.7	-2.3%	47,218.3	8.0%	3,497.7	46,037.9	-2.5%	(1,180.5)
Insurance Premium	707,654.0	14.8%	749,936.3	6.0%	42,282.3	756,650.5	0.9%	6,714.2
Other Taxes	16,301.4	6.5%	16,010.0	-1.8%	(291.4)	17,002.6	6.2%	992.6
Subtotal - Taxes	16,717,737.8	16.5%	16,534,056.8	-1.1%	(183,681.0)	16,214,084.9	-1.9%	(319,971.9)
Other Non-Tax Revenues:								
Lottery	183,680.2	75.4%	175,812.1	-4.3%	(7,868.1)	210,949.3	20.0%	35,137.2
Gaming Revenue	10,437.0	N/A	44,544.6	326.8%	34,107.6	30,444.1	-31.7%	(14,100.5)
Licenses, Fees and Permits	40,600.8	4.3%	44,185.6	8.8%	3,584.8	47,190.2	6.8%	3,004.6
Interest	46,383.0	5118.2%	300,000.0	546.8%	253,617.0	270,000.0	-10.0%	(30,000.0)
Sales and Services	30,351.5	16.5%	33,888.0	11.7%	3,536.5	36,802.3	8.6%	2,914.4
Other Miscellaneous	155,770.7	4.4%	156,275.8	0.3%	505.1	170,991.9	9.4%	14,716.1
Transfers and Reimbursements	168,356.1	29.5%	112,449.6	-33.2%	(55,906.5)	67,357.3	-40.1%	(45,092.3)
Disproportionate Share Revenue	87,833.5	3.5%	84,478.0	-3.8%	(3,355.5)	75,853.5	-10.2%	(8,624.5)
Subtotal - Other Non-Tax	723,412.8	29.7%	951,633.7	31.5%	228,220.9	909,588.7	-4.4%	(42,045.1)
Net Ongoing Revenue	17,441,150.6	17.0%	17,485,690.5	0.3%	44,539.9	17,123,673.5	-2.1%	(362,016.9)
Urban Revenue Sharing (URS)	(756,388.3)	N/A	(1,106,958.7)	N/A	(350,570.4)	(1,564,826.3)	N/A	(457,867.7)
Net Ongoing Revenue w/ URS	16,684,762.3	18.5%	16,378,731.8	-1.8%	(306,030.5)	15,558,847.2	-5.0%	(819,884.6)
One-Time Financing Sources:								
Water Infrastructure Repayment	20,000.0	N/A	0.0	-100.0%	(20,000.0)	0.0	N/A	0.0
Attorney General Settlement	0.0	N/A	77,250.0	N/A	77,250.0	0.0	-100.0%	(77,250.0)
Withholding Revenue Loss	0.0	N/A	(700,000.0)	N/A	(700,000.0)	0.0	N/A	700,000.0
TPT Diversions	0.0	N/A	(2,287,489.6)	N/A	(2,287,489.6)	0.0	N/A	2,287,489.6
Newly Enacted Tax Reductions	0.0	N/A	(50,000.0)	N/A	(50,000.0)	0.0	N/A	50,000.0
Other One-Time Revenue Changes	0.0	N/A	(3,500.0)	N/A	(3,500.0)	0.0	N/A	3,500.0
Subtotal - One-Time Financing Sources	20,000.0	N/A	(2,963,739.6)	N/A	(2,983,739.6)	0.0	N/A	2,963,739.6
Subtotal - Revenues	16,704,762.3	18.3%	13,414,992.2	-19.7%	(3,289,770.1)	15,558,847.2	16.0%	2,143,855.0
Balance Forward	894,636.0	140.2%	4,709,446.0	426.4%	3,814,810.0	2,530,157.1	-46.3%	(2,179,288.9)
Total - Resources	17,599,398.3	21.5%	18,124,438.2	3.0%	525,039.9	18,089,004.3	-0.2%	(35,433.9)

Appendix B: 4-Sector Forecast '25 - '26

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,302,447.0	4.1%	324,364.7	8,735,569.9	5.2%	433,122.8
Income - Individual	6,160,334.8	4.7%	279,222.1	6,488,056.4	5.3%	327,721.6
- Corporate	1,534,119.8	2.8%	41,877.9	1,626,114.8	6.0%	91,995.0
Property	22,547.2	-2.2%	(507.2)	22,051.1	-2.2%	(496.0)
Luxury - Tobacco	19,703.4	-1.0%	(199.0)	19,506.4	-1.0%	(197.0)
- Liquor	48,616.0	5.6%	2,578.1	51,338.5	5.6%	2,722.5
Insurance Premium	780,384.3	3.1%	23,733.8	813,691.2	4.3%	33,306.9
Other Taxes	18,039.8	6.1%	1,037.2	19,122.2	6.0%	1,082.4
Subtotal - Taxes	16,886,192.4	4.1%	672,107.5	17,775,450.4	5.3%	889,258.1
Other Non-Tax Revenues:						
Lottery	222,332.7	5.4%	11,383.4	234,441.3	5.4%	12,108.6
Gaming Revenue	31,783.6	4.4%	1,339.5	33,182.1	4.4%	1,398.5
Licenses, Fees and Permits	49,172.2	4.2%	1,982.0	51,237.4	4.2%	2,065.2
Interest	146,000.0	-45.9%	(124,000.0)	87,000.0	-40.4%	(59,000.0)
Sales and Services	39,709.7	7.9%	2,907.4	42,489.4	7.0%	2,779.7
Other Miscellaneous	183,299.5	7.2%	12,307.6	193,099.7	5.3%	9,800.2
Transfers and Reimbursements	67,694.1	0.5%	336.8	68,303.4	0.9%	609.2
Disproportionate Share Revenue	75,583.9	-0.4%	(269.6)	75,901.9	0.4%	318.0
Subtotal - Other Non-Tax	815,575.8	-10.3%	(94,012.9)	785,655.2	-3.7%	(29,920.6)
Net Ongoing Revenue	17,701,768.1	3.4%	578,094.6	18,561,105.6	4.9%	859,337.5
Urban Revenue Sharing (URS)	(1,428,820.7)	N/A	136,005.6	(1,327,203.8)	N/A	101,616.9
Net Ongoing Revenue w/ URS	16,272,947.4	4.6%	714,100.2	17,233,901.8	5.9%	960,954.4
One-Time Financing Sources:						
Water Infrastructure Repayment	0.0	N/A	0.0	0.0	N/A	0.0
Attorney General Settlement	0.0	N/A	0.0	0.0	N/A	0.0
Withholding Revenue Loss	0.0	N/A	0.0	0.0	N/A	0.0
TPT Diversions	0.0	N/A	0.0	0.0	N/A	0.0
Newly Enacted Tax Reductions	0.0	N/A	0.0	0.0	N/A	0.0
Other One-Time Revenue Changes	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - Revenues	16,272,947.4	4.6%	714,100.2	17,233,901.8	5.9%	960,954.4
Balance Forward	0.0	-100.0%	(2,530,157.1)	0.0	N/A	0.0
Total - Resources	16,272,947.4	-10.0%	(1,816,056.9)	17,233,901.8	5.9%	960,954.4

Appendix C: General Fund Balance Sheet

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES WITH ONE-TIME FINANCING SOURCES

	FY 2023 April FAC	FY 2024 April FAC	FY 2025 April FAC	FY 2026 April FAC
REVENUES				
Ongoing Revenues	\$18,982,014,600	\$19,381,493,800	\$20,076,711,700	\$21,071,622,200
Previously Enacted Tax Reductions	(1,496,324,100)	(2,257,820,300)	(2,374,943,600)	(2,510,516,600)
Urban Revenue Sharing	(1,106,958,700)	(1,564,826,300)	(1,428,820,700)	(1,327,203,800)
Net Ongoing Revenues	\$16,378,731,800	\$15,558,847,200	\$16,272,947,400	\$17,233,901,800
One-Time Revenues				
Balance Forward	4,709,446,000	2,530,157,100		
Attorney General Settlement	77,250,000			
Withholding Revenue Loss (New Tax Rate Form)	(700,000,000)			
TPT Diversions	(2,287,489,600)			
Previously Enacted Tax Reductions	(50,000,000)			
Other One-Time Revenue Changes	(3,500,000)			
Subtotal One-Time Revenues	\$1,745,706,400	\$2,530,157,100	\$0	\$0
Total Revenues	\$18,124,438,200	\$18,089,004,300	\$16,272,947,400	\$17,233,901,800
EXPENDITURES				
Ongoing Operating Appropriations	\$14,204,709,100	\$15,008,287,200	\$15,633,651,600	\$16,372,458,300
ADE Formula Supplemental	200,000,000			
Administrative Adjustments	225,000,000	150,000,000	170,000,000	170,000,000
Reversions	(150,000,000)	(215,000,000)	(215,000,000)	(215,000,000)
Subtotal Ongoing Expenditures	\$14,479,709,100	\$14,943,287,200	\$15,588,651,600	\$16,327,458,300
One-Time Expenditures				
Capital Outlay	250,257,400	31,422,000	29,832,100	23,700,000
Transportation Funding	83,000,000	10,000,000		
Reduce K-12 Rollover	65,000,000			
Pension Payoff (EORP Deposit)	60,000,000			
Operating One-Time Spending	1,138,314,600	229,714,300	273,306,800	219,887,400
Water Supply Funding (TPT Diversion in FY 23)		333,000,000	333,000,000	
Medicaid Reversion (Enhanced Match/Other)	(482,000,000)			
Subtotal One-Time Expenditures	\$1,114,572,000	\$604,136,300	\$636,138,900	\$243,587,400
Total Expenditures	\$15,594,281,100	\$15,547,423,500	\$16,224,790,500	\$16,571,045,700
Ending Balance	\$2,530,157,100	\$2,541,580,800	\$48,156,900	\$662,856,100