

FY 2024 STATE GENERAL FUND BASELINE SUMMARY

Summary of the General Fund Outlook

- After a 17% increase in FY 2022, base General Fund revenue growth is expected to moderate to 7.5% in FY 2023 and 2.0% in FY 2024.
- The declining growth rate is related to recession concerns as the Federal Reserve Board attempts to reduce inflation by raising interest rates.
- This projected growth path plus prior legislative commitments results in an available one-time balance of \$1.8 billion in FY 2024 for new initiatives. The current forecast does not provide additional resources for ongoing initiatives. Since we project an \$1 million balance at the end of FY 2025, any new ongoing spending in FY 2024 would create a shortfall in FY 2025.
- Given the economic uncertainty, our estimate of available resources could change considerably as we go through the FY 2024 budget process.

General Fund and Budget Stabilization Fund Balances

- The projected ending balance is falling over time, from \$4.7 billion in FY 2022 to \$2.3 billion in FY 2023 to \$2.1 billion in FY 2024 before finally falling to \$1 million in FY 2025.
- In addition to the General Fund balance, the Budget Stabilization Fund will have an estimated balance of \$1.4 billion in FY 2024.

General Fund Revenues

- The projected overall General Fund revenues, including the beginning balance, is \$17.9 billion in FY 2023 and \$17.6 billion in FY 2024. The change is due to a combination of factors:
 - ⇒ 2% base revenue growth
 - ⇒ A decline in the carry-forward balances from the prior year
 - ⇒ A revenue increase from eliminating \$2.3 billion in one-time diversions from the state share of FY 2023 transaction privilege tax (TPT) revenues to agency funds, including:
 - \$946.1 million to the State Highway and Aviation Fund for transportation and road projects.
 - \$544.2 million to the Border Security Fund.
 - \$425.0 million to the Budget Stabilization Fund.
 - \$334.0 million to the Long-Term Water Augmentation Fund.
 - \$38.2 million to the State Parks Revenue Fund for capital projects.
 - ⇒ \$(764) million revenue loss primarily from the 2nd year of the 2-year phase down of the income tax rate to a flat 2.5%.
 - ⇒ \$(458) million revenue loss from an increase in the cities' share of income tax collections from 15% to 18%.
- The General Fund base revenue estimates are a product of the JLBC Staff's 4-sector forecast process. The forecast equally weights the projections for major revenue categories of 2 University of Arizona econometric models, the consensus of the private and public sector economists on the Finance Advisory Committee and the JLBC Staff.

General Fund Baseline Spending

- The January Baseline FY 2024 spending estimates essentially reflect changes in the cost of statutory funding formulas as well as any adjustments required by the FY 2023 3-year budget plan.
- FY 2024 General Fund Baseline spending is projected to be \$15.55 billion compared to \$15.59 billion in FY 2023, or a decrease of \$(47) million, or (0.3)% based on the following assumptions:
 - ⇒ A \$464 million increase in ongoing spending.
 - ⇒ A \$(511) million decrease in one-time spending.
- The entire FY 2024 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$61.0 billion. The main drivers of FY 2024 Baseline spending are delineated below by function of government.

Long Term Projections

A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are based on statutory revenue and funding requirements:

- FY 2025 revenues are projected to be \$16.23 billion compared to FY 2025 spending of \$16.22 billion. This would result in a cash balance of \$1 million in FY 2025. The Baseline assumes that \$259 million of the FY 2024 ending balance is carried into FY 2025 and counted as FY 2025 revenue. Without that carryforward, the FY 2025 budget would have a shortfall of \$(258) million.
- FY 2026 revenues are projected to be \$16.81 billion compared to FY 2026 spending of \$16.57 billion with an ending cash balance of \$241.5 million.

Education

Department of Education

- ADE General Fund spending increases by \$469.7 million, or 6.8%, including:
 - ⇒ \$425.0 million for an additional 55,180 enrollees in the Empowerment Scholarship program. The 55,180 increase includes an estimated 52,500 enrollees in the Universal ESA program established by Laws 2022, Chapter 388. Under our assumptions, grand total ESA program enrollment would grow to 68,380 in FY 2024.
 - ⇒ A decrease of \$(22.5) million for enrollment changes in district and charter schools. This amount consists of:
 - A decrease of \$(57.8) million for an FY 2023 base adjustment associated with lower-than-budgeted enrollment during FY 2023.
 - An increase of \$35.3 million for FY 2024 district and charter enrollment growth. Total unweighted public school Average Daily Membership (ADM) would reach an estimated 1,101,705 in FY 2024.
 - ⇒ \$157.7 million for a 2.0% statutory inflation adjustment of funding levels for the per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(143.9) million in savings due to property tax and land trust earning increases as well as the elimination of one-time funding.
 - ⇒ \$29.0 million to increase the per pupil amounts of the District Additional Assistance (DAA) and Charter Additional Assistance formulas pursuant to Section 127 of the FY 2023 General Appropriation Act.
 - ⇒ \$13.0 million to increase the Group B formula weight for pupils eligible for the federal Free and Reduced-Price Lunch (FRPL) program pursuant to Section 127 of the FY 2023 General Appropriation Act.
 - ⇒ \$6.9 million to provide funding for early literacy initiatives in accordance with the 3-year spending plan associated with the enacted FY 2023 budget. The \$6.9 million was previously covered with Federal Funds.
 - ⇒ \$4.5 million for all other miscellaneous adjustments.
- The Baseline assumes ADE will require a supplemental appropriation of \$200.0 million in FY 2023 to cover higher-than-budgeted expenses for Basic State Aid. This amount assumes that enrollment in the Universal ESA program will reach 42,700 by the end of FY 2023. The enacted FY 2023 budget did not include adjustments to Basic State Aid to account for enrollment increases associated with universal eligibility for the ESA program as established by Laws 2022, Chapter 388.
- The Baseline assumes that Proposition 123 will expire as scheduled at the end of FY 2025 without a replacement. Proposition 123 increased the level of distributions from the state land trust. Without further statutory changes, the General Fund will be required to replace the reduced level of land trust earnings, which is estimated to be \$300 million in FY 2026.

Arizona Department of Administration/School Facilities Division (SFD)

- SFD General Fund spending decreases by \$(171.9) million, or (52.9)%, including:
 - ⇒ \$11.4 million for a net increase in new school construction costs. The Baseline funds a total of \$124.5 million for new construction, including the completion of 3 FY 2023 schools and the initial funding for 8 FY 2024 schools in the Agua Fria, Glendale, Liberty, Queen Creek (3), Saddle Mountain, and Snowflake School Districts.
 - ⇒ \$(183.3) million for a decrease in one-time building renewal grant monies.

Universities

- University General Fund spending decreases by \$(122.0) million, or (11.1)%, including:
 - ⇒ \$589,100 for adjustments to capital appropriations.
 - ⇒ \$(80.0) million to remove one-time operating and capital funding for ASU and NAU.
 - ⇒ \$(36.6) million to remove one-time UA funding for numerous agriculture-related and other initiatives.
 - ⇒ \$(6.0) million to remove one-time funding for the Arizona Veterinary Loan Assistance Program.
- Fall 2022 enrollment increased by 6,520 full-time equivalent students, or 3.3% above Fall 2021, for total enrollment of 203,640.

Community Colleges

- Community College General Fund spending decreases by \$(21.4) million, or (18.6%), including:
 - ⇒ \$3.8 million for formula adjustments.
 - ⇒ \$(7.0) million to remove one-time rural aid and \$(18.2) million for other site-specific initiatives.
- The Community College funding formula is based on student counts from 2 years prior. FY 2021 rural district enrollment increased by 2,124 full-time equivalent students, or 9.3%, for a total rural enrollment of 24,954. Including the Maricopa and Pima districts, total enrollment decreased by (1,731), or (1.9)%, for total enrollment of 89,004.

Health and Welfare

AHCCCS

- AHCCCS General Fund spending increases by \$187.5 million, or 8.1%, including:
 - ⇒ \$201.4 million for formula adjustments, including a caseload decline of (19.5)%, a 3.1% capitation rate increase, the reduction of the regular match rate from 69.56% to 66.29%, and the gradual reduction of the enhanced match rate throughout CY 2023. Under current federal law, AHCCCS was not able to disenroll individuals due to income changes from March 18, 2020 until April 1, 2023. The January Baseline assumes AHCCCS will disenroll some of these individuals over a 14-month period.
 - ⇒ \$10.0 million for secure behavioral health residential facility rate increases in accordance with the 3-year spending plan associated with the enacted FY 2023 budget.
 - ⇒ \$(25.7) million to remove one-time funding.
 - ⇒ \$1.8 million for other miscellaneous changes.
- AHCCCS enrollment is projected to decline to 1.8 million recipients by June 2024. This level represents a caseload decrease of (439,200), or (19.5)%, from June 2023.
- The FY 2023 enacted budget assumed the state would not be receiving any enhanced match in FY 2023. The federal government has extended the 6.2% enhanced match through March 2023. Additionally, from April 2023 through June 2023, AHCCCS will receive a 5.0% enhanced match. Compared to the enacted budget, state will generate an additional \$(482.0) million in FY 2023 General Fund savings across 3 federal match rate agencies (AHCCCS, DES, and DCS).

Department of Child Safety (DCS)

- DCS General Fund spending decreases by \$(18.4) million, or (3.9%), including:
 - ⇒ \$4.3 million and a corresponding decrease of \$(4.3) million from Child Safety Expenditure Authority to offset a FY 2024 net decrease in the Title IV-E Federal Medical Assistance Percentage (FMAP) rate.
 - ⇒ \$2.5 million to expand the Healthy Families Arizona Program and replace expiring federal grant monies in line with the FY 2023 budget's 3-year spending plan.
 - ⇒ \$(25.1) million to remove prior year funding to address an expected loss in Congregate Care federal funding designated as one-time in FY 2022 and FY 2023.

Department of Economic Security (DES)

- DES General Fund spending increases by \$105.6 million, or 9.8%, including:
 - ⇒ \$103.8 million for Developmental Disabilities (DD) formula adjustments, including 4.5% enrollment growth, a 3.1% capitation rate increase, the reduction of the regular match rate from 69.56% to 66.29%, and the gradual reduction of the enhanced match rate throughout CY 2023.
 - ⇒ In line with the FY 2023 budget's 3-year spending plan, \$1.0 million for homeless youth assistance and \$4.4 million for Arizona Early Intervention Program provider rate increases.
 - ⇒ \$(3.7) million to remove one-time funding.
- Medicaid Developmental Disability caseloads are projected to grow to 42,091 by June 2024. This level represents a caseload increase of 1,812, or 4.5%, above June 2023.

Department of Health Services (DHS)

- DHS General Fund spending decreases by \$(61.4) million, or (31.5)%, including:
 - ⇒ \$(64.4) million to remove one-time funding for accelerated nursing programs (\$50.0 million) and other initiatives.

Criminal Justice/Public Safety

Department of Corrections (ADC)

- ADC General Fund spending decreases by \$(2.3) million, or 0.2%, including:

- ⇒ \$7.2 million for net increased costs associated with the third and final year of the phased closure of the Florence prison in line with the FY 2023 budget's 3-year spending plan.
- ⇒ \$(9.5) million for the elimination of one-time funding.
- The systemwide prison population at the end of FY 2022 was 33,371, a decrease of (2,622) or (7.3)% below the population at the end of FY 2021.

Department of Emergency and Military Affairs (DEMA)

- DEMA General Fund spending decreases by \$(13.3) million, or (44.9)%, to remove one-time funding to address the readiness maintenance center backlog.
- The Baseline also includes a \$(209.2) million Border Security Fund spending decrease to remove one-time funding for border security initiatives. The \$209.2 million consists of monies diverted from the state share of TPT General Fund revenues to the Border Security Fund.

Judiciary

- Judiciary General Fund spending increases by \$2.5 million, or 1.6%, including:
 - ⇒ \$4.5 million for partial-year implementation of a salary increase for judges and the completed phase-in of Court of Appeals expansion with 6 additional judges and staff.
 - ⇒ \$(2.0) million to remove one-time automation funding.

Department of Public Safety (DPS)

- DPS General Fund spending decreases by \$(30.2) million, or (8.3)%, including:
 - ⇒ \$7.0 million for the 2nd year of a 3-year phase in of funding for a new major incident division.
 - ⇒ \$(37.2) million to remove one-time funding.

Natural Resources

Department of Forestry and Fire Management (DFFM)

- Forestry General Fund spending decreases by \$(79.5) million, or (61.4)%, including:
 - ⇒ The elimination of \$(65.0) million for removal of one-time wildfire emergency response funding and \$(14.5) million in other one-time initiatives.

Water Infrastructure Finance Authority (WIFA)

- WIFA spending increased by \$323.0 million, including:
 - ⇒ \$(10.0) million for removal of one-time water assistance grants.
 - ⇒ \$333.0 million for the 2nd of a 3-year Long-Term Water Augmentation Fund deposit. Laws 2022, Chapter 366 appropriates this amount in FY 2024 and FY2025 for deposit to the Long-Term Water Augmentation Fund. In FY 2023, the fund also received a transfer \$334,000,000 from the state's share TPT revenues, for a total of \$1.0 billion over 3 years.

General Government

Arizona Commerce Authority (ACA)

- ACA spending decreases by \$(15.0) million, or (36.5)%, to remove one-time funding for Pinal County water infrastructure grants.

State Employees

- The Baseline increases the Total Appropriated Funds Full-Time Equivalent (FTE) ceiling by 74 FTE Positions in FY 2024. These adjustments would bring the total FTE Position ceiling to 54,393.5 in FY 2024.
- The Baseline includes a decrease of \$(103.2) million from the General Fund and \$(172.8) million in Total Funds for the removal of a one-time FY 2023 health insurance adjustment.

Capital

- The Baseline includes \$42.4 million from Other Funds for building renewal at ADC, Arizona Department of Transportation (ADOT), Arizona Department of Administration (ADOA), Game and Fish, and the State Lottery.
- The Baseline includes \$60.5 million for capital projects excluding State Highway Fund projects in line with the FY 2023 budget's 3-year spending plan. Of this amount, \$41.4 million is financed from the General Fund for projects at ADC and ADOT and \$19.1 million is financed from Other Funds for projects at State Parks.

- The Baseline eliminates \$(278.3) million in one-time General Fund monies for capital and building renewal projects at ADOA, ADC, ASDB, DEMA, the Judiciary, DJC, the Legislature, DPS, University of Arizona, and pass-through grants for local and tribal projects.

Debt

- At the end of FY 2024, the state's projected level of lease-purchase and bonding capital obligations will be \$5.6 billion. The associated annual debt service payment is \$602.3 million.
- Of the \$5.6 billion in total lease-purchase and bonding obligations, the General Fund share is \$873.1 million. The General Fund annual debt service is projected to be \$89.7 million in FY 2024.
- Of the \$873.1 million, \$346.6 million is related to the state's share of Phoenix Convention Center costs and \$491.7 million is for university capital projects.