
FY 2017 JLBC Baseline

Summary Version

with Preliminary Executive Comparison

January 19, 2016

JLBC

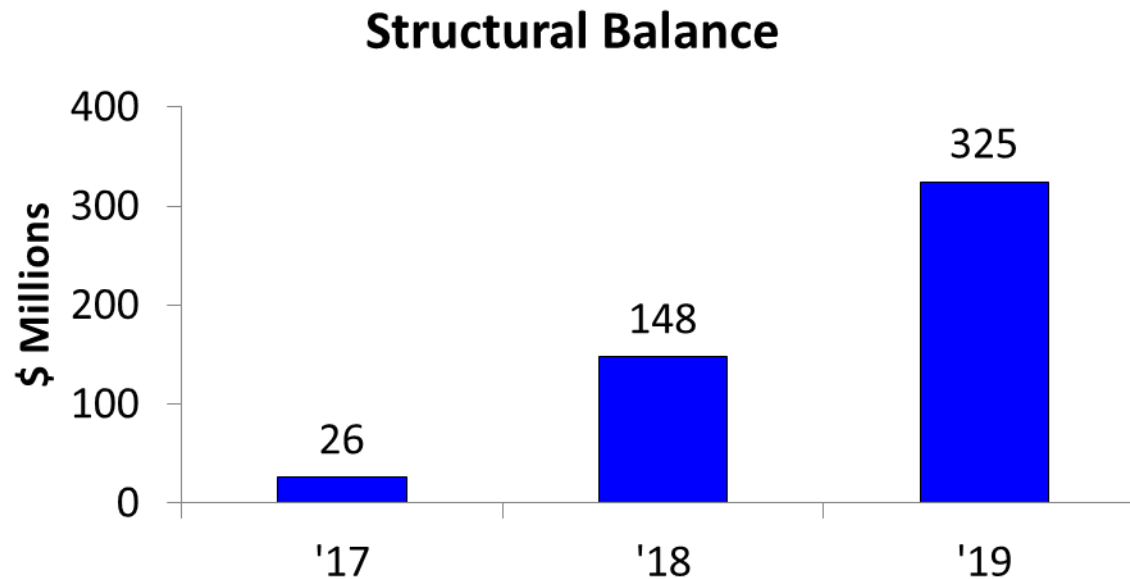
'17 Challenge: Avoid Re-creating a Structural Gap

- ❑ '17: large cash balance, small structural balance
- ❑ Using cash balance for ongoing initiatives re-creates structural gap in '18
- ❑ Excludes \$460 M Rainy Day Fund Balance

FY 2017 JLBC Baseline Projection

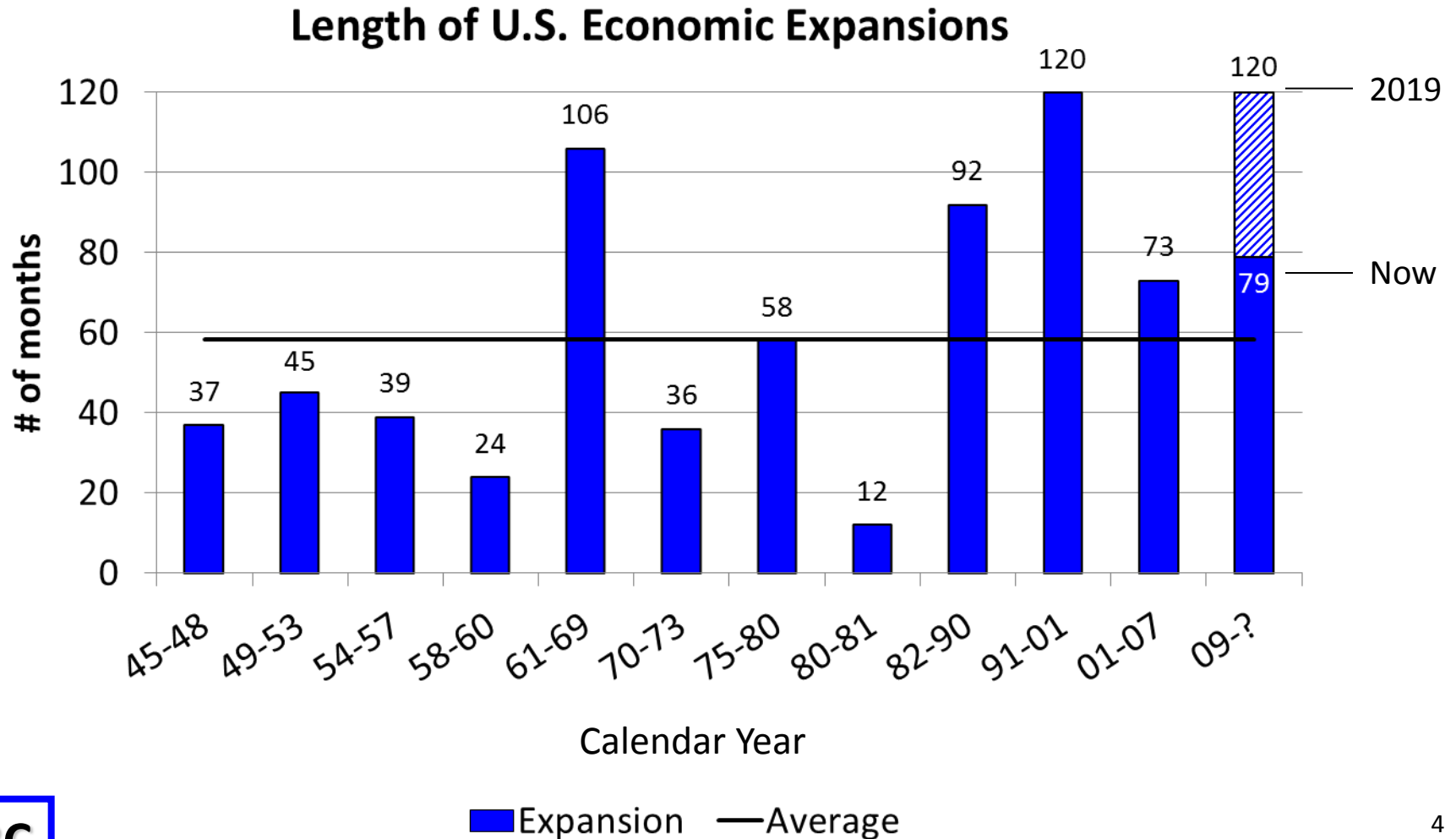
	\$ in M
Balance Forward / Other	\$ 599
One-time Revenues	
Ongoing Revenues	9,397
Ongoing Spending	(9,371)
Cash Balance	\$ 625

Baseline Structural Balance Improves Through '19



- ❑ Improving balances could provide more flexibility, but...
- ❑ Based on highly unlikely assumption of no discretionary changes in next 3 years

Forecast Risk: Current Expansion Exceeds Historical Average



Forecast Risks II

- 1% Variance Yields \$625 M Over 3 Years

Potential Gains

- National recovery creating more interstate migration

Potential Gain or Loss

- Estimate of ongoing '15 Capital Gains and Corporate collections

Potential Litigation Losses

- Ongoing retirement litigation
- Hospital assessment
- Rental car surcharge
- Foster care lawsuit in U.S. District Court

Revenue Growth Improves Slightly Over Time

January Consensus Forecast

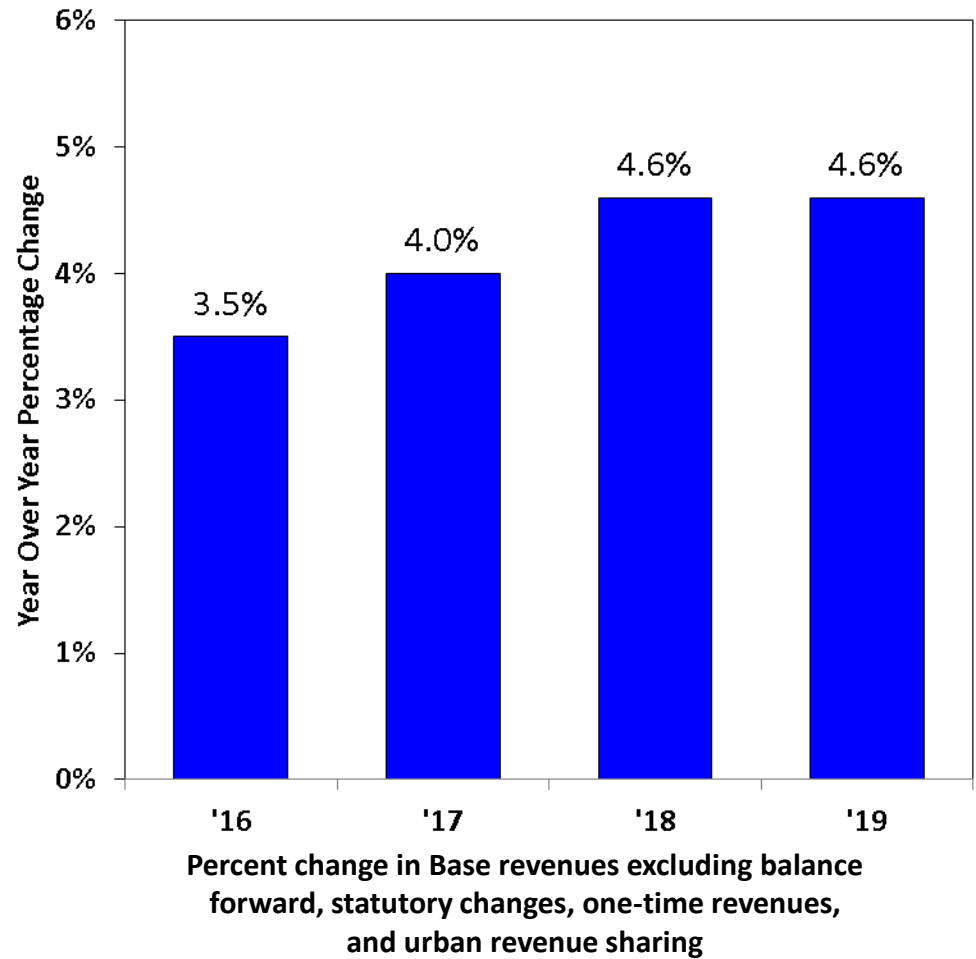
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Chance of Exceeding Forecast

- 66%

Long Run Average Growth

- 4.7%



Is the FY '16 Growth Rate Reasonable?

- ❑ After adjusting for tax laws and one-time funds, the projected '16 growth rate is 3.0%
 - The comparable preliminary growth rate through December is also 3.0%
 - “Core” Revenues are lagging– sales tax (2.4%) and withholding (2.8%)

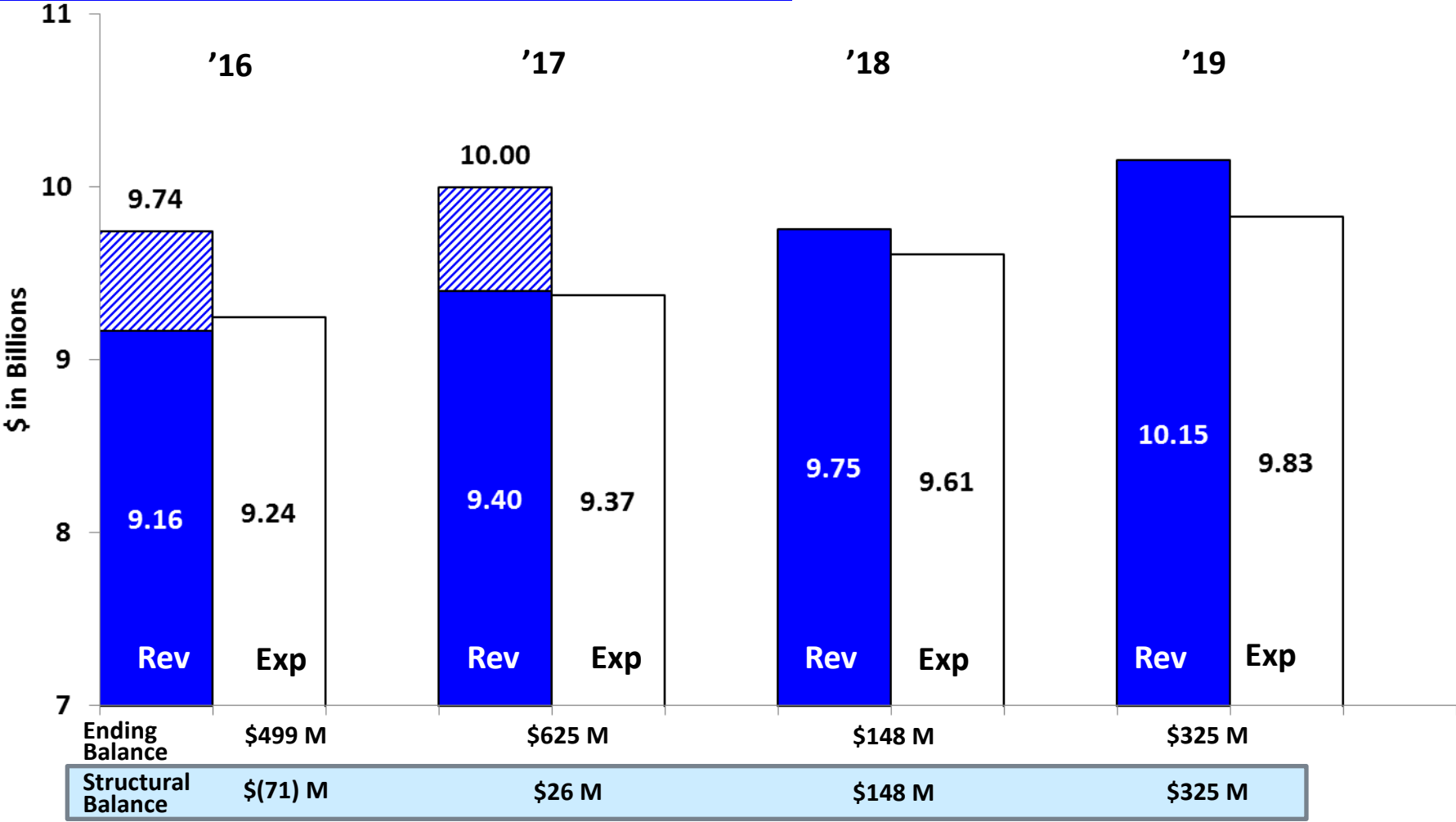
- ❑ The Baseline would increase the forecast of ongoing revenues by \$341 M above the enacted budget
 - Through December, '16 revenues are \$210 M above budget
 - Individual income tax payments and Corporate income tax accounts for \$140 M of \$210 M

- ❑ The 2nd half forecast gain is expected to slow due to the higher collection level in the 2nd half of '15
 - Capital gains and Corporate collections may not be sustainable

Projected Baseline Spending Changes

	GF \$ in M Above Prior Year		
	'17	'18	'19
K-12	84	138	124
AHCCCS	79	77	98
DCS	(9)	0	0
DES	24	25	29
Corrections	23	7	0
Universities	12	4	0
Employee Health Insurance	(8)	0	0
Land Dept. Self-Fund	0	(13)	0
Other	(24)	(2)	(32)
Total Operating Budget Changes	181	236	219
Total Spending	\$9,371	\$9,607	\$9,826
% Change	1.4%	2.5%	2.3%

Projected General Fund Revenues & Expenditures



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

FY 2017 projected ending balance assumed to be allocated
 as part of the budget process



Executive Comparisons

Comparing the Executive Budget and JLBC Baseline

- ❑ Similar cash balances, but very different assumptions
- ❑ Higher revenue and lower caseloads allow Executive to fund more spending
- ❑ Analysis of Executive budget incomplete without tax proposal

<u>\$ in M</u>	
\$625	JLBC Baseline '17 Ending Balance
81	Lower Exec K-12 / Medicaid caseload
120	Higher Exec revenues
(15)	Lower Exec Carryforward
	<u>Policy Issues</u>
(269)	Spending increases
79	Spending reductions
<hr/>	
\$621	Executive '17 Ending Balance
?	Tax Package
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?	Revised Exec '17 Ending Balance

'17 Executive Caseloads \$(81) M Less than JLBC - Statutory Formula Growth Excluding Policy Issues

\$ in M

\$(38) K-12: JLBC \$84M vs OSPB \$46 M

- JLBC uses more accurate Land Trust and Current Year Funding estimates
- JLBC includes higher cost per pupil due to charter/special ed growth

(48) AHCCCS/Medicaid: JLBC \$79 M vs OSPB \$30 M

- Enrollment has grown 7% since June 2015; JLBC Baseline assumes another 3.2% growth during remainder of '16
- Executive assumes flat caseloads for rest of year

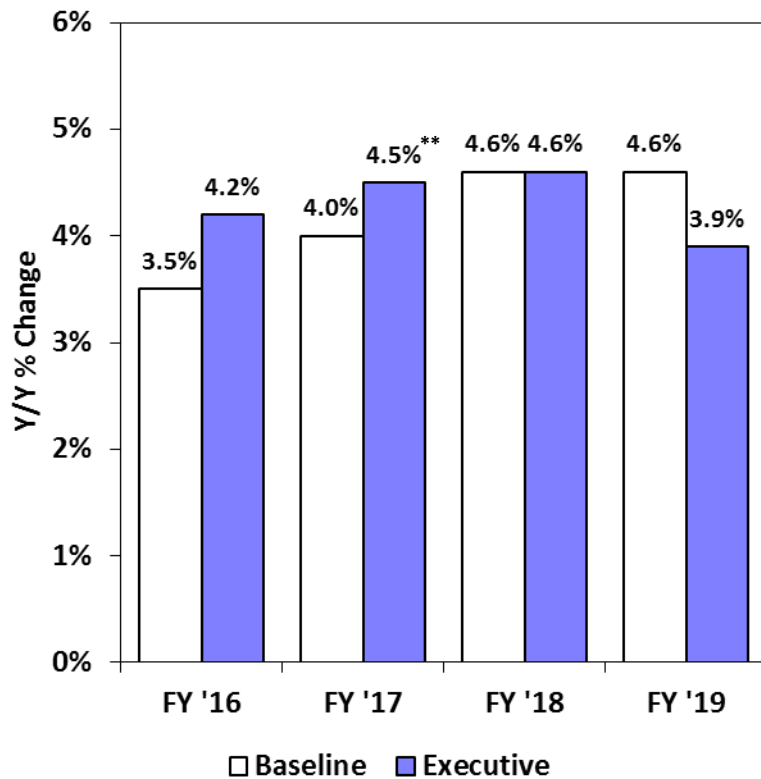
6 Other

\$(81) Total

'17 Executive Revenue \$120 M Higher

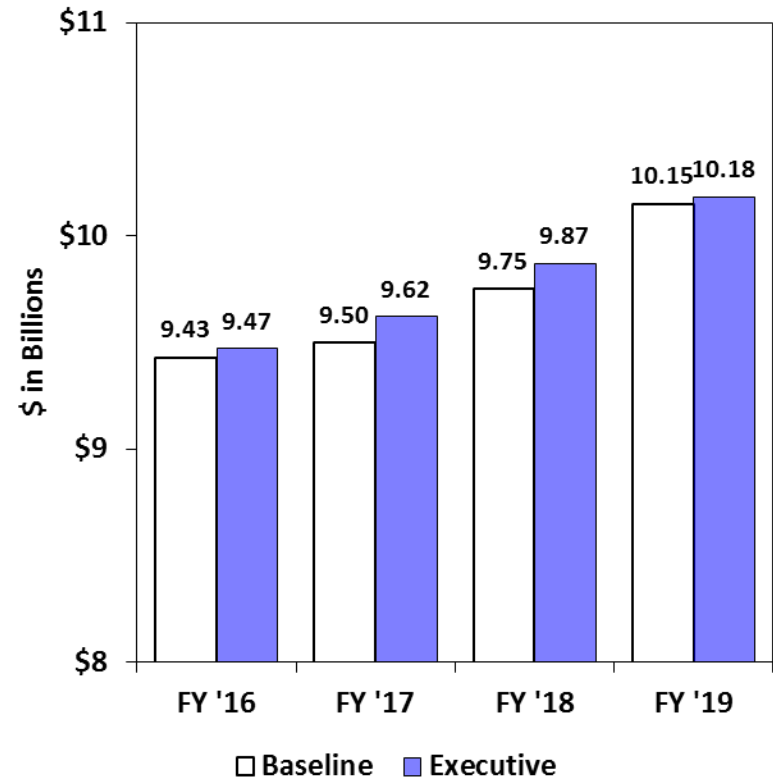
- Executive Higher by \$45 M in '16

Base Growth Rate*



*Excludes tax law changes and one-time revenue
 **5.2% when compared to JLBC '16 base

Total Revenue***



*** Excluding Balance Forward

\$269 M in Executive Policy Issues

- Outside Standard Baseline Adjustments

\$ in M

\$64	DCS – Services and Staff
9	Related DCS Issues – \$6 M in AG, \$3 M in Courts
37	Governor’s Office – Career & Technical Education Grants / AP Tests
15	ADE IT and Testing Costs
15	SFB – Building Renewal Grants
31	DPS – Border Security
18	DES – Adult Protective (\$3 M), Child Care (\$6 M), Voc Rehab (\$5 M), Other (\$4 M)
7	DHS – Arizona State Hospital Staff and Funding Backfill
9	Corrections – 100 Bed Maricopa Center, Staffing, Healthcare
30	Capital Funding (\$20 M for ADOA system, \$10 M for Parks)
10	Budget Stabilization Fund Deposit
23	Other
\$269	Total

\$(79) M in Executive Spending Reductions

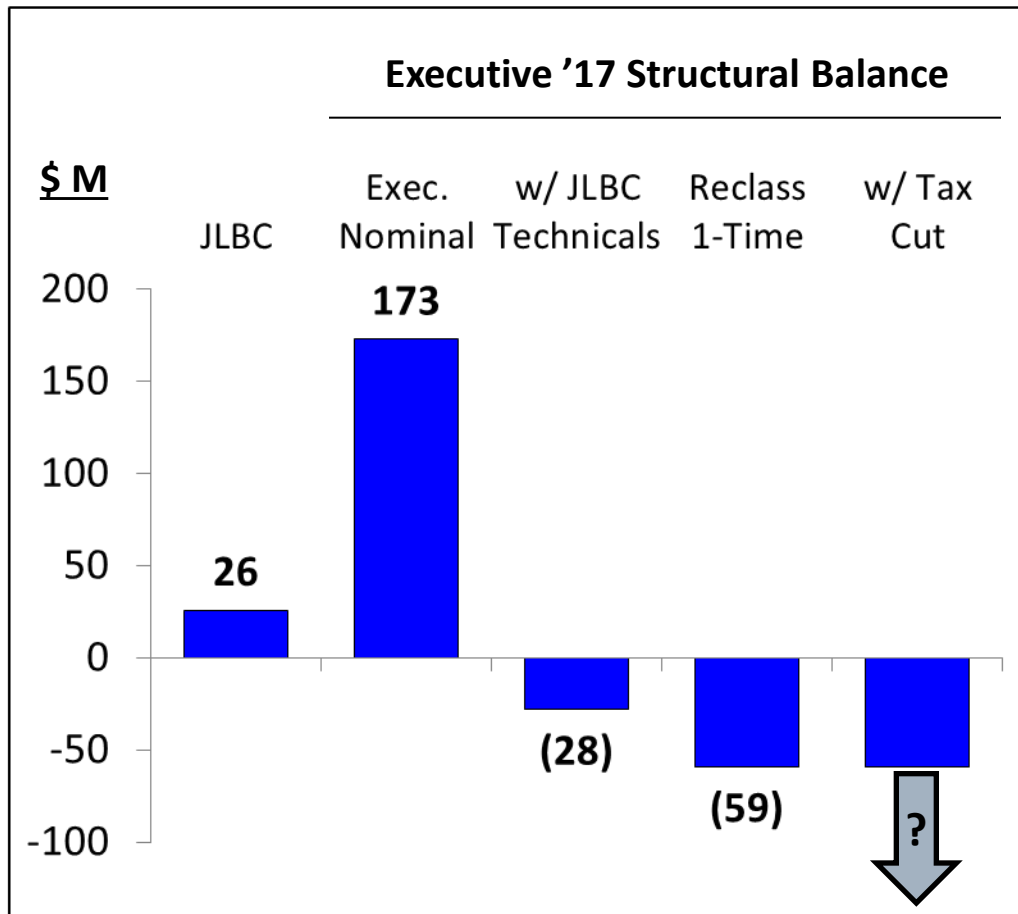
- Outside Standard Baseline Adjustments

\$ in M

\$(25)	DCS – Federal Fund Offsets to Spending Increases <ul style="list-style-type: none">• Surplus Federal TANF, \$11 M• Increase Federal Eligibility for Out of Home Placements, \$9 M• Federal Victims of Crime Funding, \$5 M
(22)	SFB: Eliminate Access Our Best Public Schools Appropriation <ul style="list-style-type: none">• '16 Monies used for Arizona Public School Credit Enhancement Program
(8)	Hiring Freeze (includes DES, \$2.6 M and DHS, \$1.8 M)
(8)	Land Dept. Admin from Permanent Fund (Nov. 16 Ballot)
(4)	DEQ: Shift WQARF to Other Funds
(12)	Other
<u>\$(79)</u>	Total

How Different Assumptions Affect Structural Balance

- Difference Between Ongoing Revenues and Spending



- ❑ We evaluate Exec. proposal using JLBC revenue and caseloads
 - \$173 M structural balance becomes a \$(28) M shortfall
- ❑ Reclassifying certain Exec. 1-time \$ as ongoing further increases shortfall to \$(59) M
 - \$10 M JTED, \$6 M College Prep, \$15 M SFB
- ❑ Permanent Tax Cut increases shortfall beyond \$(59) M

Analysis of '16 Current Year Revisions

- Higher Revenues Pay for Higher DCS Spending

\$ in M

\$499

JLBC Baseline '16 Ending Balance

45

Exec higher revenues

20

Exec lower technical estimates

Policy Issues

(59)

DCS – Additional Current Year Funding

22

DCS – Federal Fund Offsets

(11)

DCS – Eliminate Rollover

(15)

SFB Building Renewal Grants

(8)

DES Long Term Care

(2)

SOS Presidential Primary Funding

(5)

Arizona State Hospital funding

(2)

All Other

\$484

Executive '16 Ending Balance

STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

Director.....	Richard Stavneak
Office Manager.....	Linda Monsanto
Deputy Directors.....	Steve Schimpp
.....	Stefan Shepherd
Assistant Director.....	Jack Brown
Chief Economist.....	Hans Olofsson
Principal Fiscal Analysts.....	Eric Billings
.....	Bob Hull
Senior Fiscal Analysts.....	Ben Beutler
.....	Matt Gress
.....	Steve Grunig
.....	Micaela Larkin
.....	Krista MacGahan
.....	Tom Ritland
.....	Jon Stall
Fiscal Analysts.....	Matt Beienburg
.....	Henry Furtick
.....	Jeremy Gunderson
.....	Josh Hope
.....	Patrick Moran
.....	Rebecca Perrera
Administrative Assistant / JLBC & JCCR Clerk.....	Kristy Paddack



Appendix A – 4-Sector Forecast

Appendix A: January 2016 4-Sector Forecast

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sales Tax				
JLBC Forecast	4.0%	4.6%	4.5%	4.3%
UA – Low	3.0%	2.6%	4.7%	4.9%
UA – Base	4.0%	5.6%	6.0%	6.0%
FAC	4.1%	5.2%	4.8%	4.3%
Average:	3.8%	4.5%	5.0%	4.9%
Individual Income Tax				
JLBC Forecast	4.6%	5.3%	4.5%	4.5%
UA – Low	1.9%	-0.1%	4.6%	5.2%
UA – Base	2.5%	4.6%	5.5%	5.7%
FAC	5.2%	5.4%	5.2%	4.4%
Average:	3.6%	3.8%	5.0%	4.9%
Corporate Income Tax				
JLBC Forecast	5.4%	4.4%	4.2%	4.0%
UA – Low	-4.6%	-2.8%	-5.5%	-4.1%
UA – Base	5.4%	1.9%	-1.7%	-5.5%
FAC	4.1%	5.5%	4.8%	3.9%
Average:	2.6%	2.4%	0.8%	0.1%

JLBC Weighted Average	4.4%	4.9%	4.5%	4.4%
UA Low Weighted Average	1.9%	1.1%	4.2%	4.7%
UA Base Weighted Average	3.5%	4.9%	5.3%	5.4%
FAC Consensus Weighted Average	4.6%	5.3%	5.0%	4.3%
“Big-3” Weighted Average	3.6%	4.1%	4.7%	4.7%
Consensus Weighted Average*	3.5%	4.0%	4.6%	4.6%
Adjusted Consensus Weighted Average**	2.5%	3.0%	3.7%	3.9%

* Represents on-going revenue adjusted for small revenue categories.

** Represents on-going revenue adjusted for tax law changes; excludes Urban Revenue Sharing.

Appendix B – JLBC Staff Recommended Improvements

Fiscal Policy: Improvements, but Significant Challenges Ahead

- ❑ Credit rating raised in '15 to AA/Aa2, 3rd highest level
 - 26 states have higher ratings
 - Rating agencies linked upgrade to improved structural balance

- ❑ State still lacks statutory policy for addressing one-time monies
 - Capital gains and Corporate Income Tax are volatile revenue streams
 - JLBC Staff continues to recommend diverting one-time monies to one-time purposes
 - 2014 California ballot initiative channels some one-time monies into their Rainy Day Fund

California Initiative Addresses Volatility

- Provides Possible Template to Stabilize AZ Finances

- Voter approved in November 2014
- 1.5% of annual General Fund revenue will be deposited into Rainy Day Fund
- Excess capital gains income tax collections will be deposited into the fund as well
- 50% of fund will be used to buy down state debts, including unfunded retirement and operating loans
- Rainy Day Fund capped at 10% of GF revenue; excess dedicated to infrastructure
- Emergency provisions allow deposit requirements to be suspended

FY '17 – Potential Candidates for One-time Monies

- Rollover Payoff
 - State has \$1.2 B in “rollovers,” which reflect deferral of current year expenses to next fiscal year
- Information Technology Initiatives
 - Examples: DOR and DCS IT systems
- Infrastructure
 - Supplement HURF with General Fund monies
 - Other Capital Improvement projects
- Pay down Operating Debt Buyback - \$84 M annual payment

JLBC Staff Recommended Improvements

- ❑ JLBC review of DCS line item transfers would permit further legislative input on moving in-home service funding to out-of-home placements
- ❑ Revamp November 2016 ballot referral on the use of the Permanent Fund for Land Department administrative expenses to increase legislative oversight and reduce potential beneficiary impact
- ❑ Clarify the 2015 law regarding state and local responsibilities regarding the 1% homeowner property tax cap
- ❑ Appropriate all or none of University tuition, thereby eliminating current hybrid process
- ❑ Improve knowledge of Corporate Income Tax by requiring DOR to publish more timely data on use of credits

JLBC Staff Recommended Improvements II

- Require AHCCCS to report on the availability of inpatient children psychiatric beds in Arizona in light of the transfer of some children out of state
- Revisit School Facilities Board provision which allows districts to exclude certain locally funded space when determining if the state should build a new school
- In light of University proposal to convert their performance funding model into a General Fund amount per resident student, review other possible options
- Increase transparency of Retirement Systems' private equity fees without hindering investment performance