
Finance Advisory Committee

Revenue and Budget Update

October 6, 2022



Key Points

- After a 17% increase in '22, General Fund revenue growth is expected to moderate to 6% in '23 and 2% in '24.
- The declining growth rate is related to recession concerns as the Fed raises interest rates in an attempt to lower inflation.
- This growth path plus prior legislative commitments results in an available ongoing balance of \$140 M and a one-time balance of \$2.5 B
- Given the economic uncertainty, our estimate of available resources could change considerably as we go through the '24 budget process.

October Estimates Are Based on a “Maximum Commitment” Scenario -Not a Prediction of Results

- The federal government does not extend the enhanced Medicaid match rate past December 2022
- Prop 123 is not renewed – which would reduce the level of K-12 land trust distributions starting in 7/25 (FY 26)
- Absent any other statutory change, the General Fund would backfill the Prop 123 loss at a cost of \$300 M in '26

Forecasting State Revenues

4-Sector: Much Slower Growth in '24

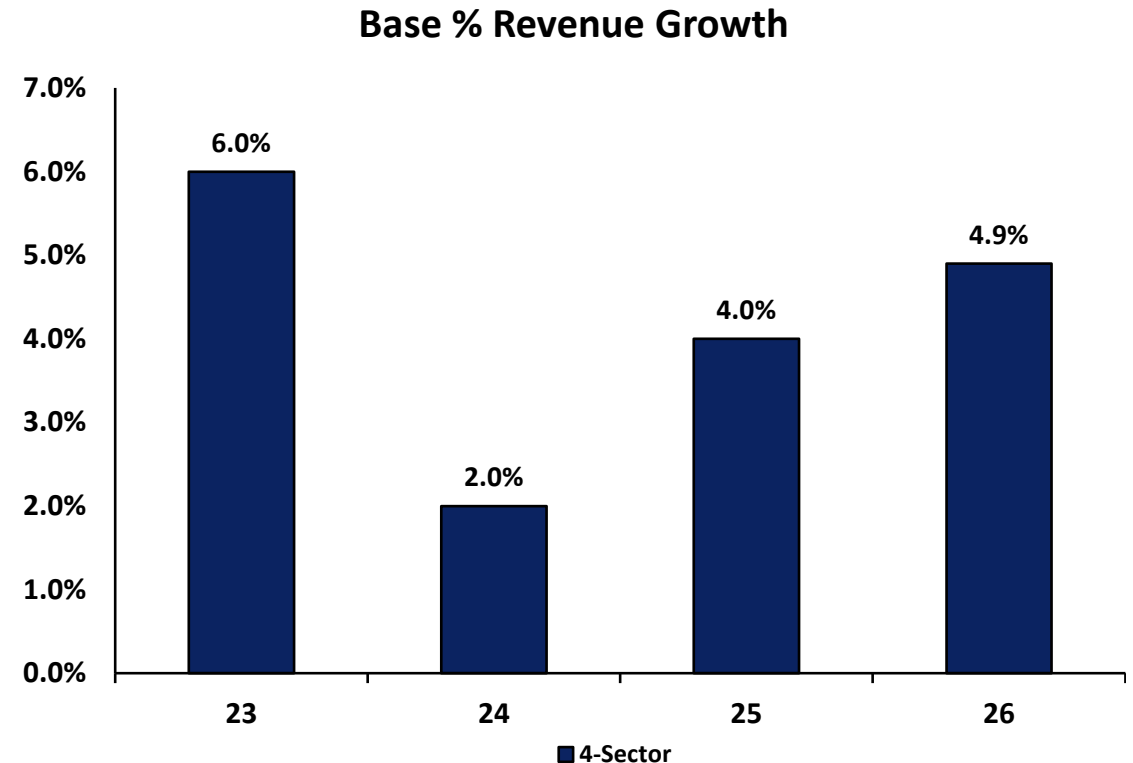
- With Moderate Recovery in '25 and '26

4-Sector Components

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

Represents Base Growth

- Prior to Enacted Tax Reductions



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

See Appendix A and B

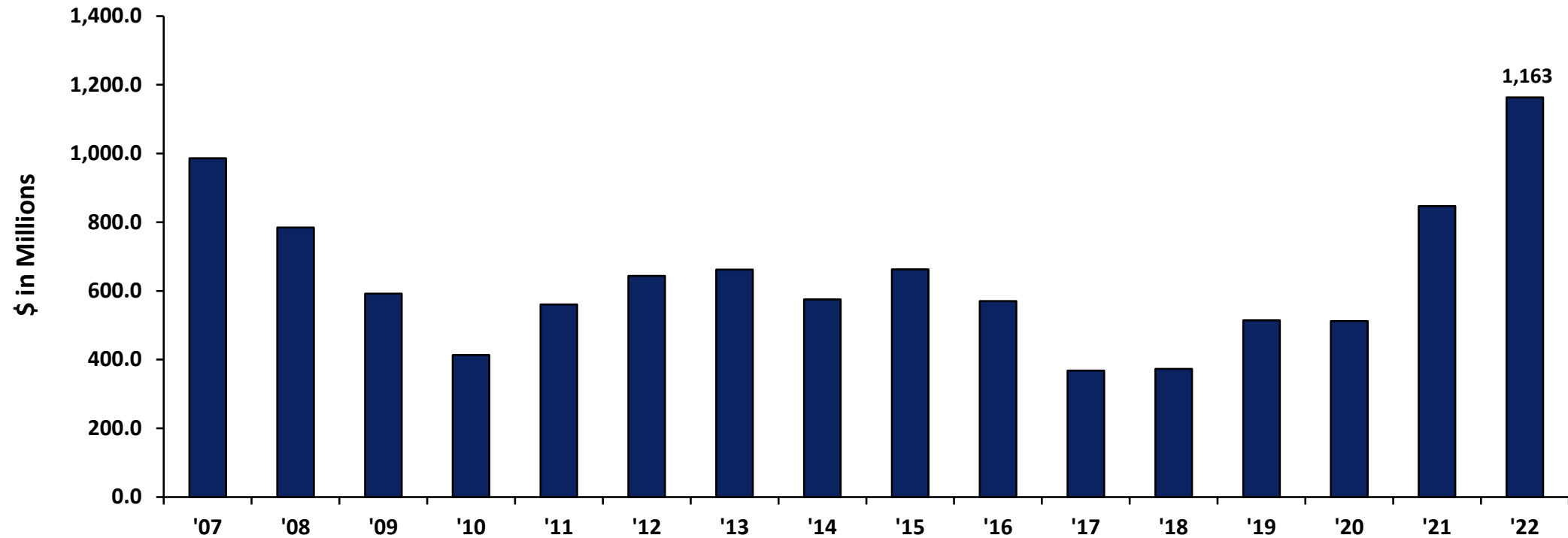
'23 Revenue Growth is Slowing Compared to '22

- But Will Generate Gains Relative to the Enacted Budget

- Due to recession concerns this past spring, the enacted budget assumed that base revenue growth would decline by (2.0)% in '23
- Through 3 months, however, revenue growth has been 10.4%
- While the recession risk remains, the economy's current momentum will likely keep revenue growth positive in '23 at 6.0%
- The increase in the growth rate above the enacted budget will generate over \$1.0 B in unanticipated revenue in '23, thereby helping to increase the available one-time balance

Corporate Income Tax - Up 125% in 2 Years

- Given the Cyclic Nature of CIT, this Rapid Growth Poses Significant Downside Risk



Individual Income Tax Rate Changes

- '22 Budget Reduced Rates in TY '22/FY '23 with 2 Triggers in the Future

Percent Income Tax Rates Household Income		
	<\$27k/\$55k	>\$27k/\$55k
Current	2.55	2.98
Trigger 1	2.53	2.75
Trigger 2	2.50	

- Triggers depended upon exceeding certain revenue levels – which has occurred
- The enacted '23 budget assumed that the triggers would occur in '24 and '25
- Based on the recent report of '22 actual revenues, DOR will be implementing the 2.5% single rate this January for TY 23/FY 24
- Since the enacted budget had already assumed 2.5% would be implemented in '25, this acceleration will have a one-time cost of \$378 M in '24

Spending Adjustments

Baseline Spending Projections

- Baseline reflects changes to active statutory/other funding formulas - no discretionary additions
- Assumes continuation of \$800 M K-12 “rollover”
- Assumes spending classified as one-time in '23 budget does not continue
 - Continuing the “ongoing 1-times” of school building repair and state health insurance would cost \$287 M

Baseline Spending Projected To Decrease By \$(383) M

'24 Ongoing Spending Changes	
	<u>\$ in M</u>
Medicaid Formula	245
ADE – K-12 Formula	220
Pension Payoff Savings	(100)
Other	<u>30</u>
Total	395
<hr/>	
Total Spending Changes	\$(383) M
Total Spending	\$15,066 M
% Change	(2.5)%

'24 One-Time Spending Additions/Deletions	
	<u>\$ in M</u>
Loss of Medicaid Match Savings	307
Water Supply Funding	333
Remove K-12 Rollover Payoff	(65)
Wildfire Expenses	(65)
State Employee Health Insurance	(103)
SFD – Building Renewal Grants	(183)
SFD – Fewer New Schools	(81)
University Funding	(123)
Other Agency Spending	(506)
Transportation Projects	(73)
Capital Projects	<u>(219)</u>
Total	(778)

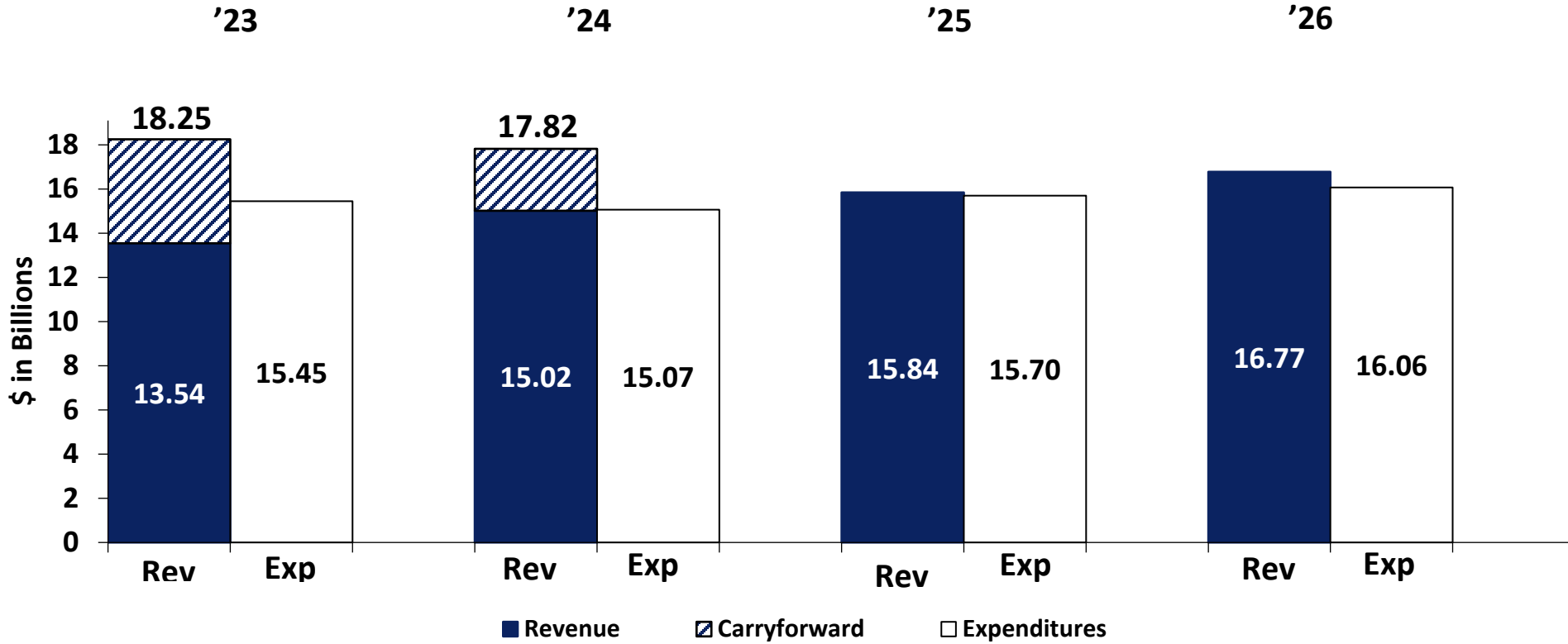
Projected Ending Balances

Excludes \$1.4 B in Budget Stabilization Fund

More Information in Appendix C

Available Balances: \$140 M Ongoing & \$2.5 B One-Time

- Assumes Available Balance is Fully Used at the End of '24



Cash Balance

\$2.80 B

\$2.75 B

\$142 M

\$705 M



STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

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.....	Chandler Coiner
.....	Cameron Mortensen
Senior Administrative Assistant / JLBC & JCCR Clerk.....	Kristy Paddack

Appendix A: 4-Sector Forecast

	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Sales Tax				
JLBC Forecast	6.0%	2.0%	4.0%	4.5%
UA – Low	4.3%	1.5%	3.1%	3.9%
UA – Base	6.5%	3.5%	4.2%	4.5%
FAC	6.7%	2.9%	5.3%	5.7%
Average:	5.9%	2.5%	4.2%	4.7%
Individual Income Tax with Deferral				
JLBC Forecast	5.3%	2.0%	4.6%	4.9%
UA – Low	5.9%	2.8%	4.3%	4.7%
UA – Base	6.3%	4.8%	5.1%	5.1%
FAC	4.6%	1.9%	6.6%	6.3%
Average:	5.5%	2.9%	5.1%	5.2%
Corporate Income Tax				
JLBC Forecast	5.3%	-1.6%	3.8%	4.0%
UA – Low	4.3%	-2.3%	3.7%	4.9%
UA – Base	6.0%	0.3%	4.2%	5.1%
FAC	8.3%	-1.8%	9.4%	7.7%
Average:	6.0%	-1.4%	5.3%	5.5%
Insurance Premium Tax				
JLBC Forecast	4.6%	-2.4%	4.0%	3.7%
UA – Low	6.6%	5.0%	4.5%	4.7%
UA – Base	7.0%	5.6%	5.1%	5.0%
FAC	6.0%	3.9%	5.2%	5.5%
Average:	6.1%	3.1%	4.7%	4.8%

JLBC Weighted Average	5.6%	1.6%	4.3%	4.6%
UA Low Weighted Average	5.1%	2.0%	3.8%	4.4%
UA Base Weighted Average	6.4%	4.0%	4.7%	4.8%
FAC Consensus Weighted Average	5.9%	2.2%	6.2%	6.1%
“Big-4” Weighted Average	5.7%	2.4%	4.7%	5.0%
Consensus Weighted Average	6.0%	2.0%	4.0%	4.9%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: October FAC Forecast '22 – '24

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	PREL. 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	7,208,861.8	15.4%	7,632,628.4	5.9%	423,766.6	7,821,669.1	2.5%	189,040.7
Income - Individual	7,530,010.7	15.3%	6,450,015.1	-14.3%	(1,079,995.6)	5,913,170.6	-8.3%	(536,844.5)
- Corporate	1,163,468.9	37.4%	1,232,928.0	6.0%	69,459.1	1,216,223.2	-1.4%	(16,704.8)
Property	26,787.4	19.7%	26,198.1	-2.2%	(589.3)	25,674.2	-2.0%	(524.0)
Luxury - Tobacco	21,040.8	-6.8%	20,514.8	-2.5%	(526.0)	20,309.6	-1.0%	(205.1)
- Liquor	43,920.0	-2.3%	45,369.3	3.3%	1,449.4	46,730.4	3.0%	1,361.1
Insurance Premium	707,654.0	14.8%	750,537.8	6.1%	42,883.8	773,535.0	3.1%	22,997.1
Other Taxes	16,301.4	6.5%	17,002.3	4.3%	701.0	17,546.4	3.2%	544.1
Subtotal - Taxes	16,718,044.9	16.5%	16,175,193.9	-3.2%	(542,851.1)	15,834,858.4	-2.1%	(340,335.5)
Other Non-Tax Revenues:								
Lottery	183,680.2	75.4%	180,694.9	-1.6%	(2,985.4)	192,604.1	6.6%	11,909.2
Gaming Revenue	10,437.0	N/A	37,227.1	256.7%	26,790.1	20,348.6	-45.3%	(16,878.4)
Licenses, Fees and Permits	41,088.0	4.3%	42,772.6	4.1%	1,684.6	43,841.9	2.5%	1,069.3
Interest	46,383.0	5118.2%	180,000.0	288.1%	133,617.0	100,000.0	-44.4%	(80,000.0)
Sales and Services	30,351.5	16.5%	31,565.6	4.0%	1,214.1	32,417.8	2.7%	852.3
Other Miscellaneous	154,467.6	4.4%	150,563.6	-2.5%	(3,904.0)	153,250.1	1.8%	2,686.5
Transfers and Reimbursements	169,833.8	29.5%	110,487.6	-34.9%	(59,346.2)	129,775.9	17.5%	19,288.3
Disproportionate Share Revenue	87,833.5	3.5%	79,802.6	-9.1%	(8,030.9)	76,614.4	-4.0%	(3,188.2)
Subtotal - Other Non-Tax	724,074.6	29.7%	813,113.9	12.3%	89,039.3	748,852.9	-7.9%	(64,261.0)
Net Ongoing Revenue	17,442,119.5	17.0%	16,988,307.7	-2.6%	(453,811.8)	16,583,711.3	-2.4%	(404,596.5)
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	16,685,731.2	18.5%	15,881,349.0	-4.8%	(804,382.2)	15,018,885.0	-5.4%	(862,464.2)
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
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	(2,340,989.6)	N/A	(2,360,989.6)	0.0	N/A	2,340,989.6
Subtotal - Revenues	16,705,731.2	18.3%	13,540,359.4	-18.9%	(3,165,371.8)	15,018,885.0	10.9%	1,478,525.4
Balance Forward	894,636.0	140.2%	4,710,000.0	426.5%	3,815,364.0	2,801,273.9	-40.5%	(1,908,726.1)
Total - Resources	17,600,367.2	21.5%	18,250,359.4	3.7%	649,992.2	17,820,158.9	-2.4%	(430,200.7)

Appendix B: October FAC 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	8,147,511.1	4.2%	325,842.0	8,527,582.5	4.7%	380,071.4
Income - Individual	6,209,537.4	5.0%	296,366.9	6,528,036.8	5.1%	318,499.4
- Corporate	1,280,806.8	5.3%	64,583.6	1,350,796.5	5.5%	69,989.7
Property	25,212.0	-1.8%	(462.1)	24,833.8	-1.5%	(378.2)
Luxury - Tobacco	20,208.1	-0.5%	(101.5)	20,167.7	-0.2%	(40.4)
- Liquor	48,225.8	3.2%	1,495.4	49,865.5	3.4%	1,639.7
Insurance Premium	810,060.5	4.7%	36,525.6	848,604.8	4.8%	38,544.2
Other Taxes	18,406.2	4.9%	859.8	19,344.9	5.1%	938.7
Subtotal - Taxes	16,559,967.9	4.6%	725,109.5	17,369,232.3	4.9%	809,264.5
Other Non-Tax Revenues:						
Lottery	203,478.2	5.6%	10,874.1	214,753.0	5.5%	11,274.8
Gaming Revenue	22,280.6	9.5%	1,932.0	23,954.2	7.5%	1,673.5
Licenses, Fees and Permits	45,683.3	4.2%	1,841.4	47,647.7	4.3%	1,964.4
Interest	50,000.0	-50.0%	(50,000.0)	50,000.0	0.0%	0.0
Sales and Services	33,747.0	4.1%	1,329.1	35,198.1	4.3%	1,451.1
Other Miscellaneous	157,240.1	2.6%	3,990.1	161,493.5	2.7%	4,253.4
Transfers and Reimbursements	72,111.8	-44.4%	(57,664.1)	73,540.4	2.0%	1,428.6
Disproportionate Share Revenue	76,397.0	-0.3%	(217.4)	76,459.3	0.1%	62.3
Subtotal - Other Non-Tax	660,938.1	-11.7%	(87,914.8)	683,046.2	3.3%	22,108.1
Net Ongoing Revenue	17,220,905.9	3.8%	637,194.7	18,052,278.6	4.8%	831,372.6
Urban Revenue Sharing (URS)	(1,382,929.8)	N/A	181,896.6	(1,283,290.9)	N/A	99,638.9
Net Ongoing Revenue w/ URS	15,837,976.1	5.5%	819,091.3	16,768,987.7	5.9%	931,011.5
One-Time Financing Sources:						
Water Infrastructure Repayment	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	15,837,976.1	5.5%	819,091.3	16,768,987.7	5.9%	931,011.5
Balance Forward	0.0	-100.0%	(2,801,273.9)	0.0	N/A	0.0
Total - Resources	15,837,976.1	-11.1%	(1,982,182.6)	16,768,987.7	5.9%	931,011.5

Appendix C: Statement of General Fund Revenues and Expenditures

	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC
REVENUES				
Ongoing Revenues	\$18,492,824,100	\$18,853,726,600	\$19,614,566,600	\$20,578,004,000
Previously Enacted Tax Reductions	(1,504,516,400)	(2,270,015,300)	(2,393,660,700)	(2,525,725,400)
Urban Revenue Sharing	(1,106,958,700)	(1,564,826,300)	(1,382,929,800)	(1,283,290,900)
Net Ongoing Revenues	\$15,881,349,000	\$15,018,885,000	\$15,837,976,100	\$16,768,987,700
One-Time Revenues				
Balance Forward	\$4,710,000,000	\$2,801,273,900		
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	\$2,369,010,400	\$2,801,273,900	\$0	\$0
Total Revenues	\$18,250,359,400	\$17,820,158,900	\$15,837,976,100	\$16,768,987,700
EXPENDITURES				
Ongoing Operating Appropriations	\$14,204,683,200	\$14,599,442,100	\$15,221,078,600	\$15,977,411,000
Administrative Adjustments	170,000,000	170,000,000	170,000,000	170,000,000
Revertments	(215,000,000)	(215,000,000)	(215,000,000)	(215,000,000)
Subtotal Ongoing Expenditures	\$14,159,683,200	\$14,554,442,100	\$15,176,078,600	\$15,932,411,000
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	1,138,340,500	137,311,200	157,274,200	108,018,600
Water Supply Funding (TPT Diversion in FY 23)		333,000,000	333,000,000	
New Medicaid Federal Match Reversion <u>1/</u>	(307,195,600)			
Subtotal One-Time Expenditures	\$1,289,402,300	\$511,733,200	\$520,106,300	\$131,718,600
Total Expenditures	\$15,449,085,500	\$15,066,175,300	\$15,696,184,900	\$16,064,129,600
Ending Balance <u>2/3/</u>	\$2,801,273,900	\$2,753,983,600	\$141,791,200	\$704,858,100

1/ Reflects revertments of savings for a higher federal Medicaid match rate.

2/ Reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

3/ The projected cash balance amounts would result in \$140 million of ongoing resources and \$2.5 billion of one-time resources being available during the FY 2024 budget process. These estimates of available resources would maintain \$100 million in the FY 2024 ending balance.