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# **FY 2018 JLBC Baseline**

## **Summary Version**

**January 13, 2017**

**JLBC**

# '18 JLBC Baseline is Nominally Balanced

## - But Several Factors Will Likely Eliminate Available \$

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- ❑ Baseline compares revenues with funding formula requirements to provide a guideline of available resources
- ❑ Both net revenues and spending are nearly flat compared to '17
- ❑ '18 Baseline cash balance is \$159 M, and the structural balance is \$46 M
- ❑ Even before new initiatives are discussed, the retention of some one-time '17 spending and minimum wage requirements could eliminate the surplus funds.

# Baseline Eliminates \$240 M in 1-Time Spending

## - Legislative Interest in Retaining Some of These Funds?

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<u>Possible Retention Candidates</u>	<u>\$ in M</u>
<input type="checkbox"/> ADE IT System	7
<input type="checkbox"/> ADE Statutory Expirations	50
<input type="checkbox"/> SFB Building Grants	15
<input type="checkbox"/> Universities	19
<input type="checkbox"/> County Assistance (HURF / DJC Offset)	38
<b>Total</b>	<b>130</b>

# Proposition 206 Minimum Wage Costs

## - Affects State's Contracted Providers

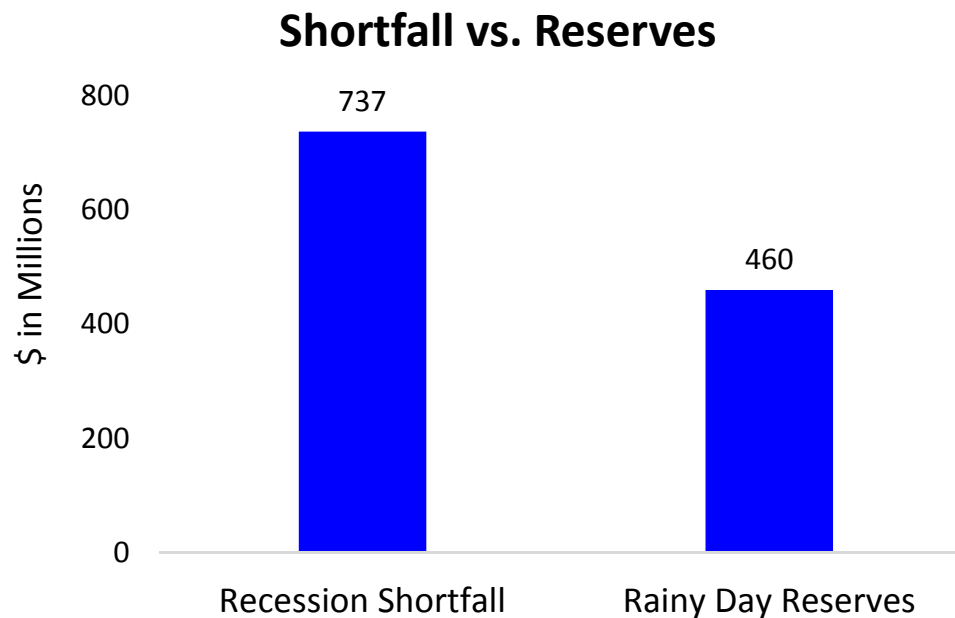
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- ❑ The state has raised rates for Medicaid Long-Term Care providers at a cost of \$23 M
- ❑ Cost is based on a simplifying set of assumptions, not known wages
- ❑ We are researching other impacts, such as K-12, Universities, DCS, and DES
- ❑ Combined, possible one-time retention candidates and the Long-Term Care minimum wage would cost \$153 M
- ❑ If these items were funded ongoing, the \$46 M structural balance would become a \$(107) M shortfall

# Budgets Should Also Be “Stress Tested”

## - Evaluates Level of Reserves in a Recession

- While Base Revenue would grow 3.9% in '18 Baseline, in stress test revenues decline (5)%
- \$(737) M Shortfall under stress test



# Is a Recession Likely? Not at this Time

- Arizona Ranks 14<sup>th</sup> in Economic Momentum

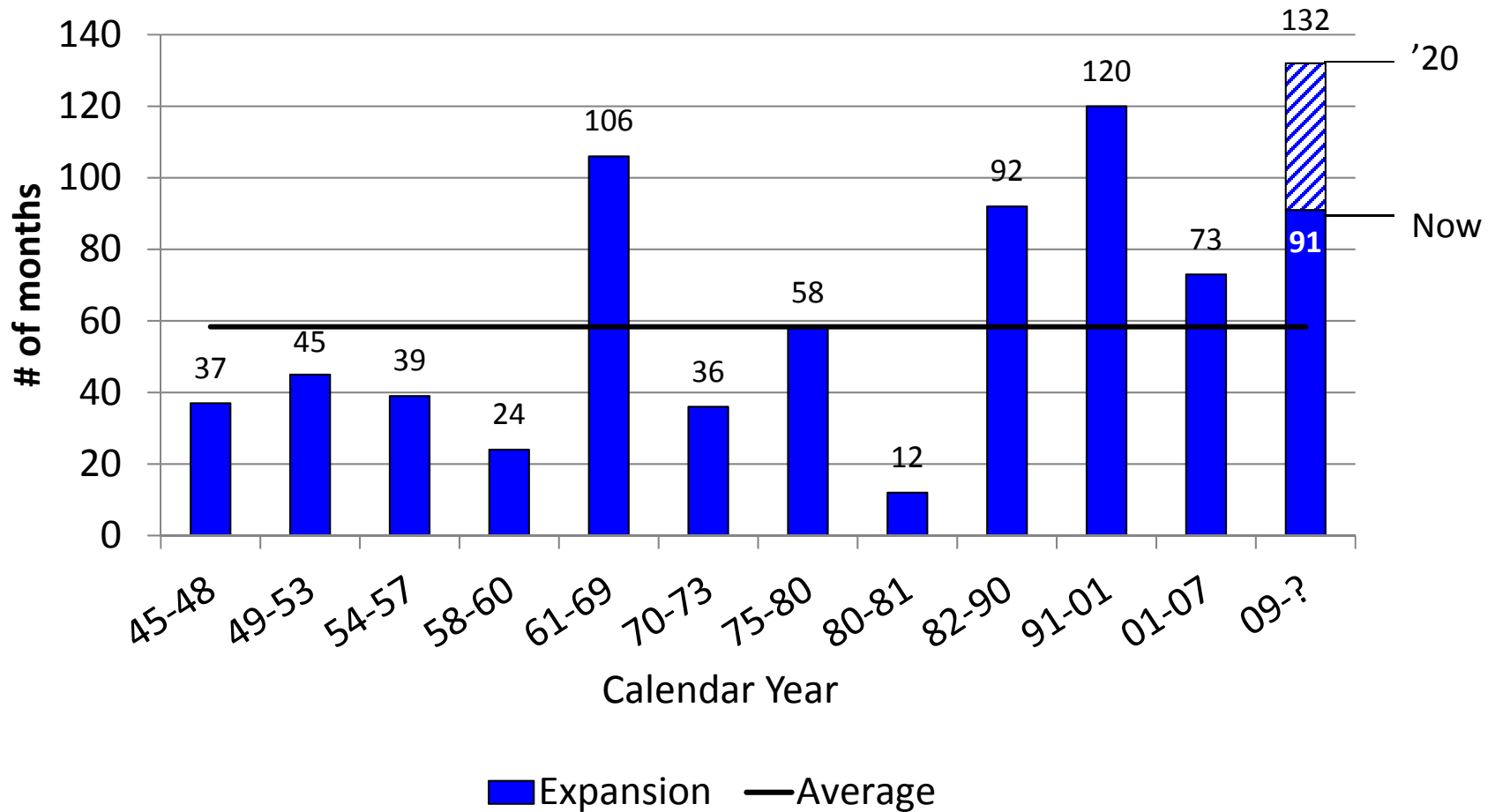
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	<u>AZ Rate</u>	<u>AZ Rank</u>
<input type="checkbox"/> Change in Personal Income (Sept)	3.8%	18
<input type="checkbox"/> Change in Population (July)	1.7%	8
<input type="checkbox"/> Change in Employment (Nov)	1.1%	29
<input type="checkbox"/> Unemployment Rate (Nov)	5.0%	32

Momentum calculations via State Policy Reports – Joint NGA/NCSL Project

# But Current Expansion Reaching Record Length...

## Length of US Economic Expansions



Expansion: time period without 2 consecutive quarters of GDP decline

# Revenue Forecast Uncertainties

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- 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



# Arizona Has Other Fiscal Challenges

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- ❑ Federal changes to Affordable Care Act could cost between \$100 M and \$1.4 B
  - Unknown start date; could be deferred to '19
  
- ❑ Pending Litigation Against the State
  - Hospital Assessment (\$100 M - \$250 M)
  - Rental Care Surcharge (\$150 M)
  
- ❑ Retirement System Underfunding
  - '18 employer rates do not reflect the cost of the AZ Supreme Court's decision in the Hall case
  - The Elected Official System is underfunded by approximately \$30 M

# Net Baseline Revenue Growth of 0.2%

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Net '18 Baseline Revenue Growth	
	\$ in M
Base Revenue Growth (3.9%/4.2%/4.8%)	394
One-Time Fund Transfers	(79)
Previously Enacted Tax Legislation	(107)
Urban Revenue Sharing	(17)
Beginning Balance Reduction	(170)
<b>Total Revenue Changes</b>	<b>21</b>
<b>Total Revenue</b>	<b>\$9,761</b>
<b>% Change</b>	<b>0.2%</b>

# Projected Baseline Spending Changes

## - '18 Statutory Spending Offset By Elimination Of 1-Times

Spending Above Prior Year	
	\$ in M
	<u>'18</u>
ADE – K12 Formula	79
AHCCCS – Medicaid Formula	44
DES – Medicaid Formula	18
Corrections — Annualize Bed Cost	7
DCS	<u>0</u>
<b>Total</b>	<b>148</b>

Spending Below Prior Year	
	\$ in M
	<u>'18</u>
Capital – ADOT Highway Projects	(57)
Counties – Cost Sharing Offset / HURF	(38)
Capital - \$8 M ADOA/\$10 M Vets Home	(18)
SFB — Building Renewal	(16)
Universities — Eliminate 1-Time \$	(15)
DPS – Border Task Force Equipment	(15)
Other	<u>(14)</u>
<b>Total</b>	<b>(173)</b>

<b>Total Spending Changes</b>	<b>\$(25) M</b>
<b>Total Spending</b>	<b>\$9,602</b>
<b>% Change</b>	<b>-0.3%</b>

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