
**Comparison of JLBC Baseline and
Executive Budget Proposal
- Revised -**

January 24, 2012

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JLBC Baseline Summary

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FY '12 – '14 JLBC Baseline Projections

- Given the current revenue forecast and active funding formulas, the General Fund is expected to generate a \$583 M balance 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

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

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)

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 little 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.

Executive Budget Comparison

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Executive Has Higher Revenue and Spending Estimates Than JLBC Baseline

- \$375 M in Revenue and \$802 M in Spending

Revenue

- FY '12: \$4 M
- FY '13: \$371 M

Spending

- FY '12: \$195 M
- FY '13: \$607 M
- Since FY '13 Executive Caseload estimates are \$(99) M below JLBC, all other '13 non-caseload differences exceed \$700 M

Executive Fund Transfers

	<u>FY '12 Enacted</u>	<u>Executive FY '13 Proposal</u>
ADOA Risk Management	16	1
ADOA Employee Health Insurance	40	27
ADOA 911 Emergency Telecommunications	2	2
ADOA Web Portal	7	0
Clean Elections	20	10
Corporation Commission Utilities	2	1
DES Long-Term Care Profits	30	0
DEQ Emission Inspection Fees	8	11
DEQ Underground Storage Tanks	6	5
Parks Board Fees	2	0
DPS Anti-Racketeering/Joint Fund	8	0
DPS Crime lab	4	4
DPS Equipment (via VLT)	7	7
DPS Highway Patrol HURF (via VLT)	24	24
ADOT MVD HURF (via VLT)	39	39
ADOT Operating (via VLT)	36	28
All Other	67	28
TOTAL	318	187



Executive Main FY '12 Spending Initiatives

- Proposed \$195 M Of New Spending In Total

	<u>\$ in M</u>
Reverse Capitol Complex Leaseback	106
K-12 Building Renewal	100
Ending Accounting Gimmick on Nonlapsing \$	41
K-12 Operating Formula Surplus	(68)

Executive Main FY '13 Spending Initiatives

- Proposed \$607 M Of New Spending In Total

	<u>\$ in M</u>
Lower Caseload Adjustments (Primarily AHCCCS and ADE)	(99)
K-12 – \$200 M Soft Capital/Rollover, \$50 M K-8, \$40 M CORL	295
Automation (Financial Accounting System)	95
5% Selective State Employee Pay Raise	54
DES – Mostly Federal Funds Backfill + \$4M CPS	51
500 Prison bed Construction	50
DHS – Mostly Seriously Mentally Ill	46
Universities	30

Other FY '13 Executive Funding Issues

	<u>\$ in M</u>
AHCCCS Non-Caseload (providers, automation, AG)	30
DPS Retirement Shift (\$9.1 M)/Vehicles (\$2.8 M)	12
All Agency FY 13 Retirement	11
Land Dept – No Use of Trust \$	11
Community College Scholarships	10
Corrections – 153 Officers	9
Dept. of Revenue – Automation	7
Tourism	7
Indian Water Rights Settlement	2
Forester	1

Baseline vs. Executive Budget Spending Levels

	\$ in Billions		
	<u>FY '12</u>	<u>FY '13</u>	<u>FY '14</u>
JLBC Baseline	\$8.33	\$8.36	\$8.62
Executive	8.52	8.96	8.92

What Is The Margin For Error?

- As Measured By Cumulative Unallocated Resources

\$ in Millions			
	<u>FY '12</u>	<u>FY '13*</u>	<u>FY '14**</u>
JLBC Baseline	\$583	\$1,014	\$842
Executive	392	588	330
Executive w/ JLBC Revenue and No Fund Sweeps	388	213	296

* Cumulative Across '12 - '13 ** Cumulative Across '12 - '14

What Is the Projected FY '15 Balance?

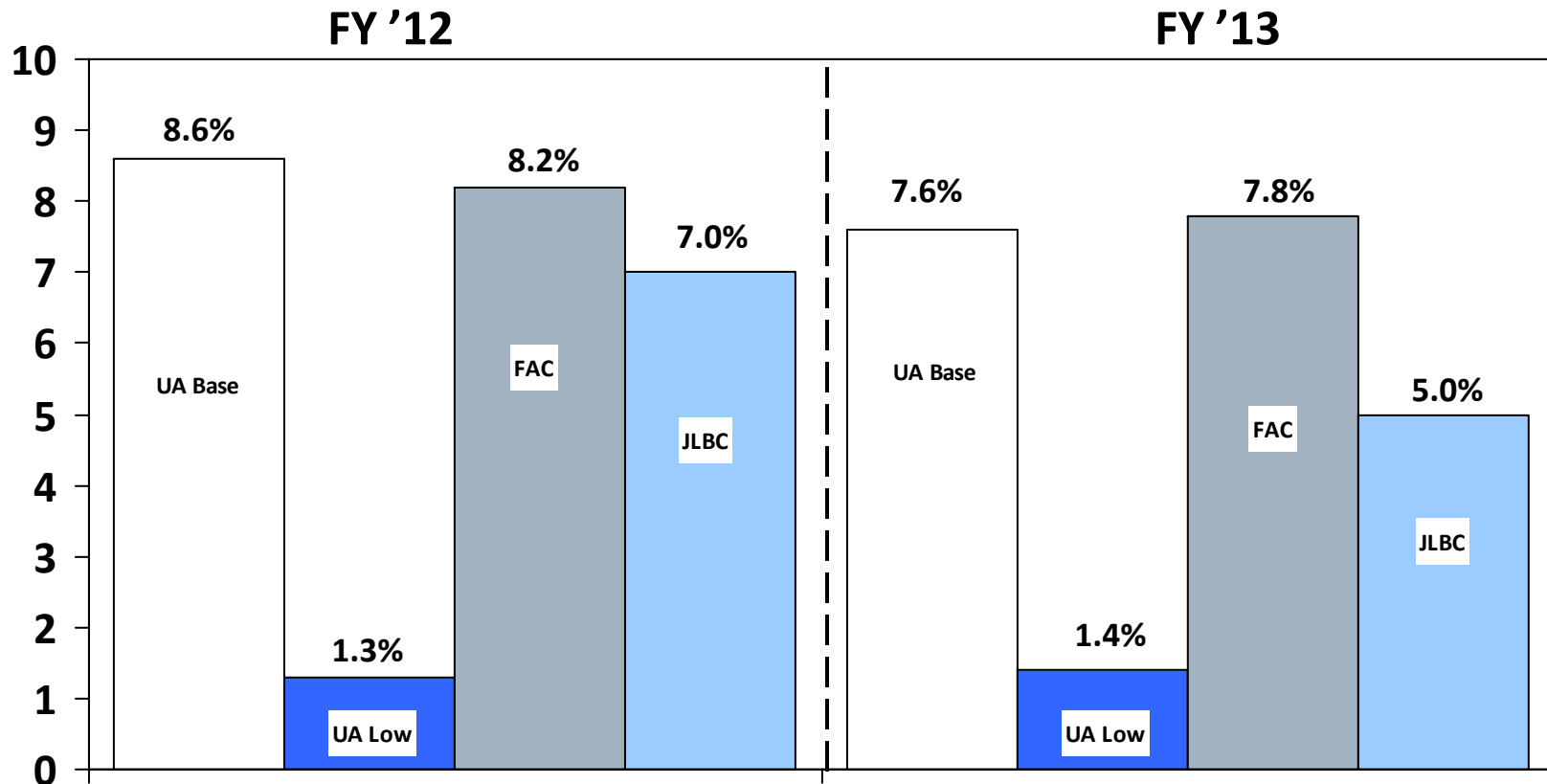
- JLBC Includes In Their Baseline, Executive Does Not

- ❑ Based on revenues of \$8.94 B and spending of \$8.91 B, FY '15 JLBC Baseline has a projected balance of \$31 M
- ❑ If the Baseline is modified for Executive spending, the FY '15 spending level is \$9.48 B and the projected shortfall is \$(540) M
 - Assumes higher Executive FY '15 base compared to the JLBC Baseline
 - Incorporates Executive's FY '15 federal health care estimate which is higher than JLBC Baseline

JLBC Baseline Appendix

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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.

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