

MINUTES OF THE MEETING

FINANCE ADVISORY COMMITTEE

April 9, 2020

Senate Hearing Room 1, 11:00 a.m.

Members Attending Remotely:

Matthew Gress, Director, Governor's Office of Strategic Planning and Budgeting (OSPB)
George W. Hammond, Director, Economic and Business Research Center, University of Arizona
Alan E. Maguire, President, The Maguire Company
Lorenzo Martinez, Vice President of Finance and Administration, Arizona Board of Regents
Elliott D. Pollack, President, Elliott D. Pollack and Company
Elaine Smith, Administrator, Office of Economic Research and Analysis, Arizona Department of Revenue
Randie Stein, Director, Stifel, Nicolaus & Company, Inc.
Mark Swenson, State Treasurer's Office
Doug Walls, Research Administrator, Arizona Office of Economic Opportunity

The Finance Advisory Committee (FAC) held an online meeting on April 9, 2020 to update its 4-sector revenue forecast. Due to the ongoing coronavirus pandemic, the meeting was only attended in person by 3 members of the JLBC Staff. FAC members attended remotely. The FAC is a 12-member panel of private and public-sector economists and their views serve as one of the 4 equal inputs into JLBC's Consensus Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) models.

The FAC heard presentations on General Fund Revenue collections, an outline of possible scenarios for the economic impact of COVID-19, and state cash flows. The JLBC Staff provided members with the [FY 2020 – FY 2023](#) revenue estimates based on the updated April 4-sector revenue forecast along with projected ending balance estimates.

The FAC meeting was almost exclusively dominated by discussions regarding the ongoing pandemic caused by the novel coronavirus (COVID-19) and its related impact on the April 4-sector revenue and budget forecast. Since the revenue forecast is linked to the future of the COVID-19 pandemic, the JLBC Staff's presentation included a discussion of the results from 2 state-level epidemiological forecasting models. Given the inherent uncertainty of epidemiological forecasting, including the possibility of a "second wave" of coronavirus cases later this year or early next year, the JLBC Staff currently believes that an economic recovery may not take hold firmly until FY 2022. This view was largely shared by members of the FAC.

In its presentation, the JLBC Staff noted that the state's economy was doing well until last month. Through March, state General Fund revenues were 8.1% higher than the prior year. While the JLBC Staff noted that there is a lack of any solid revenue data to ascertain the impact of the state's social distancing policy implemented in the latter half of March, they provided data or anecdotal evidence for "real-time" measures, including unemployment insurance claims, hotel occupancy rates, restaurant sales and Medicaid caseloads, which all suggest a significant adverse impact on the state's finances.

The JLBC Staff presentation also included a discussion of the impact of the recent decision by the federal government as well as the State of Arizona to defer the Tax Year 2019 individual and corporate income tax filing due date from April 15 to July 15. The deferral was estimated to result in a one-time shift of \$676 million in individual income tax revenues from FY 2020 to FY 2021. For this reason, the deferral

will have the effect of artificially suppressing the General Fund revenue growth in FY 2020 and artificially boosting the revenue growth in FY 2021. Moreover, the FY 2022 growth rate will appear low since FY 2021 collections will be artificially high.

April 4-Sector Forecast

Based on the January 4-sector forecast, the enacted budget assumed that revenues would increase by 3.6% in FY 2020 (or 6.2% prior to the TY 2019 tax reductions). In FY 2021, the growth moderated to 4.1% under the enacted forecast.

Under the updated April forecast, revenues are now expected to decline by (8.5)% in FY 2020, but grow by 11.0% in FY 2021. After excluding the deferral issue discussed above, the April forecast expects reductions in both FY 2020 and FY 2021 revenues compared to the prior year. In the 4th quarter, General Fund revenues are projected to decline by (23.6)%. Combined with the 8.1% growth through March, the annual FY 2020 growth rate is now estimated to decline to (2.8)%.

The pace of economic activity is expected to increase gradually throughout FY 2021. Given the high growth rate through March 2020, however, revenues will struggle to match that pace in FY 2021. As a result, FY 2021 revenues are forecast to drop by (1.5)% for the entire year compared to the revised FY 2020 level. See Table 1.

	Forecasted Revenue Growth Rate		
	<u>'20</u>	<u>'21</u>	<u>'22</u>
Enacted Budget	3.6%	4.1%	3.3%
April FAC with Deferral	(8.5)%	11.0%	1.9%
April FAC without Deferral	(2.8)%	(1.5)%	8.0%

Projected Ending Balance

As a result of the combined impact of reduced revenues under the updated April 4-sector forecast, as well as some offsetting Federal Medicaid dollars, the JLBC Staff currently projects a cash shortfall of \$(1.1) billion by the end of FY 2021. Of this amount, \$(638) million would be incurred in FY 2020, the result of both revenue reductions and spending adjustments, further altered by the deferral of individual income tax payments into FY 2021. The \$(1.1) billion shortfall estimate assumes that this FY 2020 shortfall is rolled over into FY 2021 and added to another \$(462) million shortfall associated with FY 2021 alone. See Table 2. Given the epidemiological and economic uncertainties, this \$(1.1) billion estimate is exceedingly tentative -- the likely range of the shortfall could be off by \$500 million in either direction.

Projected '21 Cash Shortfall	
	\$ in M
Incurring during '20	(638)
Incurring during '21	<u>(462)</u>
Total Shortfall	(1,100)

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Elliott Pollack of Elliott D. Pollack and Company and Deputy Treasurer Mark Swenson. The general view by presenters and FAC panel members is that given the current pandemic, any projections of the Arizona economy and the state General Fund at this time is highly uncertain. Additional information is available on our website at [April FAC](#).

The meeting adjourned at 1:01 p.m.

Kristy Paddack, Secretary

Hans Olofsson, Chief Economist

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A [full video recording](#) of this meeting is available at the JLBC website.