

ATTACHMENT C

May 2023 Preliminary General Fund Revenue Update

Since the Legislature is scheduled to return to session on Monday, June 12, we want to inform the members of a significant decline in General Fund revenue collections relative to the enacted budget forecast.

Our office started scoring revenue collections against the enacted budget forecast last month. Combining the April and preliminary May results, the state's revenue collections are currently \$(175) million below forecast. All of that forecast loss essentially occurred in May.

Individual Income Tax (IIT) payments are the primary reason for the forecast shortfall. In April and May combined, IIT payments were \$(152) million below forecast. The enacted budget forecast assumed a payment decline of (45)% during these 2 months due to the implementation of the lower Individual Income Tax rates. Instead, IIT payments declined by (54)% (which is \$971 million below last year). There are 2 possible reasons for the greater-than-expected decline:

- While we had projected that taxpayers would generate fewer taxable capital gains in Tax Year (TY) 2022 compared to TY 2021, the loss may have been greater than anticipated.
- The dollar value of the income tax rate reduction may have been greater than expected. The estimated cost was based on the Department of Revenue's (DOR) income tax model, which uses a sample of taxpayer returns and certain economic assumptions.

A smaller, but equally concerning component of the April-May results is the rapid deceleration of Sales Tax collections in the last 2 months. Through March, Sales Tax collections had grown 8.8% year to date (including 8.2% in March alone). In April, Sales Tax growth slowed to 2.5% compared to the prior year. Based on preliminary data, May Sales Tax collections increased by only 0.3%.

June is typically a volatile fiscal month that can have significant impacts on the budget. In terms of revenue, June is an estimated payment filing month for both Individual and Corporate Income Tax payments. While Corporate Income Tax collections have remained strong throughout the fiscal year, any June Corporate Income Tax gains may be offset by Individual Income Tax payment losses. The state also receives unclaimed property collections in June, which can vary considerably from year to year. Finally, the overall cash balance will be affected by the level of reverts of unspent appropriations, which could differ from projections by \$50 million in either direction.

The enacted FY 2024 budget assumed a General Fund cash balance at the end of FY 2023 of \$2.5 billion. Even if June collections are below forecast, there are sufficient funds in the FY 2023 cash balance to absorb that loss.

The enacted budget's projected FY 2024 ending balance, however, is only \$8 million. Given this very small margin for error, we will need to monitor revenue collections carefully throughout FY 2024 to determine whether the budget will still be balanced 12 months from now.

Our office reports the level of revenue collections on the 20th of each month to the Legislature and the public. We will elaborate further on the May revenue results on June 20th.