FY 2017 JLBC Baseline

Summary Version

January 15, 2016

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Summary of Current Budget Status

- The Baseline compares the 4-sector consensus revenue forecast with cost of current funding formulas through ’19
- ’17 Baseline has a large cash balance of $625 M, primarily due to $600 M in one-time revenues
- Permanent revenues only exceed permanent spending by $26 M (the structural balance) for ’17
- Baseline structural balance grows to $325 M by ’19
    - But only if no discretionary changes for 3 years

’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 Baseline Projection

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

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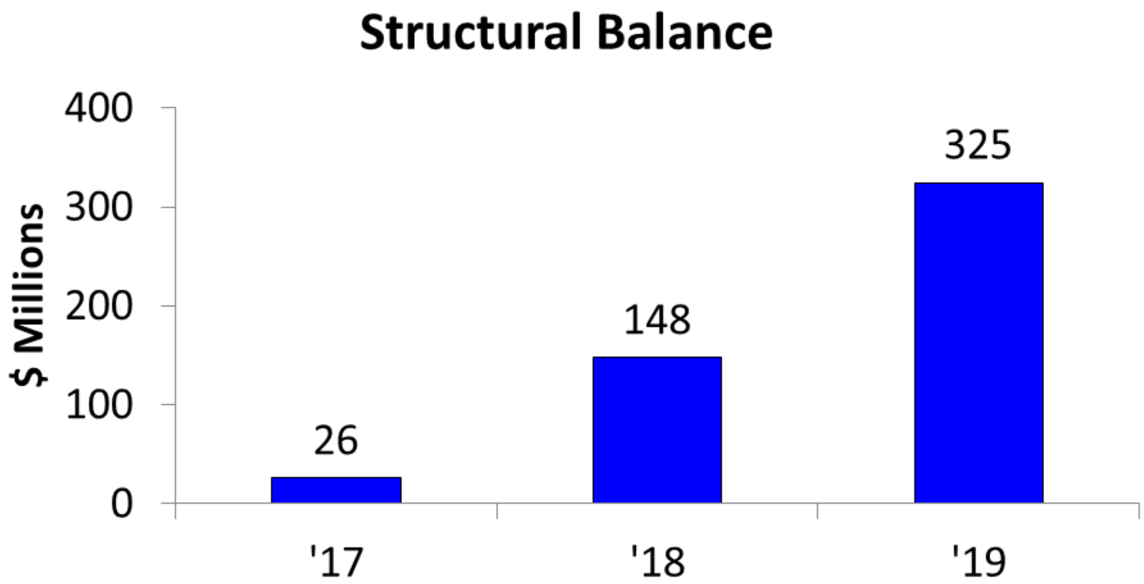
Baseline Structural Balance Improves Through '19



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

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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 (Appendix A)

FY ’17 – Potential Candidates for One-time Monies

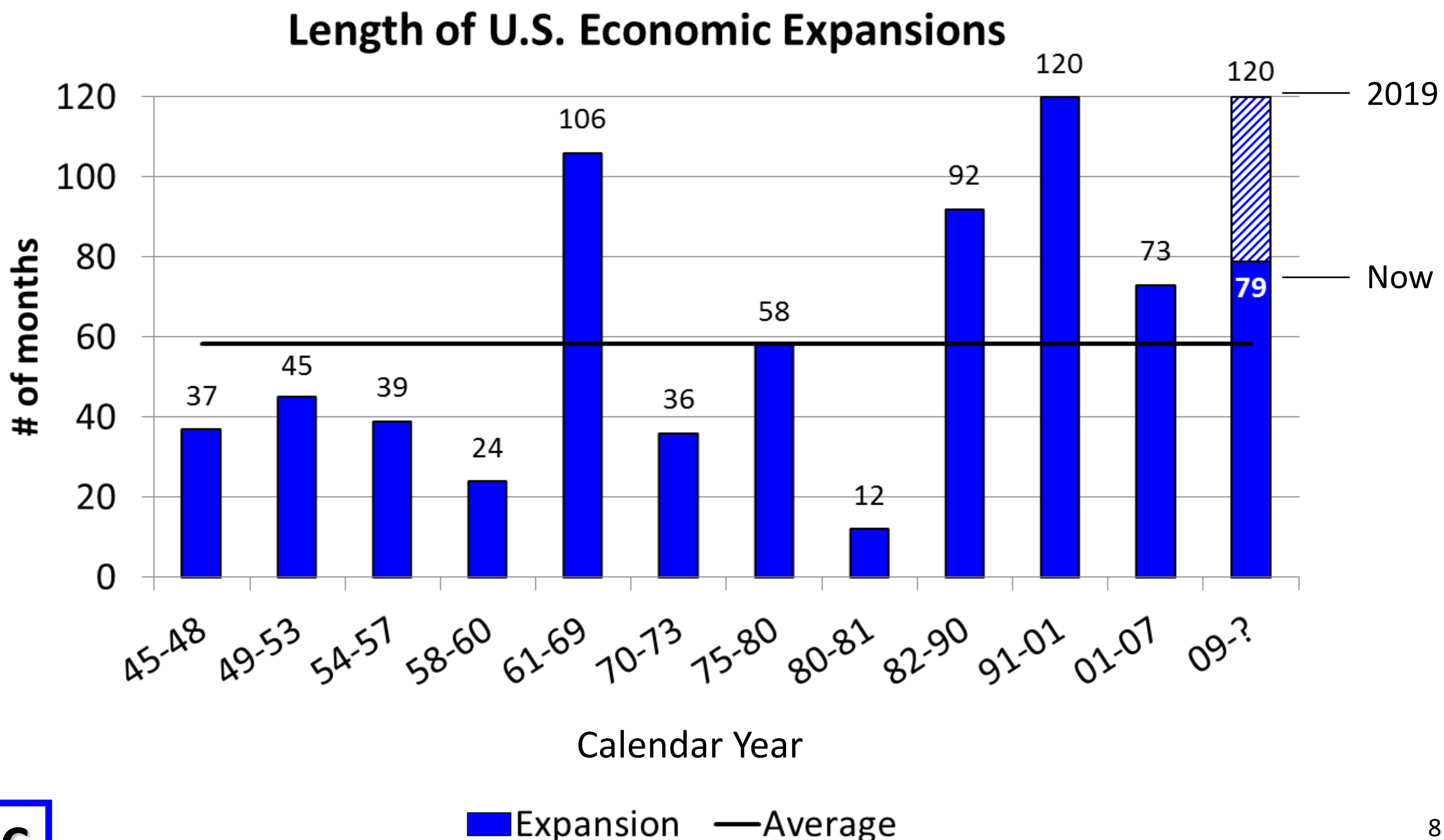
- Rollover Payoff
  - State has $1.2 B in “rollovers,” which reflect deferral of current year expenses to next fiscal year
- Information Technology Initiatives
  - Examples: DOR and DCS IT systems
- Infrastructure
  - Supplement HURF with General Fund monies
  - Other Capital Improvement projects
- Pay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

See Appendix B for Other Proposals

Forecast Risk: Current Expansion Exceeds Historical Average



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Revenue Growth Improves Slightly Over Time

January Consensus Forecast

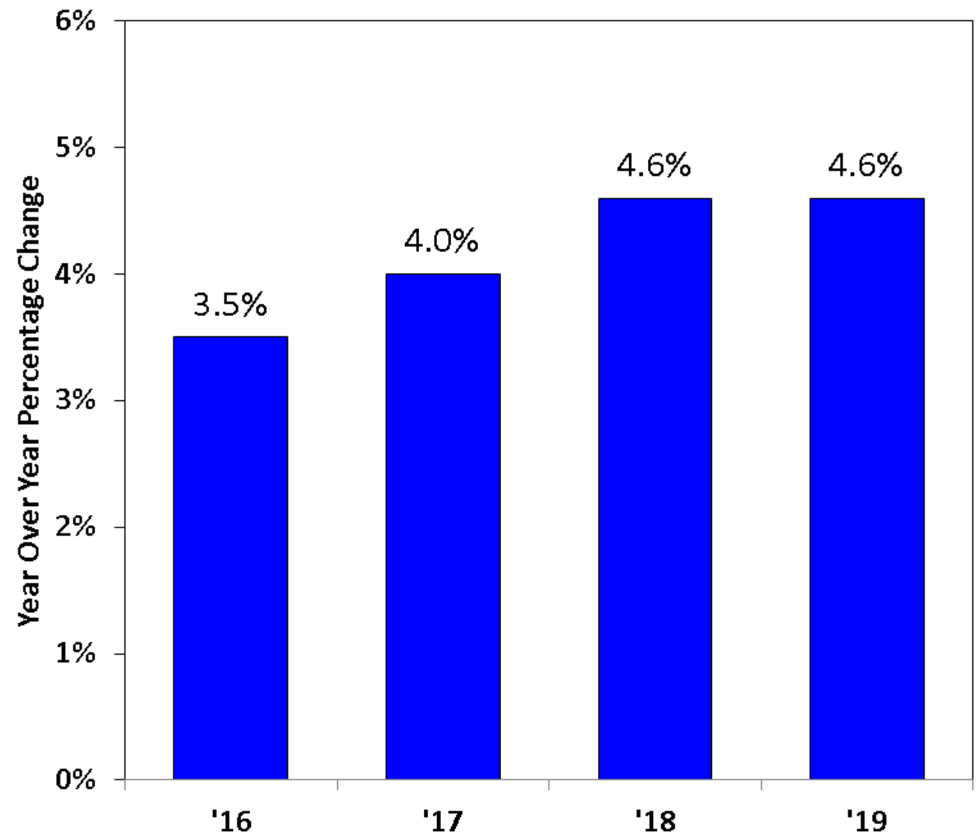
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Chance of Exceeding Forecast

- 66%

Long Run Average Growth

- 4.7%



Percent change in Base revenues excluding balance forward, statutory changes, one-time revenues, and urban revenue sharing

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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 – sales tax (2.5%) and withholding (2.8%)
- The Baseline would increase the forecast of these ongoing revenues by \$341 M above the enacted budget
  - Through a preliminary December estimate, '16 revenues are \$209 million above the enacted budget
- The 2nd half forecast gain is expected to slow due to the higher collection level in the 2nd half of '15
  - There is uncertainty regarding the sustainability of last year's capital gains collections

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Components of the Revenue Forecast
- Excludes Change in Beginning Balance

$ in M

	'16	'17	'18	'19
Base Revenue Growth (3.5%/4.0%/4.6%/4.6%)	333	389	461	475
One-Time Fund Transfers	139	(117)	(100)	0
One-Time Amnesty Collections	47	(47)	0	0
Previously Enacted Tax Legislation	(98)	(98)	(90)	(73)
Urban Revenue Sharing	3	(58)	(13)	(6)
Total	**424**	**69**	**258**	**396**
% Change	**4.7%**	**0.7%**	**2.7%**	**4.1%**

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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%**

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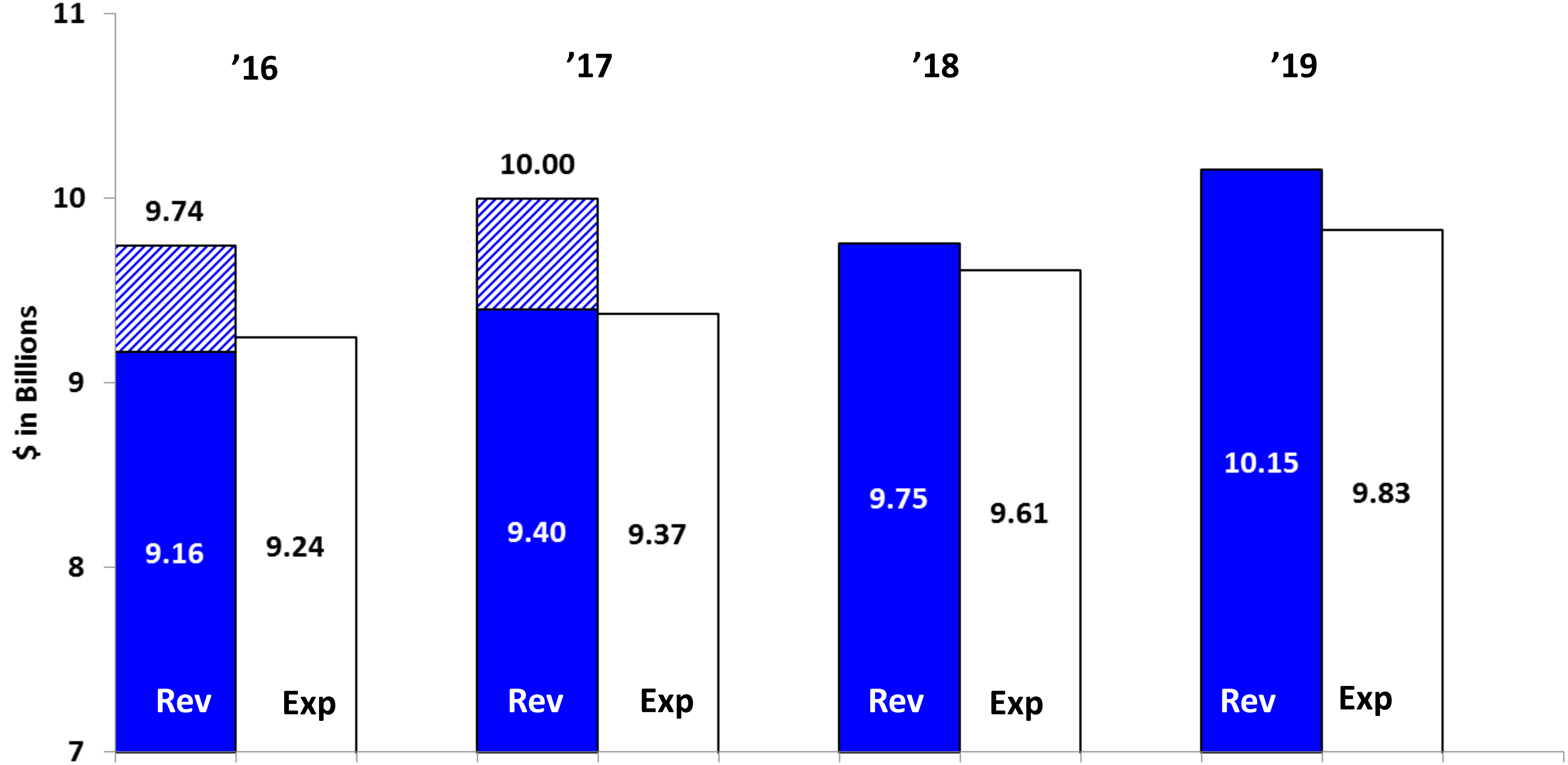
Main Caseload Assumptions

- K-12 projected to grow by $84 M
  - 1.6% inflation/1.4% student growth/property tax cut
  - ($61) M in savings for previously enacted JTED and declining enrollment provisions
- Medicaid ’17 spending grows 4.4%
  - 2.5% caseload, 1.5% capitation, and better federal match rates
- DCS funding adjusted down consistent with May 2014 plan
  - Reflects one-time backlog funding, but problem remains the same
- ADC reflects cost for opening 1,000 previously authorized beds

Projected General Fund Revenues & Expenditures



	'16	'17	'18	'19
Ending Balance	$499 M	$625 M	$148 M	$325 M
Structural Balance	$(71) M	$26 M	$148 M	$325 M

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

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

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