

FY 2025 STATE GENERAL FUND BASELINE SUMMARY

Revised FY 2024 General Fund Budget

- The enacted FY 2024 budget projected FY 2024 General Fund revenues of \$17.83 billion based on the assumption that revenue would grow by 1.9% compared to FY 2023. With \$17.82 billion in projected General Fund spending, the cash balance was estimated to be \$10.0 million at the end of FY 2024.
- Since July, General Fund revenues have declined by (8.5)%, resulting in a year-to-date forecast loss of \$(488) million below the enacted budget forecast. As a result, the Baseline revises FY 2024 General Fund revenue projections downward to \$16.92 billion, or \$(907.9) million below the enacted budget.
 - ⇒ The General Fund base revenue estimates are generally a product of the JLBC Staff's 4-sector forecast process.
 - ⇒ In FY 2024, however, due to the significant forecast losses through December, we have used the JLBC Staff's more cautious estimate.
- The enacted FY 2024 budget appropriated \$17.82 billion in General Fund spending. Due to reductions in statutory funding formula requirements and other factors, FY 2024 spending is expected to fall to \$17.76 billion, or a reduction of \$(62.7) million.
- Based on the revenue shortfall of \$(907.9) million and a spending reduction of \$(62.7) million, the \$10.0 million ending balance is now estimated to be a \$(835.2) million shortfall in FY 2024. We presume a shortfall in any year is resolved prior to the end of that fiscal year.

FY 2025 General Fund Revenues

- The January Baseline is based on FY 2025 General Fund revenues of \$15.39 billion, a decrease of \$(1.53) billion below FY 2024. There are 3 main components to this adjustment:
 - ⇒ Ongoing revenues are projected to increase by \$429.2 million, or 2.6% above FY 2024.
 - ⇒ FY 2025 urban revenue sharing (URS) is projected to decline by \$(296.5) million. The level of URS is based on state income tax collections from 2 years prior. Given the substantial decline in FY 2023 income tax proceeds, URS is decreasing in FY 2025.
 - ⇒ One-time FY 2025 revenues are declining by \$(2.25) billion, primarily due to the elimination of surplus funds carried over from FY 2023 to FY 2024.

FY 2025 General Fund Spending

- The January Baseline FY 2025 spending estimates essentially reflect changes in the cost of statutory funding formulas as well as any adjustments required by the FY 2024 3-year budget plan.
- FY 2025 General Fund Baseline spending is projected to be \$16.27 billion compared to \$17.76 billion in FY 2024, or a decrease of (8.4)% based on the following assumptions:
 - ⇒ A \$826.3 million increase in ongoing spending primarily due to formula funding adjustments and other increases as part of the FY 2024 3-year budget plan.
 - ⇒ A \$(2.31) billion decrease in one-time spending to a level of \$570.9 million.
- The entire FY 2025 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$64.57 billion.
- The main drivers of FY 2025 General Fund spending are delineated below by function of government.

General Fund and Budget Stabilization Fund Balances

- Based on revenues of \$15.39 billion and spending of \$16.27 billion, the projected General Fund shortfall is \$(878.9) million in FY 2025. Combined with the projected FY 2024 shortfall, the total shortfall is projected to be \$1.71 billion.
- There is at least \$369 million of one-time FY 2024 funding issues the Legislature may opt to fund again in FY 2025 either as traditional "ongoing one-times" or for litigation purposes. After accounting for a \$100 million FY 2025 ending balance, the total shortfall considered in the FY 2025 budget process would be \$(2.2) billion.
 - ⇒ The \$369 million includes \$183 million for School Facilities building renewal, \$73 million for state employee health insurance and \$113 million for prison health care and related costs.
- Apart from the General Fund, the Budget Stabilization Fund will have an estimated balance of \$1.5 billion in FY 2025.

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 2026 revenues are projected to be \$16.21 billion compared to FY 2026 spending of \$16.63 billion. This would result in a shortfall of \$(420.3) million in FY 2026.

- FY 2027 revenues are projected to be \$16.97 billion compared to FY 2027 spending of \$17.16 billion. This would result in a shortfall of \$(187.0) million in FY 2027.

Education

Department of Education (ADE)

- ⇒ ADE General Fund spending decreases by \$(81.6) million, or (1.1)% below the FY 2024 appropriation, including:
 - ⇒ \$(43.9) million for a prior year rebase due to lower-than-budgeted expenses for Basic and Additional State Aid.
 - ⇒ \$121.3 million for Empowerment Scholarship Account (ESA) growth. This amount assumes total ESA program enrollment reaches 82,452 in FY 2025, or 7,245 above our revised FY 2024 assumption of 75,207. Based on ADE's analysis of previous public school attendance among new ESA enrollees, we further assume that 40% of new ESA program enrollees would be switchers from public schools while the remaining 60% would be current private-schoolers and homeschoolers. In total, the Baseline provides \$824.5 million for original and universal ESA awards in FY 2025, or \$199.4 million above the enacted FY 2024 budget assumption of \$625.1 million.
 - ⇒ \$15.6 million for FY 2025 district and charter enrollment adjustments. Total unweighted public school Average Daily Membership (ADM) would decline by an estimated (0.4)% and would reach 1,082,095 in FY 2025. There would still be a net enrollment cost due to increased enrollment in special education and English Language Learner programs that receive weighted funding. The (0.4)% estimate assumes a (0.1)% base enrollment decline associated with demographic trends plus an additional (0.3)% decline due to switchers to the ESA program.
 - ⇒ \$161.4 million for a 2.0% statutory inflation adjustment of funding levels for the per pupil base level, transportation, and charter additional assistance.
 - ⇒ \$(46.7) million in savings due to property tax and land trust earning increases.
 - ⇒ \$37.0 million ongoing to increase the Group B formula weight for pupils eligible for the federal Free and Reduced-Price Lunch (FRPL) program pursuant to Section 128 of the FY 2023 General Appropriation Act.
 - ⇒ \$29.0 million to increase the per pupil amounts of the District Additional Assistance (DAA) and Charter Additional Assistance (CAA) formulas pursuant to Section 128 of the FY 2023 General Appropriation Act. The total increases in FY 2025 above FY 2024 are 4.62% for DAA and 3.19% for CAA.
 - ⇒ \$1.4 million for Adult Education programs.
 - ⇒ \$(300.0) million to remove a one-time state aid supplement.
 - ⇒ \$(56.7) million to remove other one-time funding.
- ⇒ The Baseline includes an ex-appropriation of \$(43.9) million in FY 2024 for lower-than-budgeted expenses for Basic State Aid and Additional State Aid. The enacted FY 2024 budget assumed public school ADM would grow by 0.4%, while actual ADM year-to-date has declined by (1.0)%, generating an estimated \$(115.0) million of Basic State Aid savings. The public school enrollment savings are partially offset by higher-than-budgeted ESA enrollment, which we will anticipate will reach 75,207 by the end of FY 2024. The 75,207 enrollees would generate total awards of \$703.2 million, or \$78.1 million above the enacted budget assumption. An additional \$(6.9) million of savings is associated with lower Homeowners Rebate expenses.
- ⇒ 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 \$(202.8) million, or (56.8)%, including:
 - ⇒ \$(18.5) million one-time for a net decrease in new school construction costs. The Baseline funds a total of \$126.0 million for new construction, including the completion of 10 FY 2024 schools, and the initial funding for 5 FY 2025 schools in the Maricopa, Queen Creek (2), Sahuarita, and Valentine School Districts.
 - ⇒ \$(183.3) million for a decrease in one-time building renewal monies.
 - ⇒ \$(1.0) million for a decrease in one-time school facility inspections funding.

Universities

- University General Fund spending decreases by \$(74.5) million, or (7.2)%, including:
 - ⇒ \$(37.0) million to remove one-time for ABOR scholarships programs, including \$(20.0) million for the Arizona Promise Program, \$(15.0) million for the Arizona Teachers Academy, and \$(2.0) million for the Spouse and Dependents of Law Enforcement Officers program.
 - ⇒ \$(37.7) million to remove other one-time funding.

- Fall 2023 enrollment increased by 13,477 full-time equivalent students, or 6.6% above Fall 2022, for total enrollment of 217,118.

Community Colleges

- Community College General Fund spending decreases by \$(38.4) million, or (28.7)%, including:
 - ⇒ \$2.8 million for formula adjustments.
 - ⇒ \$(15.0) million to remove one-time AZ Western College career and technical education (CTE) workforce funding.
 - ⇒ \$(10.0) million to remove one-time rural aid.
 - ⇒ \$(14.0) million to remove one-time tribal assistance.
 - ⇒ \$(2.2) million to remove other one-time funding.
- The Community College funding formula is based on student counts from 2 years prior. FY 2023 rural district enrollment decreased by (475) full-time equivalent students, or (1.9)%, for a total rural enrollment of 24,479. Including the Maricopa and Pima districts, total enrollment increased by 1,007, or 1.1%, for total enrollment of 90,011.

Health and Welfare

AHCCCS

- AHCCCS General Fund spending increases by \$274.4 million, or 10.9%, including:
 - ⇒ \$291.1 million for formula adjustments, including 1.1% caseload growth, a 4.0% inflation adjustment, the reduction of the regular match rate from 66.29% to 64.89%, and annualizing the loss of the enhanced match rate that was available throughout CY 2023. The Baseline also annualizes the caseload declines that occurred prior to June 2024 as a result of the end to the prohibition on disenrollment that was in effect during the COVID-19 public health emergency.
 - ⇒ \$(4.1) million to shift rural hospital reimbursement program funding to the regular service line items.
 - ⇒ \$(12.6) million to remove one-time funding.
- The Baseline includes an ex-appropriation of \$(39.9) million in FY 2024 to account for the net impact of faster-than-anticipated enrollment declines within Traditional Medicaid, partially offset by slower-than-anticipated enrollment declines within the Proposition 204 Childless Adults and KidsCare programs.
- AHCCCS enrollment is projected to grow to 2.05 million recipients by June 2025. This level represents a caseload increase of 21,338, or 1.1%, from June 2024. However, this caseload level is still a decline of (184,117), or (8.2)%, from June 2023.

Department of Child Safety (DCS)

- DCS General Fund spending decreases by \$(33.5) million, or (6.7)%, including:
 - ⇒ \$(12.5) million to remove one-time funding for the Extended Foster Care Services Model Fund deposit.
 - ⇒ \$(10.9) million to remove a one-time federal funding backfill for Congregate Group Care.
 - ⇒ \$(10.0) million to remove one-time funding for Emergency Shelter Group Homes and Transition Living.
 - ⇒ \$(8.3) million to remove other one-time funding.
 - ⇒ \$5.7 million to offset a FY 2025 net decrease in the Title IV-E Federal Medical Assistance Percentage (FMAP) rate.
 - ⇒ \$2.5 million for the Healthy Families Program as part of the FY 2023 3-year budget plan.

Department of Economic Security (DES)

- ⇒ DES General Fund spending increases by \$119.5 million, or 9.9%, including:
 - ⇒ \$142.3 million for Developmental Disabilities (DD) formula adjustments, including 4.5% enrollment growth, a 4.0% capitation rate increase, the reduction of the regular match rate from 66.29% to 64.89%, and annualizing the loss of the enhanced match rate that was available throughout CY 2023.
 - ⇒ \$4.4 million for ongoing Arizona Early Intervention Program provider rate increases in accordance with the FY 2023 budget's 3-year spending plan.
 - ⇒ \$1.0 million to backfill federal funding for homeless youth assistance in accordance with the FY 2024 budget's 3-year spending plan, which delayed the backfill from FY 2024 to FY 2025.
 - ⇒ \$(28.2) million to remove one-time funding.
- The Baseline includes an ex-appropriation of \$(24.8) million in FY 2024 to account for a lower-than-budgeted capitation rate within the DDD program that was a result of lower utilization of services among DDD clients in previous years.
- Medicaid Developmental Disability caseloads are projected to grow to 44,674 by June 2025. This level represents a caseload increase of 1,924, or 4.5%, above June 2024.

Department of Health Services (DHS)

- DHS General Fund spending decreases by \$(32.0) million, or (19.2)%, to remove one-time funding.

Department of Housing

- Housing General Fund spending decreases by \$(196.9) million, or (100)%, including:
 - ⇒ \$(150.0) million to remove a one-time deposit to the Housing Trust Fund.
 - ⇒ \$(40.0) million to remove a one-time deposit to the Homeless Shelter and Services Fund.
 - ⇒ \$(6.9) million to remove other one-time funding.

Department of Veterans' Services (DVS)

- ⇒ DVS General Fund spending decreases by \$(10.1) million, or (46.5)%, to remove one-time funding.

Criminal Justice/Public Safety

Department of Corrections (ADC)

- ADC General Fund spending decreases by \$(112.9) million, or (7.6)%, including:
 - ⇒ \$(51.2) million to remove one-time increased inmate health funding.
 - ⇒ \$(36.5) million to remove one-time Florence closure funding.
 - ⇒ \$(25.2) million to remove other one-time funding.
- The systemwide June 2023 prison population was 34,377, an increase of 1,006 or 3.0% above the prior year.

Department of Emergency and Military Affairs (DEMA)

- DEMA General Fund spending decreases by \$(1.7) million, or (7.9)%, to remove one-time funding.

Judiciary

- Judiciary General Fund spending decreases by \$(6.9) million, or (4.0)%, including:
 - ⇒ \$(6.7) million to remove one-time backfill funding of probation officer salary increases.
 - ⇒ \$(1.3) million to remove other one-time funding.
 - ⇒ \$1.1 million to fully annualize the January 1, 2023 Superior Court judge salary increase.

Department of Public Safety (DPS)

- DPS General Fund spending decreases by \$(68.1) million, or (18.6)%, including:
 - ⇒ \$7.0 million for the 3rd year of a 3-year phase in of funding for a new major incident division.
 - ⇒ \$(41.1) million to remove one-time funding for land mobile radio upgrades.
 - ⇒ \$(11.7) million to remove one-time funding for vehicle replacements.
 - ⇒ \$(10.0) million to remove one-time funding for civil air patrol infrastructure.
 - ⇒ \$(12.3) million to remove other one-time funding.

Natural Resources

Department of Forestry and Fire Management (DFFM)

- DFFM General Fund spending decreases by \$(5.0) million, or (8.7)%, to remove one-time funding for a grant program to assist fire districts.

Water Infrastructure Finance Authority (WIFA)

- ⇒ WIFA General Fund spending increases by \$78.8 million, or 31.0%, including:
 - ⇒ \$143.8 million increase over the previous year, or \$333.0 million total, for deposit to the Long-Term Water Augmentation Fund (LTWAF) pursuant to Laws 2022, Chapter 366.
 - ⇒ \$(62.0) million to remove one-time funding for local water projects:
 - \$(37.8) million for water well projects, including \$27.8 million for Gilbert and \$10.0 million for Peoria.
 - \$(20.0) million to Navajo County to reconstruct the Little Colorado levee.
 - \$(4.2) million in other projects.
 - ⇒ \$(3.0) million for removal of one-time water project assistance grants.

Department of Water Resources (DWR)

- ⇒ DWR General Fund spending decreases by \$(41.1) million, or a (62.2)%, including:

- ⇒ \$(25.0) million to remove one-time distributions to 2 irrigation districts to support the construction of alternative infrastructure to deliver groundwater to the Ak-Chin Indian Community by means other than the Santa Rosa canal.
- ⇒ \$(11.0) million to remove one-time funding for a brackish groundwater recovery pilot program.
- ⇒ \$(5.1) million to remove other one-time funding.

General Government

Arizona Department of Administration (ADOA)

- ⇒ ADOA General Fund spending decreases by \$(35.1) million, or (79.2)%, including:
 - ⇒ \$(15.0) million to remove one-time funding for K-12 transportation grants.
 - ⇒ \$(12.2) million to remove one-time funding for fire incident management system grants.
 - ⇒ \$(7.9) million to remove other one-time funding.

ADOA – Automation Projects Fund (APF)

- ⇒ APF General Fund spending decreases by \$(24.2) million, or (67.1)%, including:
 - ⇒ \$(15.0) million to remove one-time funding for statewide health and human services technology projects.
 - ⇒ \$(9.3) million to remove one-time funding for 3 other projects.
- APF General Fund spending for the Department of Revenue integrated tax system modernization project remains at \$11.8 million, pursuant to the FY 2023 3-year budget plan.

Arizona Commerce Authority (ACA)

- ⇒ ACA General Fund spending decreases by \$(49.1) million, or (78.4)%, including:
 - ⇒ \$(23.6) million to remove a one-time deposit to the Rural Broadband Accelerated Match Fund.
 - ⇒ \$(9.0) million to remove one-time funding for economic transition resources to tribes.
 - ⇒ \$(16.5) million to remove other one-time funding.

State Treasurer

- ⇒ State Treasurer General Fund spending decreases by \$(90.6) million, or (89.5)%, including:
 - ⇒ \$(85.6) million to remove a one-time distribution to 24 local government entities and nonprofit organizations.
 - ⇒ \$(6.0) million to remove a one-time distribution to the 6 most populous counties to review the accuracy of voter registration rolls.
 - ⇒ \$1.0 million increase, from \$5.0 million to \$6.0 million, for a one-time distribution to county recorders for ballot paper with specific security features (as required by the FY 2023 3-year budget plan).

State Employees

- The Baseline increases the Total Appropriated Funds Full-Time Equivalent (FTE) ceiling by 78 FTE Positions in FY 2025. These adjustments would bring the total FTE Position ceiling to 55,153.5 in FY 2025.
- The Baseline includes a decrease of \$(73.0) million from the General Fund and \$(120.4) million in Total Funds for the removal of a one-time FY 2024 state employee health insurance subsidy.

Capital

- The Baseline includes \$44.3 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 \$48.9 million for capital projects excluding State Highway Fund projects in line with the FY 2024 budget's 3-year spending plan. Of this amount, \$29.8 million is financed from the General Fund for HVAC replacement at ADC and \$19.1 million is financed from Other Funds for projects at State Parks.
- The Baseline eliminates \$(158.1) million in one-time General Fund monies for capital and building renewal projects at ADOA, ADC, DEMA, State Parks, and DPS, and \$(620.2) million in one-time monies for ADOT capital projects.

Debt

- At the end of FY 2025, the state's projected level of lease-purchase and bonding capital obligations will be \$5.31 billion. The associated annual debt service payment is \$607.6 million.
- Of the \$5.31 billion in total lease-purchase and bonding obligations, the General Fund share is \$812.2 million. The General Fund annual debt service is projected to be \$92.8 million in FY 2025.
- Of the \$812.2 million, \$333.2 million is related to the state's share of Phoenix Convention Center costs and \$452.7 million is for university capital projects.