
FY 2013 JLBC Baseline

- Summary Version -

January 13, 2012

JLBC

The 3-Year Budget Outlook

- ❑ Given the consensus revenue forecast and active funding formulas, the General Fund is expected to generate a \$583 M balance in '12 and \$431 M in '13.
- ❑ The projected '14 budget, however, would have a small shortfall of \$(172) M with the expiration of the 1-cent sales tax.
- ❑ Slightly lower economic growth and plaintiff verdicts in budget lawsuits could turn these estimates into shortfalls of \$(360) M in '13 and \$(1) B in '14

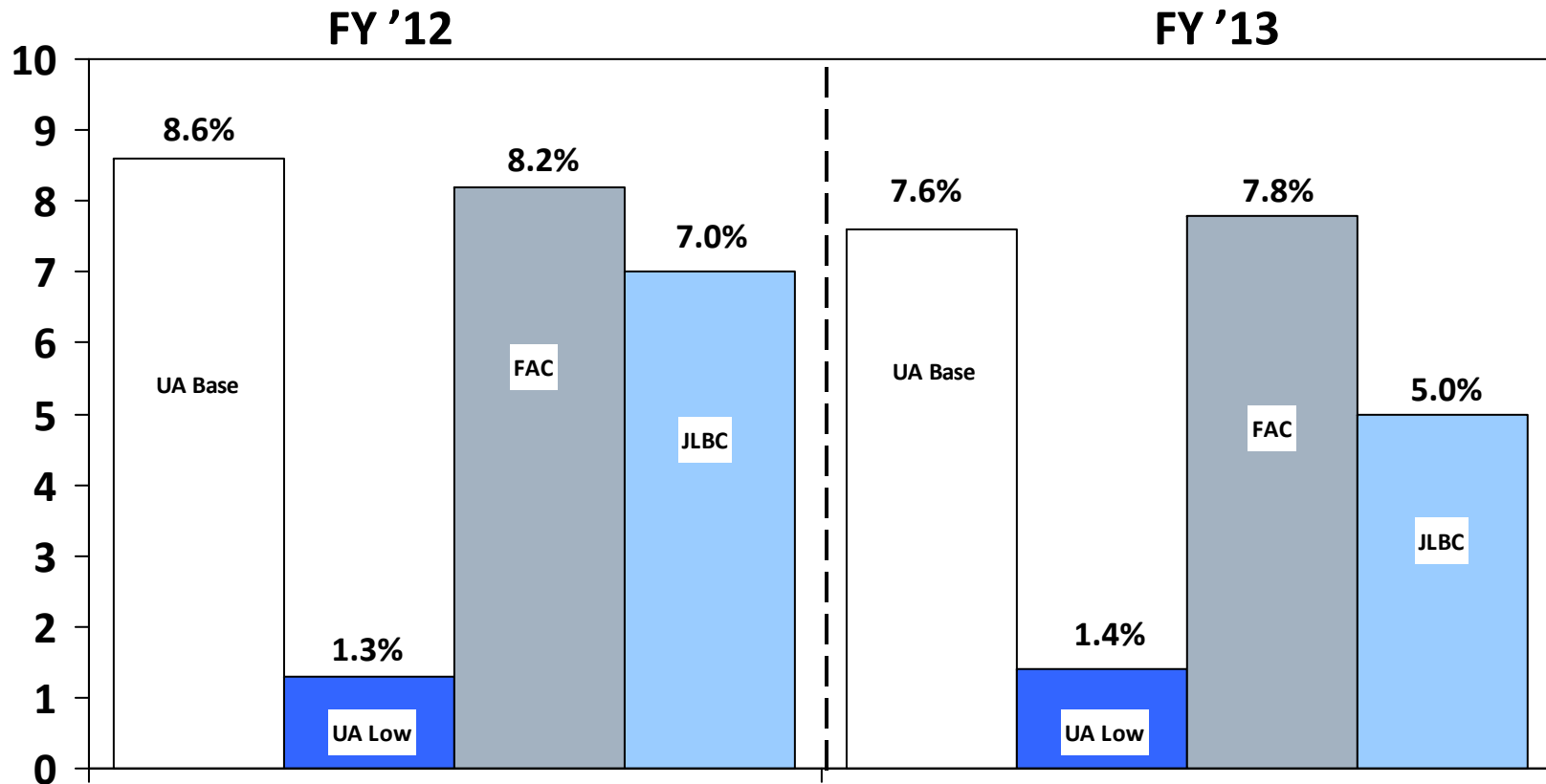
The Caveats

- ❑ New permanent initiatives would reduce the '13 balance and increase the '14 shortfall
- ❑ A 3-Year budget forecast is inherently unreliable
 - A 2% error could change revenues by \$500 M in the 3rd year
- ❑ Serious federal deficit reduction could increase state costs
- ❑ Pending “budget” lawsuits could cost over \$475 M if plaintiffs are successful

Legislative Considerations

- ❑ Given the loss of the 1¢ sales tax in FY '14, Staff recommends that we track the impact of '13 decisions on '14 bottom line throughout the budget process
- ❑ The lack of budget reserves leaves no margin for error and hampers our credit rating
 - Pre-recession Rainy Day Fund exceeded \$600 M
 - Arizona has one of the worst state credit ratings
- ❑ The state annually suspends \$700 M in formula spending
 - If funded, the state would no longer have any balances
- ❑ Legislative budget oversight continues to decline
 - The General Fund represents only 31% of the budget, down from 44% in 2000.

Consensus Predicts Base Growth Rate of 5.3% in FY '12 and 5.1% in FY '13*



* Weighted Big 3 average growth prior to 1-Cent sales tax is 6.3% in FY '12 and 5.5% in FY '13. After adjusting for small tax categories, the base growth rate is 5.3% in FY '12 and 5.1% in FY '13.



Detail of FY '13 and '14 Revenue Changes

	\$ in Millions	
	<u>FY '13 Above FY '12</u>	<u>FY '14 Above FY '13</u>
Base Revenue Growth (5.1%/6.9%)	415	541
Previously Enacted Legislation	(91)	75
Elimination of One-Time Revenues - Fund Sweeps/County Cash Payments	(357)	--
Urban Revenue Sharing	(89)	(38)
1¢ Sales Tax Expires	--	(913)
Total	(121)	(335)

Detail of the FY '13 and '14 General Fund Baseline Spending Adjustments

	\$ in M	
	<u>FY '13 Above FY '12</u>	<u>FY '14 Above FY '13</u>
K-12 Formula – Enrollment decline in '13, followed by gain in '14	(28)	39
Medicaid caseload, no inflation, \$40 M in '14 for Federal health care requirement	99	206
Debt Service	50	20
Extra Pay Period – One time savings	(79)	0
Other	(12)	3
Total	30	268

* Baseline supports an FTE ceiling of 52,100 positions. Recommend ceiling reduction since 8,600 of those positions are vacant.

FY '12 – '14 Budget Projections

- ❑ The projected General Fund balance is \$583 M in FY '12 and \$431 M in FY '13.
- ❑ With the expiration of the 1-cent sales tax in FY '14, State is forecasted to have relatively small shortfall of \$(172) M.

	<u>12</u>	<u>13</u>	<u>14</u>
Revenues	\$8.9 B	\$8.8 B	\$8.5 B
Spending	\$8.3 B	\$8.4 B	\$8.6 B
Balance	\$583 M	\$431 M*	\$(172) M*

*Excludes estimated prior year balance

What if Projections Are Not Accurate?

- Short Term Balances Disappear & \$(1) B FY '14 Shortfall

Alternative Assumptions:

- 2% Slower Revenue Growth
- Plaintiffs Prevail in Budget Lawsuits

Projected Balance (+)/Shortfall (-)			
(\$ in M)			
	<u>'12</u>	<u>'13</u>	<u>'14</u>
Baseline	583	431	(172)
Alternative	325	(367)	(1,072)

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