
FY 2021 JLBC Baseline

January 17, 2020

JLBC

Three Aspects of Creating a Budget

- Manage risk in developing the Baseline revenue and spending forecast
- Maintain ongoing and cash balances through the 3-year planning period ('21 – '23)
- Set revenue and spending priorities

Key Points

- ❑ Compared to budgeted rates, '19 General Fund revenues grew faster than expected. Trend has continued in '20.
- ❑ These gains will result in newly available funding in the '21 budget process
- ❑ Revenue growth is projected to moderate substantially between '21 and '23

Available Funding

- ❑ After formula spending, we expect \$300 M in available ongoing monies in '21
- ❑ The level of available one-time funds is \$685 M
- ❑ The Baseline backs out over \$100 M in “recurring” one-time '20 spending

The Revenue Forecast

Caveats

- ❑ Arizona economy still performing well
 - 10.2% in '19 revenue growth; 9.6% in '20 year to date
(See Appendix A)

- ❑ The forecast has no recession through '23
 - Recessions are hard to predict; usually due to “shock”

- ❑ “Ongoing” revenues likely include 1-time corporate income tax collections and capital gains
 - Since difficult to quantify, use caution in outyear forecast

Arizona Ranks 3rd in Economic Momentum

- Recession Concerns Easing

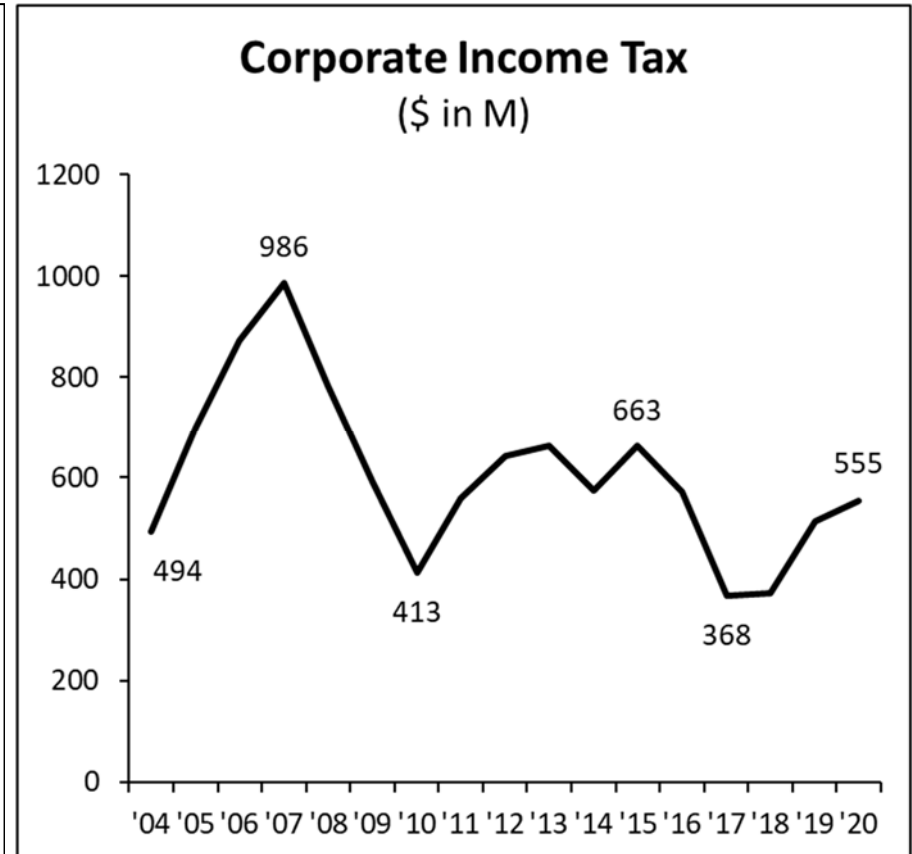
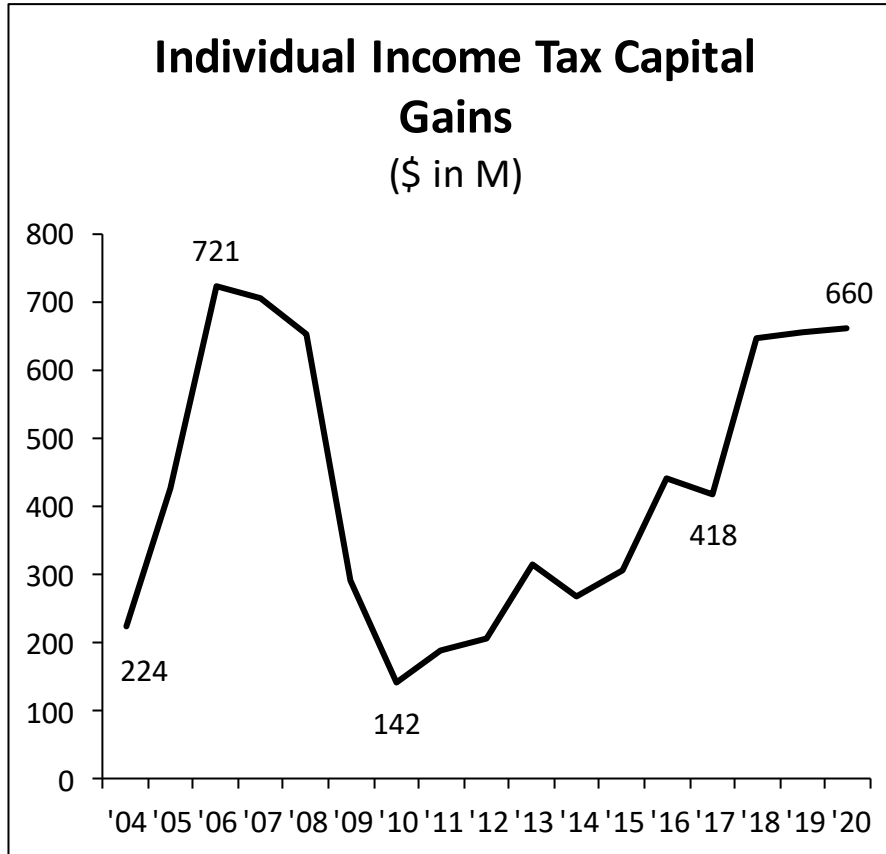
	<u>AZ Rate</u>	<u>AZ Rank</u>
Personal Income	5.4%	7
Population	1.7%	3
Employment	2.4%	7

Momentum calculations via State Policy Reports – Joint NGA/NCSL Project

<u>January Wall Street Journal Survey of Economists</u>	
% Predicting Recession By End of CY 2021	45%
– down from 77% in September	

Ongoing Revenues May Include 1-Time Monies

- Over 3 Years, a 1% Error Changes Available Funds by \$725 M



AZ Has 8th Most Volatile Revenue System
Based on Pew Foundation Report on the 50 States

How Does the 4-Sector Forecast Address Risk?

January Consensus Forecast

- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Represents Net Growth

- Includes enacted law changes

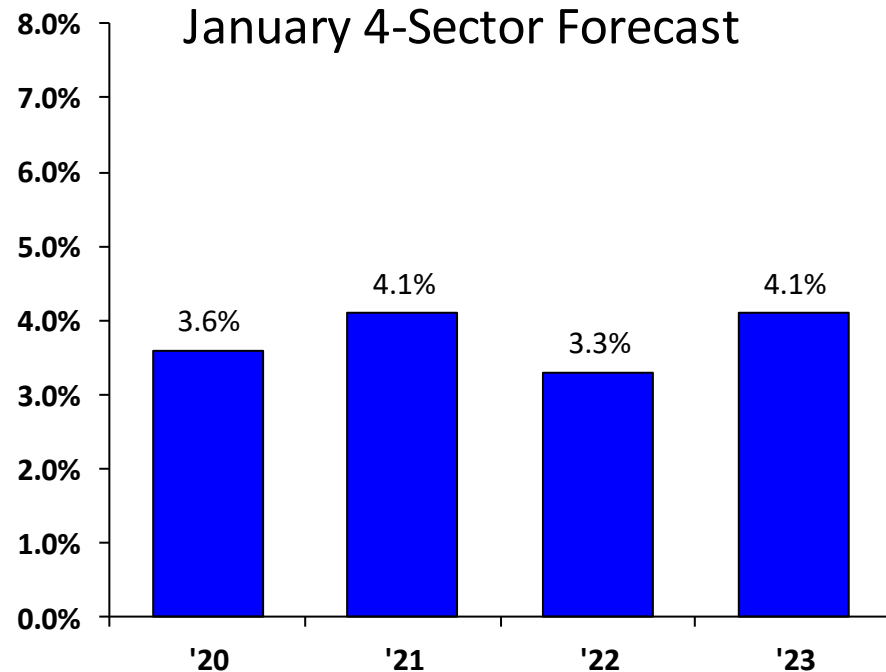
Chance of Exceeding Forecast

- 65%

Long Run Average Growth

- 4.2%

Net % Revenue Growth January 4-Sector Forecast

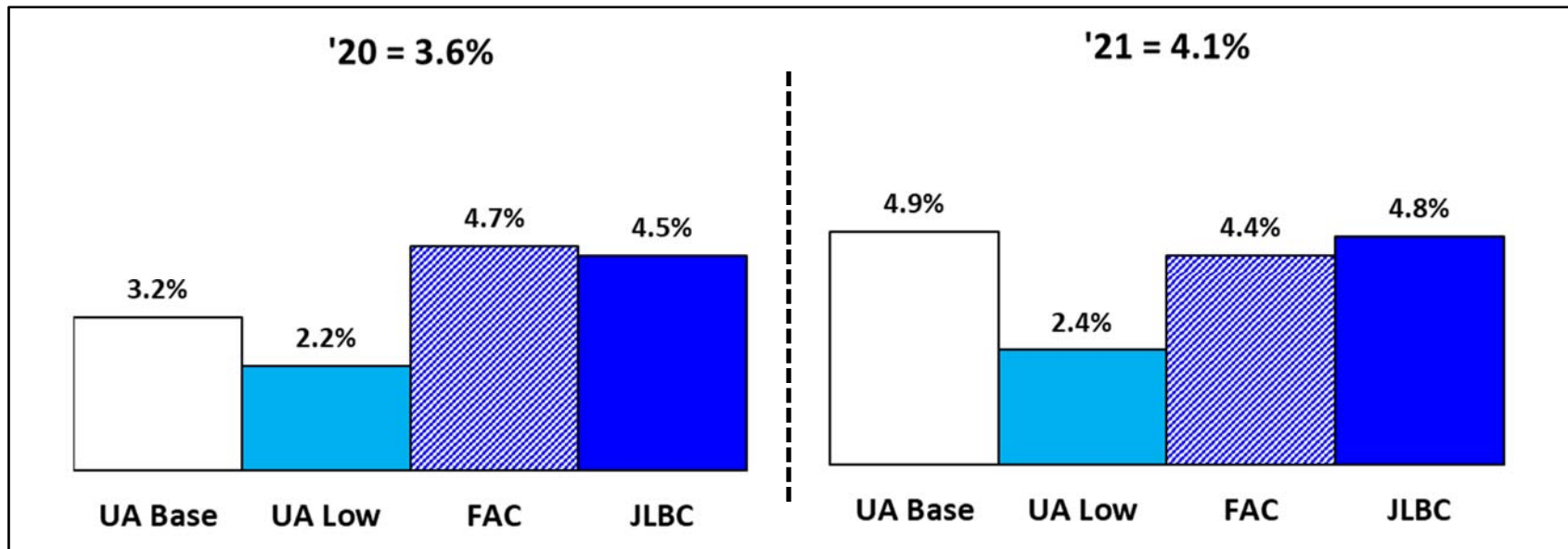


Excludes balance forward, one-time transfers and urban revenue sharing

See Appendix B, C, D

Individual 4-Sector Forecasts

- “UA Low” Adds More Caution to Forecast



- ❑ YTD '20 growth is 9.6%. Enacted income tax reductions will reduce growth rate once taxpayers file their '19 returns.
- ❑ The forecasted '20 net growth rate of 3.6% would translate into 6.3% pre-tax reductions.

Details in Appendix B

Revenue growth adjusted for small categories

The Baseline Spending Forecast

'21 – '23 Baseline Spending Projections

- ❑ Baseline reflects changes to active statutory and other funding formulas - no discretionary additions
- ❑ Continues annual suspension of \$188 M of inactive statutory formulas
 - Of the \$188 M, \$135 M restored by '23
- ❑ Continues \$930 M in K-12 “rollover” payments
 - Drops to \$900 M in FY 22
- ❑ Assumes spending classified as one-time in '20 budget does not continue

Baseline Spending Projected To Decrease by \$(368) M

'21 Ongoing Spending Changes

	<u>\$ in M</u>
ADE – K12 Formula	453
AHCCCS – Medicaid Formula	137
DES – Medicaid Formula	60
SFB – Debt Service Savings	(65)
2010B Payoff – Debt Service Savings	(24)
Other	<u>9</u>
Total	570

Total Spending Changes	\$(368) M
Total Spending	\$11,534 M
% Change	(3.1)%

'21 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
Fund 27th Pay Period In '21	43
Rainy Day Fund Deposit	(271)
2010B Sale/Leaseback Payoff	(190)
Transportation Funding	(77)
ADE – Shift DAA/CAA to Ongoing	(68)
ADE – Prop 301 Bridge Savings	(50)
DWR – DCP Funding/Other	(53)
SFB – Fewer New Buildings	(54)
Recurring One-Time Spending	(172)
Other Agency Spending	(41)
Capital Projects	<u>(5)</u>
Total	(938)

Baseline Adds \$820 M to K-12 by '23

	(\$ in M Above '20)		
	<u>'21</u>	<u>'22</u>	<u>'23</u>
Formula (Student Count/Inflation)	\$ 186	\$ 365	551
Restore Additional Assistance (Enacted)	0	68	136
5% Teacher Pay Raise (Enacted)	125	125	125
Other	<u>27</u>	<u>43</u>	<u>8</u>
Total Additional Spending	\$ 338	\$ 601	\$ 820
Total General Fund	\$5,538	\$5,792	\$6,020

*Classroom Site Fund pays additional \$50 M for teacher pay raise beginning in FY '21, for total pay raise cost of \$175 M.

Available Ongoing and Cash Balances

Available Ongoing and One-Time Balances

- Excludes \$1 B Rainy Day Fund

	(\$ in M)
	<u>Baseline</u>
Ongoing Balance	300
One-Time Balance	685

Prior to planning targets, projected '21 ending balance is \$1.0 B. Of that amount:

- Up to \$300 M is available for ongoing objectives
 - Higher \$ level would create '22 shortfall
- \$685 M is available for one time purposes
- \$50 M is set aside as an uncommitted cash balance

Setting Revenue and Spending Priorities

Options for One-Time Spending

- Retaining “Recurring” One-Time Initiatives

<u>Multi-Year One-Times *</u>	<u>(\$ in M)</u>
<input type="checkbox"/> SFB Building Repair Grants (5)	63
<input type="checkbox"/> University Spending (4)	35
<input type="checkbox"/> DJC/Maricopa & Pima Contributions (4)	8
<input type="checkbox"/> State Employee Health Insurance (3)	11
Total	<u>117</u>
 <u>New One-Times in '20</u>	
<input type="checkbox"/> Community College Rural Funding	14
<input type="checkbox"/> Housing Trust Fund Deposit	15
<input type="checkbox"/> Local Transportation Funding	18
<input type="checkbox"/> Other	8
Total	<u>55</u>

Managing State Risks in Setting Priorities

– Represents Possible Candidates for '21 Funding and Beyond

- ❑ ADC has identified the need for \$380 M of building repairs over the next 10 years.
- ❑ 15 dams in the state have been labeled as unsafe. In-depth assessments and design plans along with some initial repairs could cost \$20 M.
- ❑ DHS has waiting times to investigate nursing home complaints of up to 2.5 years. To resolve this backlog, DHS would need \$3.3 M.

STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

Director..... Richard Stavneak
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..... Jack Brown
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Principal Fiscal Analysts..... Patrick Moran
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..... Steve Grunig
..... Jeremy Gunderson
..... Geoffrey Paulsen
Fiscal Analysts..... Elliot Chau
..... Lydia Chew
..... Ryan Fleischman
..... Jordan Johnston
..... Alexis Pagel
..... Maggie Rocker
Administrative Assistant / JLBC & JCCR Clerk..... Kristy Paddack



Appendices

'20 YTD: 9.6% Growth/\$346 M Above Forecast

- '19 Was \$248 M Above Budget

	<u>% Growth Above Prior Year</u>		<u>'20 +/- Forecast (\$ M)</u>
	<u>'19 Actual</u>	<u>'20 YTD</u>	
Sales	6.5%	7.1%	\$ 78
Individual Income	10.2	10.4	100
Corporate Income	37.9	22.4	110
Insurance Premium	7.9	4.5	31
Other	<u>26.4</u>	<u>23.6</u>	<u>27</u>
Overall *	10.2%	9.6%	\$ 346

* Revenues exclude beginning balance, fund transfers and Urban Revenue Sharing
YTD = Year to Date through December.

Appendix B: January 2020 4-Sector Forecast

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Sales Tax				
JLBC Forecast	6.7%	4.8%	4.2%	3.9%
UA – Low	6.5%	2.9%	0.8%	2.9%
UA – Base	7.0%	5.9%	4.2%	4.0%
FAC	6.2%	4.5%	3.4%	3.6%
Average:	6.6%	4.5%	3.2%	3.6%
Individual Income Tax				
JLBC Forecast	3.3%	6.0%	5.9%	5.4%
UA – Low	-1.4%	2.7%	1.4%	4.3%
UA – Base	0.2%	5.1%	4.9%	4.9%
FAC	4.3%	5.2%	4.1%	4.3%
Average:	1.6%	4.8%	4.1%	4.7%
Corporate Income Tax				
JLBC Forecast	10.3%	3.5%	4.1%	4.8%
UA – Low	4.3%	0.0%	-1.2%	3.8%
UA – Base	5.7%	1.7%	4.9%	5.3%
FAC	11.0%	4.7%	3.0%	3.7%
Average:	7.8%	2.5%	2.8%	4.4%
Insurance Premium Tax				
JLBC Forecast	1.6%	1.7%	1.8%	3.1%
UA – Low	2.7%	1.8%	0.8%	0.7%
UA – Base	3.2%	2.1%	1.2%	1.7%
FAC	1.6%	1.0%	1.5%	1.9%
Average:	2.3%	1.6%	1.3%	1.8%

JLBC Weighted Average	5.1%	5.1%	4.8%	4.6%
UA Low Weighted Average	2.7%	2.6%	1.0%	3.4%
UA Base Weighted Average	3.7%	5.2%	4.4%	4.3%
FAC Consensus Weighted Average	5.3%	4.6%	3.6%	3.8%
“Big-4” Weighted Average	4.2%	4.4%	3.5%	4.1%
Consensus Weighted Average*	3.6%	4.1%	3.3%	4.1%

* Represents ongoing revenue adjusted for small revenue categories.



Forecasted “Bottom-Line” ’21 Revenue Growth is 2.9% - Adjusts Consensus Forecast for Transfers & URS

	'20	'21	'22	'23
Net Revenue Growth (3.6%/4.1%/3.3%/4.1%)	428	505	418	535
1-Time Fund Transfers	(9)	(74)	20	(20)
Urban Revenue Sharing	(63)	(91)	(18)	(39)
Total	356	340	420	476
% Change	3.2%	2.9%	3.5%	3.9%

Excludes Change in Beginning Balance

\$48 M Phase-In of Enacted Revenue Reductions

	(\$ in M)		
	'21	'22	'23
Public Safety Transfers	0	(23)	0
Annualize Out-of-State Internet Sales (Wayfair)	28	0	0
Corporate STO with Caps	(16)	(12)	(7)
All Other	(13)	(5)	1
Total	(1)	(40)	(6)

- By '23, revenue base is \$(48) M lower than in '20
- Numbers are incorporated in Net Revenues estimates each year