
FY 2018 JLBC Baseline

Summary Version

with Preliminary Executive Comparison

January 17, 2017

JLBC

Revised

'18 JLBC Baseline is Nominally Balanced

- But Competing Demands Far Outstrip Available \$

- ❑ Baseline compares revenues with funding formula requirements to provide a guideline of available resources
- ❑ The '18 structural balance is \$46 M with a cash reserve of \$159 M
- ❑ The balance is insufficient to address:
 - Proposition 206 minimum wage requirement
 - Continuation of “ongoing” one-time initiatives
 - Affordable Care Act repeal and other fiscal challenges
 - Revenue forecast uncertainties
 - \$289 M in Executive spending and tax initiatives

Projected Baseline Changes

- Revenue and Spending Growth Essentially Flat

Net '18 Revenue Growth

\$ in M

3.9% Consensus Revenue Growth	394
One-Time Fund Transfers	(79)
Previously Enacted Tax Legislation	(107)
Urban Revenue Sharing	(17)
Beginning Balance Reduction	(170)

Total Revenue Changes 21

Total Revenue **\$9,761**

% Change **0.2%**

Net '18 Spending Changes

\$ in M

ADE – K12 Formula	79
Medicaid Formula	62
Eliminate 1-Time \$	
Capital – ADOT / ADOA	(75)
Counties – DJC Offset / HURF	(38)
SFB — Building Renewal	(16)
Universities	(15)
Other	(22)

Total Spending Changes (25)

Total Spending **\$9,602**

% Change **-0.3%**

Proposition 206 Minimum Wage Costs

- Not Well Quantified; Not Addressed in Baseline

	<u>\$ in M</u>
<input type="checkbox"/> Higher Medicaid Long Term Care Rates	23
▪ Uses simplifying assumptions, not known wages	
<input type="checkbox"/> Other DES/DCS Contracted Providers	?
▪ Child Care, Adult Services, Respite Care, etc.	
<input type="checkbox"/> K-12	10?
<input type="checkbox"/> Universities	40?

Some of 1-Time '17 Spending is Likely Ongoing

<u>Possible Retention Candidates</u>	\$ in M	
	<u>'17 Budget</u>	<u>Does Exec Retain?</u>
<input type="checkbox"/> ADE IT System	7	No
<input type="checkbox"/> ADE Statutory Expirations	50	20
<input type="checkbox"/> SFB Building Grants	15	17
<input type="checkbox"/> Universities	19	15
<input type="checkbox"/> County Assistance (HURF / DJC Offset)	38	No
Total	130	52

ACA and Other Fiscal Challenges

	<u>\$ in M</u>
<input type="checkbox"/> Federal Changes to Affordable Care Act	100 - 1,400
<input type="checkbox"/> Unknown start date	
<input type="checkbox"/> Additional New School Construction (Unbudgeted)	40
<input type="checkbox"/> Chandler (9-12), Queen Creek (9-12), Vail (K-5)	
<input type="checkbox"/> Pending Litigation Against the State	
<input type="checkbox"/> Hospital Assessment	100 - 250
<input type="checkbox"/> Rental Car Surcharge	150
<input type="checkbox"/> Retirement System Underfunded Contributions	30 - 50
<input type="checkbox"/> '18 employer rates do not reflect the <i>Hall</i> decision	
<input type="checkbox"/> EORP insolvency in 10 years	

4-Sector Consensus Forecast Predicts Modest Growth

January Consensus Forecast

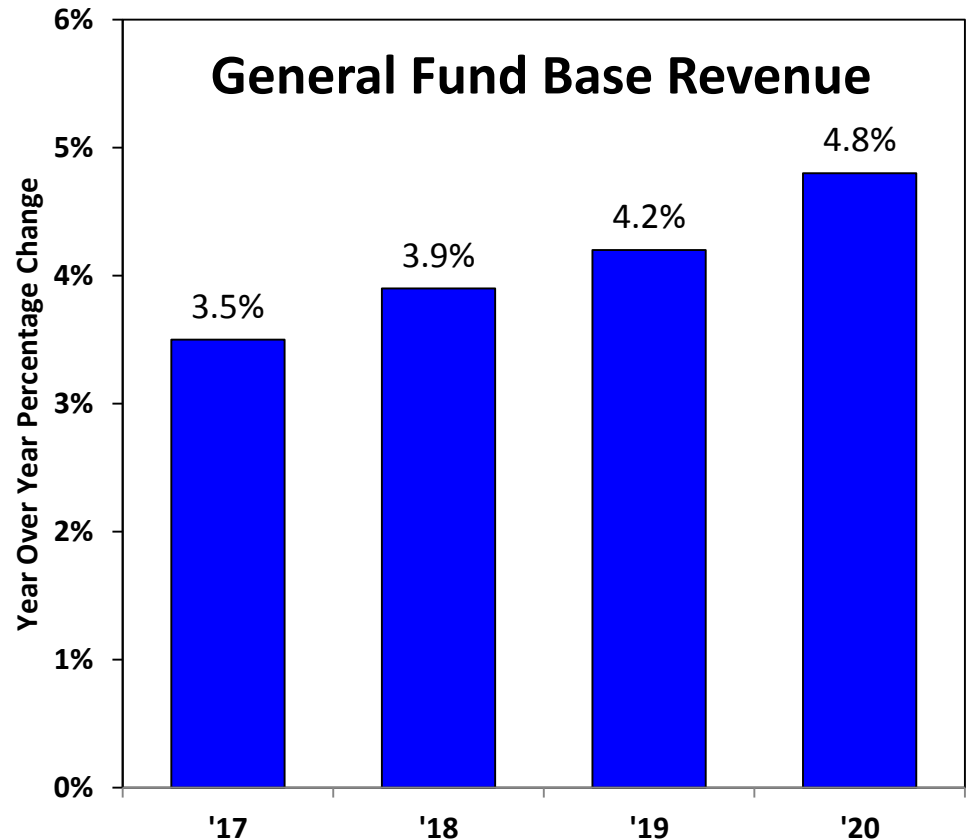
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

- 4.6%



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

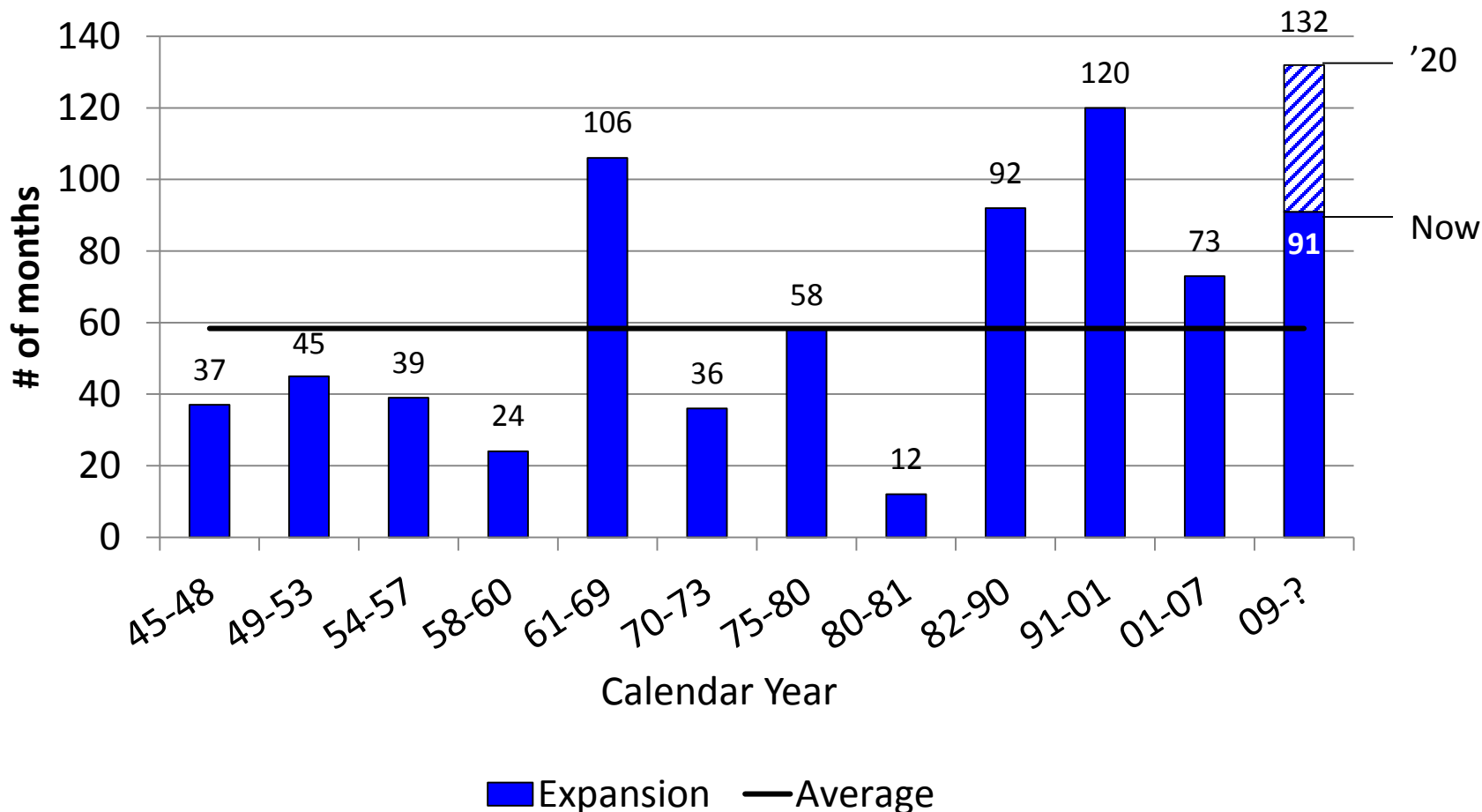
But Several Unknowns Could Affect Revenue...

- Department of Revenue Staffing
 - Unknown impact of 1/3rd reduction in DOR collections/audit staff
 - Forecast has not been specifically adjusted, but staff reduction may have affected FAC panelists' estimates
 - DOR hopes to offset loss of staff with greater e-filing, but impact unlikely to be immediate

- Federal Fiscal and Monetary Policy
 - New tax reductions and infrastructure spending likely to stimulate the economy
 - If federal deficit grows, interest rates could rise and offset the fiscal policy stimulus
 - Federal Reserve will need to chart a course on interest rates as events unfold

And the Current Expansion is Reaching Record Length

Length of US Economic Expansions

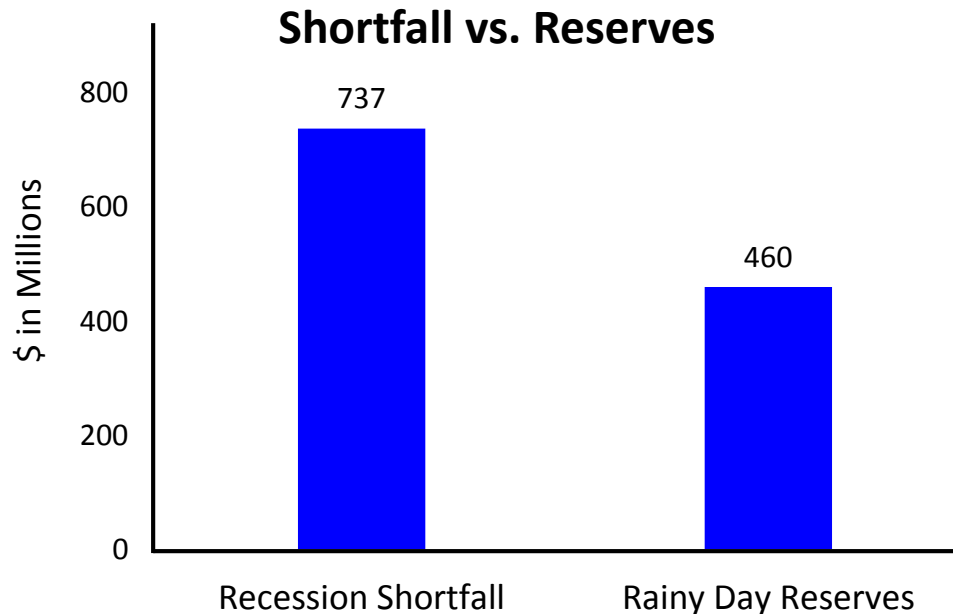


Expansion: time period without 2 consecutive quarters of GDP decline

How Would a Recession Affect the Budget?

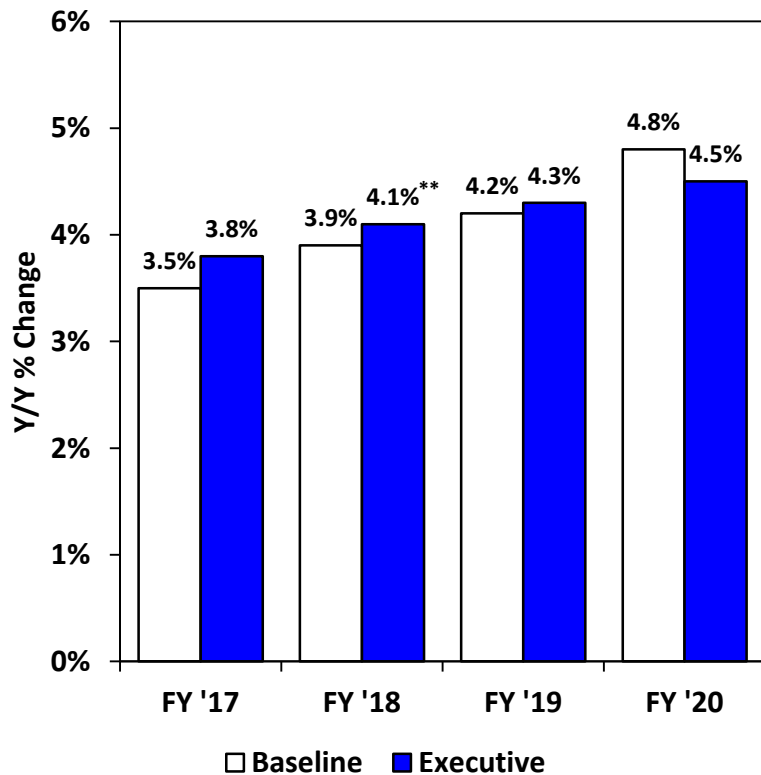
- “Stress Test” Evaluates Level of Reserves in a Recession

- Compared to base revenue growth of 3.9% in '18, stress test revenues decline (5)%, or \$(896) M
- \$(737) M shortfall under stress test



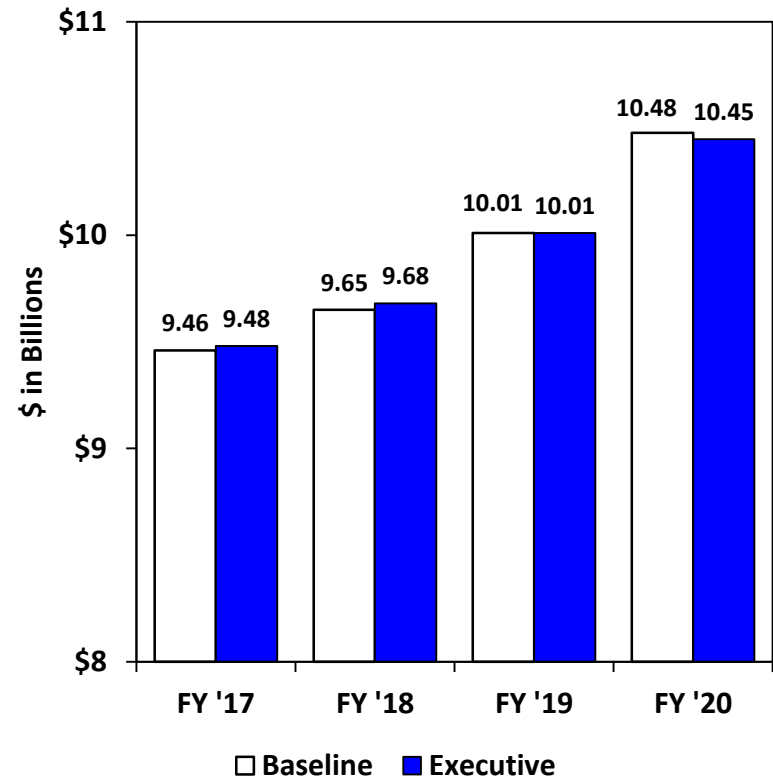
'18 Executive Base Revenue \$37 M Higher - Plus \$38 M Behavioral Health Transfer/Other

Base Growth Rate*



*Excludes tax law changes and one-time revenue
**4.3% when compared to JLBC '17 base

Total Revenue***



*** Excluding Balance Forward and Including Executive Fund Transfers of \$38 M in '18

Executive Comparisons

Comparing the Executive Budget and JLBC Baseline

- ❑ Executive spends down most of balance
- ❑ Higher revenue and lower caseloads also allow more Executive spending

\$ in M

\$159	JLBC Baseline '18 Ending Balance
37	Higher Exec Ongoing Revenues
38	1-Time Behavioral Health Transfer/Other
67	Lower Exec Caseload / Baseline
5	Higher Exec Carryforward
	<u>Policy Issues</u>
(251)	Net Spending Increases
(38)	Revenue Reductions
<hr/>	
\$17	Executive '18 Ending Balance

'18 Executive Baseline Spending \$(67) M Less - Statutory Formula Growth and Technical Estimates

	<u>\$ in M</u>
<input type="checkbox"/> Lower Exec Baseline spending in Medicaid	(34)
▪ Includes \$(30) M of Drug Rebate savings	
<input type="checkbox"/> Lower Exec Baseline spending in K-12	(4)
<input type="checkbox"/> Lower Exec Baseline spending in Corrections	(8)
▪ Includes shift to non-General Fund \$	
<input type="checkbox"/> Exec Higher Estimates of Unused Appropriations	(21)
▪ Net revertments lower since implementation of new accounting system	
Total	<hr/> \$(67)

\$251 M in Executive Policy Issues

- Outside Standard Baseline Adjustments

\$ in M

95	K-12 Initiatives
17	SFB Building Renewal – Continue '17 \$
15	Universities – Continue '17 \$
21	AHCCCS/DES Long Term Care Providers (206)
6	DES – 2 Year TANF and Adult Protective Services
3	DCS – Adoption/Family Stipend
3	DWR – Drought Planning
30	State Employer Health Insurance Fund Deposit
18	Capital Projects (ADOA, ADC, DPS)
17	IT Projects (DCS, DOR)
11	Higher Employer Retirement Rates
<u>14</u>	Other
251	Total

K-12	<u>\$ in M</u>
Results-Based Funding	37
2% Teacher Increase	14
\$1000 Teacher Bonus	6
Kindergarten/Early Literacy	10
2% Current Year Hold Harmless	20
Broadband	5
Other	3

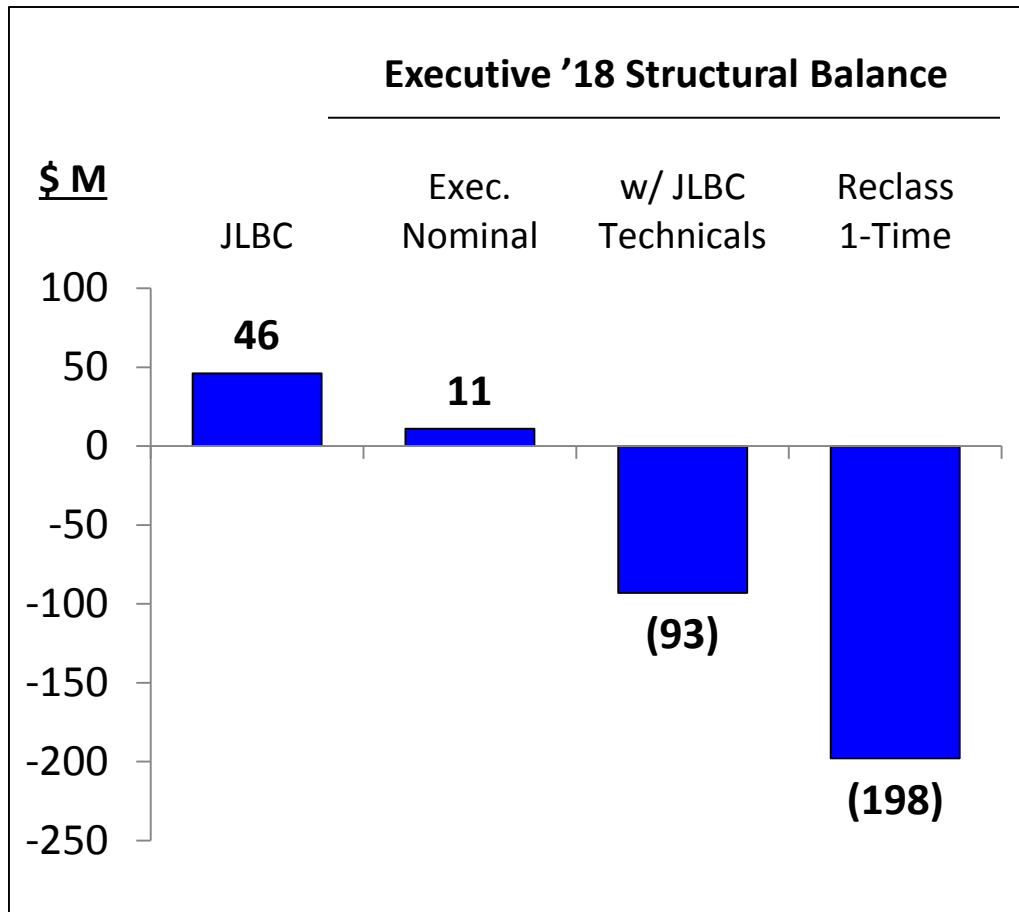
Other Highlights	<u>\$ in M</u>
Fire Crew/Other	1.7
Adult Dental /Drug Review	1.7
DPS Sexual Assault Kit	1.2
Courts	1.0
ASDB	0.8
STEM Loan / Other	0.4

\$38 M in Executive Revenue Reductions

	<u>\$ in M</u>
<input type="checkbox"/> Allow Universities to Retain TPT	\$30.3
▪ Universities also retain \$6.5 M local share	
▪ May increase university bonding capacity	
▪ Universities would provide matching funds	
<input type="checkbox"/> Index Personal Exemption	\$2.9
<input type="checkbox"/> Other (Reduce Judiciary Transfers, Revenue Shift)	<u>\$5.2</u>
Total	\$38.4

How Different Assumptions Affect Structural Balance

- Difference Between Ongoing Revenues and Spending



- JLBC technicals \$(104) M less
 - Less Revenue / Higher Baseline Spending

- Reclassify \$105 M 1-Time as Ongoing:

	<u>\$ in M</u>
■ SFB Building Renewal	17
■ SFB New Construction	23
■ ADE 2% Hold Harmless	20
■ Universities	15
■ Health Insurance Shortfall	30
Total	105

**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 Analyst..... Eric Billings
Senior Fiscal Analysts..... Steve Grunig
..... Chris Gustafson
..... Micaela Larkin
..... Rebecca Perrera
..... Jon Stall
Fiscal Analysts..... Matt Beienburg
..... Morgan Dorcheus
..... Henry Furtick
..... Jeremy Gunderson
..... Josh Hope
..... Patrick Moran
Assistant Fiscal Analyst..... Ben Murphy
Administrative Assistant / JLBC & JCCR Clerk..... Kristy Paddack

Appendix A: January 2017 4-Sector Forecast

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Sales Tax				
JLBC Forecast	4.0%	4.1%	4.1%	4.0%
UA – Low	3.2%	2.0%	3.7%	5.6%
UA – Base	4.1%	5.0%	5.6%	5.3%
FAC	4.1%	4.0%	3.9%	4.0%
Average:	3.9%	3.8%	4.3%	4.7%
Individual Income Tax				
JLBC Forecast	4.0%	5.8%	4.9%	4.9%
UA – Low	3.9%	3.7%	3.9%	5.9%
UA – Base	4.8%	6.1%	5.6%	5.5%
FAC	5.1%	4.9%	4.7%	4.8%
Average:	4.5%	5.1%	4.8%	5.3%
Corporate Income Tax				
JLBC Forecast	-7.0%	4.7%	3.1%	-0.1%
UA – Low	-5.8%	-12.1%	-17.7%	13.5%
UA – Base	-2.0%	-3.3%	-6.3%	-3.4%
FAC	-14.1%	1.9%	3.8%	2.0%
Average:	-7.2%	-2.4%	-3.9%	2.0%
Insurance Premium Tax				
JLBC Forecast	6.4%	4.5%	5.1%	4.7%
UA – Low	7.4%	3.2%	2.6%	2.0%
UA – Base	7.4%	3.2%	2.4%	2.4%
FAC	6.4%	5.5%	4.9%	5.2%
Average:	6.9%	4.1%	3.8%	3.6%

JLBC Weighted Average	3.5%	4.9%	4.5%	4.3%
UA Low Weighted Average	3.2%	2.2%	3.1%	5.7%
UA Base Weighted Average	4.2%	5.0%	5.0%	5.0%
FAC Consensus Weighted Average	3.6%	4.4%	4.3%	4.4%
“Big-4” Weighted Average	3.6%	4.0%	4.1%	4.7%
Consensus Weighted Average*	3.5%	3.9%	4.2%	4.8%
Adjusted Consensus Weighted Average**	2.2%	2.9%	3.5%	4.5%

* Represents ongoing revenue adjusted for small revenue categories.

** Represents ongoing revenue adjusted for tax law changes; excludes urban revenue sharing.

Appendix B: '17 Current Year Revisions

- Higher Revenues Pay for Higher DCS and Prop 206 Spending

\$ in M

\$114 JLBC Baseline '17 Ending Balance

23 Exec Higher Revenues

(2) JLBC Lower K-12 Supplemental (\$17 M vs \$19 M)

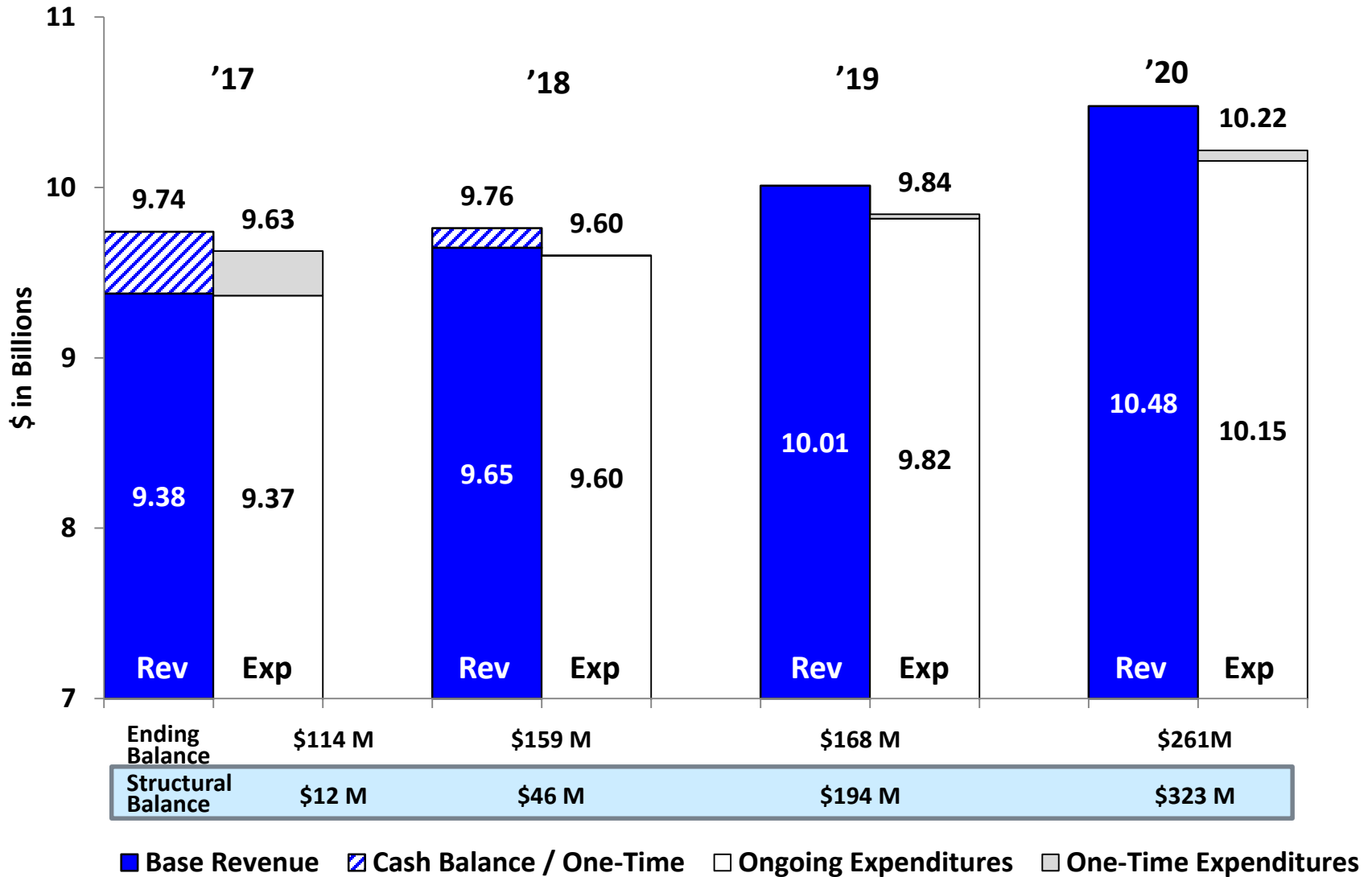
Policy Issues

(8) DCS – '17 Supplemental

(8) DES – Long Term Care Prop 2016 Minimum Wage

\$119 Executive '17 Ending Balance

Appendix C: Baseline Balances Over Time



Projected ending balances assumed to be allocated as part of the budget process