
Finance Advisory Committee

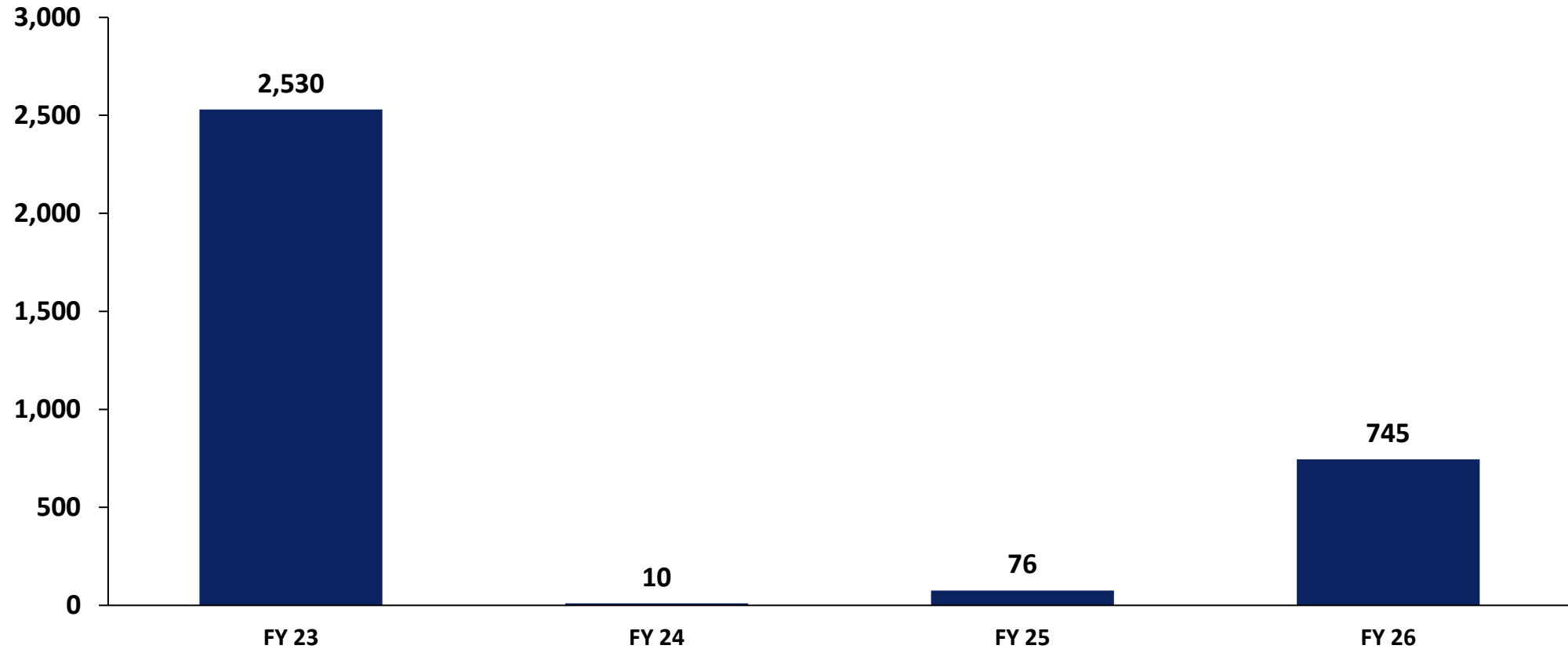
Revenue and Budget Update

October 11, 2023



The **Enacted** FY 24 Budget Had a Projected \$10 M Cash Balance

FY 24 Enacted Budget Ending Balance Estimates
(\$ in Millions)



Key Points

- The enacted budget only had a projected \$10 M General Fund balance at the end of the current fiscal year in June 2024.
- That FY 24 enacted budget also assumed ongoing General Fund revenue growth of 1.9% in FY 24, but revenues have declined by (6.2)% since July.
- The new October forecast projects that revenues will decline (0.6)% for all of FY 24.
- Given the budgeted surplus of \$10 M and declining revenues, the new forecast would result in a projected FY 24 shortfall of \$(400) M.
- The projected shortfall in FY 25 is \$(450) M but is smaller in FY 26 before turning positive in FY 27.

1st Quarter Revenue Results: \$(200) M Loss Relative to the Forecast

- Continues Trends from 4th Quarter of FY 23

- Individual Income Tax collections dropped (27.4)% and were \$(243) M less than anticipated
 - Smaller capital gains/2.0% withholding rate may have accelerated tax cut loss
- Sales Tax growth slowed to 1.6% - a \$(64) M loss relative to the budget
 - Retail sales drives this result, but contracting still posting double digit gains
- Corporate Income Tax growth remains strong at 11.4%, a \$83 M gain to the forecast

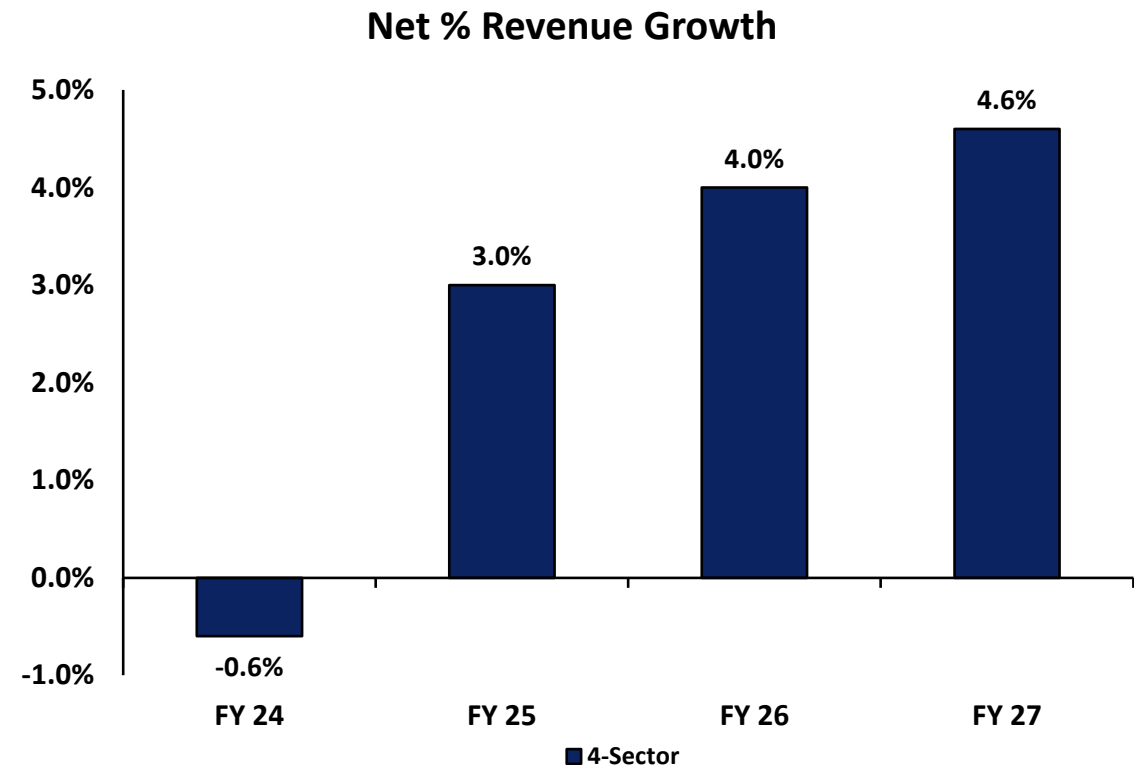
Forecasting State Revenues

4-Sector: Revenue Decline in FY 24

- With Moderate Recovery in FY 25 through FY 27

4-Sector Components

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

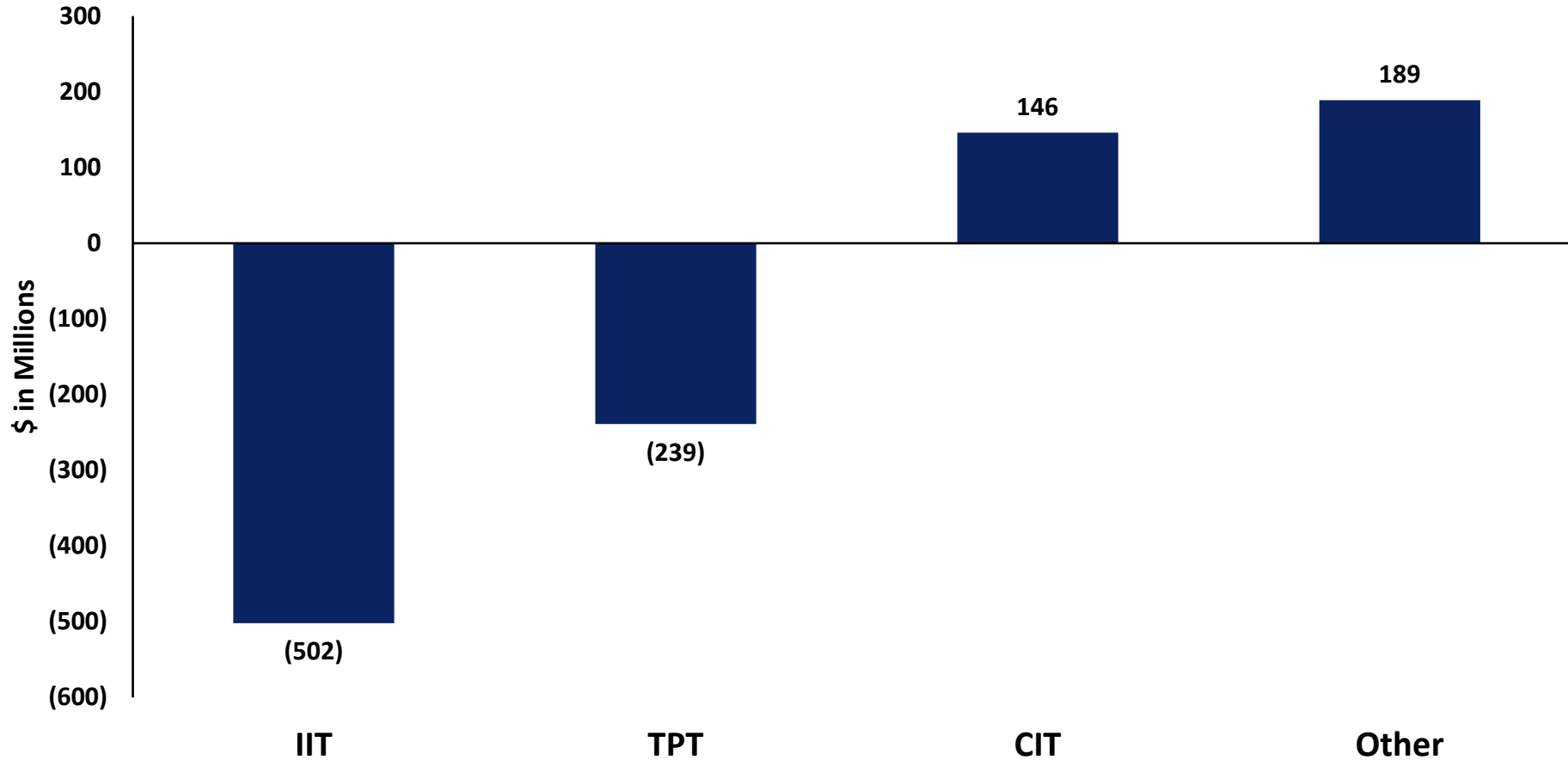


Excludes balance forward, one-time tax rebate and urban revenue sharing

See Appendix A and B

October Forecast Reduces FY 24 Revenue by \$(406)M

- Compared to Enacted Budget



Spending Adjustments

Baseline Spending Projections

- Baseline reflects changes to active statutory/other funding formulas
 - ADE, Medicaid and the Community Colleges
- Follows guidance of the enacted budget 3-year plan in terms of \$2.9 B in one-time FY 24 spending
 - Of that amount \$2.2 B was deleted in the FY 25 estimates
 - \$639 M was retained in FY 25, primarily \$333 M of water supply funding and \$193 M in K-12 new school construction
- Some ongoing “one-times” such as school building repair and state health insurance were not continued in FY 25

FY 25 Baseline Spending Projected To Decrease By \$(1.4) B

FY 25 Ongoing Spending Changes

	<u>\$ in M</u>
Medicaid Formula	471
ADE – K-12 Formula	325
Other	<u>34</u>
Total	830

Total Spending Changes **\$(1,414) M**

Total Spending **\$16,406 M**

% Change **(7.9)%**

FY 25 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
One-Time K-12 State Aid Supplement	(300)
K-12 Building Renewal Grants	(183)
State Employee Health Insurance	(73)
Corrections Dept Operating Funding	(113)
Housing Funding	(190)
Other Agency Spending	(607)
Transportation Projects	(620)
Capital Projects	<u>(158)</u>
Total	(2,244)

ESA Spending Trends

- The FY 24 budget assumed \$625 M of ESA awards for 68,000 students.
- Actual enrollment is currently 68,000 and awards are \$665 M.
- Net impact on ADE budget depends on whether new ESA students are “switchers” or were always in private/homeschooled settings.
- We will not have good public school enrollment data until at least November.
- Forecast assumes ESA enrollment grows to 75,000 in FY 25 with total awards of \$752 M (same assumptions as FY 24 3-year plan)

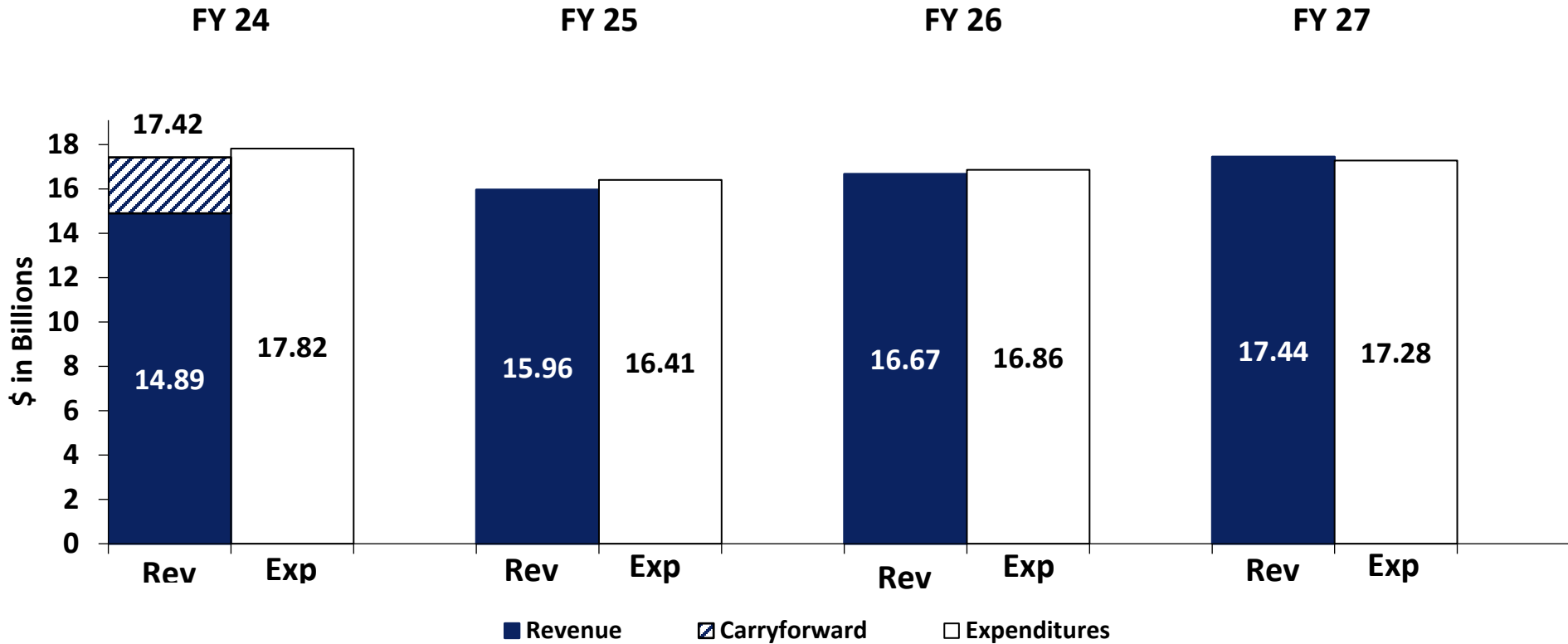
Projected Ending Balances

Excludes \$1.5 B in Budget Stabilization Fund

More Information in Appendix C

Projected Shortfall of \$(401) M in FY 24 & \$(449) M in FY 25

- Assumes Each Year's Shortfall is Resolved and Not Carried Into the Following Year



Cash Balance

\$(401) M

\$(449) M

\$(188) M

\$166 M



Other Considerations

- Our estimate of the FY 24 balance will likely change considerably as we go throughout the fiscal year.
- We will monitor economic conditions and the spring 2024 income tax filing season, either of which could significantly increase or decrease the shortfall.
- Based on current data, we have not revised the enacted FY 24 funding formula spending. We will review K-12 & Medicaid data in the months ahead to determine the accuracy of the original FY 24 estimates.
- The FY 25 Baseline removes \$2.2 B in 1-time spending in line with the FY 24 budget's 3-year plan. Some of those issues will likely be reexamined as part of the FY 25 budget discussion.

Appendix A: October 4-Sector Revenue Forecast

	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Sales Tax				
JLBC Forecast	3.0%	3.9%	4.6%	4.9%
UA – Low	0.3%	3.0%	4.2%	4.8%
UA – Base	2.1%	4.4%	4.8%	4.9%
FAC	3.0%	3.5%	4.6%	5.0%
Average:	2.1%	3.7%	4.5%	4.9%
Individual Income Tax with Deferral				
JLBC Forecast	3.5%	5.1%	4.9%	5.4%
UA – Low	-7.3%	6.3%	5.7%	5.8%
UA – Base	-5.5%	7.4%	6.2%	6.2%
FAC	-4.2%	4.6%	4.9%	5.0%
Average:	-3.4%	5.8%	5.4%	5.6%
Corporate Income Tax				
JLBC Forecast	7.1%	2.5%	3.0%	4.5%
UA – Low	-0.4%	2.7%	1.5%	1.0%
UA – Base	2.2%	4.2%	3.7%	2.7%
FAC	1.8%	-2.4%	6.3%	5.9%
Average:	2.7%	1.8%	3.6%	3.5%
Insurance Premium Tax				
JLBC Forecast	1.0%	3.6%	4.1%	4.1%
UA – Low	-1.9%	2.9%	4.3%	4.7%
UA – Base	-1.0%	3.1%	4.4%	4.8%
FAC	5.4%	4.6%	5.5%	5.7%
Average:	0.9%	3.6%	4.6%	4.9%

JLBC Weighted Average	3.5%	4.1%	4.5%	5.0%
UA Low Weighted Average	-2.5%	4.0%	4.4%	4.7%
UA Base Weighted Average	-0.6%	5.3%	5.1%	5.1%
FAC Consensus Weighted Average	0.5%	3.2%	4.9%	5.1%
“Big-4” Weighted Average	0.3%	4.2%	4.7%	5.0%
Consensus Weighted Average	-0.6%	3.0%	4.0%	4.6%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: 4-Sector FY 23 – FY 25

FORECAST REVENUE GROWTH							
(\$ in Thousands)							
	PREL. ACTUAL FY 2023	% CHANGE PRIOR YR	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR
Sales and Use	7,677,573.4	6.5%	7,838,802.5	2.1%	161,229.0	8,128,782.5	3.7%
Income - Individual	5,239,565.2	-30.4%	5,062,729.9	-3.4%	(176,835.3)	5,357,080.8	5.8%
- Corporate	1,806,311.4	55.3%	1,854,705.4	2.7%	48,394.1	1,887,176.9	1.8%
Property	22,208.0	-17.1%	21,763.9	-2.0%	(444.2)	21,328.6	-2.0%
Luxury - Tobacco	18,751.9	-10.5%	19,220.7	2.5%	468.8	19,028.5	-1.0%
- Liquor	45,509.9	4.1%	46,875.2	3.0%	1,365.3	49,500.2	5.6%
Insurance Premium	761,342.0	7.6%	768,035.5	0.9%	6,693.5	795,495.1	3.6%
Other Taxes	18,354.0	12.6%	19,730.6	7.5%	1,376.6	21,170.9	7.3%
Subtotal - Taxes	15,589,615.9	-6.7%	15,631,863.6	0.3%	42,247.8	16,279,563.5	4.1%
Other Non-Tax Revenues:							
Lottery	175,812.0	-4.3%	220,636.0	25.5%	44,824.1	234,637.8	6.3%
Gaming Revenue	49,377.2	373.1%	36,590.0	-25.9%	(12,787.2)	39,157.0	7.0%
Licenses, Fees and Permits	42,181.8	3.9%	45,050.1	6.8%	2,868.4	46,942.2	4.2%
Interest	366,763.2	690.7%	320,000.0	-12.8%	(46,763.2)	240,000.0	-25.0%
Sales and Services	33,156.3	9.2%	34,482.5	4.0%	1,326.3	35,861.8	4.0%
Other Miscellaneous	178,644.0	14.7%	185,789.8	4.0%	7,145.8	193,221.4	4.0%
Transfers and Reimbursements	277,234.4	64.7%	166,909.0	-39.8%	(110,325.3)	80,301.0	-51.9%
Disproportionate Share Revenue	98,139.0	11.7%	75,853.5	-22.7%	(22,285.5)	75,503.3	-0.5%
Subtotal - Other Non-Tax	1,221,307.8	68.8%	1,085,311.041	-11.1%	(135,996.7)	945,624.5	-12.9%
Net Ongoing Revenue	16,810,923.6	-3.6%	16,717,174.7	-0.6%	(93,749.0)	17,225,188.1	3.0%
Urban Revenue Sharing (URS)	(1,106,958.7)	N/A	(1,564,826.3)	N/A	(457,867.7)	(1,268,257.8)	N/A
Net Ongoing Revenue w/ URS	15,703,964.9	-5.9%	15,152,348.3	-3.5%	(551,616.7)	15,956,930.3	5.3%
One-Time Financing Sources:							
Attorney General Settlement	75,462.1	N/A	0.0	-100.0%	(75,462.1)	0.0	N/A
TPT Diversions	(2,287,489.6)	N/A	0.0	N/A	2,287,489.6	0.0	N/A
One-Time Income Tax Rebate	0.0	N/A	(259,800.0)	N/A	(259,800.0)	0.0	N/A
Subtotal - One-Time Financing Sources	(2,212,027.5)	N/A	(259,800.0)	N/A	1,952,227.5	0.0	N/A
Subtotal - Revenues	13,491,937.4	-19.2%	14,892,548.3	10.4%	1,400,610.8	15,956,930.3	7.1%
Balance Forward	4,709,446.0	426.4%	2,526,535.0	-46.4%	(2,182,911.0)	0.0	-100.0%
Total - Resources	18,201,383.4	3.4%	17,419,083.3	-4.3%	(782,300.2)	15,956,930.3	-8.4%

Appendix B: 4-Sector Forecast FY 26 - FY27

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2027	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,497,886.2	4.5%	369,103.7	8,913,431.5	4.9%	415,545.3
Income - Individual	5,647,435.9	5.4%	290,355.1	5,964,094.2	5.6%	316,658.3
- Corporate	1,955,075.6	3.6%	67,898.7	2,024,296.5	3.5%	69,220.9
Property	20,902.0	-2.0%	(426.6)	20,484.0	-2.0%	(418.0)
Luxury - Tobacco	18,838.2	-1.0%	(190.3)	18,649.8	-1.0%	(188.4)
- Liquor	52,272.2	5.6%	2,772.0	55,199.5	5.6%	2,927.2
Insurance Premium	832,037.5	4.6%	36,542.4	872,426.4	4.9%	40,388.9
Other Taxes	22,652.9	7.0%	1,482.0	24,238.6	7.0%	1,585.7
Subtotal - Taxes	17,047,100.5	4.7%	767,537.0	17,892,820.4	5.0%	845,719.9
Other Non-Tax Revenues:						
Lottery	250,185.7	6.6%	15,547.9	266,504.7	6.5%	16,319.0
Gaming Revenue	41,010.9	4.7%	1,853.9	42,955.0	4.7%	1,944.1
Licenses, Fees and Permits	48,913.8	4.2%	1,971.6	50,968.2	4.2%	2,054.4
Interest	135,000.0	-43.8%	(105,000.0)	87,000.0	-35.6%	(48,000.0)
Sales and Services	37,296.3	4.0%	1,434.5	38,788.1	4.0%	1,491.9
Other Miscellaneous	200,950.2	4.0%	7,728.9	208,988.3	4.0%	8,038.0
Transfers and Reimbursements	80,859.5	0.7%	558.5	81,437.6	0.7%	578.1
Disproportionate Share Revenue	75,769.0	0.4%	265.7	75,793.2	0.0%	24.2
Subtotal - Other Non-Tax	869,985.4	-8.0%	(75,639.1)	852,435.0	-2.0%	(17,550.5)
Net Ongoing Revenue	17,917,086.0	4.0%	691,897.9	18,745,255.4	4.6%	828,169.5
Urban Revenue Sharing (URS)	(1,245,138.4)	N/A	23,119.4	(1,303,966.4)	N/A	(58,828.0)
Net Ongoing Revenue w/ URS	16,671,947.6	4.5%	715,017.3	17,441,289.0	4.6%	769,341.5
One-Time Financing Sources:						
Attorney General Settlement	0.0	N/A	0.0	0.0	N/A	0.0
TPT Public Infrastructure	0.0	N/A	0.0	0.0	N/A	0.0
One-Time Income Tax Rebate	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	16,671,947.6	4.5%	715,017.3	17,441,289.0	4.6%	769,341.5
Balance Forward	0.0	N/A	0.0	0.0	N/A	0.0
Total - Resources	16,671,947.6	4.5%	715,017.3	17,441,289.0	4.6%	769,341.5

Appendix C: General Fund Balance Sheet

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

	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC	FY 2027 October FAC
REVENUES				
Ongoing Revenues	\$16,717,174,600	\$17,225,188,100	\$17,917,086,000	\$18,745,255,400
Urban Revenue Sharing	(1,564,826,300)	(1,268,257,800)	(1,245,138,400)	(1,303,966,400)
Net Ongoing Revenues	<u>\$15,152,348,300</u>	<u>\$15,956,930,300</u>	<u>\$16,671,947,600</u>	<u>\$17,441,289,000</u>
One-Time Revenues				
Balance Forward	\$2,526,535,000			
One-Time Income Tax Rebate	(259,800,000)			
Subtotal One-Time Revenues	<u>\$2,266,735,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Revenues	\$17,419,083,300	\$15,956,930,300	\$16,671,947,600	\$17,441,289,000
EXPENDITURES				
Ongoing Operating Appropriations	\$15,002,474,100	\$15,812,102,300	\$16,640,577,600	\$17,169,208,700
FY 2024 Supplemental/Ex-Appropriations	230,200			
Administrative Adjustments	150,000,000	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	<u>\$14,937,704,300</u>	<u>\$15,767,102,300</u>	<u>\$16,595,577,600</u>	<u>\$17,124,208,700</u>
One-Time Expenditures				
Capital Outlay	\$187,946,500	\$29,832,100	\$23,700,000	
Transportation Funding	620,209,600			
Operating One-Time Spending	1,885,038,800	275,887,600	241,103,500	151,302,800
Water Supply Funding	189,200,000	333,000,000		
Subtotal One-Time Expenditures	<u>\$2,882,394,900</u>	<u>\$638,719,700</u>	<u>\$264,803,500</u>	<u>\$151,302,800</u>
Total Expenditures	\$17,820,099,200	\$16,405,822,000	\$16,860,381,100	\$17,275,511,500
Ending Balance	(\$401,015,900)	(\$448,891,700)	(\$188,433,500)	\$165,777,500