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# **FY 2014 JLBC Baseline**

**Summary Version**

**January 18, 2013**

**JLBC**

# Positive Budget Developments

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- ❑ Arizona economy continues in recovery mode, albeit at a slow pace
- ❑ Legislature required to provide 3-year projection in its annual budget bill
  - Does not require individual FY '15 and '16 agency budgets, but does require state to set out-year targets
- ❑ FY '13 budget established reserves of \$450 M
  - Represents 5.5% of budget – statutory cap is 7%
  - Not intended to be used for ongoing programs

# Forecast Risks

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- Uncertain economy in 0% interest rate environment
- Unknown outcome of Federal Fiscal Cliff 2
- Unpredictable disaster – environmental or political
- Budget litigation
- A 3-year forecast comes with risks – a 1% change would affect the balance by \$500 M in the third year

## 2 Factors Influencing Budget Outlook through '16

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- How much revenue forecast risk in an uncertain economic environment?
- How much discretionary spending above the Baseline?

# Baseline Balances Represent Available Resources After Fulfilling Mandates

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## Consensus revenue

- 3-year annual 5.7% base growth – excluding tax changes
- Loss of \$(924) M 1-cent sales tax
- \$(283) M in enacted tax reductions by FY '16
- 65% probability of reaching forecast

## Statutory spending

- Growth required by statute – primarily K-12 and Medicaid
- Adds \$157 M in FY '14 and \$701 M by FY '16

# FY '14 – FY '16 Baseline Revenue Changes

General Fund - \$ in Millions

	FY '14 <u>Above '13</u>	FY '15 <u>Above '14</u>	FY '16 <u>Above '15</u>
Base Revenue Growth (4.9%/5.9%/6.2%)	416	526	575
TPT 1 ¢ Expires	(924)	--	--
Elimination of Fund Transfers	(90)	(6)	--
One-Time FY '13 Revenue Loss <sup>1/</sup>	52	--	--
Previously Enacted Tax Legislation	(47)	(134)	(108)
Urban Revenue Sharing	(45)	(28)	(35)
Change In Beginning Balance <sup>2/</sup>	<u>254</u>	<u>(341)</u>	<u>(285)</u>
<b>Additional Revenues</b>	<b>(384)</b>	<b>17</b>	<b>147</b>
<b>Total Resources</b>	<b>8,979</b>	<b>8,996</b>	<b>9,143</b>

<sup>1/</sup> TPT early payment threshold

<sup>2/</sup> Beginning balances: FY '13, \$397 M; FY '14, \$651 M; FY '15, \$310 M; FY '16, \$25 M



# FY '14 – FY '16 Baseline Spending Changes

	General Fund - \$ in Millions		
	<u>FY '14</u> <u>Above '13</u>	<u>FY '15</u> <u>Above '14</u>	<u>FY '16</u> <u>Above '15</u>
K-12 Formula	55	54	82
Medicaid Formula (prior to expansion)	(97)	115	128
Medicaid Mandatory Expansion	74	140	22
One-Time FY '13 Caseload Savings	76	--	--
ADC Operating – phase-in approved beds	9	19	7
Debt Service	20	--	--
Land Department Fund Source	11	--	--
Other	9	(26)	3
<b>Additional Spending</b> (excludes Rainy Day)	<b>157</b>	<b>302</b>	<b>242</b>
<b>Total Spending</b>	<b>8,669</b>	<b>8,971</b>	<b>9,214</b>

# FY '14 – '16 Baseline Projections

Baseline	'13	'14	'15	'16
Balance Forward	\$397 M	\$651 M	\$310 M	\$25 M
Revenues	\$9.0 B	\$8.3 B	\$8.7 B	\$9.1 B
Spending	\$8.7 B <sup>1/</sup>	\$8.7 B	\$9.0 B	\$9.2 B
<b>Ending Balance</b>	<b>\$651 M</b>	<b>\$310 M</b>	<b>\$25 M</b>	<b>\$(70) M</b>

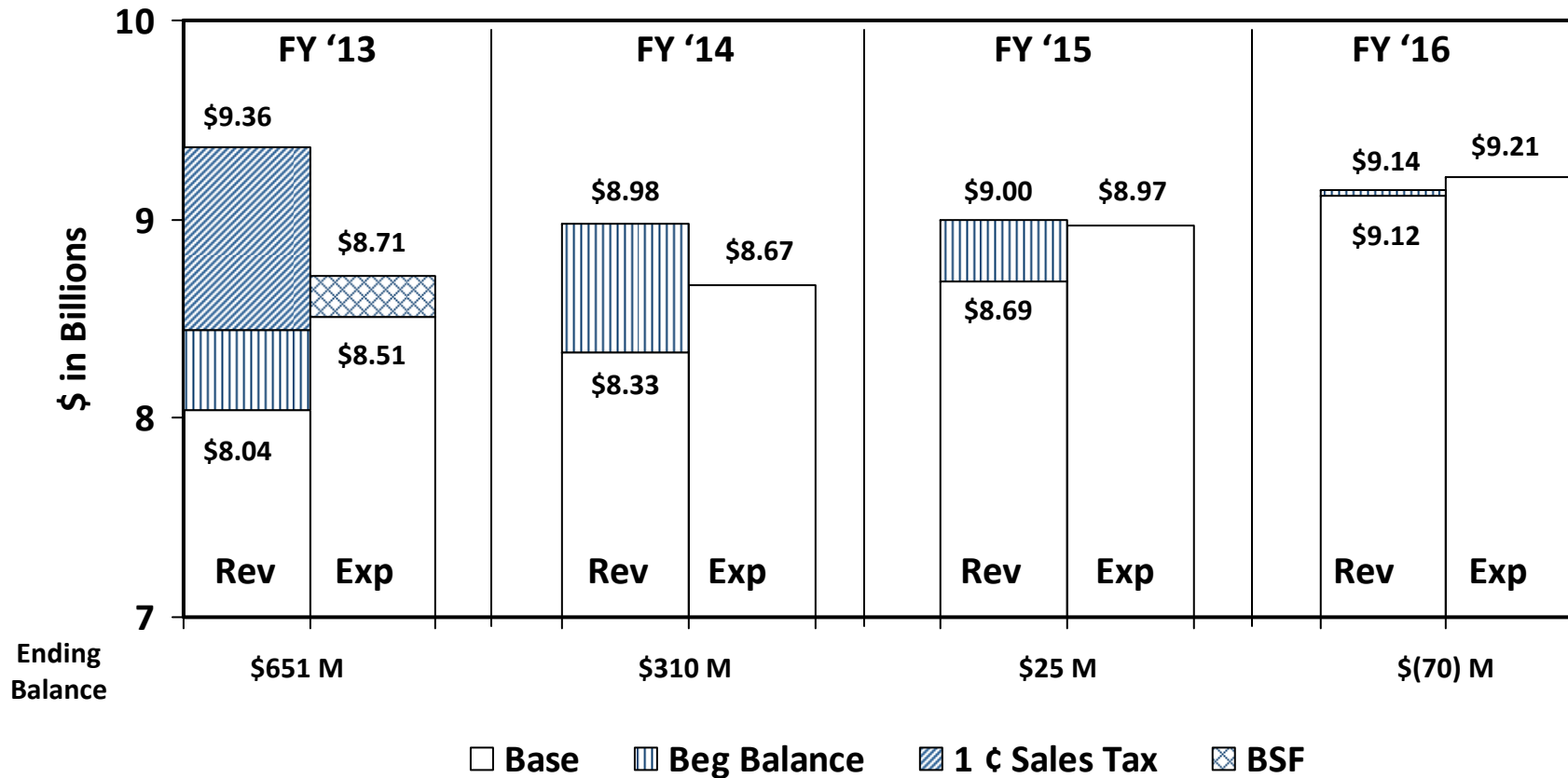
- ❑ After statutory spending, effectively no money remains for discretionary spending without increasing out-year shortfall
- ❑ Excludes impact of K-12 inflation court ruling – would add a new \$80 M+ to budget each year. If funded, would result in \$(223) M FY '15 shortfall and \$(346) M FY '16 shortfall
- ❑ \$450 M Rainy Day Fund available to offset shortfalls

<sup>1/</sup> \$8.5 billion after adjusting for Rainy Day Fund deposit



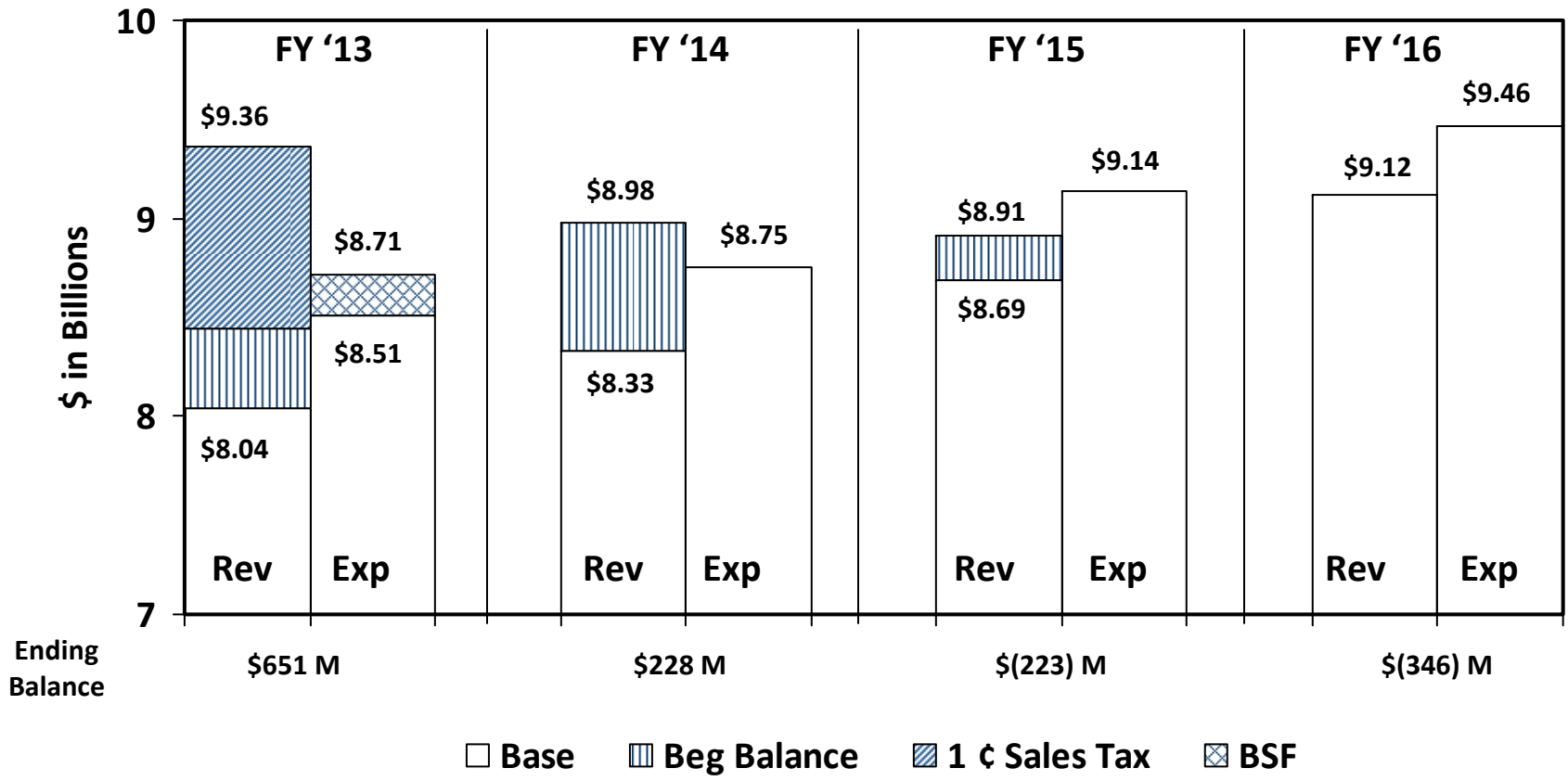
# JLBC Baseline Revenues Compared to Expenditures

## - If No Discretionary Spending – Small FY '16 Shortfall



# JLBC Baseline Adjusted for K-12 Inflation Ruling

- Every Extra \$1 Spent in '14 Increases '16 Shortfall by \$3



# Budget Concerns

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- ❑ Arizona has third lowest credit rating among states
- ❑ Budget has ongoing structural shortfalls – permanent revenues less than spending
- ❑ State still suspends \$678 M in annual formula spending – if funded, would worsen structural gap

# JLBC Staff Suggested Process Improvements

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- 1) Strengthen independent review of K-12 automation
- 2) Confirm school district charter conversion policy
- 3) Enhance K-12 override/bonding reporting
- 4) Increase CPS funding oversight – 45% of \$ are non-appropriated
- 5) Specify intent of 1,500 authorized prison beds – supplant or supplement temporary beds?
- 6) Establish expectation of university performance measures – can they be used to determine total funding?
- 7) Improve accounting of 1-time monies – April '13 investment income windfall

