

---

# **FY 2019 JLBC Baseline**

## **with Preliminary Executive Comparison**

**January 16, 2018**

**JLBC**

# A Summary of State General Fund Conditions

## - The '19 JLBC Baseline

---

- The Baseline compares revenues with funding formula requirements to provide a guideline of available resources
- Both the current budget and '19 Baseline have projected shortfalls:
  - '18 = \$(20) M
  - '19 = \$(108) M

See Appendix A for outyear estimates

# The Caveats

---

- ❑ The shortfall is likely greater since the Baseline eliminates \$89 M in “1-time” ’18 spending that appears ongoing in nature
- ❑ Federal tax conformity not scored in Baseline or Executive. Projections are highly speculative.
  - DOR estimate: \$50 M to \$250 M (\$236 M detail)
  - JLBC estimate: \$135 M

# Projected Baseline Changes

## - Spending Growth Outpaces Revenues

### Net '19 Revenue Growth

\$ in M

3.6% Consensus Revenue Growth	368
One-Time Fund Transfers	(8)
Previously Enacted Tax Legislation	(75)
Urban Revenue Sharing	6
Beginning Balance Reduction	(151)

**Total Revenue Changes** 140

**Total Revenue** **\$9,947**

**% Change** **1.4%**

### Net '19 Spending Changes

\$ in M

ADE – K12 Formula	168
Medicaid Formula	149
University Bonding	27
School Facilities Debt Service	(35)
Eliminate 1-Time \$	(89)
Other	8

**Total Spending Changes** 228

**Total Spending** **\$10,056**

**% Change** **2.3%**

# '19 & '20 Forecast Below Enacted Budget

## - Primary Reason for Projected Shortfalls

### January Consensus Forecast

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

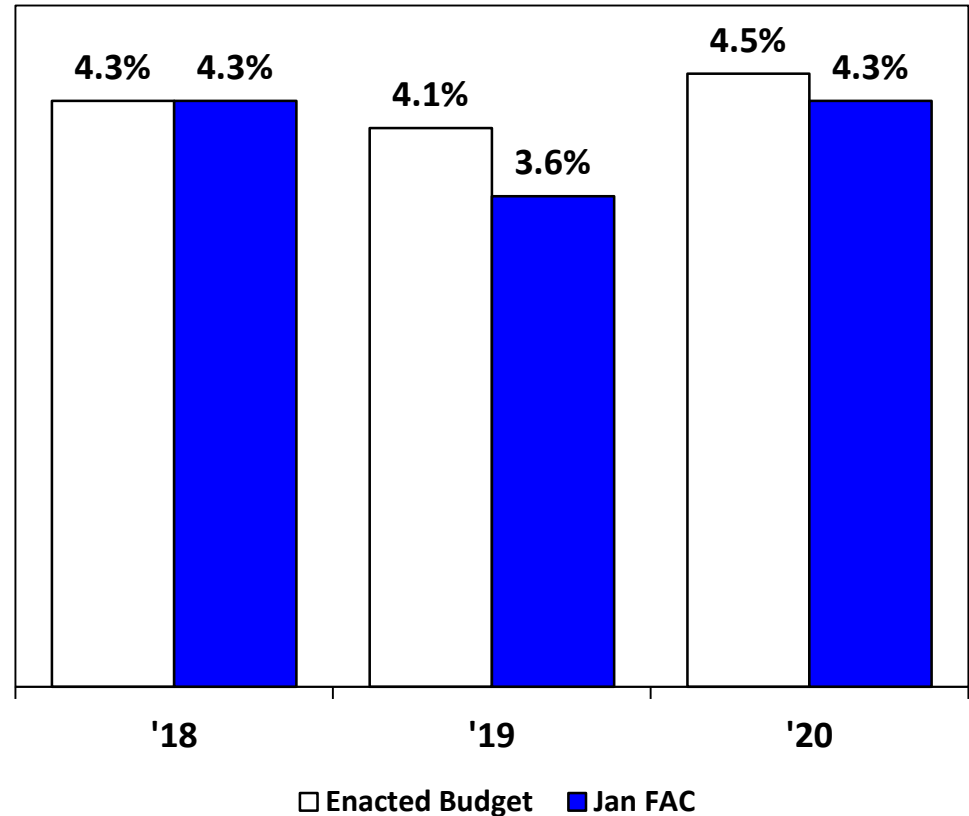
### Chance of Exceeding Forecast

- 60%

### Long Run Average Growth

- 4.25%

### Base Revenue Growth Rate \*

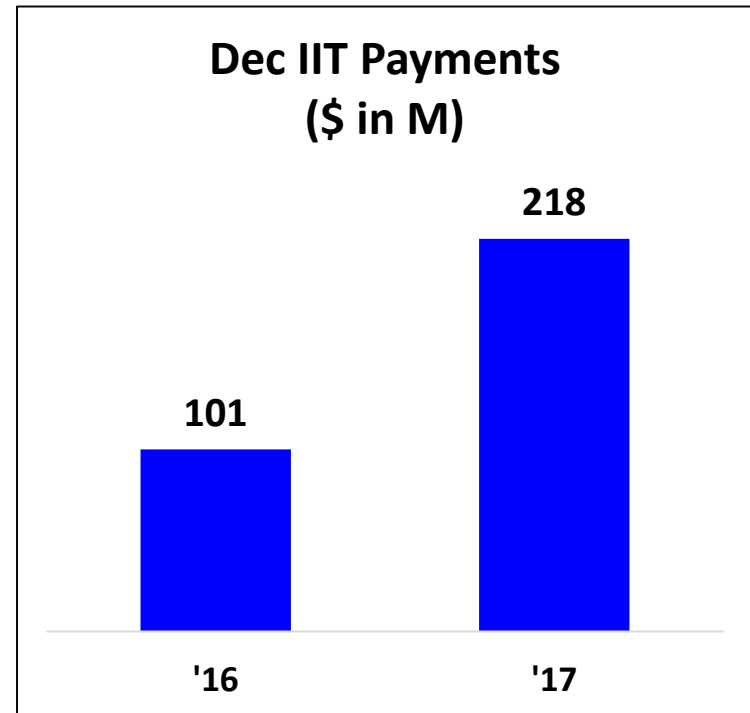


\*Excludes one-time revenues, tax law changes, and urban revenue sharing  
See Appendix B

# December Income Tax Payments Doubled

- Blip or Trend? Need to Monitor

- Why? We don't know
- Payments due Jan. 15 – a processing issue?
- Avoid '18 Fed SALT cap?
- Capital gains from 25% '17 stock market gain?
- Pass-through profitability?



# Funding Formula Requirements

---

	<u>\$ in M</u>
<input type="checkbox"/> K-12	168
<ul style="list-style-type: none"><li>• Funds 1.3% enrollment growth, 1.77% inflation and a new 1.06% teacher salary raise</li></ul>	
<input type="checkbox"/> Medicaid	149
<ul style="list-style-type: none"><li>• Funds 2.0% enrollment growth, 3.5% rate increase and minimum wage adjustments</li></ul>	
<input type="checkbox"/> University Capital	27
<ul style="list-style-type: none"><li>• Funds first year of 25-year commitment to support university capital projects</li></ul>	

# Baseline Eliminates \$89 M in 1-Time Spending

## - Executive Continues Some 1-Time Initiatives

\$ in M

<u>Possible Retention Candidates</u>	<u>Full Cost</u>	<u>Exec</u>
<input type="checkbox"/> ADE IT System	7	5*
<input type="checkbox"/> SFB Building Grants (Baseline \$17 M; Exec \$52 M)	17	35**
<input type="checkbox"/> Universities	15	8
<input type="checkbox"/> DES – DD Prop 206	12	0
<input type="checkbox"/> State Employer Health Insurance	25	10
<input type="checkbox"/> County Assistance (DJC Offset/Other) ***	10	0

\* Labeled as ongoing in Executive budget

\*\* \$17 M Labeled as ongoing in Executive budget

\*\*\* Exec and JLBC continue to eliminate HURF shift



---

# Executive Comparisons

# Comparing the Executive Budget and JLBC Baseline

- Exec: Higher Revenue, Lower Caseloads, Higher Discretionary Spending

## \$ in M

\$(108) JLBC Baseline '19 Ending Balance

90 Higher Exec Ongoing Revenues

61 Lower Exec Caseload vs. Baseline

## Policy Issues

55 Higher Enforcement Revenue

129 One-Time Fund Transfers ('18 & '19)

72 Fund Shifts (\$58 M)/Reductions (\$14 M)

50 SFB Bonding for FY 19 Awards

(271) Spending Increases

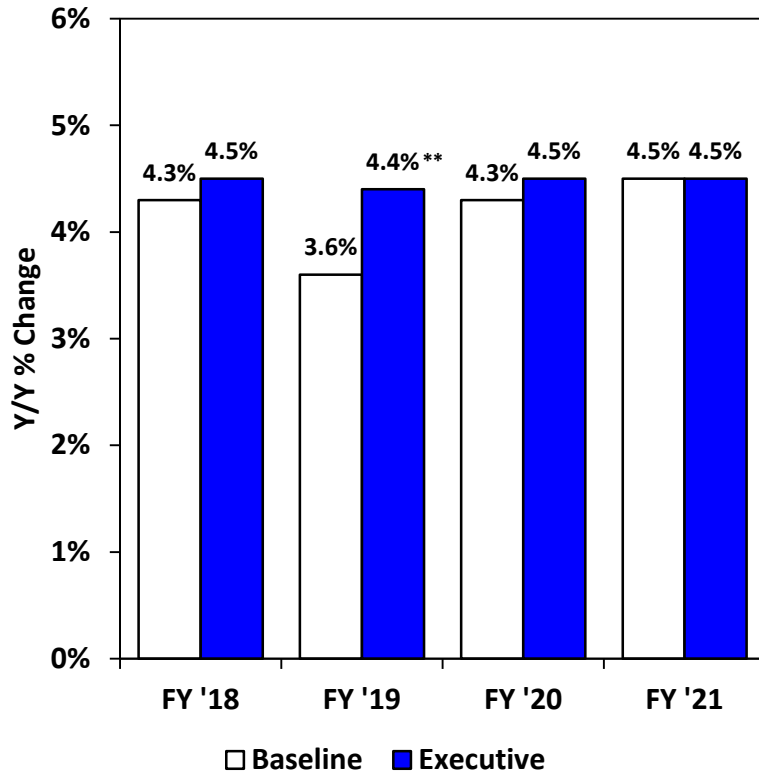
(10) Other Adjustments

\$67 **Executive '19 Ending Balance**

# '19 Executive Base Revenue \$90 M Higher

- Plus \$55 M in Executive Enforcement Revenue
- Plus \$53 M ('18) + \$76 M ('19) in New Fund Transfers

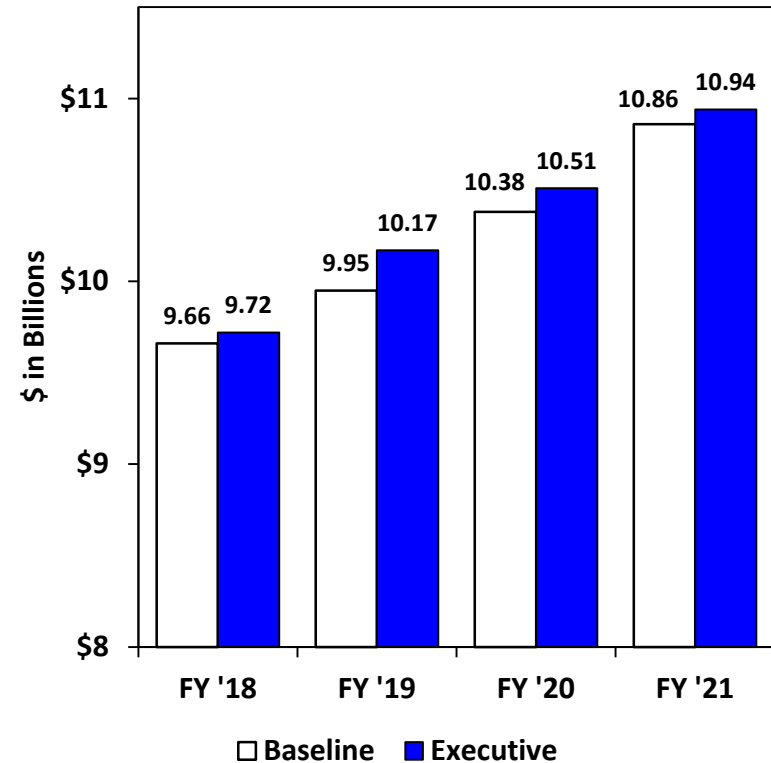
Base Growth Rate\*



\*Excludes tax law changes and one-time revenue

\*\*4.5% when compared to JLBC '18 base

Total Revenue\*\*\*



\*\*\* Excludes Balance Forward

# '19 Executive Baseline Spending \$(61) M Less

## - Statutory Formula Growth and Technical Estimates

---

	<u>\$ in M</u>
<input type="checkbox"/> Lower Exec Medicaid Baseline spending	(37)
<input type="checkbox"/> Lower Exec K-12 Baseline spending	(14)
<input type="checkbox"/> Exec Higher Revertment estimate	(4)
<input type="checkbox"/> Other Technical Adjustments	(6)
	<hr/>
<b>Total</b>	<b>\$(61)</b>

---

# Policy Issue Differences

# \$55 M in Executive Revenue Increases in '19 \*

## - Military Pension Proposal Starts in '20

---

	<u>\$ in M</u>
<input type="checkbox"/> Expand Tax Fraud Prevention to TPT	\$30.0
<ul style="list-style-type: none"><li>• Needs further JLBC analysis</li></ul>	
<input type="checkbox"/> Increase DOR Enforcement Staff	\$25.0
<ul style="list-style-type: none"><li>• DOR reduced staff by 130 in '16</li><li>• Enforcement revenue declined \$(57) M in '17</li><li>• Now restores 25 FTE/\$2 M</li><li>• Questionable whether 25 FTE can generate \$25 M</li></ul>	
<b>Total</b>	<hr/> <b>\$55.0</b>

\* Executive increases military pension exemption to \$10 K at a cost of \$7.5 M in '20 and \$15.0 M in '21

# Executive Proposes \$129 M of Fund Transfers

## - \$53 M in '18, \$76 M in '19

---

<u>Fund Name</u>	<u>\$ in M</u>
Prescription Drug Rebate	30.0
DEQ - Underground Storage Tank	20.0
Other DEQ User Funds	17.0
Industrial Commission Administration	7.0
AHCCCS Interagency Service Agreements	5.9
Financial Services (DFI)	5.5
Office of Economic Opportunity Funds	5.1
Residential Contractors Recovery	4.0
Agriculture User Funds	3.3
DHS Interagency Service Agreements	3.1
Vehicle Inspection/Title Enforcement	3.1
Dept. of Corrections Funds	3.0
Game & Fish Watercraft Licensing	2.5
Other	20.0

# Exec. Savings: \$58 M Fund Shifts, \$14 M Reductions

## -Awaiting Specific List of \$79 M in Efficiency Savings

---

	<u>\$ in M</u>
<b><u>Fund Shifts – Free up GF \$</u></b>	
AHCCCS Rearrange Tobacco Tax/Increase Hospital Assessment	35
DPS More Highway Fund	5
DEQ WQARF – More Underground Storage Tank	3
ADOA Building Renewal – More Agency Rent	6
SOS – '16 Special Election Funding	3
Other Fund Shifts	6
<b><u>Reductions</u></b>	
AHCCCS – Prior Quarter Coverage/Out of Network Services	4
ADC – 3% Private Prison Vacancies	3
Agency Lump Sum Efficiency Savings	5
Other Adjustments	2



# Exec: Saves \$50 M in '19 by Lease Purchase

-Represents Debt Financing of 5 New Projects

---

	\$ in M		
	<u>'19</u>	<u>'20</u>	<u>Total</u>
JLBC Baseline - Cash Funding	49.6	36.7	<b>86.3</b>
Exec. New Debt Service	5.1	5.1	<b>10.2</b>

- ❑ Baseline Funds \$86 M in 5 new constructions starts
- ❑ Executive instead issues \$88 M Lease Purchase
- ❑ Executive \$5 M annual debt service over 25 years
- ❑ Executive pays \$128 M over 25 years (\$88 M principal, \$40 M interest)

# \$271 M in Executive Policy Issues

## - Outside Standard Baseline Adjustments

\$ in M

152	K-12 Initiatives
8	Universities – 50% of '18 1-time
9	DCS – Adoption (Plus \$7 M transfer)
10	DCS Automation
30	ADC – Inmate Health Care Contract
2	Juvenile Corrections – 32 FTE
4	DPS – 17 Highway Patrol FTE
31	Higher Employer Retirement rates (ADC/DPS)
10	State Employer Health Insurance Fund Deposit
6	Capital Projects (DEMA; Rent)
9	Other
<b>271</b>	<b>Total</b>

<b>K-12</b>	<u>\$ in M</u>
Additional Assistance	100
Building Repair Grants	35
Debt Payment	5
Large JTED's	2
Computer Science Pilot	3
ADE IT Operations	5
Standards/Testing	2

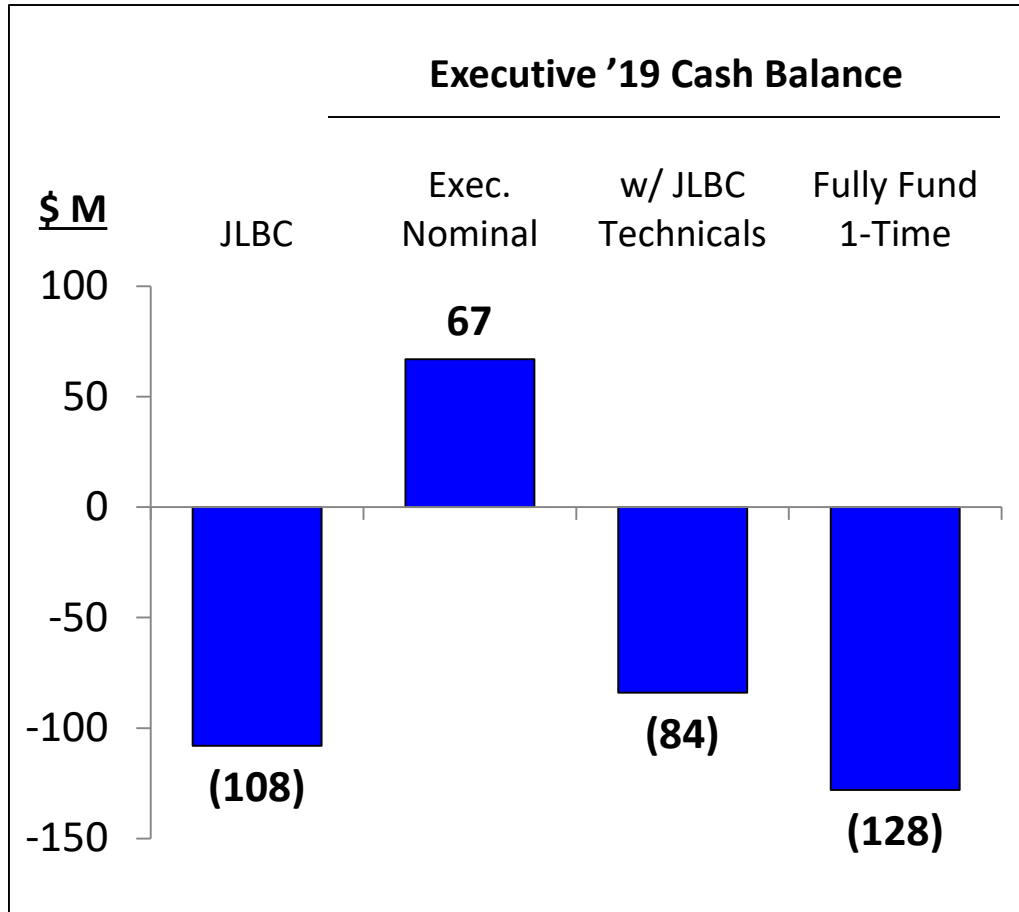
<b>Other Highlights</b>	<u>\$ in M</u>
Foster Youth Education	1.5
SOS – Voter Database	1.3
DES – Food Banks	1.0
DEMA – Nat'l Guard Tuition	1.0
Land Dept – CAP Fees	0.8

# Executive's \$400 M Plan is \$204 M Above '18

## - JLBC ADE/SFB Baseline is \$115 M Above '18

	<u>Exec "Display"</u>	<u>Exec Above '18</u>	<u>JLBC Above '18</u>
Formula	116	116	130
New 1% Teacher Pay (Enacted)	34	34	33
Early Literacy (Enacted)	4	4	4
Additional Assistance	100	100	0
Computer Science	3	3	0
Large JTED's	2	2	0
IT Operations	5	5	0
Standards/Testing	2	2	0
SFB Building Grants (Total = \$52 M)	35	18	(17)
SFB Building Grants Supplemental	10	0	0
SFB New Schools Debt Financing	88	(50)	0
SFB New Debt Service	0	5	0
SFB Base Debt Service Agreement	0	(35)	(35)
<b>Total</b>	<b>400</b>	<b>204</b>	<b>115</b>

# How Different Assumptions Affect Cash Balance



- JLBC technicals \$(151) M less
  - Less Revenue / Higher Baseline Spending

- Fully Fund '18 1-Times

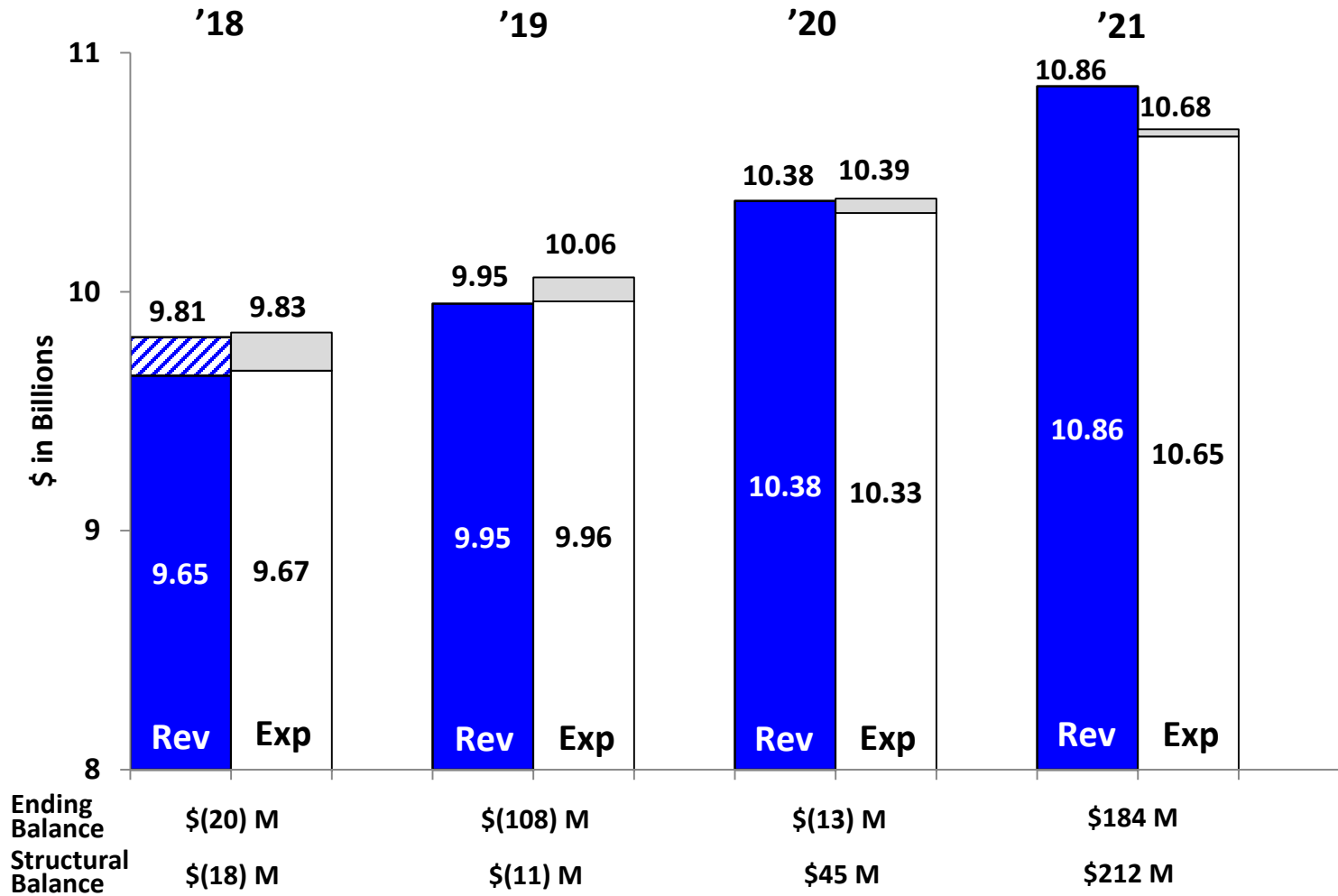
	<u>\$ in M</u>
■ Counties	10
■ DES – Prop 206	12
■ Universities	7
■ Health Insurance Shortfall	15
<b>Total</b>	<b>44</b>

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

# Appendix A: Projected '21 Balance Grows to \$184 M

## - But Excludes Any Discretionary Changes in Next 3 Years



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

Projected cash shortfalls assumed to be solved  
 as part of the budget process



# Appendix B: January 2018 4-Sector Forecast

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<b>Sales Tax</b>				
JLBC Forecast	4.5%	4.2%	4.1%	4.0%
UA – Low	3.9%	1.7%	4.0%	4.8%
UA – Base	4.7%	4.8%	5.2%	4.5%
FAC	4.5%	3.9%	4.0%	4.3%
Average:	<b>4.4%</b>	<b>3.7%</b>	<b>4.3%</b>	<b>4.4%</b>
<b>Individual Income Tax</b>				
JLBC Forecast	5.6%	4.6%	5.3%	5.2%
UA – Low	4.2%	0.9%	4.4%	5.6%
UA – Base	6.1%	4.4%	5.4%	5.0%
FAC	4.5%	3.9%	3.7%	4.0%
Average:	<b>5.1%</b>	<b>3.5%</b>	<b>4.7%</b>	<b>4.9%</b>
<b>Corporate Income Tax</b>				
JLBC Forecast	4.3%	5.7%	4.2%	3.0%
UA – Low	3.9%	0.5%	2.7%	9.4%
UA – Base	4.5%	4.6%	3.6%	4.6%
FAC	-1.1%	2.5%	-1.4%	5.3%
Average:	<b>2.9%</b>	<b>3.4%</b>	<b>2.4%</b>	<b>5.5%</b>
<b>Insurance Premium Tax</b>				
JLBC Forecast	3.4%	4.1%	3.8%	3.8%
UA – Low	2.7%	1.3%	1.4%	1.3%
UA – Base	2.7%	1.5%	1.5%	1.8%
FAC	3.4%	3.4%	3.1%	3.3%
Average:	<b>3.0%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.6%</b>

JLBC Weighted Average	<b>4.9%</b>	<b>4.4%</b>	<b>4.6%</b>	<b>4.5%</b>
UA Low Weighted Average	<b>4.0%</b>	<b>1.3%</b>	<b>4.0%</b>	<b>5.1%</b>
UA Base Weighted Average	<b>5.2%</b>	<b>4.4%</b>	<b>5.1%</b>	<b>4.6%</b>
FAC Consensus Weighted Average	<b>4.2%</b>	<b>3.9%</b>	<b>3.7%</b>	<b>4.2%</b>
“Big-4” Weighted Average	<b>4.6%</b>	<b>3.4%</b>	<b>4.2%</b>	<b>4.5%</b>
Consensus Weighted Average*	<b>4.3%</b>	<b>3.6%</b>	<b>4.3%</b>	<b>4.5%</b>
Adjusted Consensus Weighted Average**	<b>3.1%</b>	<b>2.8%</b>	<b>4.2%</b>	<b>4.5%</b>

\* Represents ongoing revenue adjusted for small revenue categories.

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