
Finance Advisory Committee Revenue and Budget Update

October 9, 2024



Key Points

- The October Budget Update includes revised General Fund revenue and expenditure projections through FY 28.
- Unlike last year, the projected cash balance is positive in each year.
- The balances, however, decline over time to a low of \$159 M in FY 28.
- The lowest ending balance in the 3-year budget projection determines the dollars available for discretionary purposes.

Key Points

- This \$159 M could potentially be allocated between ongoing and one-time initiatives. But if we choose only one approach:
 - The \$159 M could all be used for one-time FY 26 initiatives.
 - \$53 M could be allocated to ongoing initiatives each year during FY 26 - FY 28.
- These projections exclude \$323 M in traditional "ongoing" one-time spending for K-12 building repairs & state employee health insurance.
- If these 2 items were funded again, the budget would experience a shortfall in FY 27 and FY 28.

Since Sine Die – FY 24 Revenues Were \$425 M Above Forecast

- FY 25 1st Quarter – 4.1% Growth and \$109 M Above Forecast

- Of the \$425 M FY 24 forecast gain, \$259 M (60%) was generated from non-tax revenues.
 - Primary contributor was a one-time \$145 M gain in Medicaid “reconciliation payments” for operating the program at levels below the capitation rates.
- Of the \$109 M 1st Quarter gain:
 - \$37 M due to 16% growth in Insurance Premium Taxes.
 - \$30 M from Individual Income Tax, primarily a 6.5% withholding increase.
 - \$26 M from 3.3% Corporate Income Tax growth.

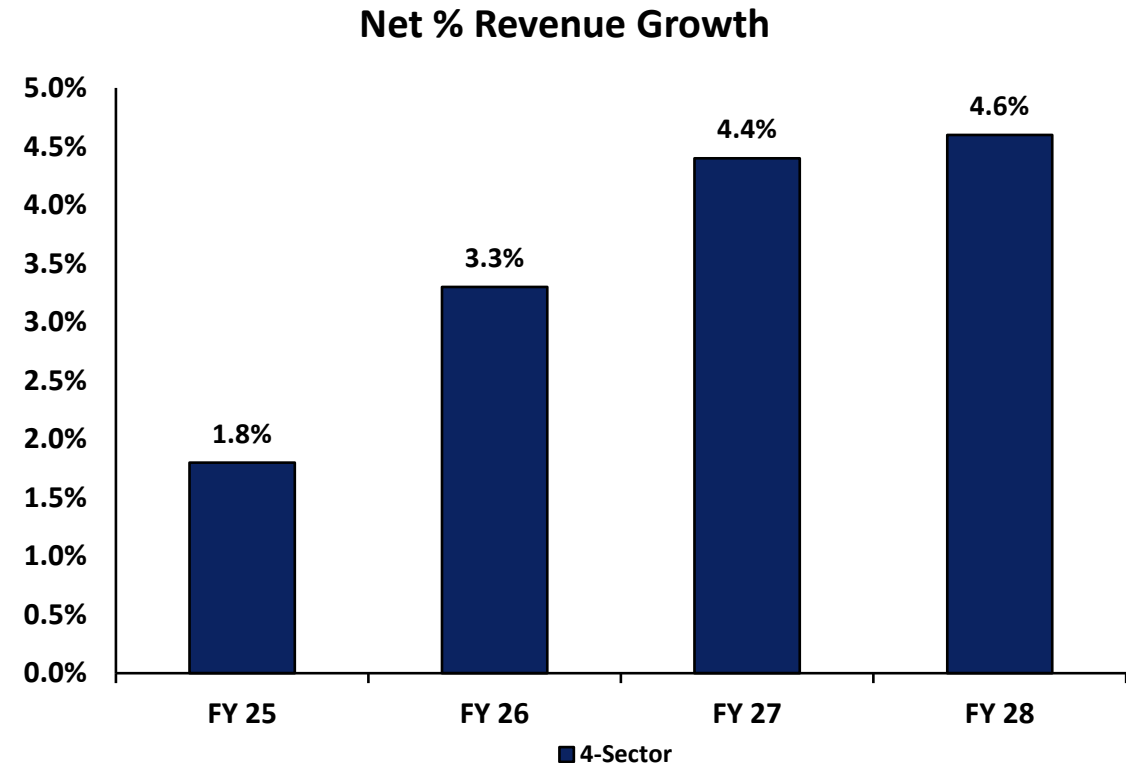
Forecasting State Revenues

4-Sector: Slow 1.8% Growth in FY 25

- With Gradual Improvement from FY 26 through FY 28

4-Sector Components

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



Excludes balance forward, fund transfers and urban revenue sharing

See Appendix A and B

What Are the Factors Behind 1.8% Growth in FY 25?

- 4.2% Tax Growth Offset by (25.7)% Non-Tax Decline

- Major Tax Categories Would Experience Moderate Growth:
 - Sales Tax 3.1%
 - Individual Income Tax 5.7%
 - Corporate Income Tax 3.2%
 - Insurance Premium Tax 7.5%
- Non-Tax Revenue Drop Due to 2 Main Factors:
 - The highly volatile Medicaid Reconciliation Payments are forecasted to fall from \$174 M to \$32 M (82%).
 - Interest earnings are projected to decline from \$371 M to \$250 M (33%) as the Federal Reserve is expected to reduce its federal funds rate throughout the year.

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 \$715 M in one-time FY 25 spending:
 - Of that amount \$503 M was deleted in the FY 26 estimates.
 - \$212 M was retained in FY 26, primarily for K-12 new school construction (\$148 M) and private prison rate increases (\$54 M).
- Some ongoing “one-times” such as school building repair and state health insurance were not continued in FY 26.

FY 26 Baseline Spending Projected To Increase By \$232 M

FY 26 Ongoing Spending Changes

	<u>\$ in M</u>
ADE – K-12 Formula	524
Medicaid Formula	408
Other	<u>(17)</u>
Total	915

FY 26 One-Time Spending Deletions

	<u>\$ in M</u>
K-12 Building Renewal Grants	(183)
State Employee Health Insurance	(140)
ADE/DES Formula Supplementals	(180)
Other Agency Spending	<u>(180)</u>
Total	(683)

Total Spending Changes \$232 M

Total Spending \$16,597 M

% Change 1.4%

Forecast Assumes \$180 M of FY 25 Supplemental Increases

- DES – Developmental Disabilities (\$76 M)
 - Primarily due to above-budget DD capitation adjustment (11% versus 4%).
 - Higher growth partially attributable to Parents as Paid Caregivers (PPCG) waiver.
 - Enacted budget did not adjust DD funding for PPCG due to uncertain cost.
- ADE – Basic State Aid (\$104 M)
 - \$61 M for the state share of prior year recalculations associated with *Qasimyar* property tax litigation.
 - \$43 M for revisions based on higher-than-anticipated FY 24 state aid costs.
 - Subject to change based on additional formula data.

What is Causing the \$524 M FY 26 K-12 Spending Increases?

	<u>\$ in M</u>
• Backfill Loss of Prop 123 Land Endowment distribution	286
- Based on FY 25 3-year spending plan assumptions	
• 2.0% Inflation Increase/Other Formula Costs	179
• (0.9)% District/Charter Enrollment Decline	(31)
- Includes 50% ESA switcher assumption	
• 8.8% ESA Student Enrollment Gain	90
- Highly speculative estimate. Bring totals to 90k students & \$912 M	_____
Total	524

Baseline Adds \$100 M in FY 27 and \$227 M in FY 28

- As Required by the FY 25 Budget's Long-Term Plan

FY 27

- \$100 M in hospital assessment savings ends after FY 26 thereby requiring an on-going General Fund backfill.

FY 28

- \$66 M for the ongoing cost of K-12 additional assistance and low-income weight funding that was suspended in FY 26 and FY 27.
- \$136 M for deferred transportation projects, primarily I-10 widening in the West Valley and the SR 347-Riggs Road Overpass.
- \$25 M for the deferred Northwest Arizona Veterans Home.

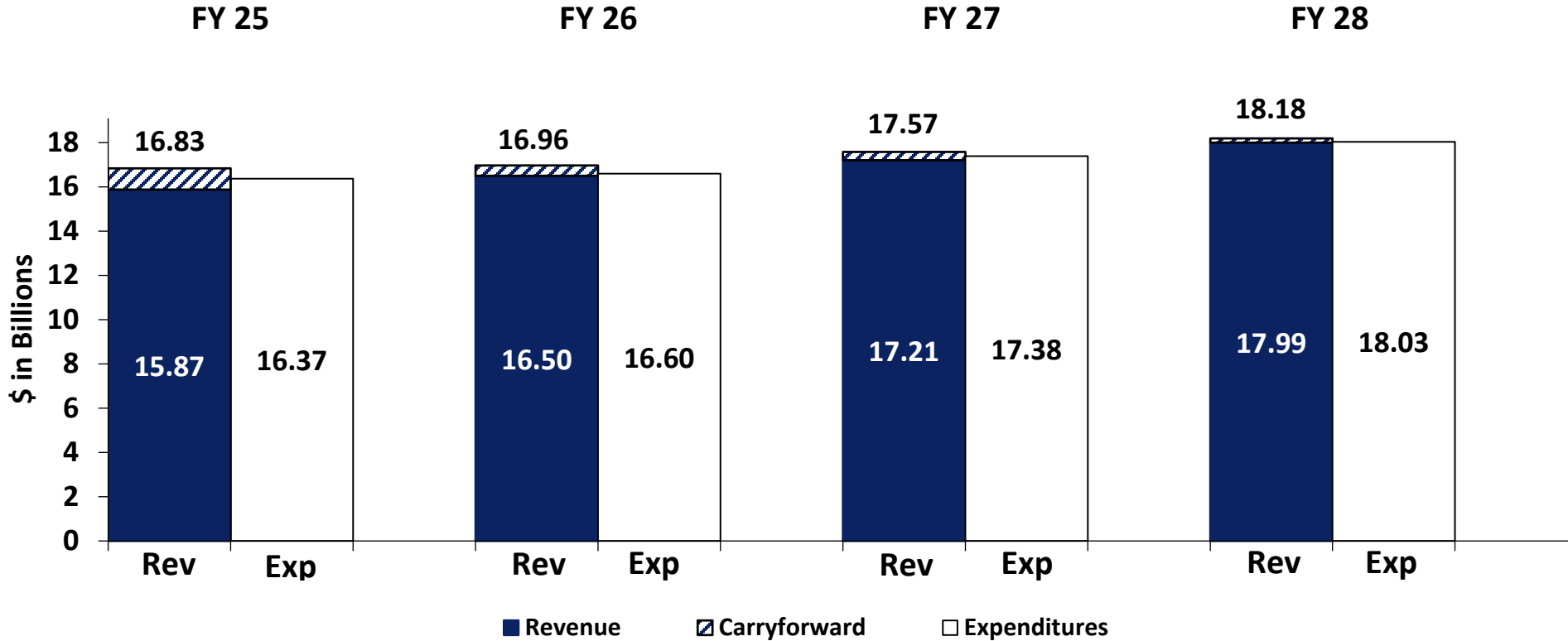
Projected Ending Balances

Excludes \$1.5 B in Budget Stabilization Fund

More Information in Appendix C

Projected Balance Falls to \$159 M by FY 28

- Each Year's Carryforward is Used to Balance the Following Year Budget



Cash Balance

\$469 M

\$367 M

\$194 M

\$159 M



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Appendix A: October 4-Sector Revenue Forecast

	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
Sales Tax				
JLBC Forecast	3.7%	4.2%	4.3%	4.5%
UA – Low	2.0%	3.2%	4.2%	4.2%
UA – Base	3.6%	4.3%	4.4%	4.4%
FAC	3.3%	3.7%	4.3%	4.4%
Average:	3.1%	3.9%	4.3%	4.4%
Individual Income Tax				
JLBC Forecast	5.8%	4.7%	5.2%	5.0%
UA – Low	5.1%	5.5%	6.3%	6.2%
UA – Base	6.9%	6.4%	6.5%	6.5%
FAC	5.0%	4.1%	5.3%	4.9%
Average:	5.7%	5.2%	5.8%	5.7%
Corporate Income Tax				
JLBC Forecast	0.9%	3.5%	4.6%	3.5%
UA – Low	3.8%	3.0%	2.1%	1.9%
UA – Base	5.3%	3.9%	3.1%	2.8%
FAC	2.6%	4.0%	4.9%	4.5%
Average:	3.2%	3.6%	3.7%	3.2%

JLBC Weighted Average	4.1%	4.3%	4.6%	4.6%
UA Low Weighted Average	3.3%	4.0%	4.7%	4.6%
UA Base Weighted Average	4.9%	5.0%	5.0%	4.9%
FAC Consensus Weighted Average	3.8%	3.9%	4.7%	4.6%
“Big-4” Weighted Average	4.0%	4.3%	4.7%	4.7%
Consensus Weighted Average	1.8%	3.3%	4.4%	4.6%
* Represents ongoing revenue adjusted for small revenue categories.				

Appendix B: 4-Sector Forecast FY 24 - FY 26

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	PREL. ACTUAL FY 2024	% CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,934,130.1	3.3%	8,183,261.8	3.1%	249,131.7	8,499,327.0	3.9%	316,065.2
Income - Individual	4,845,766.5	-7.5%	5,122,217.5	5.7%	276,451.0	5,387,325.8	5.2%	265,108.3
- Corporate	1,744,821.7	-3.4%	1,799,870.8	3.2%	55,049.1	1,864,566.7	3.6%	64,695.9
Property	25,995.0	17.1%	24,487.0	-5.8%	(1,508.0)	23,997.3	-2.0%	(489.7)
Luxury - Tobacco	19,160.1	2.5%	18,536.9	-3.3%	(623.2)	18,351.5	-1.0%	(185.4)
- Liquor	43,743.4	-3.6%	46,333.2	5.9%	2,589.8	48,974.2	5.7%	2,641.0
Insurance Premium	820,435.1	7.8%	881,967.7	7.5%	61,532.6	928,712.0	5.3%	46,744.3
Other Taxes	17,196.5	-6.3%	19,721.0	14.7%	2,524.5	20,746.5	5.2%	1,025.5
Subtotal - Taxes	15,451,248.3	-0.9%	16,096,395.9	4.2%	645,147.5	16,792,000.9	4.3%	695,605.0
Other Non-Tax Revenues:								
Lottery	222,285.2	26.4%	234,637.8	5.6%	12,352.6	199,170.9	-15.1%	(35,466.9)
Gaming Revenue	36,477.3	-26.1%	37,954.4	4.0%	1,477.0	39,472.5	4.0%	1,518.2
Licenses, Fees and Permits	52,664.5	24.9%	52,240.2	-0.8%	(424.3)	54,800.0	4.9%	2,559.8
Interest	371,165.8	1.2%	250,000.0	-32.6%	(121,165.8)	135,000.0	-46.0%	(115,000.0)
Sales and Services	30,757.0	-7.2%	30,864.1	0.3%	107.1	32,283.9	4.6%	1,419.7
Other Miscellaneous	226,979.6	27.1%	231,554.1	2.0%	4,574.4	239,890.0	3.6%	8,335.9
Transfers and Reimbursements	327,232.9	18.7%	81,754.7	-75.0%	(245,478.2)	82,294.5	0.7%	539.8
Medicaid Hospital Revenue	90,125.0	-8.2%	89,725.4	-0.4%	(399.6)	89,597.2	-0.1%	(128.2)
Subtotal - Other Non-Tax	1,357,687.3	11.3%	1,008,730.6	-25.7%	(348,956.7)	872,508.9	-13.5%	(136,221.7)
Net Ongoing Revenue	16,808,935.7	0.0%	17,105,126.5	1.8%	296,190.8	17,664,509.8	3.3%	559,383.3
Urban Revenue Sharing (URS)	(1,564,819.8)	N/A	(1,268,255.6)	N/A	296,564.2	(1,186,305.9)	N/A	81,949.7
Net Ongoing Revenue w/ URS	15,244,115.9	-2.9%	15,836,870.9	3.9%	592,755.0	16,478,203.9	4.0%	641,333.0
One-Time Financing Sources:								
Fund Transfers	841,526.2	N/A	33,991.8	-96.0%	(807,534.4)	17,000.0	-50.0%	(16,991.8)
One-Time Income Tax Rebate	(273,550.1)	N/A	0.0	N/A	273,550.1	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	567,976.1	N/A	33,991.8	-94.0%	(533,984.3)	17,000.0	-50.0%	(16,991.8)
Subtotal - Revenues	15,812,092.0	17.2%	15,870,862.7	0.4%	58,770.7	16,495,203.9	3.9%	624,341.2
Balance Forward	2,527,233.0	-46.3%	962,800.0	-61.9%	(1,564,433.0)	468,655.6	-51.3%	(494,144.4)
Total - Resources	18,339,325.0	0.8%	16,833,662.7	-8.2%	(1,505,662.3)	16,963,859.5	0.8%	130,196.8

Appendix B: 4-Sector Forecast FY 27 - FY28

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2027	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2028	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,864,194.7	4.3%	364,867.7	9,252,727.7	4.4%	388,533.0
Income - Individual	5,700,861.1	5.8%	313,535.3	6,023,201.3	5.7%	322,340.2
- Corporate	1,933,061.7	3.7%	68,495.0	1,994,669.0	3.2%	61,607.4
Property	23,589.3	-1.7%	(408.0)	23,188.3	-1.7%	(401.0)
Luxury - Tobacco	18,168.0	-1.0%	(183.5)	17,986.3	-1.0%	(181.7)
- Liquor	51,765.7	5.7%	2,791.5	54,354.0	5.0%	2,588.3
Insurance Premium	973,290.2	4.8%	44,578.2	1,020,981.4	4.9%	47,691.2
Other Taxes	21,866.8	5.4%	1,120.3	22,741.4	4.0%	874.7
Subtotal - Taxes	17,586,797.4	4.7%	794,796.5	18,409,849.4	4.7%	823,052.0
Other Non-Tax Revenues:						
Lottery	212,852.6	6.9%	13,681.7	229,295.2	7.7%	16,442.6
Gaming Revenue	41,051.4	4.0%	1,578.9	42,693.5	4.0%	1,642.1
Licenses, Fees and Permits	57,266.0	4.5%	2,466.0	59,556.6	4.0%	2,290.6
Interest	87,000.0	-35.6%	(48,000.0)	87,000.0	0.0%	0.0
Sales and Services	33,736.6	4.5%	1,452.8	35,086.1	4.0%	1,349.5
Other Miscellaneous	249,725.5	4.1%	9,835.5	259,714.5	4.0%	9,989.0
Transfers and Reimbursements	82,853.0	0.7%	558.5	83,431.1	0.7%	578.1
Medicaid Hospital Revenue	89,409.3	-0.2%	(187.9)	89,352.3	-0.1%	(57.0)
Subtotal - Other Non-Tax	853,894.4	-2.1%	(18,614.6)	886,129.3	3.8%	32,234.9
Net Ongoing Revenue	18,440,691.8	4.4%	776,182.0	19,295,978.7	4.6%	855,286.9
Urban Revenue Sharing (URS)	(1,245,975.9)	N/A	(59,670.0)	(1,305,340.6)	N/A	(59,364.7)
Net Ongoing Revenue w/ URS	17,194,715.9	4.3%	716,512.0	17,990,638.1	4.6%	795,922.2
One-Time Financing Sources:						
Fund Transfers	12,000.0	-29.4%	(5,000.0)	0.0	-100.0%	(12,000.0)
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	12,000.0	-29.4%	(5,000.0)	0.0	-100.0%	(12,000.0)
Subtotal - Revenues	17,206,715.9	4.3%	711,512.0	17,990,638.1	4.6%	783,922.2
Balance Forward	366,995.3	-21.7%	(101,660.3)	193,598.0	-47.2%	(173,397.3)
Total - Resources	17,573,711.2	3.6%	609,851.7	18,184,236.1	3.5%	610,524.9

Appendix C: General Fund Balance Sheet

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

	FY 2025 October FAC	FY 2026 October FAC	FY 2027 October FAC	FY 2028 October FAC
REVENUES				
Ongoing Revenues	\$17,105,126,500	\$17,664,509,800	\$18,440,691,800	\$19,295,978,700
Urban Revenue Sharing	(1,268,255,600)	(1,186,305,900)	(1,245,975,900)	(1,305,340,600)
Net Ongoing Revenues	<u>\$15,836,870,900</u>	<u>\$16,478,203,900</u>	<u>\$17,194,715,900</u>	<u>\$17,990,638,100</u>
One-Time Revenues				
Balance Forward	962,800,000	468,655,600	366,995,300	193,598,000
Fund Transfers	33,991,800	17,000,000	12,000,000	
Subtotal One-Time Revenues	<u>\$996,791,800</u>	<u>\$485,655,600</u>	<u>\$378,995,300</u>	<u>\$193,598,000</u>
Total Revenues	\$16,833,662,700	\$16,963,859,500	\$17,573,711,200	\$18,184,236,100
EXPENDITURES				
Ongoing Operating Appropriations	\$15,610,154,600	\$16,534,937,000	\$17,063,470,500	\$17,683,492,900
Administrative Adjustments	130,000,000	140,000,000	145,000,000	145,000,000
Revertments	(170,000,000)	(190,000,000)	(200,000,000)	(200,000,000)
Subtotal Ongoing Expenditures	<u>\$15,570,154,600</u>	<u>\$16,484,937,000</u>	<u>\$17,008,470,500</u>	<u>\$17,628,492,900</u>
One-Time Expenditures				
Capital Outlay				25,000,000
Transportation Funding			30,000,000	136,240,000
FY 25 One-Time Supplementals	179,550,500			
Operating One-Time Spending	715,302,000	211,927,200	341,642,700	235,616,000
Hospital Assessment Savings	(100,000,000)	(100,000,000)		
Subtotal One-Time Expenditures	<u>\$794,852,500</u>	<u>\$111,927,200</u>	<u>\$371,642,700</u>	<u>\$396,856,000</u>
Total Expenditures	\$16,365,007,100	\$16,596,864,200	\$17,380,113,200	\$18,025,348,900
Ending Balance	\$468,655,600	\$366,995,300	\$193,598,000	\$158,887,200