
Arizona Tax Research Association

Revenue and Budget Update

November 19, 2020

JLBC

Key Points

- ❑ Since the pandemic began, revenue collections have been much higher than anticipated
- ❑ Based on October FAC, the projected ending balance is \$411 M in '21 and \$93 M in '22
- ❑ Due to surprising revenue trends, we expect the balance projections to grow in our January update
- ❑ The course of COVID and federal policy responses could also have a significant impact

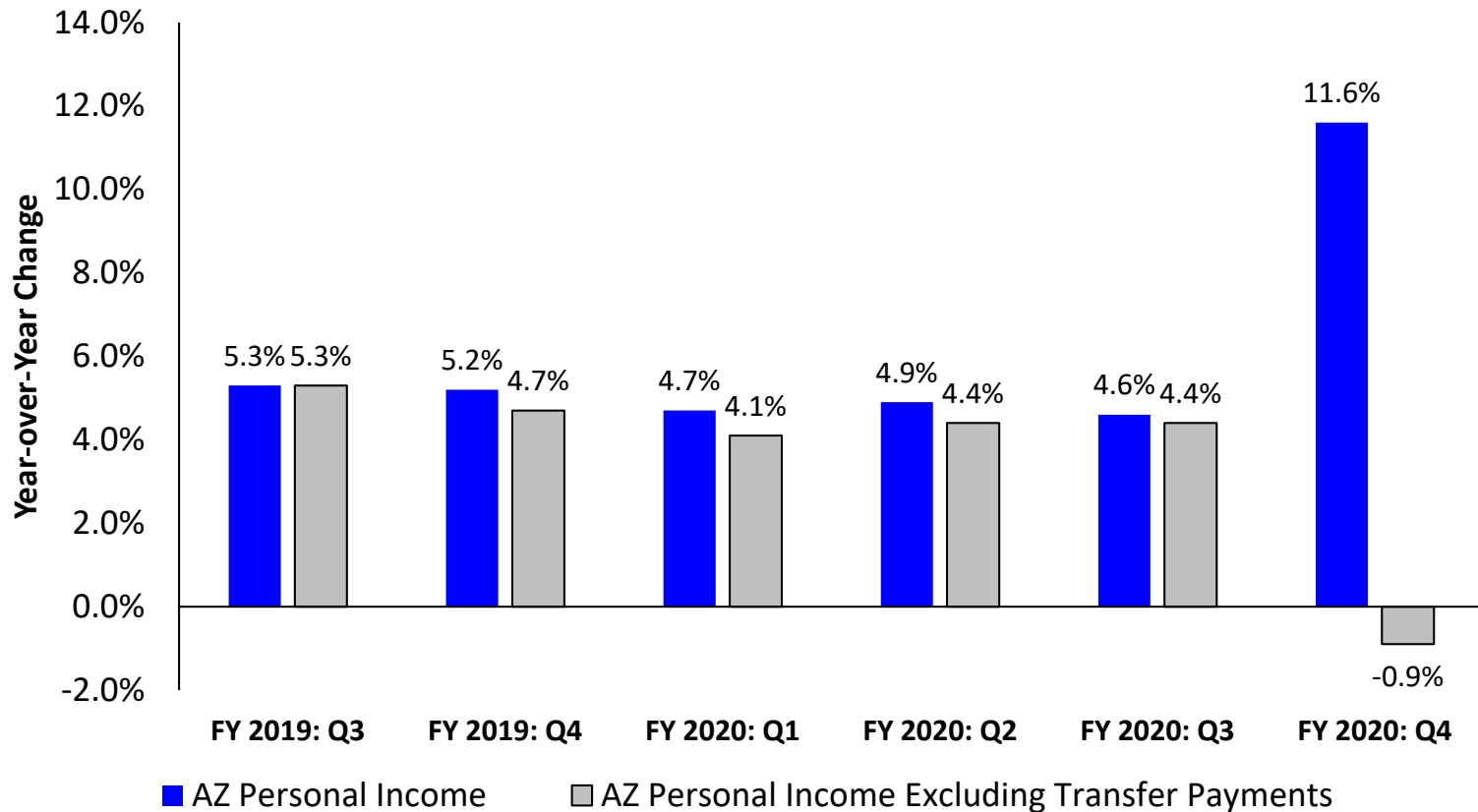
Caveats

- ❑ The October estimates are predicated on no long-term spike in COVID and no wide-scale business shutdowns
- ❑ While federal COVID aid has propped up our economy, that assistance is quickly being depleted
- ❑ A new federal aid package could significantly change the October projections
- ❑ For example, extending the current enhanced Federal Medicaid match could save \$500 M in '22

Personal Income Grew 11.6% in 4th Quarter

- Due to \$32 B in Federal CARES Act Assistance to Arizona

Arizona Personal Income



Arizonans Received \$32 B in Direct Pandemic Aid

- Another \$6 B Went to State/Local Governments

<u>Major Sources of Direct Aid</u>	<u>\$ in B</u>
Paycheck Protection/Other Business Aid	13
Unemployment Insurance	10
\$1,200/\$2,400 Stimulus Checks	6
Hospitals/Health Care Providers	2

- Paycheck Protection Loans forgiven if any layoffs rehired by 12/20
- Other Business Aid includes Economic Injury Disaster Loans for 60,000 Arizona businesses
- Business Aid also includes Employee Retention Credit for 50% of wages up to \$10,000 per employee

'21 YTD General Fund Revenues Up 20%

- Gain Aided by Deferred Tax Filing

	<u>% Growth</u> <u>'21 YTD</u>	<u>+/- October</u> <u>Forecast (\$ M)</u>
Sales	12.3%	\$ 67
Individual Income	31.0	14
Corporate Income	9.8	11
Insurance Premium	6.0	7
Other	<u>(10.8)</u>	<u>3</u>
Overall *	19.6	\$ 102

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

Forecasting State Revenues

October 4-Sector Forecast

October Consensus Forecast

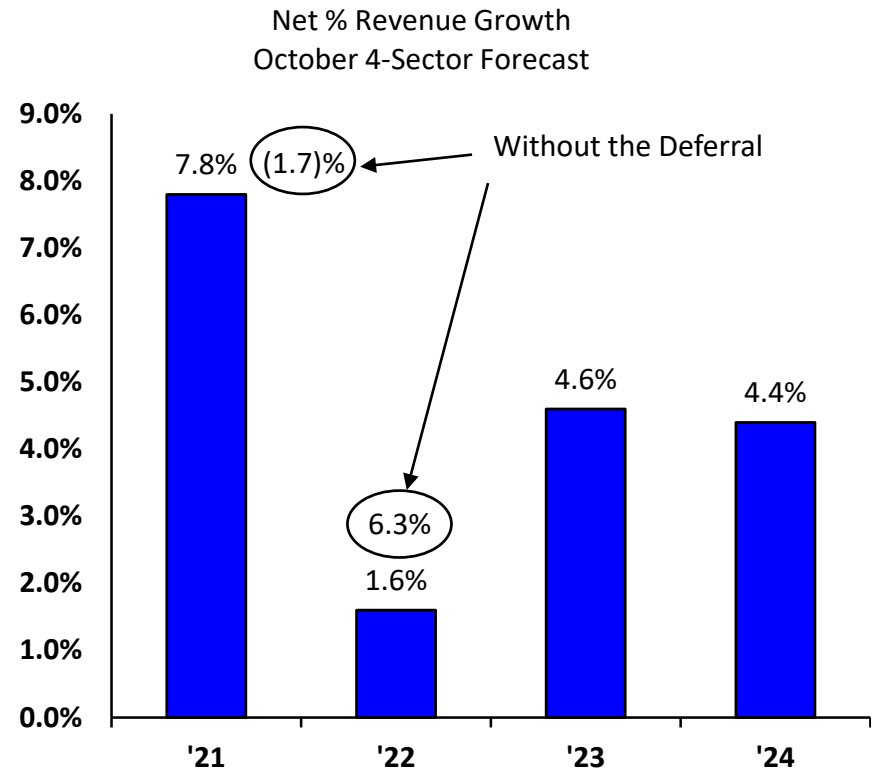
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Represents Net Growth

- Includes enacted law changes

Long Run Average Growth

- 4.2%



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

See Appendix A

Is the Sales Tax Collection Bubble About to Burst?

- \$145 M First Quarter Growth over Prior Year

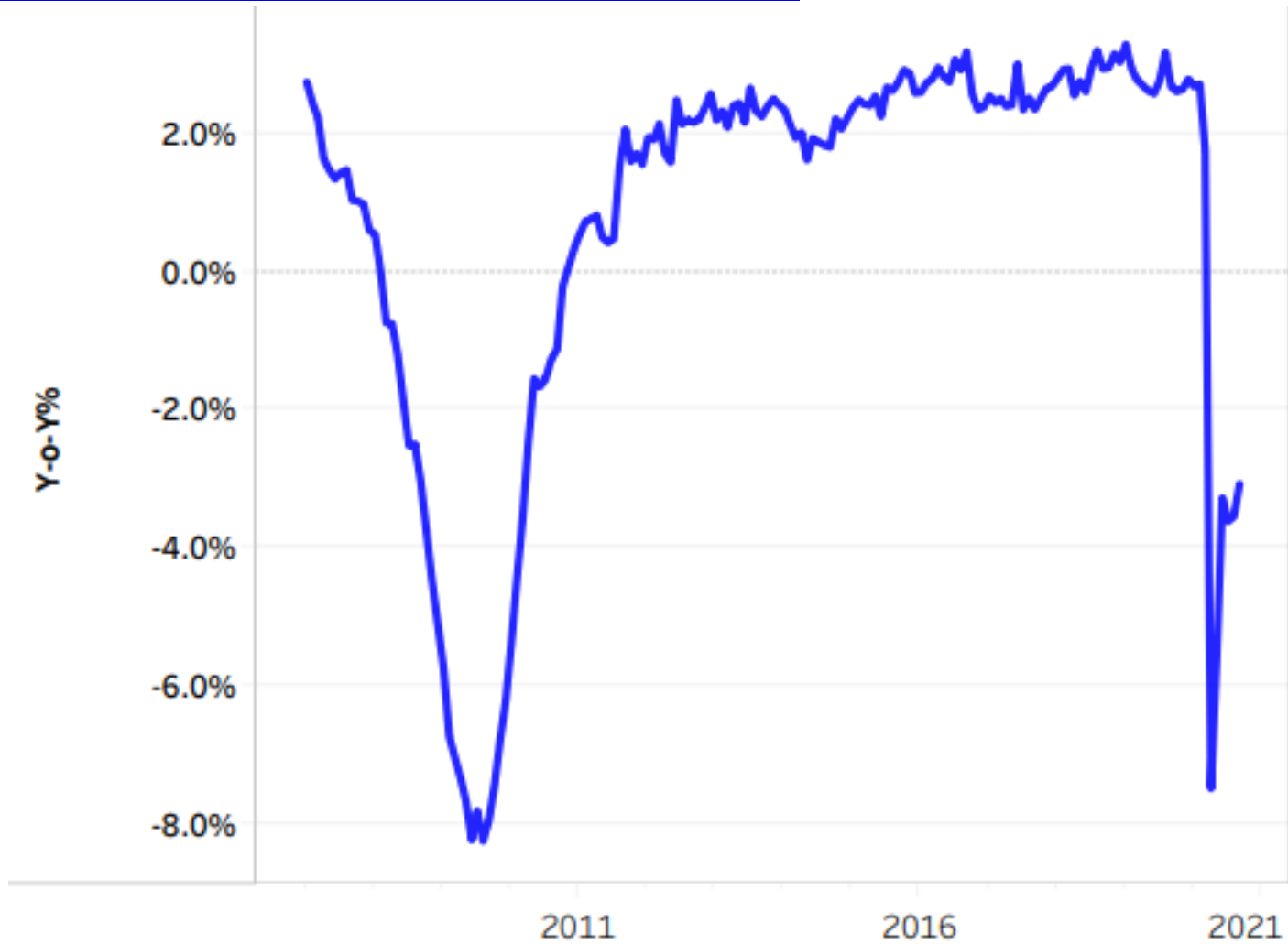
% Change over Prior Year		
	4 th Qtr <u>FY 20</u>	1 st Qtr <u>FY 21</u>
Retail/Remote Sales	5%	19%
Contracting	18	19
Restaurant/Bar	(32)	(12)
Lodging	(67)	(34)

- ❑ US durable goods spending up 15% in September
- ❑ US services spending down 5%

- ❑ In Az retail, auto sales up 12%; building materials gained 23%
- ❑ Wayfair/Remote stronger than expected

AZ Employment (3.1)% Less than a Year Ago

- But Withholding Up 0.6% in the 1st FY '21 Trimester



Spending Adjustments

Baseline Spending Projected To Increase by \$564 M

'22 Ongoing Spending Changes

	<u>\$ in M</u>
AHCCCS – Medicaid Formula	305
ADE – K-12 Formula	203
DPS – Highway Safety Fee Backfill	161
DES – Medicaid Formula	54
Other	<u>4</u>
Total	727

'22 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
Reduce K-12 Rollover (Enacted)	30
University 27 th Payroll (Enacted)	20
FY 21 State Agency 27th Payroll	(43)
SFB – Building Renewal Grants	(91)
SFB – Fewer New Buildings	(18)
State Employee Health Insurance	(22)
Other Agency Spending	(28)
ADC Capital Projects	<u>(11)</u>
Total	(163)

Total Spending Changes	\$564 M
Total Spending	\$12,326 M
% Change	4.8%

Projected Ending Balances

Excludes \$970 M in Budget Stabilization Fund

October FAC: \$411 M '21 Ending Balance

- Will Likely Increase in the January Update

- ❑ Unless there is an economic downturn, revenue growth will be adjusted upward
 - Only need 1.5% Nov-June growth to match October forecast
- ❑ Oct Baseline does not reflect \$190 M in '21 General Fund savings from enhanced federal Medicaid match rate
 - Net savings will depend on AHCCCS provider rate increases
- ❑ State may also generate K-12 General Fund savings due greater use of online programs and lower enrollment

K-12 General Fund Loss Offset by Fed Funds

- Paid from \$1.8 B in Coronavirus Relief Fund

<u>Current CRF Allocations</u>	<u>\$ in M</u>	
Local Funding (Non-Big 5)	\$441	<input type="checkbox"/> K-12 grants backfill loss of student count
Agency Spending Backfills	396	<input type="checkbox"/> Agency backfills allowed reduced GF spending; created larger ending balance
K12 Enrollment Stability	370	
FEMA Bridge Loan	150	
DHS COVID Costs	70	
SOS Elections	9	<input type="checkbox"/> Exec will use some unallocated \$ for UI balance
University Testing/Surveillance	8	
2020 Census	5	
Virtual Teacher Institute	2	<input type="checkbox"/> Will any new federal stimulus provide more \$?
Other	<u>8</u>	
Total	\$1,459	

Projected '22 Balance of \$93 M

- By January, Estimate More Likely to Increase than Decrease

Factors that would increase the '22 Balance

- Higher '21 balance than projected \$411 M
- Higher revenue base than October forecast
- Extension of enhanced Medicaid match into '22
- More federal stimulus – both direct and indirect

Factors that would decrease the '22 Balance

- Extended COVID spike and business shutdown
- Continuing 1-time '21 initiatives in '22

Prop 207 Recreational Marijuana

- Ongoing Funded from 16% Excise Tax

Ongoing Distributions	Estimate (\$ in M)
Community Colleges (33%)	\$53
Local Public Safety (31%)	51
Transportation (25%)	41
Public Health (10%)	16
TOTAL	\$161

One-Time Distribution from the Medical Marijuana Fund	Amount (\$ in M)
Teachers Academy	\$15
Highway Safety	10
Health Services	20
TOTAL	\$45

- ❑ Ongoing \$ based on 3rd year of program – but difficult to gauge ramp up. Could reach these levels more quickly, but need to see 6-12 months of actuals first
- ❑ Assumes \$5 M “off the top” for admin – agencies self-determine needs
- ❑ TPT also applies to marijuana sales – projected \$38 M GF collection in 3rd year

Prop 208 Education Spending

Revenue Distribution	
	Estimate <u>(\$ in M)</u>
Teacher/Classroom Support (50%)	\$413
School Support Services (25%)	207
Teacher Retention (10%)	83
Career Training (12%)	99
Teachers Academy (3%)	<u>25</u>
TOTAL	\$827

- ❑ Awaiting DOR guidance, but \$ probably not available until FY '23
- ❑ Surcharge is based on TY '21 liability – returns filed in spring '22

Appendix A: October 4-Sector Forecast

	<u>2021</u> *	<u>2022</u>	<u>2023</u>	<u>2024</u>
Sales Tax				
JLBC Forecast	4.9%	5.3%	5.3%	3.9%
UA – Low	2.0%	5.2%	4.3%	4.1%
UA – Base	5.6%	6.4%	4.7%	4.6%
FAC	1.6%	5.4%	4.8%	5.1%
Average:	3.5%	5.6%	4.8%	4.4%
Individual Income Tax with Deferral				
JLBC Forecast	19.9%	-5.4%	5.1%	4.8%
UA – Low	15.3%	-3.1%	4.2%	3.4%
UA – Base	21.4%	-1.3%	5.3%	4.7%
FAC	14.2%	0.9%	6.0%	6.1%
Average:	17.7%	-2.2%	5.2%	4.8%
Corporate Income Tax				
JLBC Forecast	-4.7%	5.9%	4.7%	4.2%
UA – Low	-24.6%	6.0%	4.4%	6.4%
UA – Base	-15.8%	13.8%	6.4%	7.4%
FAC	5.5%	0.5%	4.9%	4.9%
Average:	-9.9%	6.2%	5.1%	5.7%
Insurance Premium Tax				
JLBC Forecast	1.3%	1.2%	0.7%	0.6%
UA – Low	-2.8%	4.1%	2.3%	0.7%
UA – Base	-2.6%	4.4%	4.5%	2.4%
FAC	-0.5%	2.0%	2.3%	2.0%
Average:	-1.2%	2.9%	2.4%	1.4%

JLBC Weighted Average	10.5%	0.3%	5.0%	4.2%
UA Low Weighted Average	6.0%	1.4%	4.2%	3.7%
UA Base Weighted Average	10.7%	3.1%	5.0%	4.7%
FAC Consensus Weighted Average	6.9%	3.0%	5.2%	5.4%
“Big-4” Weighted Average	8.5%	2.0%	4.8%	4.5%
Consensus Weighted Average*	7.8%	1.6%	4.6%	4.4%

* Represents ongoing revenue adjusted for small revenue categories.