

State Budget Outlook

Arizona Tax Research Association

November 15, 2018

Governor's Office of Strategic Planning and Budgeting



Overview

- Arizona's economy is strong and steadily growing
- General Fund revenues beat expectations in '18 and projected to do so again in '19
- While the State's balance sheet is stronger than it has been in years, fiscal restraint is necessary to prevent the excesses of the mid-2000s
- K-12 and public safety remain top priorities of the Governor
- Securing Arizona's future requires fiscally prudent decision-making today

Population Growth Continues to Sustain Arizona Economy

Geographic Area	ESTIMATE OF TOTAL STATE POPULATION (as of July 1, 2017)										
	2012	2013		2014		2015		2016		2017	
United States	313,998,379	316,204,908	0.7%	318,563,456	0.7%	320,896,618	0.7%	323,127,513	0.7%	325,719,178	0.8%
West	73,537,829	74,247,869	1.0%	75,023,986	1.0%	75,834,288	1.1%	76,657,000	1.1%	77,410,622	1.0%
Idaho	1,594,673	1,610,187	1.0%	1,630,391	1.3%	1,649,324	1.2%	1,680,026	1.9%	1,716,943	2.2%
Nevada	2,752,410	2,786,547	1.2%	2,831,730	1.6%	2,883,057	1.8%	2,939,254	1.9%	2,998,039	2.0%
Utah	2,854,222	2,899,961	1.6%	2,938,671	1.3%	2,984,917	1.6%	3,044,321	2.0%	3,101,833	1.9%
Washington	6,890,899	6,963,410	1.1%	7,046,931	1.2%	7,152,818	1.5%	7,280,934	1.8%	7,405,743	1.7%
Florida	19,341,327	19,584,927	1.3%	19,897,747	1.6%	20,268,567	1.9%	20,656,589	1.9%	20,984,400	1.6%
Arizona	6,544,211	6,616,124	1.1%	6,706,435	1.4%	6,802,262	1.4%	6,908,642	1.6%	7,016,270	1.6%
Texas	26,078,327	26,479,279	1.5%	26,954,436	1.8%	27,454,880	1.9%	27,904,862	1.6%	28,304,596	1.4%
District of Columbia	635,630	650,114	2.3%	660,797	1.6%	672,736	1.8%	684,336	1.7%	693,972	1.4%
Colorado	5,186,330	5,262,556	1.5%	5,342,311	1.5%	5,440,445	1.8%	5,530,105	1.6%	5,607,154	1.4%
Oregon	3,893,920	3,919,664	0.7%	3,960,673	1.0%	4,016,537	1.4%	4,085,989	1.7%	4,142,776	1.4%

Source: U.S. Census Bureau, Population Division

Release Date: December 2017

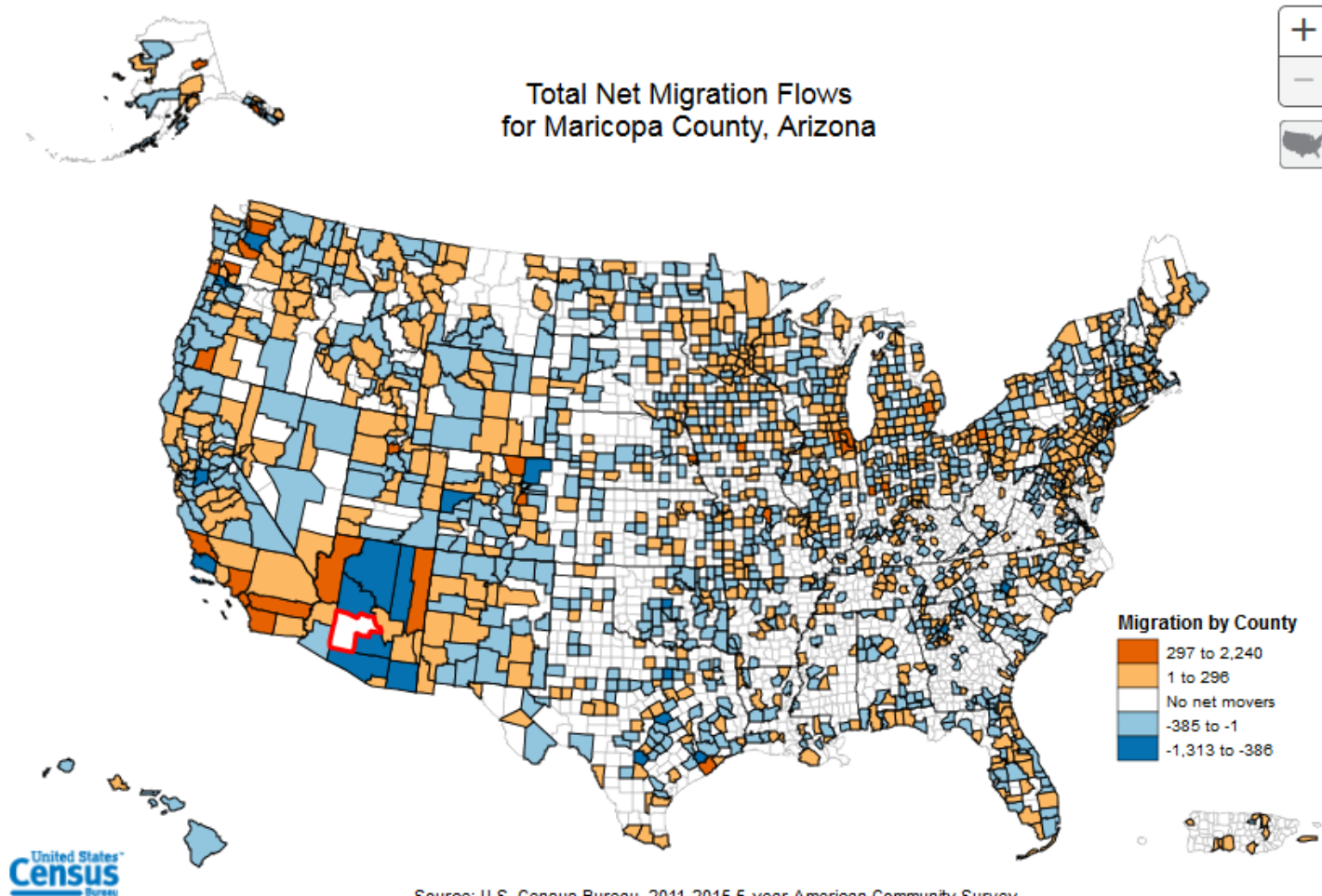
Arizona's Net Migration Rate Outpaces the West and Nation

Geographic Area	ESTIMATE OF NET STATE MIGRATION (as of July 1, 2017)									
	2012		2013		2014		2015		2016	
United States	868,174	0.3%	972,649	12.0%	1,034,630	6.4%	995,289	-3.8%	1,111,283	11.2%
West Region	242,239	-2.7%	320,457	32.3%	367,488	14.7%	402,397	9.5%	364,956	-9.3%
Arizona	37,820	-17.2%	55,328	46.3%	63,755	15.2%	76,405	19.8%	79,316	3.8%
California	70,149	-10.7%	97,674	39.2%	70,495	-27.8%	33,530	-52.4%	26,672	-20.4%
Colorado	45,660	17.3%	49,443	8.3%	67,627	36.8%	60,773	-10.1%	46,626	-23.3%
Idaho	6,244	382.9%	10,585	69.5%	8,596	-18.8%	18,869	119.5%	26,525	40.6%
Montana	6,243	46.3%	5,328	-14.7%	5,681	6.6%	7,422	30.6%	8,962	20.7%
Nevada	19,562	-1.2%	30,773	57.3%	36,103	17.3%	41,967	16.2%	46,184	10.0%
New Mexico	-8,358	n/a	-11,496	n/a	-10,769	n/a	-7,111	n/a	-4,666	n/a
Oregon	14,790	-23.1%	30,220	104.3%	43,082	42.6%	56,972	32.2%	45,687	-19.8%
Utah	10,952	138.0%	4,607	-57.9%	14,387	212.3%	25,412	76.6%	22,587	-11.1%
Washington	36,165	2.1%	50,252	39.0%	68,590	36.5%	91,981	34.1%	90,563	-1.5%
Wyoming	3,012	-48.4%	-2,257	n/a	-59	n/a	-3,823	n/a	-8,285	n/a

Source: U.S. Census Bureau, Population Division

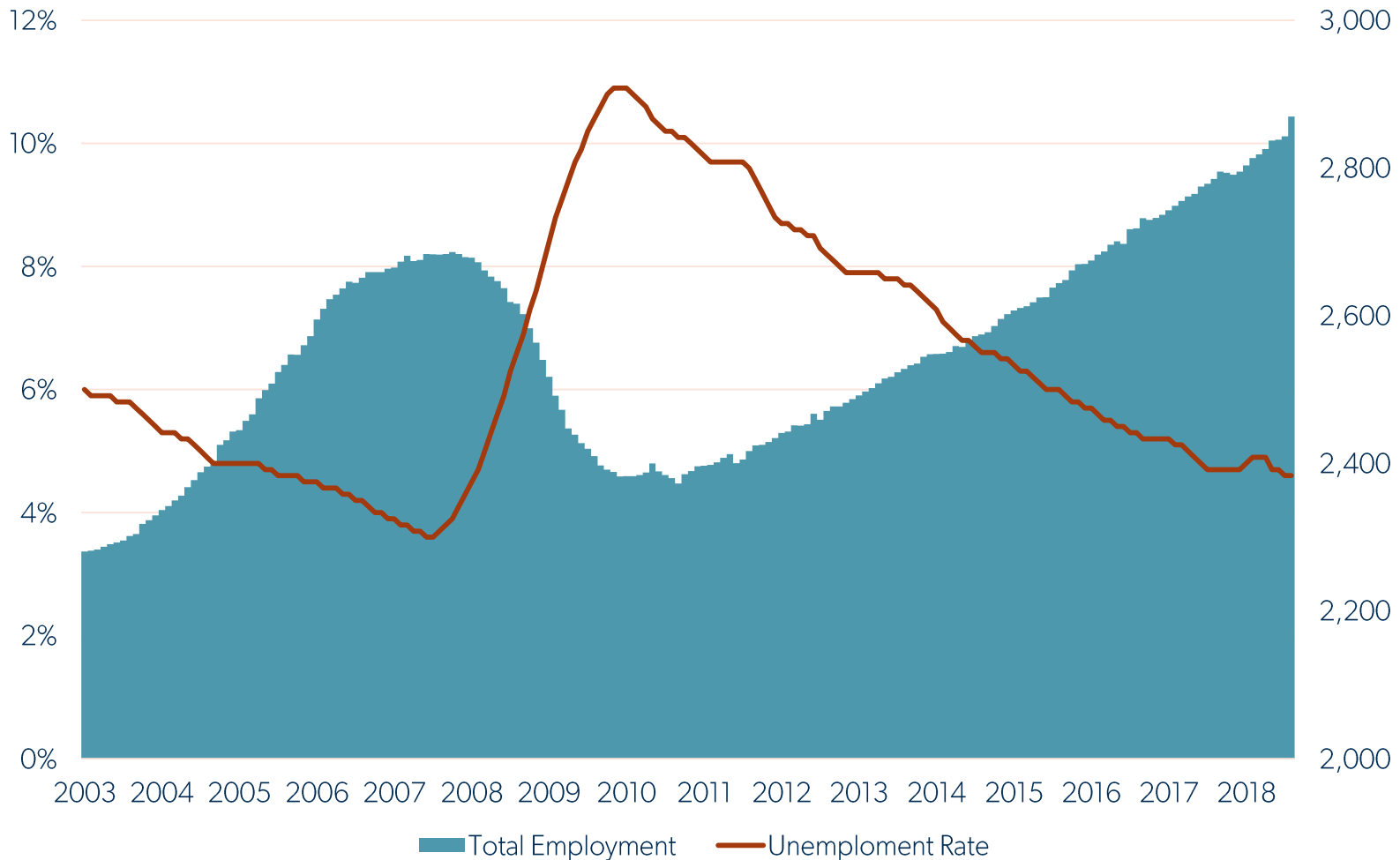
Release Date: December 2017

Net Migration Heat Map



State's Labor Market Continues to Improve

10-year low unemployment rate; total employment at all-time high



Arizona Job Growth

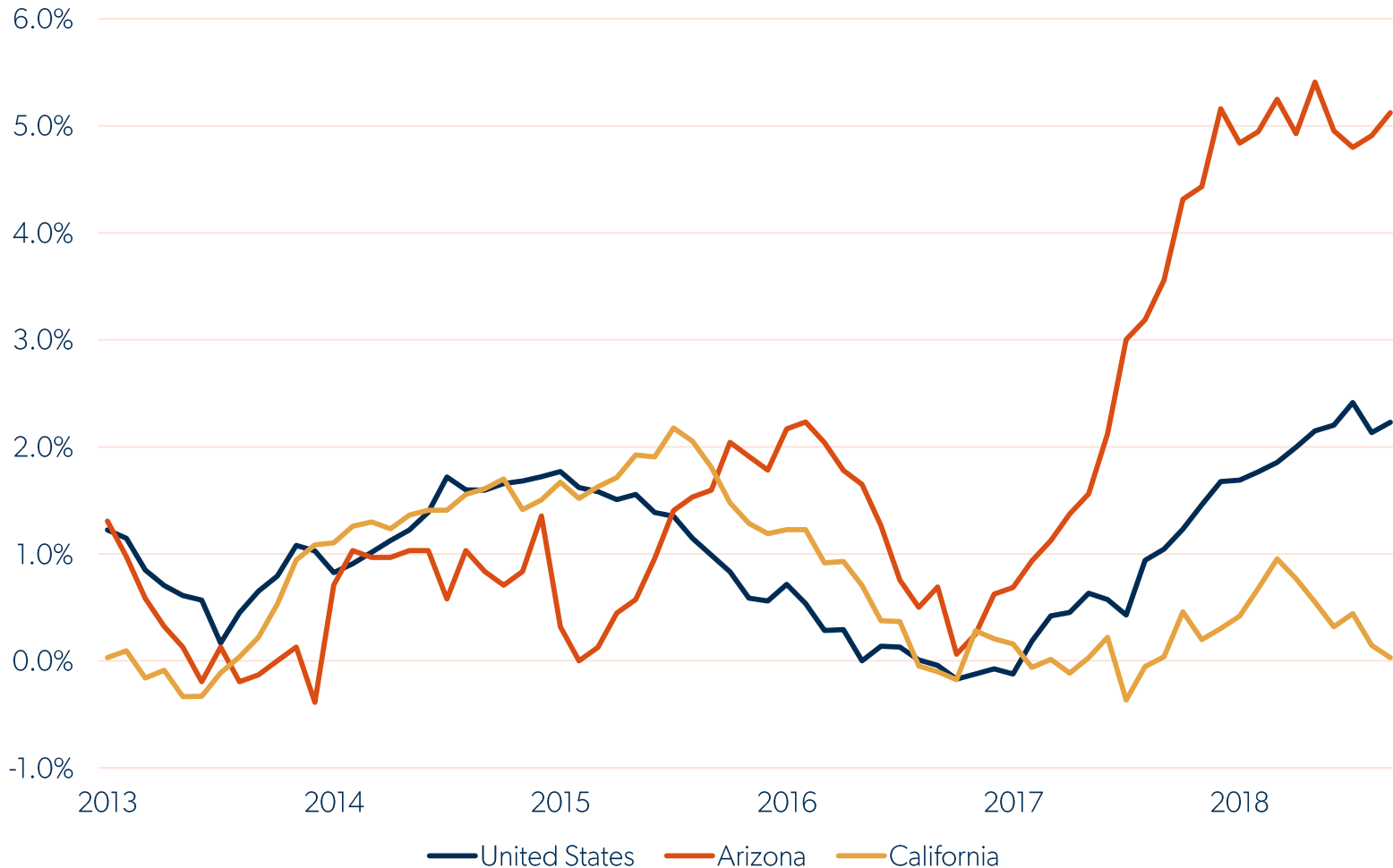
GEOGRAPHIC AREA	TOTAL			CONSTRUCTION			MANUFACTURING		
	Sept. 2017	Sept. 2018 ^(p)		Sept. 2017	Sept. 2018 ^(p)		Sept. 2017	Sept. 2018 ^(p)	
United States	147,609.7	150,511.4	2.0%	6,967.6	7,328.3	5.2%	12,506.6	12,765.0	2.1%
Florida	8,435.1	8,842.4	4.8%	479.3	550.0	14.8%	358.2	377.7	5.4%
Utah	1,475.5	1,527.9	3.6%	99.2	102.4	3.2%	129.2	134.7	4.3%
Texas	12,232.1	12,638.5	3.3%	709.5	769.7	8.5%	855.5	883.0	3.2%
Nevada	1,350.6	1,394.1	3.2%	84.0	92.4	10.0%	49.6	56.2	13.3%
Washington	3,339.3	3,444.5	3.2%	201.9	210.2	4.1%	281.0	290.0	3.2%
Arizona	2,795.2	2,876.6	2.9%	147.8	163.8	10.8%	165.9	174.4	5.1%
Colorado	2,670.9	2,748.1	2.9%	164.4	172.8	5.1%	144.1	147.3	2.2%
Idaho	719.7	738.9	2.7%	45.3	47.6	5.1%	67.5	71.1	5.3%
New Mexico	829.3	850.5	2.6%	45.9	49.7	8.3%	26.1	27.4	5.0%
Georgia	4,459.1	4,570.2	2.5%	182.3	204.6	12.2%	398.4	405.7	1.8%

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics

Release Date: October 2018

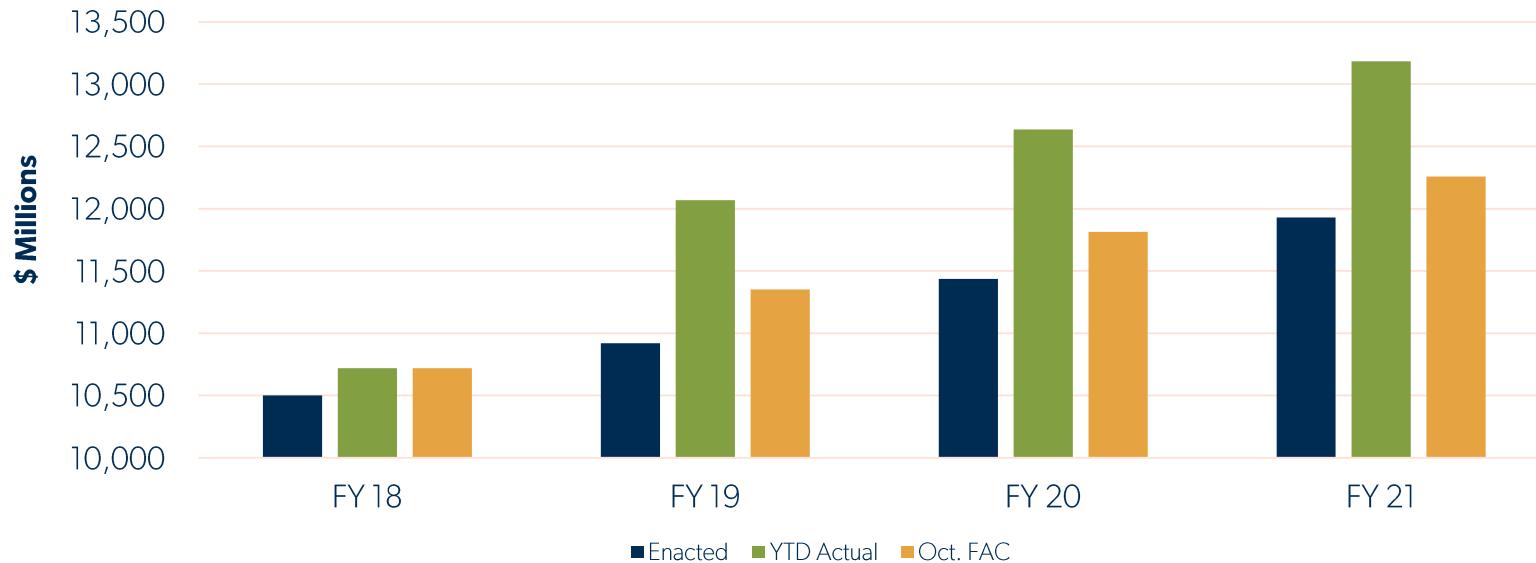
Arizona Manufacturing Growth

State's growth rate ranks 3rd fastest nationally



'18 Revenues Beat Forecast by \$218M or 2.0%

Year-over-year growth was 7.1%



- YTD, ongoing revenues are up more than 10% over prior year; unlikely to continue at this rate
- Still, data suggests a strong year in 2019, and continued growth thereafter
- The Executive forecast is continually being revised

Ongoing General Fund Revenue

Stronger '18 base growth easily supports '19 enacted revenue targets

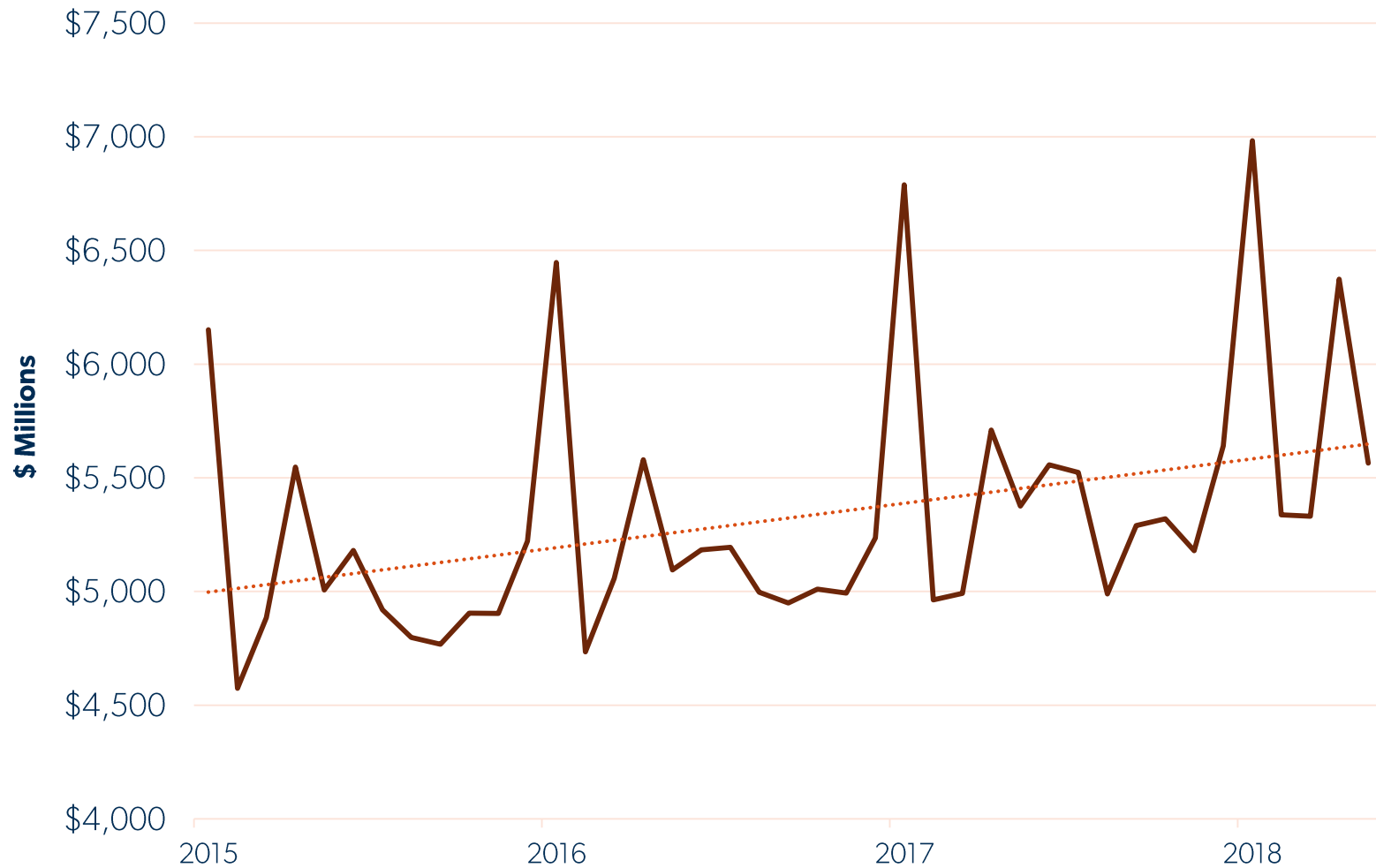
FY 2019 General Fund (GF) Base Growth Rates, adjusted for FY 2018 prelim actuals

Tax Type	\$ in millions		
	FY 18*	FY 19	10-Year Avg
Sales	\$4,787	\$4,945	
	6.4%	3.3%	2.0%
Individual	\$4,544	\$4,593	
	9.6%	1.1%	4.9%
Corporate	\$373	\$324	
	1.3%	-13.1%	6.0%
Total GF	\$10,036	\$10,305	
	7.2%	2.6%	3.2%

**Growth rates adjusted by OSPB for FY 2018 prelim actuals. Ongoing revenues only.*

Taxable Retail Sales in Arizona

Since 2016, yearly growth rate at ~4%



In Arizona, Sales Tax is Key Driver of Long-Run Revenue Trends

Major Ongoing Tax Sources As % of General Fund Revenue

Fiscal Year	Sales	Individual Corporate		Other
		Income	Income	
2009	42.6%	29.1%	6.7%	21.6%
2010	37.7%	27.0%	4.6%	30.7%
2011	43.1%	35.8%	7.0%	14.1%
2012	42.6%	36.0%	7.5%	13.9%
2013	43.4%	39.0%	7.6%	10.0%
2014	44.2%	38.6%	6.4%	10.8%
2015	43.6%	39.1%	6.9%	10.4%
2016	42.6%	39.2%	5.4%	12.8%
2017	44.3%	40.6%	3.6%	11.5%
2018	45.0%	41.9%	3.0%	10.1%
2019	45.2%	41.3%	2.4%	11.1%

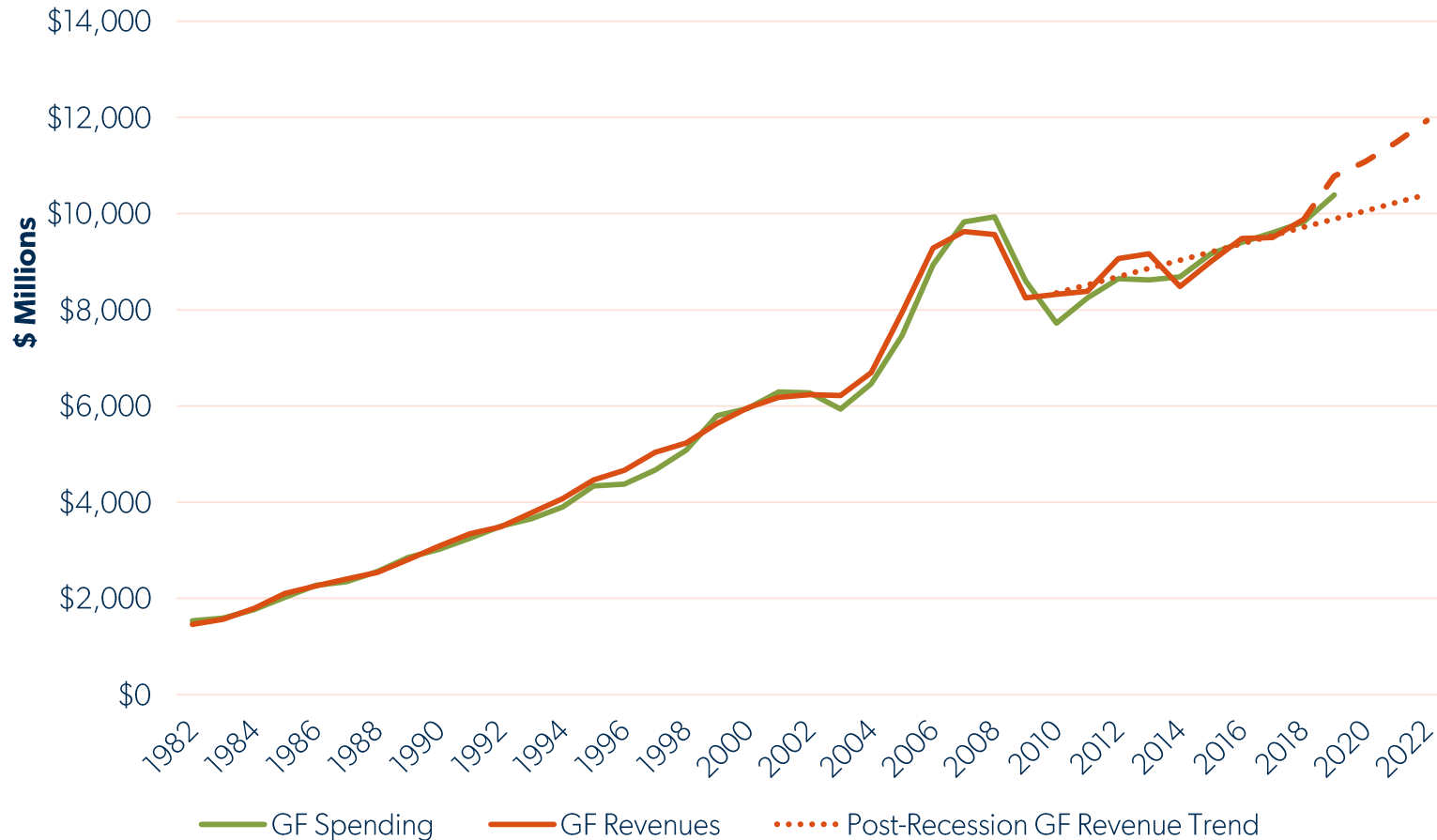
'20 Summary with Baseline Spending

	\$ in millions			
	FY 18	FY 19	FY 20	FY 21
Enacted Ending Balance	\$204	\$236	\$187	\$102
Enacted Structural Balance	110	150	45	2
<i>Projected</i> Oct. FAC Ending Balance	425	824	1,150*	75
<i>Projected</i> Oct. FAC Structural Balance	521	441	211	232
Enacted Baseline Spending Increases		581	352	651

* JLBC assumes this amount is spent as part of the FY 2020 budget process

Avoiding Past Fiscal Mistakes

General Fund Spending and Revenues 1982– 2022

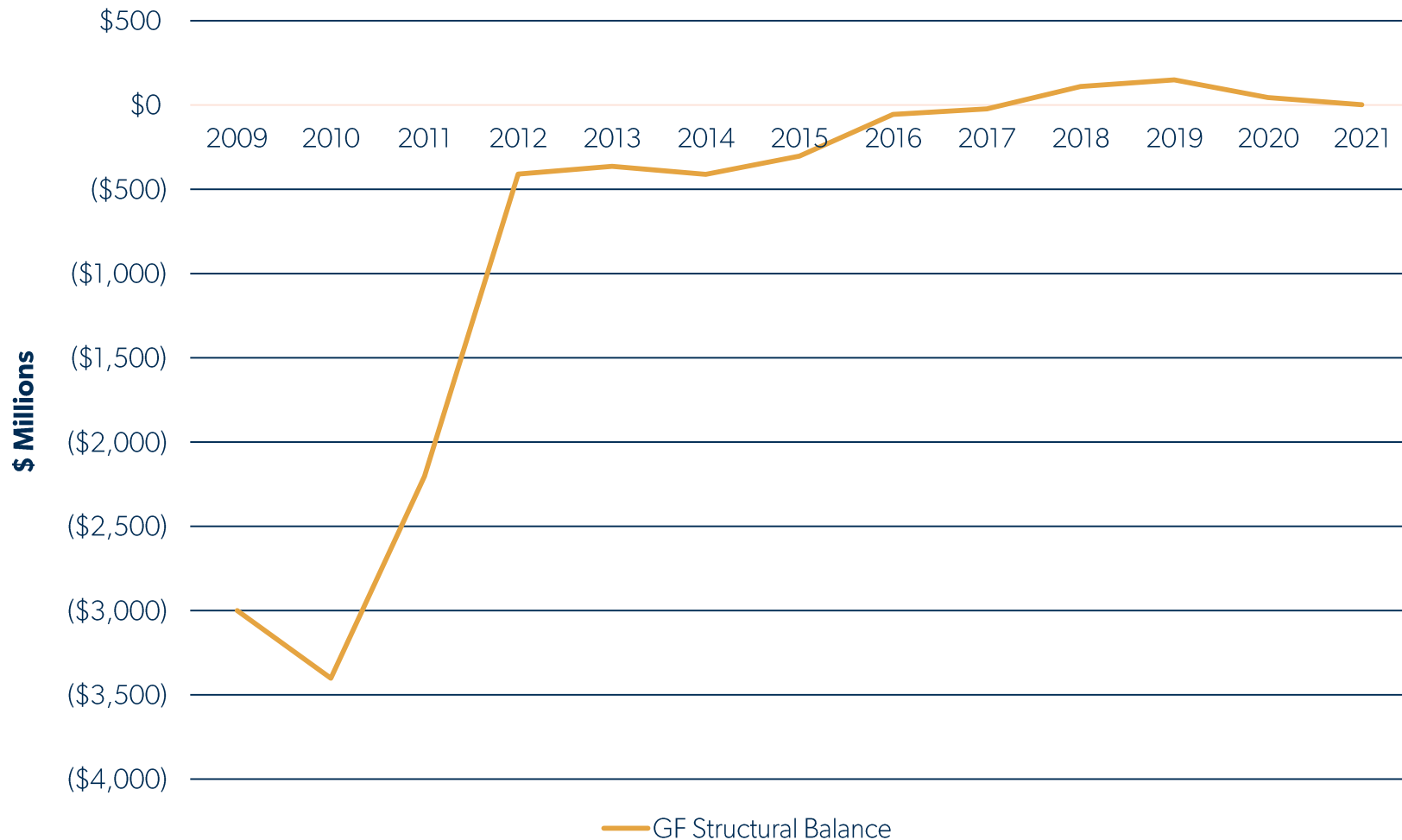


Balancing Fiscal Prudence and Program Needs

Agencies submitted 393 funding issues, with a net GF cost of ~ \$300 million

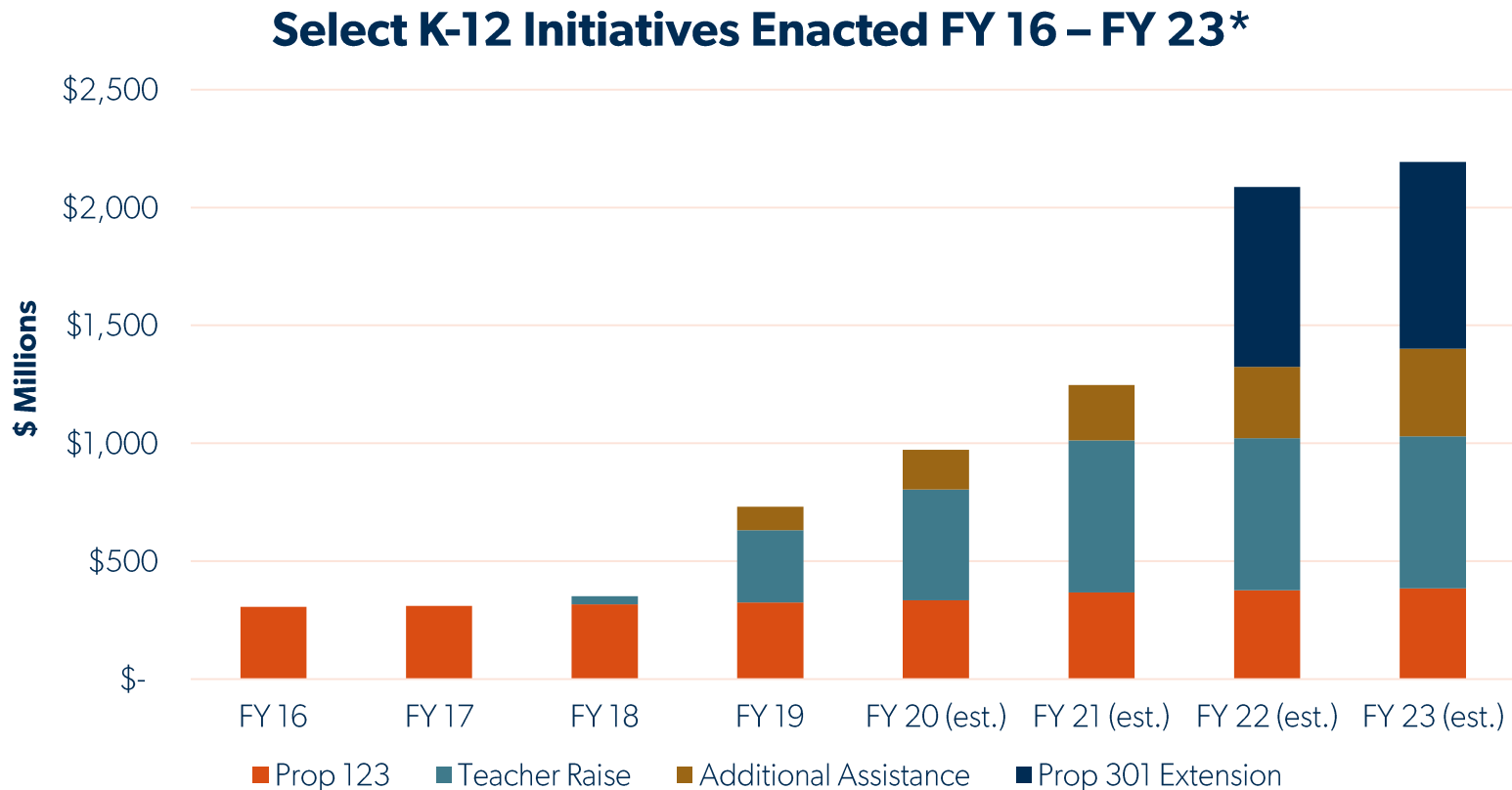
- IT projects
- Health Insurance Trust Fund
- Building renewal funding
- Capitol Mall Consolidation
- K-12: New School Construction and Building Renewal
- Increased regulatory staff
- Adoption caseload
- Prison health care
- Troopers for Loop 202
- Medicaid caseload and inflation
- Proposition 206 costs
- University funding
- New state homes for veterans

FY 2019 Budget Restores Structural Balance



Increasing K-12 Funding Above and Beyond Inflation

At full implementation, key initiatives will boost K-12 funding by \$2.2 billion

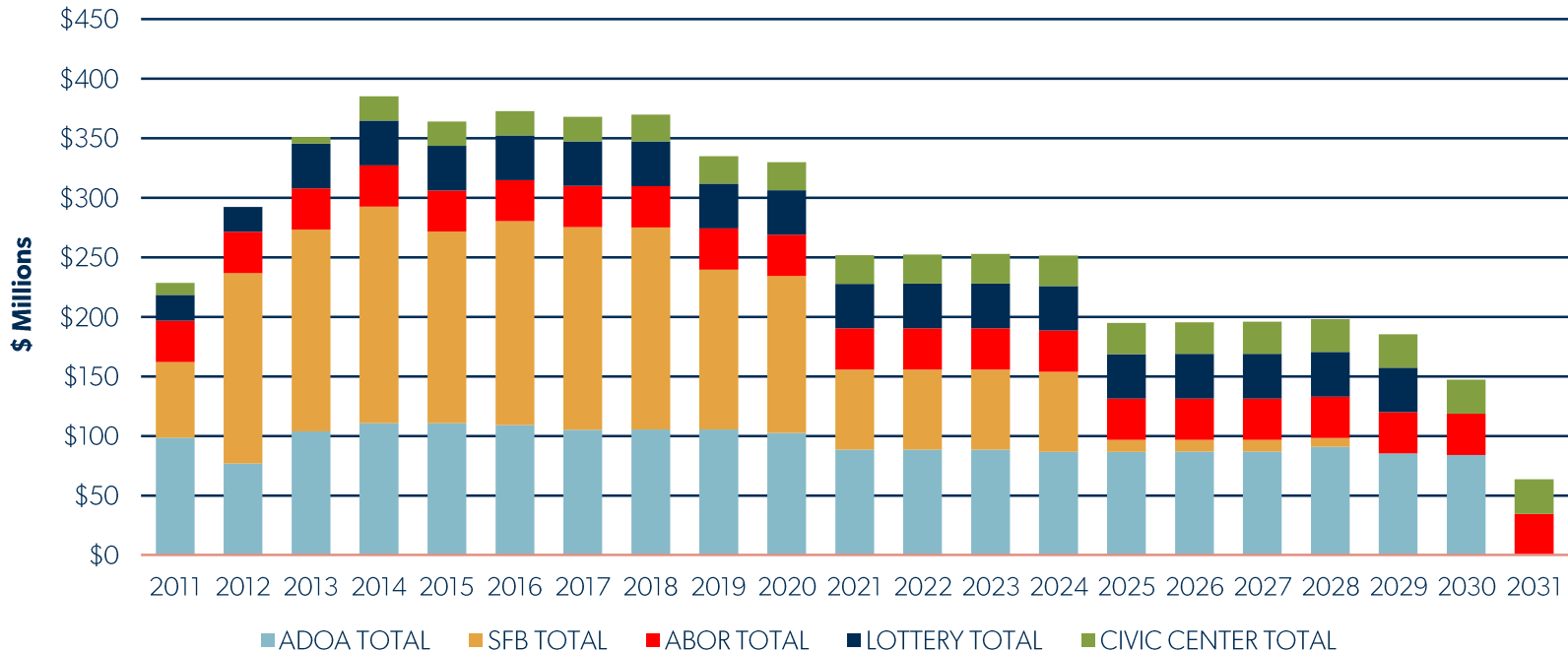


*Excludes Results-Based Funding and School Facilities Board investments

Public Safety

- **A Real Second Chance** – Initiatives aimed at decreasing relapse of former inmates into criminal behavior
 - Substance Abuse Treatment
 - Educational Services
 - Employment Centers
 - Re-Entry Centers
- **Border Strike Force** – Program focused on securing the Arizona-Mexico border by seizing illegal drugs and stopping criminals

General Fund Debt Service Costs Are Declining



BSF Balances Are Below Historical Peaks

