
ABEC Annual Conference

December 9, 2016

JLBC

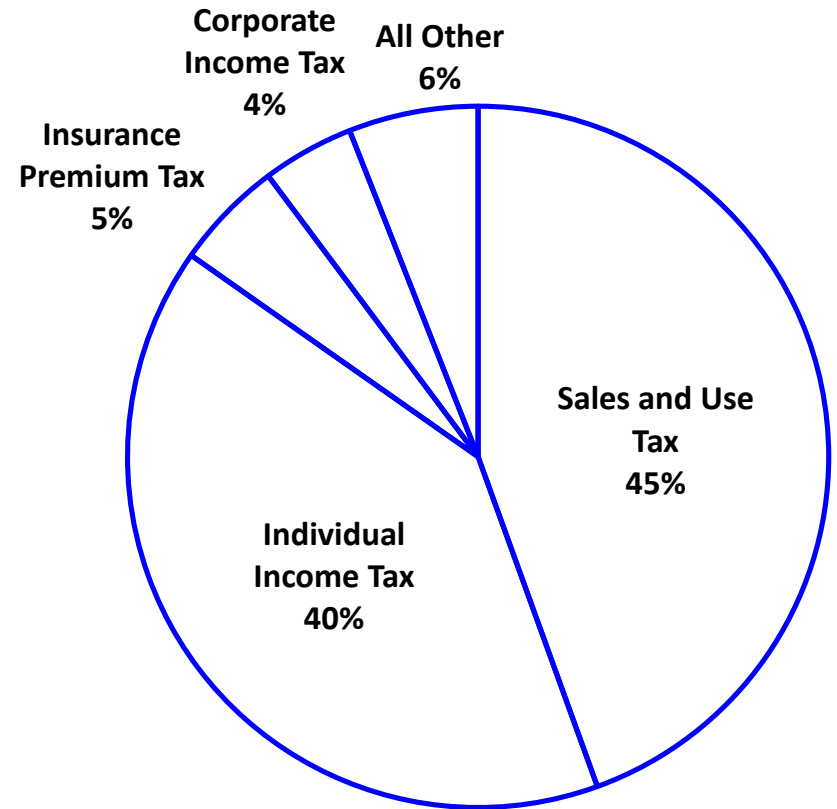
Presentation Summary

- Revenues
- Spending
- Cash and Structural Balances

Revenues

'17 General Fund Revenue – Where It Comes From

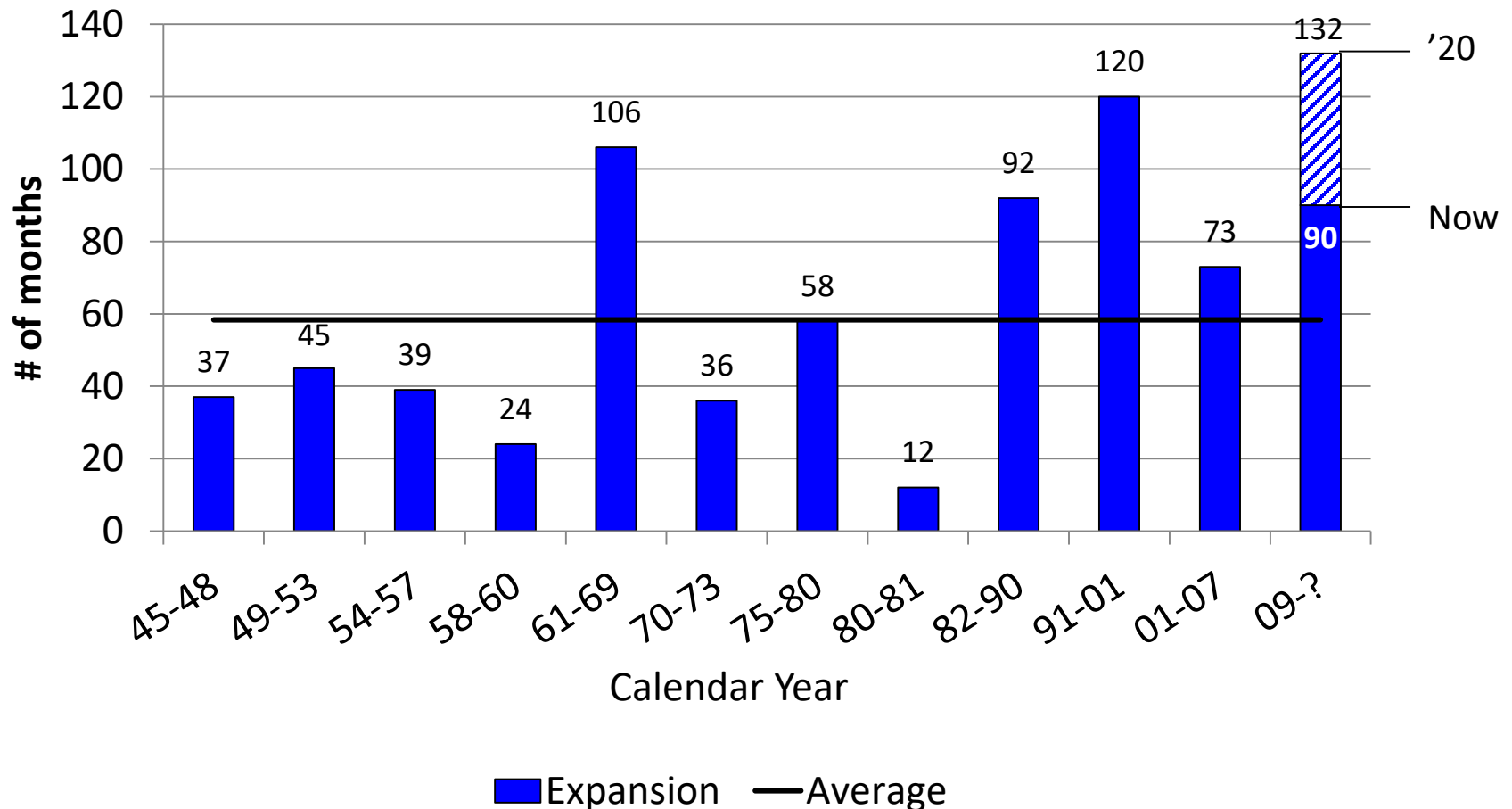
<u>Fund Source</u>	<u>\$ in Millions</u>
Sales and Use Tax	4,458.1
Individual Income Tax	4,117.5
Insurance Premium Tax	515.8
Corporate Income Tax	433.5
Other Ongoing	531.4
One-Time Revenues	79.4
Total Revenue	10,135.7*



*\$663.6 M is distributed to cities

Current Expansion Exceeds Historical Average

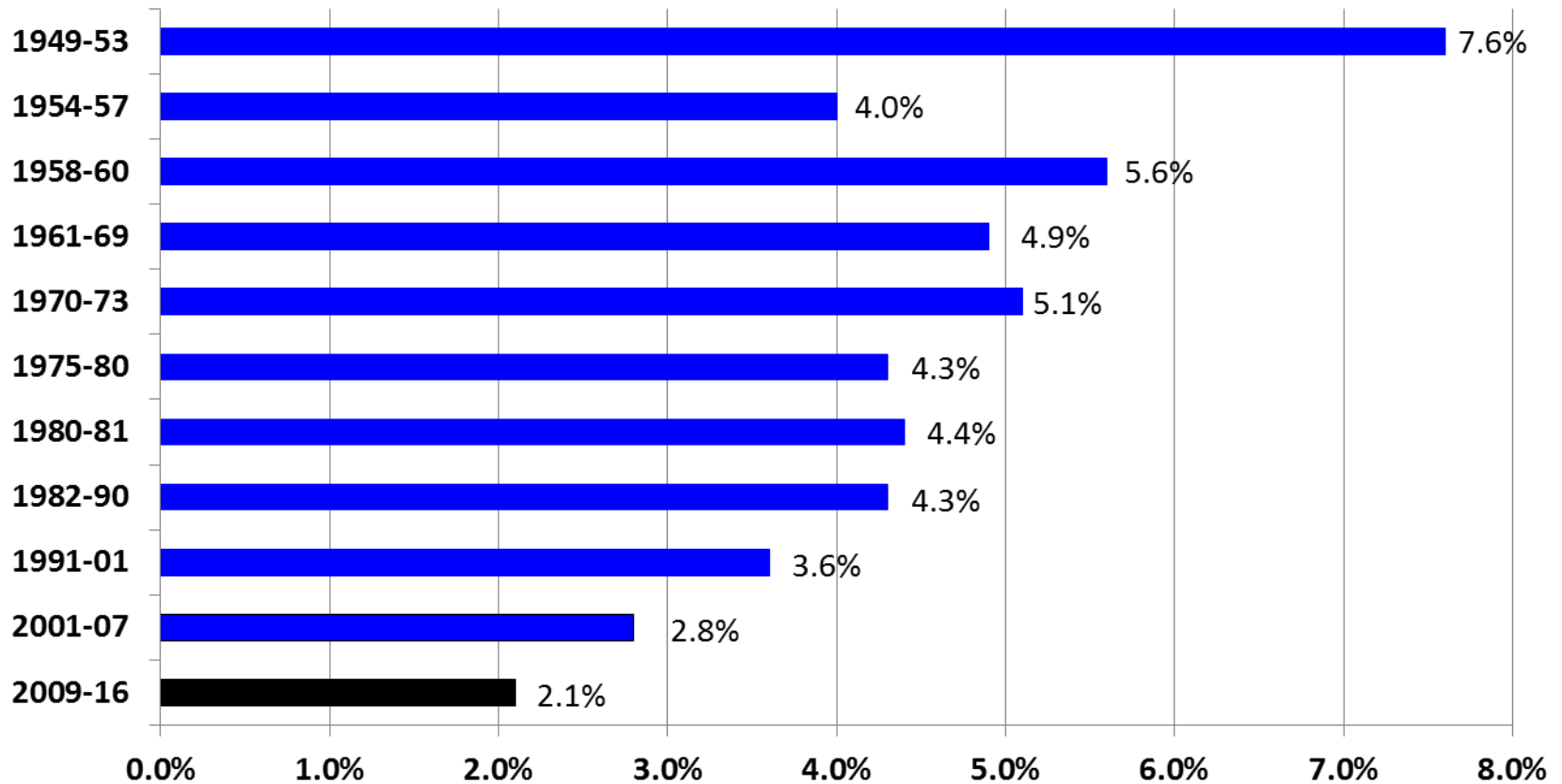
Length of US Economic Expansions



Expansion: time period without 2 consecutive quarters of GDP decline

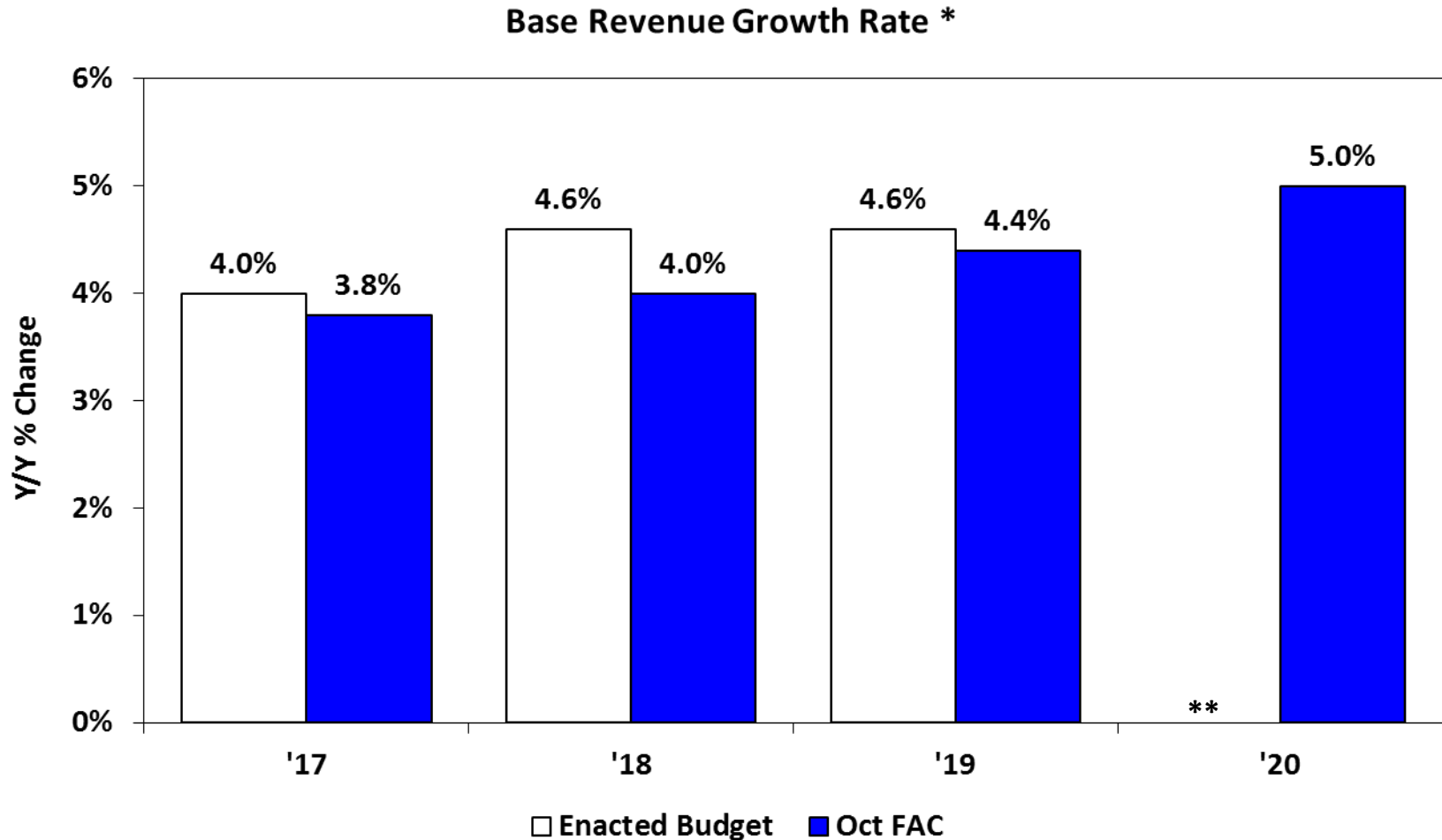
Current Recovery is Weakest in Post WWII Economy - May Permit Longer Expansion

Average Real GDP Growth During Each Expansion



October Forecast vs. Enacted Budget

- Both Based on 65% Probability



*Excludes one-time revenues, tax law changes, and urban revenue sharing

** Enacted '17 budget did not include a '20 estimate

'16 Sales Tax Growth by Category

	<u>'16 Growth by Category</u>	
Retail	5.6%	<input type="checkbox"/> TPT shifted from contracting to retail in 2015
Contracting	(10.0)%	
Use	0.8%	<input type="checkbox"/> Magnitude of shift cannot be determined
Restaurant/Bar	5.5%	
Utilities	1.7%	<input type="checkbox"/> Contracting decline likely caused by shift
Other	<u>3.3%</u>	
Total	2.9%*	

*Reflects net growth after tax law changes

Sales Tax

- ❑ Yield: \$1.1 billion per 1 cent (non-shared)
- ❑ What is the dollar value of major sales tax exemptions?

Category	Value
Health Care Services	\$2.1 billion
Professional, Scientific & Technical Services	\$1.0 billion
Financial Services	\$976 million
Administrative and Business Support Services	\$720 million
Prescription Drugs & Medical Oxygen	\$604 million
Commercial Leases	\$437 million
Food for Home Consumption	\$356 million

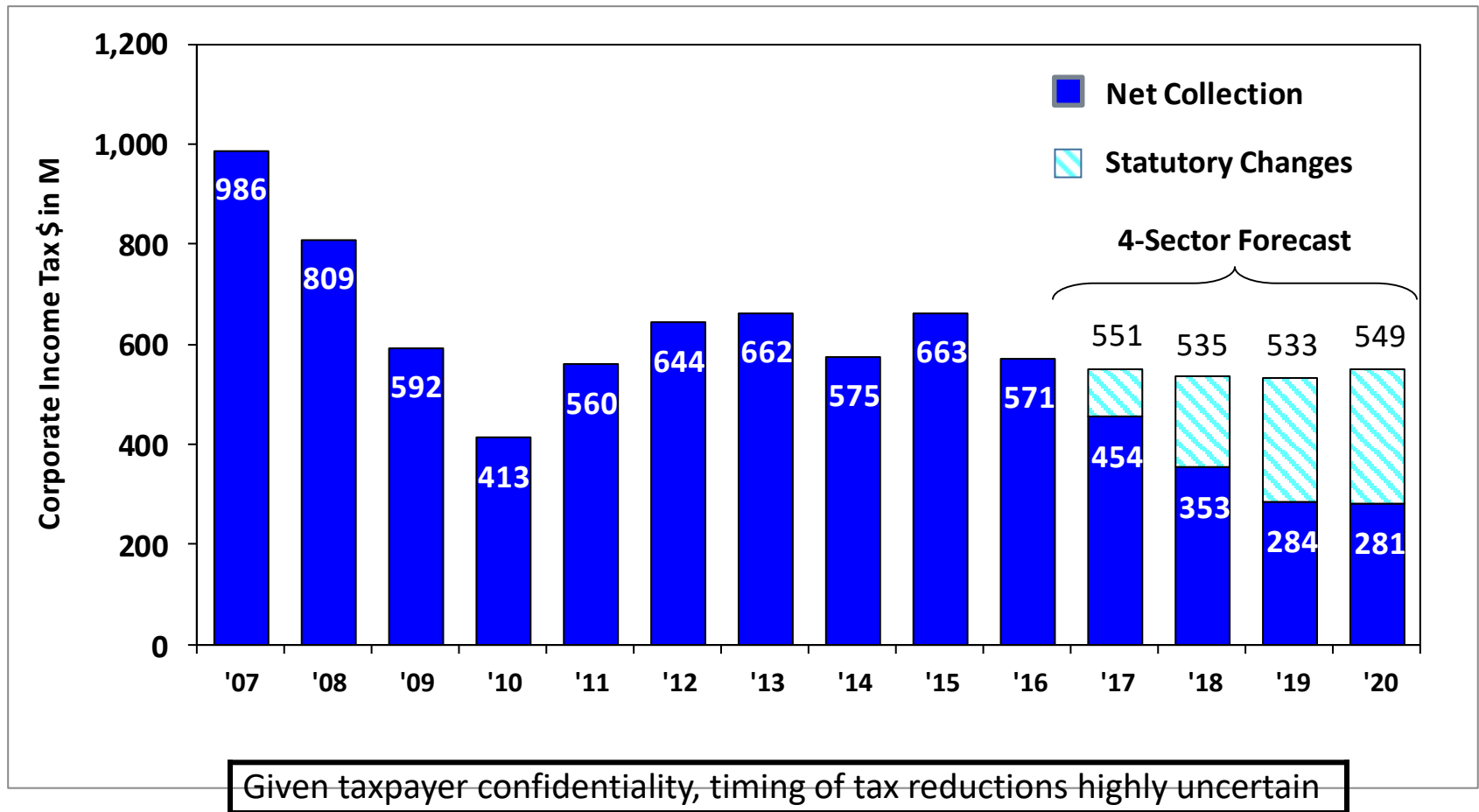
Will DOR Staffing Decision Reduce Revenues?

- Forecast Has Not Been Adjusted

- DOR reduced its collection/audit staff from 332 FTEs in '16 to 224 FTEs in '17
- Revenue impact is unknown
- 78 FTEs and contracted collectors added in '11 were budgeted to increase revenue by \$53 M
- DOR says it is focusing on improving voluntary compliance

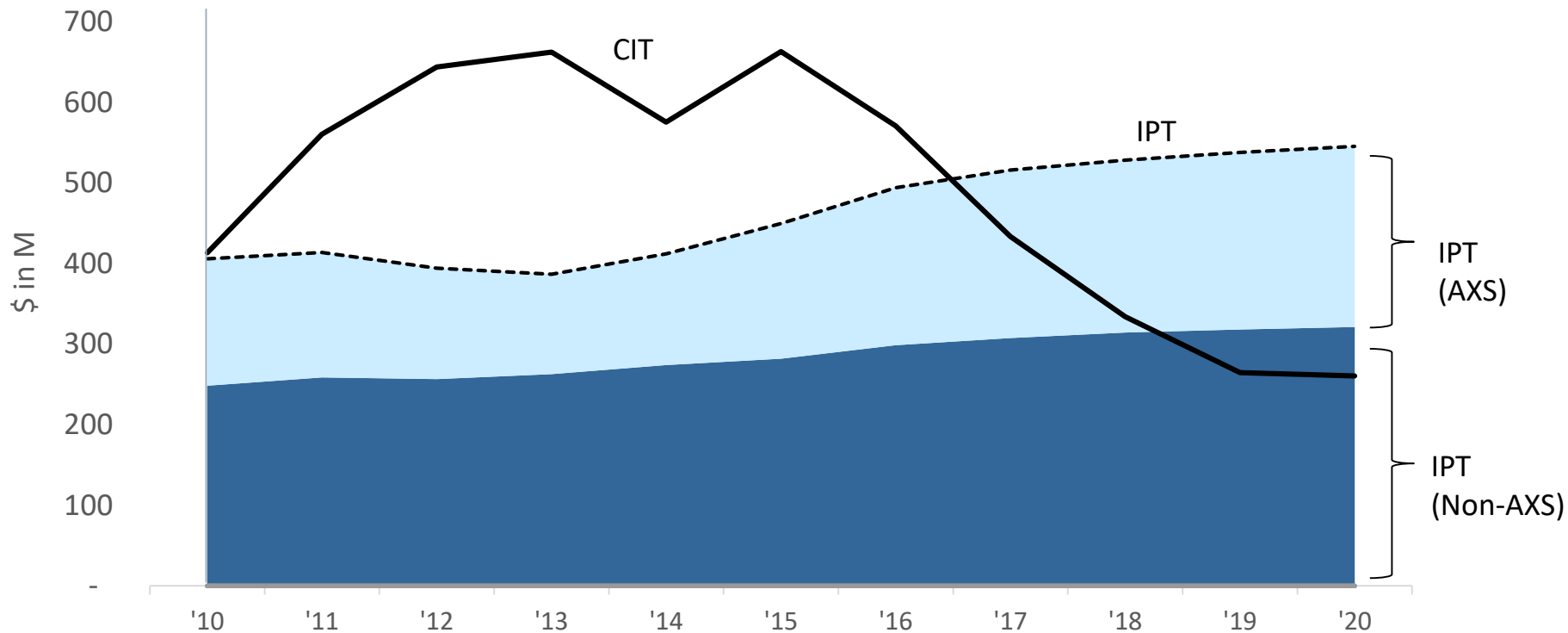
'20 CIT Projected to be \$281 M

- Primary Reductions are 2% Rate Cut and 100% Sales Factor



Insurance Taxes Surpassing Corporate Taxes

- AHCCCS-Related Premiums Built into Federal Reimbursement



Adjustments Reduce Growth Rate to 2.0% in '18

	\$ in M		
	<u>'18</u>	<u>'19</u>	<u>'20</u>
Base Revenue Growth (4.0%/4.4%/5.0%)	401	455	534
One-Time Fund Transfers	(79)	0	0
Previously Enacted Tax Legislation	(119)	(78)	(31)
Urban Revenue Sharing	<u>(12)</u>	<u>(7)</u>	<u>(13)</u>
Total	191	370	490
% Change	2.0%	3.8%	4.9%

Phase-In of \$228 M of Enacted Tax Reductions

	\$ in M*		
	<u>'18</u>	<u>'19</u>	<u>'20</u>
Corporate Rate Reduction/Sales Factor	(74)	(52)	(0)
Corporate/IPT School Tuition Indexing	(12)	(15)	(18)
Bonus Depreciation Full Conformity	(8)	(0)	(0)
Manufacturing Electricity Exemption	(12)	(0)	(0)
Other	<u>(13)</u>	<u>(11)</u>	<u>(13)</u>
Total	(119)	(78)	(31)

*By '20, revenue base is \$(228) M lower than in '17

Current State of Tax Credit Policy

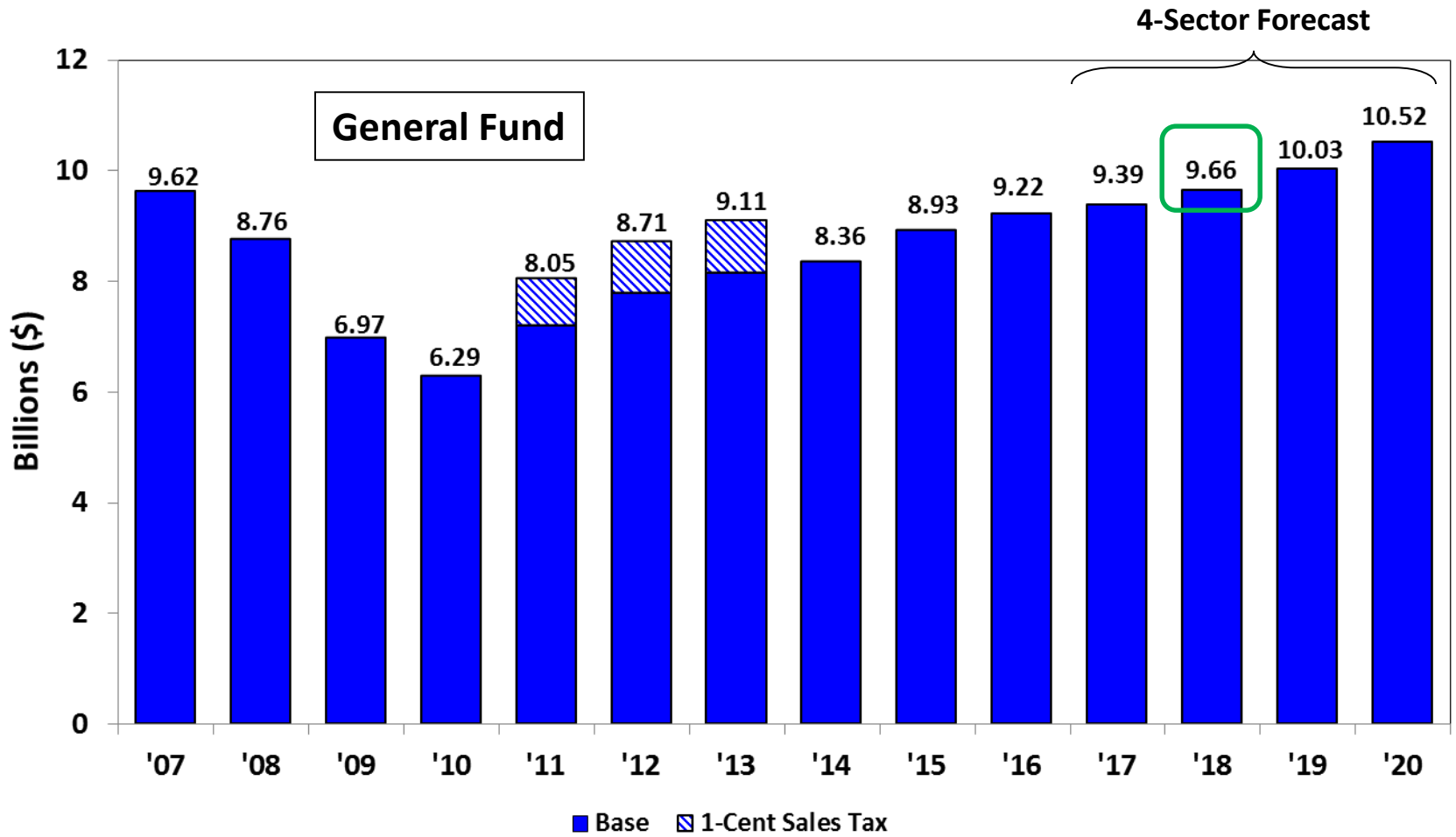
- '16 Actual Credits Taken

\$ in M

<u>Credit</u>	<u>IIT</u>	<u>CIT</u>	<u>IPT</u>
School Tuition Organizations	99	30	26
Public School Extracurricular	46	0	0
Research & Development	12	97	0
Charitable Organizations	37	0	0
Renewable Energy / Solar	5	10	0
New Employment	0	5	4
Other	16	6	4
Total	215*	148	34

*Excludes \$148 M for IIT paid to other states and \$32 M for Prop 301 credit

Forecast Reaches Pre-Recession Level in '18



Excludes balance forward and other one-time revenues. Includes tax law changes and urban revenue sharing.

Spending

'17 – '20 Baseline Spending Projections

- ❑ Baseline reflects changes to active statutory and other funding formulas - no discretionary additions
- ❑ Continues annual suspension of \$493 M of inactive formulas (including \$372 M for K-12)
- ❑ Continues \$931 M in K-12 “rollover” payments
- ❑ Assumes spending classified as one-time or expiring in '17 budget does not continue

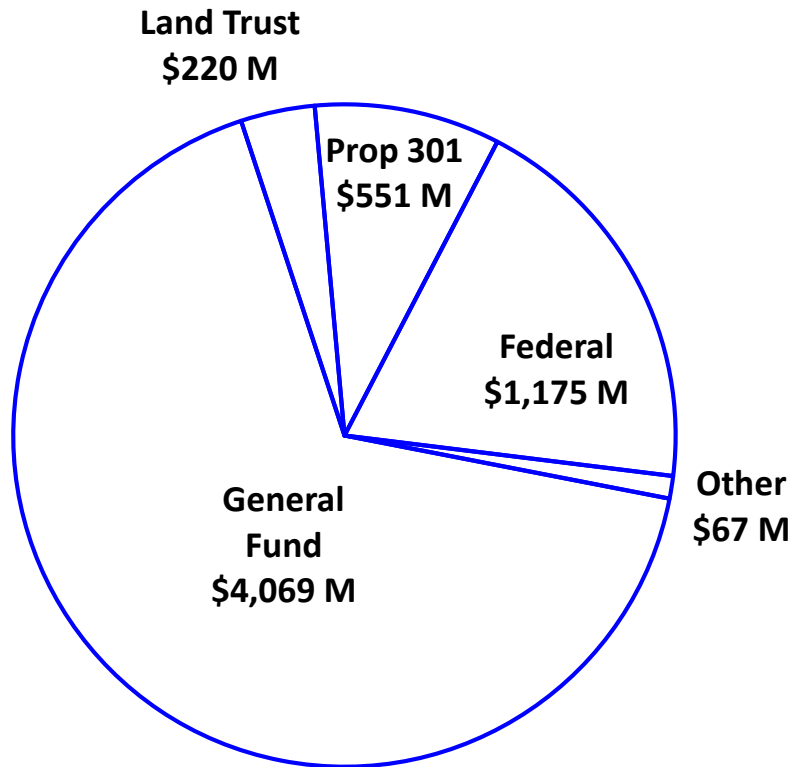
Projected Spending Changes

- \$200 M In '18 Statutory Spending Offset By Elimination Of 1-Times

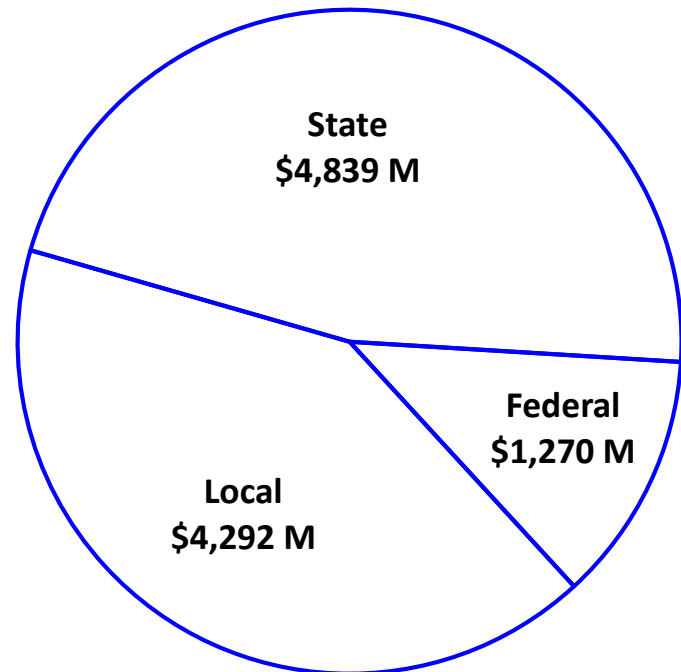
	\$ in M Above Prior Year		
	'18	'19	'20
K-12 – Formula	110	134	167
K-12 – Expiring Statutory Provisions	(43)	0	0
AHCCCS	60	118	144
DES	22	27	30
Corrections	7	1	2
Universities	(15)	0	(3)
DCS	0	0	0
SFB	(1)	(35)	32
DPS – Border Task Force Equipment	(15)	0	0
Counties – Cost Sharing Offset	(8)	0	0
Capital – \$8 M ADOA/\$10 M Vets Home	(18)	0	0
Capital – ADOT Highway Projects	(87)	0	0
Other	(11)	3	1
Total Spending Changes	1	248	373
Total Spending	\$9,639	\$9,887	\$10,260
% Change	0.0%	2.6%	3.8%

Public School Funding Overview

- ADE Only Versus Total K-12 Resources



ADE Only - \$4.1 B GF / \$6.1 B Total
('17 Estimated)



K-12 ADE & Local Resources - \$10.4 B
('17 Estimated)

Cash and Structural Balance Forecast

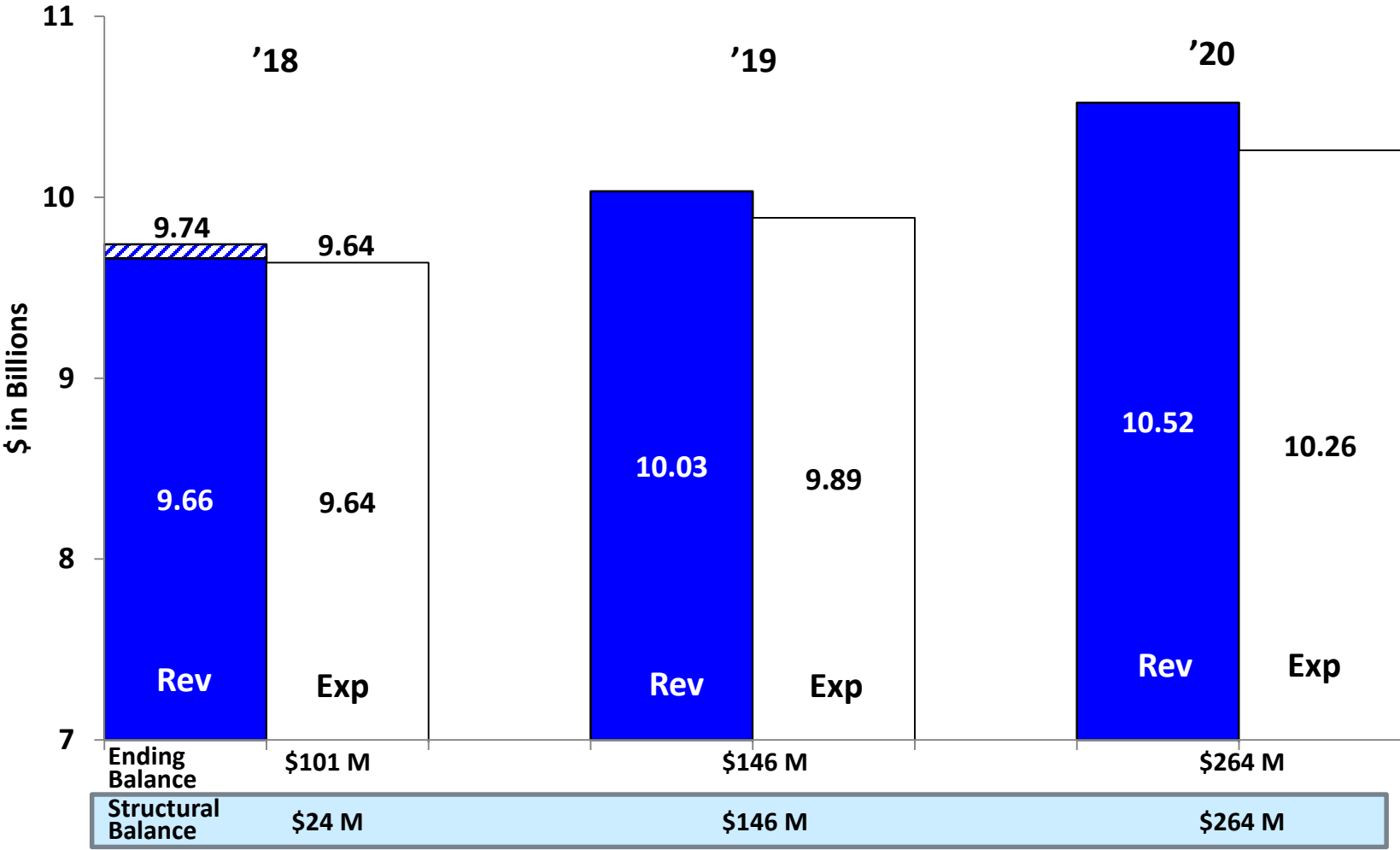
'18 Forecast – Little Discretionary Flexibility

- ❑ The projected '18 cash balance is \$101 M, but the structural balance is only \$24 M

- ❑ Numbers will shift by January, but expect general theme to be the same

- ❑ With \$460 M Rainy Day Fund, projected cash reserve is \$560 M
 - 5.8% of revenues; rating agencies recommend 8-10%

General Fund Balance Improves Over Time, But...



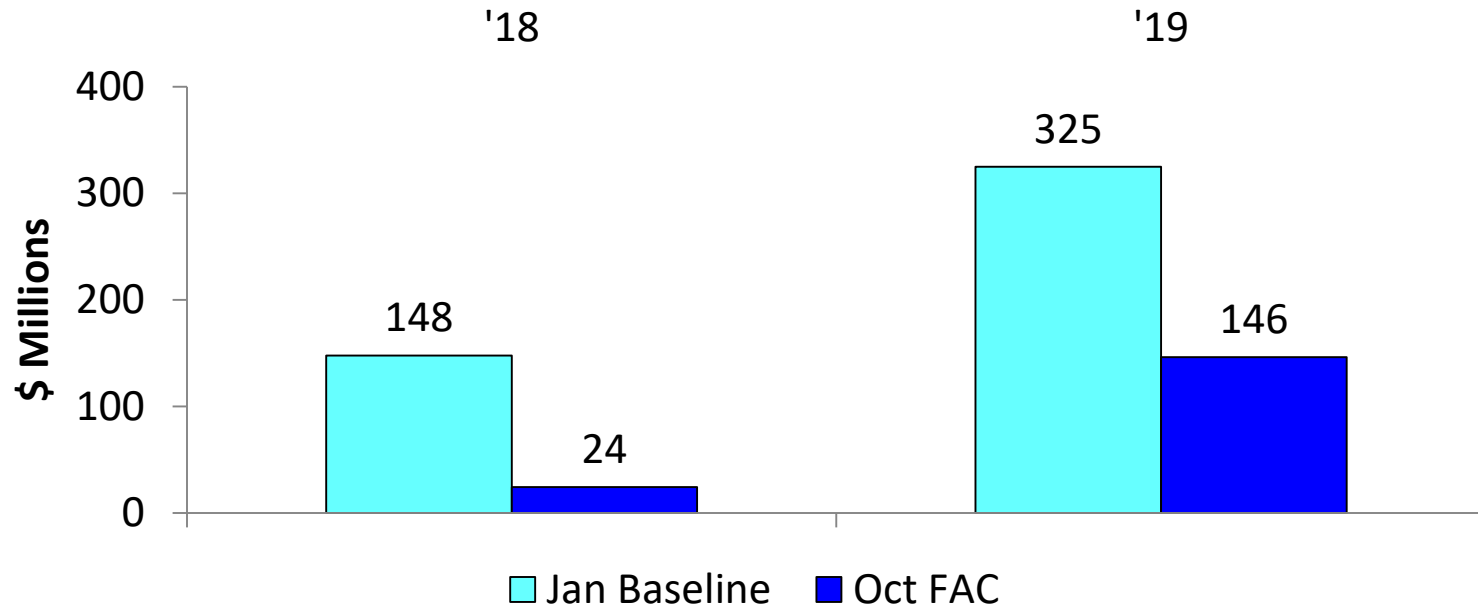
■ Base Revenue ▨ Cash Balance / One-Time □ Ongoing Expenditures

Projected ending balances assumed to be allocated as part of the budget process



Structural Balance Estimates Are Volatile

- Risks of Developing Budget Around '19 or '20 Estimates



- ❑ 1% variance in revenue estimates yields \$625 M over 3 years
- ❑ Assumes no discretionary changes in next 3 years
- ❑ Lower revenues and higher spending reduced projected '18 balance from \$148 M to \$24 M in 9 months.

New Non-K12 Initiatives

	<u>\$ in M</u>
<input type="checkbox"/> Repeal / Replace Affordable Care Act	?
<input type="checkbox"/> Prop 206 Minimum Wage Impacts	?
<input type="checkbox"/> University Resident Student Formula	78
▪ \$234 M by Year 3	
<input type="checkbox"/> New Tax Reductions	?