

FY 2009 JLBC Baseline

January 15, 2008

JLBC

JLBC Baseline Spending Guidelines

- Revenues based on 4-sector consensus estimates.
- Spending based on projected growth in funding formulas.
- Eliminates funding labeled as one-time in the FY '08 budget process.
- Baseline does not include FY '08 or FY '09 solutions to shortfall.

With Current 4-Sector Revenue Estimates, Budget Shortfall is Projected for Both FY '08 and FY '09

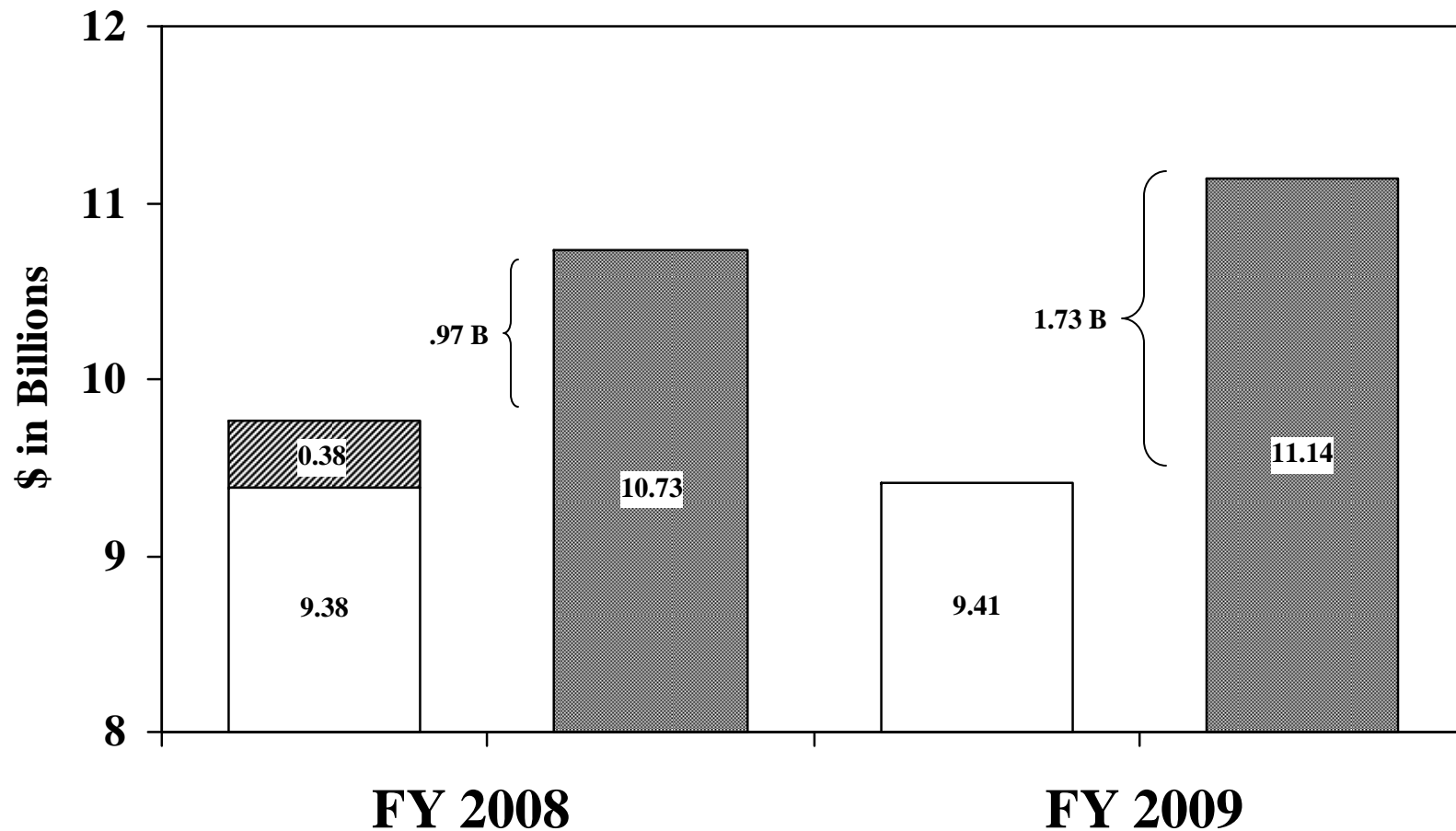
- FY '08 budget shortfall is projected to be \$970 million.
- If none of FY '08 solutions are on-going, FY '09 budget shortfall is \$1.7 billion.

General Fund Cash Shortfall

\$(973) M in FY 2008 and \$(1.7) B in FY 2009

	<u>\$ in Billions</u>	
	<u>FY '08</u>	<u>FY '09</u>
Beginning Balance	\$ 0.4	\$ 0.0
Revenues	<u>9.3</u>	<u>9.4</u>
Total Revenues	9.7	9.4
Spending	<u>10.7</u>	<u>11.1</u>
Shortfall	\$ (1.0)	\$ (1.7)

General Fund Shortfalls



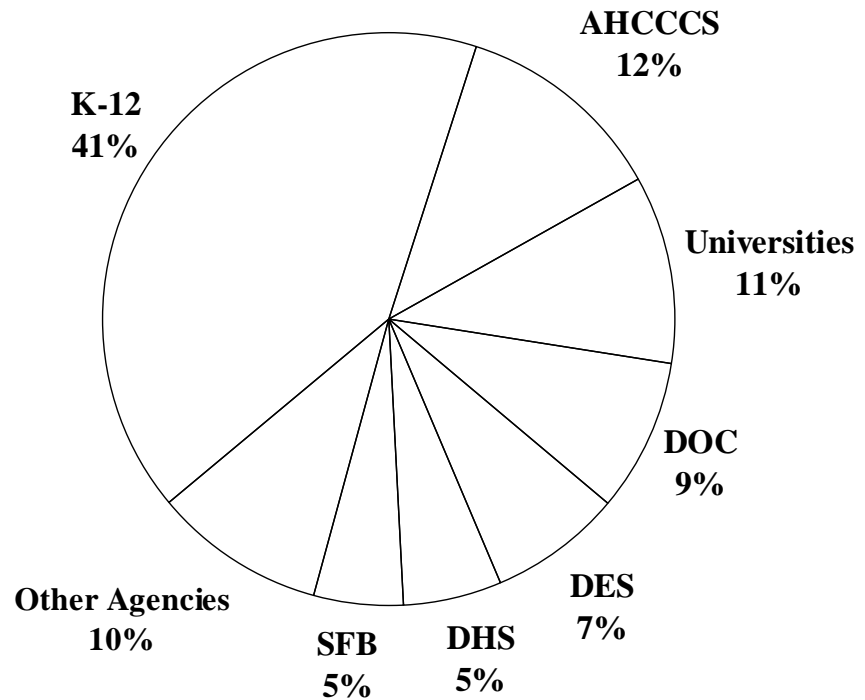
□ Ongoing Revenues ▨ One-time Revenues ■ Expenditures

FY 2009 Spending Issues By Agency

FY 2008 General Fund Appropriations

Where it Goes

	<u>\$ in M</u>
Education (K-12)	\$ 4,363.5
AHCCCS	1,269.1
Universities	1,121.1
Corrections	910.3
Economic Security	794.3
Health Services	583.4
School Facilities Board	532.7
Other Agencies	<u>1,045.1</u>
TOTAL OPERATING BUDGET	<u>\$ 10,619.5</u>



Formula Spending is Projected to Grow by \$414 M in FY 2009

Title 19 Health and Welfare Formula \$287 M
K-12 Formula \$174 M
SFB \$5 M
DOC \$57 M
Higher Ed \$16 M
Other - \$(21) M
Admin Adj/Revertments - \$(40) M
'08 Supplemental - \$(64) M

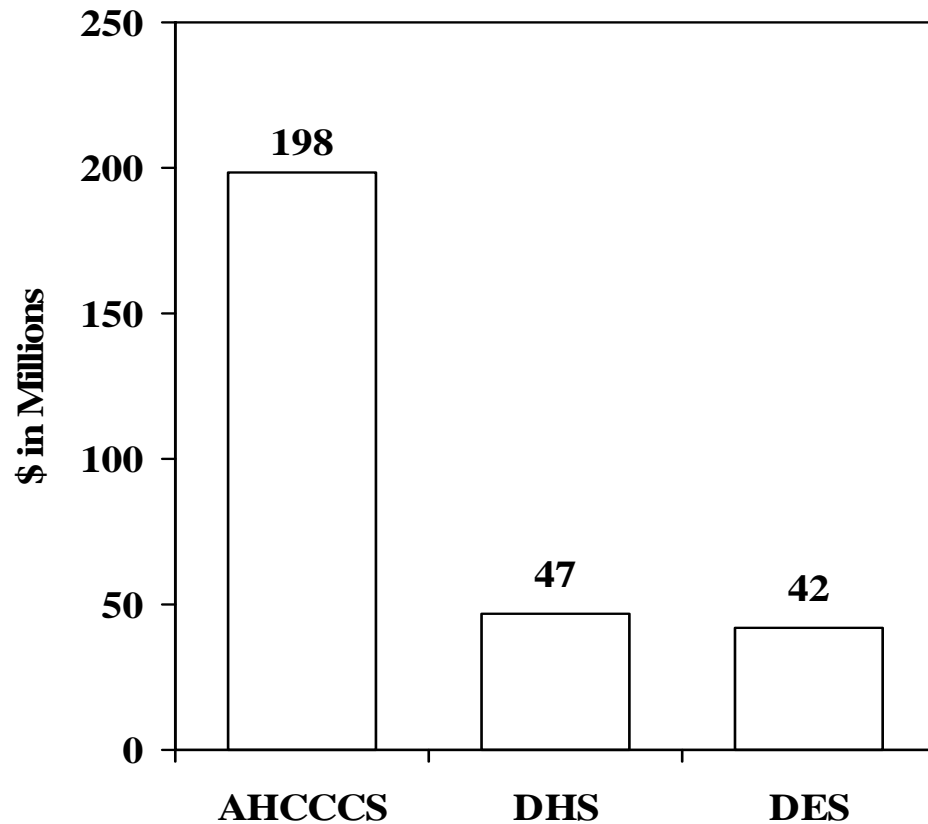
Net New Spending \$414 M
Total Spending \$11.14 B

Title 19 and Health & Welfare Programs FY 2009 Statutory Spending Above FY 2008

FY 2009 Title 19 Growth Rates

	<u>Population June/June</u>	<u>Medical Inflation</u>
AHCCCS	4.2% *	6.0%
DHS	4.2%	6.0%
DES	6.2%	3.0%

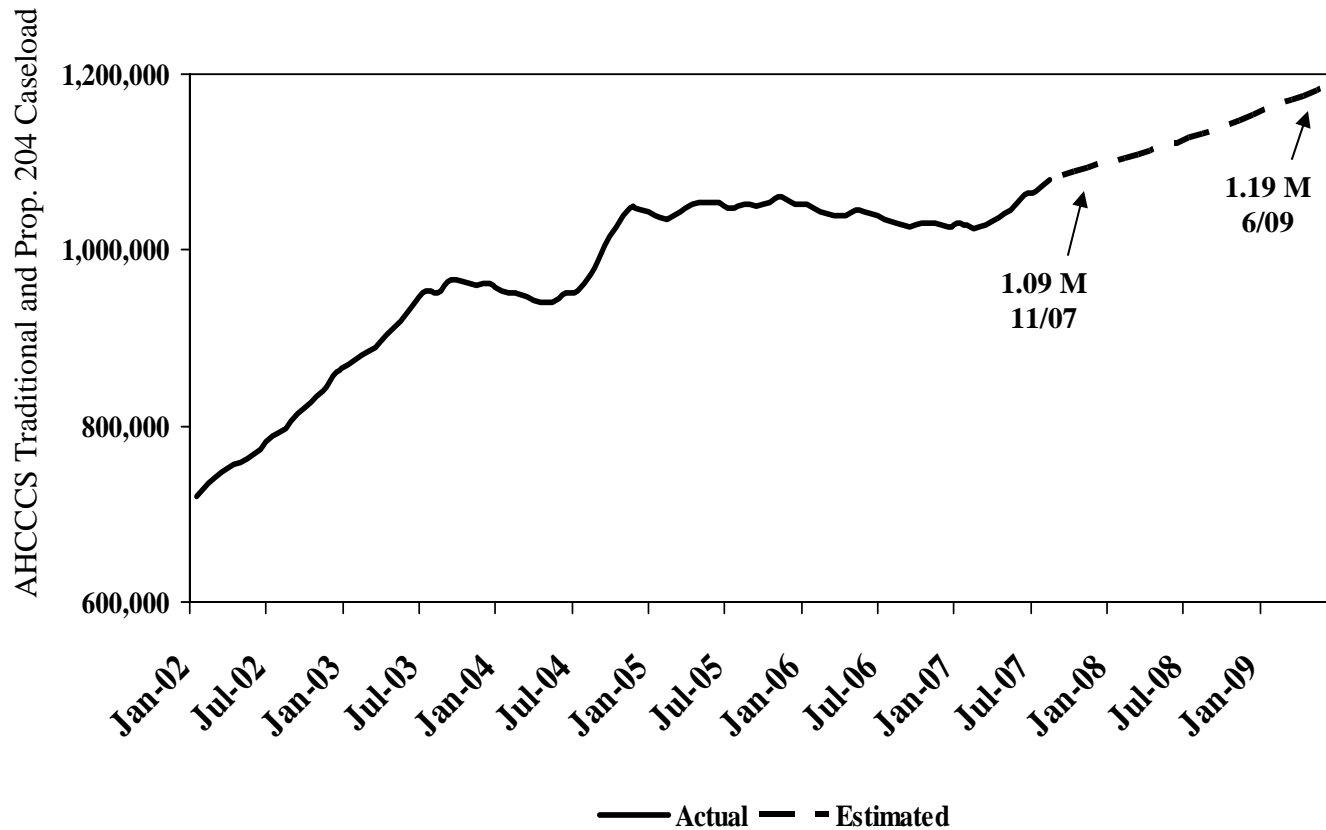
* 4.2% includes traditional and Prop 204 only; all populations are 5.8%.



AHCCCS Caseloads Higher Than Projected

-- Was Budgeted at 2.6%, FY '08 Now Projected at 5.9%

-- During Last Downturn, AHCCCS Caseloads Grew 11% Annually



'09 Based on 3 factors:

- JLBC Staff - 6.5%
- AHCCCS - 5.5%
- UA Model - 5.3%

AHCCCS Issues

- FY '08 shortfall is projected at \$57 M
 - Beyond higher caseloads, shortfall is also due to \$26 M decline in tobacco taxes.
- FY '09 estimate assumes tobacco tax decline levels off.
- If caseload grows as quickly as during 2002-2004, FY '09 AHCCCS could increase another \$95 M.
- One-time \$8 M GF subsidy for Healthcare Group backed out in FY '09.
- Baseline includes no funding for KidsCare Parents
 - Costs \$11.3 M GF to continue services.

K12 Operating

FY 2009 Formula Growth is \$174 M

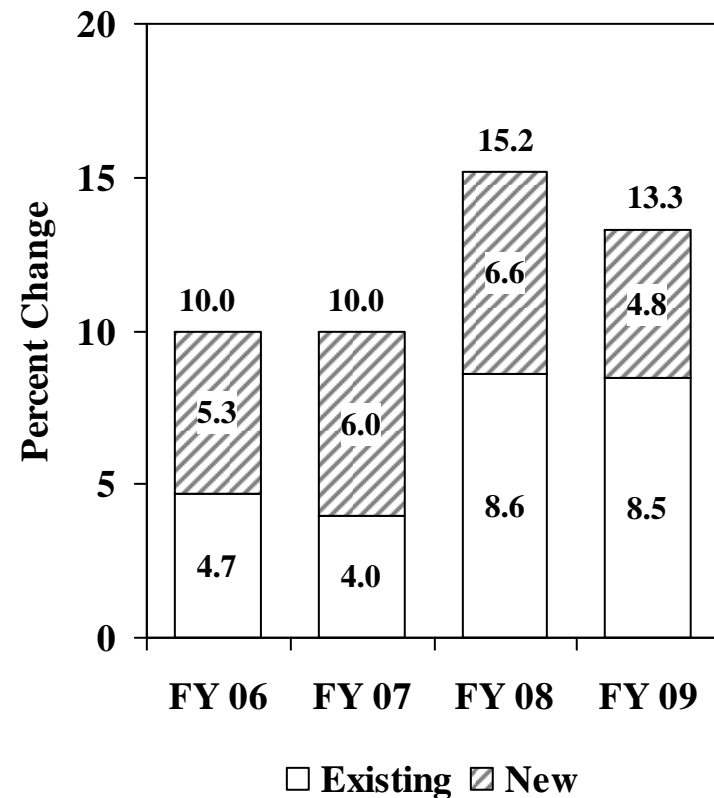
\$ M

\$ (68)	–	Base adjustment for prior year savings
182	–	3.0% enrollment growth – (JLBC: 2.7% and UA model: 3.3% growth)
108	–	2% inflation
(188)	–	13.3% net assessed value (NAV) growth
143	–	TNT – 8.5% existing property growth
<u>(3)</u>	–	Delete one-time funding
\$ 174	–	Total

Continues '07 level of English Learner appropriations

NAV Growth of 13% is Due to Deferred Impact of Past Housing Price Increases

- Primary NAV growth for homes restricted in the Constitution.
- Maximum = 10% of prior year primary or 25% primary/secondary difference.
- '09 NAV based on Jan '07 value.
- Property value growth increases local share of formula.



K12 Capital

Baseline Assumes \$4.8 M Net Increase for FY 2009

- **Baseline maintains new construction cash cost of \$370 M**
 - SFB is requesting \$460 M.
 - \$370 M represents a placeholder as JLBC is awaiting better information on housing slowdown impact.
- **\$4.8 M increase represents debt service and one-time adjustments.**
- **SFB paid \$35 M in FY '07 obligations in FY '08**
 - Assume this practice continues.

Higher Education

FY 2009 Formula Growth is \$16 M

- University enrollment formula growth of 2.4% costs \$20.7 M.
- Baseline deletes \$10.5 M in one-time Phoenix medical school design funding.
- Community College formulas cost an added \$6.2 M.
 - Operating and capital – essentially flat due to enrollment decrease of (0.2)% in FY '07.
 - \$5.5 M for 23% equalization growth.

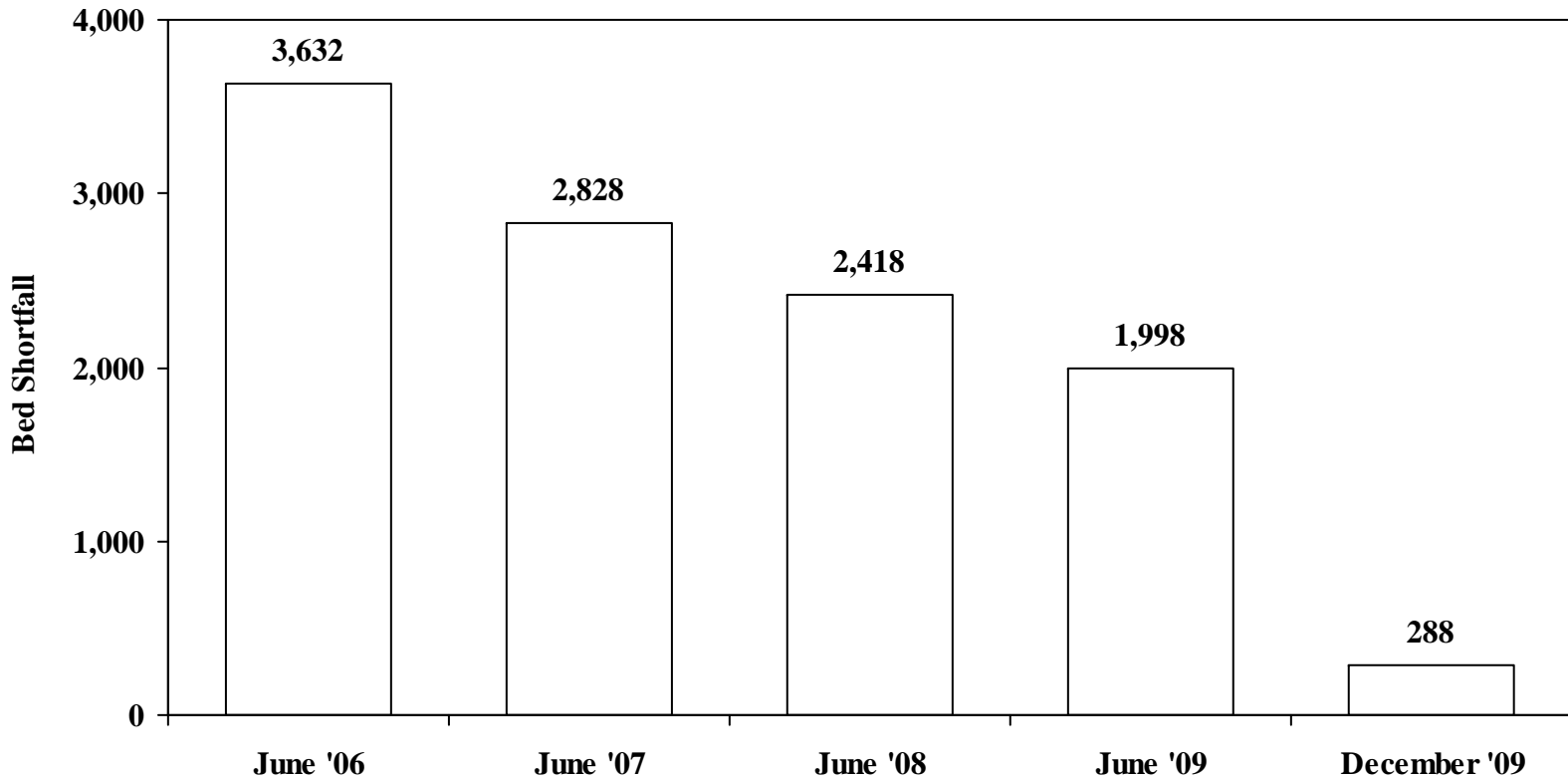
Department of Corrections

FY 2009 Growth is \$56.7 M

- Public/Private Beds - \$48.0 M
 - \$11.5 M to annualize 2,060 provisional beds.
 - \$18.0 M for 2,000 private beds starting 12/08.
 - \$18.5 M for 4,000 state beds starting 5/09.
 - Includes \$10.4 M lease purchase payment.
 - FY 2010 annualization cost is \$66.1 M.
- Population and Health Care costs will add \$9.3 M in FY '09.

Projected Prison Bed Shortfall is 288 in FY '10

Assumes Annual Inmate Growth of 6.4%



Assumes opening 2,000 private beds and 4,000 public beds in FY '09 and FY 10.

JLBC Baseline Assumptions Do Not Include Funding for Increased Employee Benefit Costs

- The net cost of employer retirement rate changes is \$5.1 M.
 - ASRS rates would decrease by (0.15)% and save \$(1.6) M.
 - Non-ASRS rate increases would cost \$6.7 M
 - If no employer funding, the agencies would absorb.
- A 9.5% health insurance increase would cost \$33 M.
- A statewide salary increase would cost \$25 M for every 1%.

Budget Stabilization Fund Has A Balance of \$685 M

- With interest, BSF expected to grow to \$700 M by end of FY '08.
- BSF is capped at 7% of General Fund revenues. In FY '08, projected cap would be \$656 M.
- Formula would result in \$257 M withdrawal in FY '09, but requires legislative appropriation.

Urban Revenue Sharing Increases by \$43 M

- Legislature Has Already Enacted 1-Time FY '09 Revision

	<u>\$ in M</u>
FY '08 distribution	\$ 684
FY '09 regular 15% formula	709
FY '09 enacted distribution	717
FY '09 enacted distribution + one-time backfill	727

JLBC Baseline Spending Grows by 4%

	<u>FY '08</u>	<u>FY '09</u>	<u>% Growth</u>
• On-Going Spending	\$ 10,640	\$ 11,105	4.4%
• One-Time Spending	<u>89</u>	<u>37</u>	
Total	\$ 10,729	\$ 11,142	3.8%

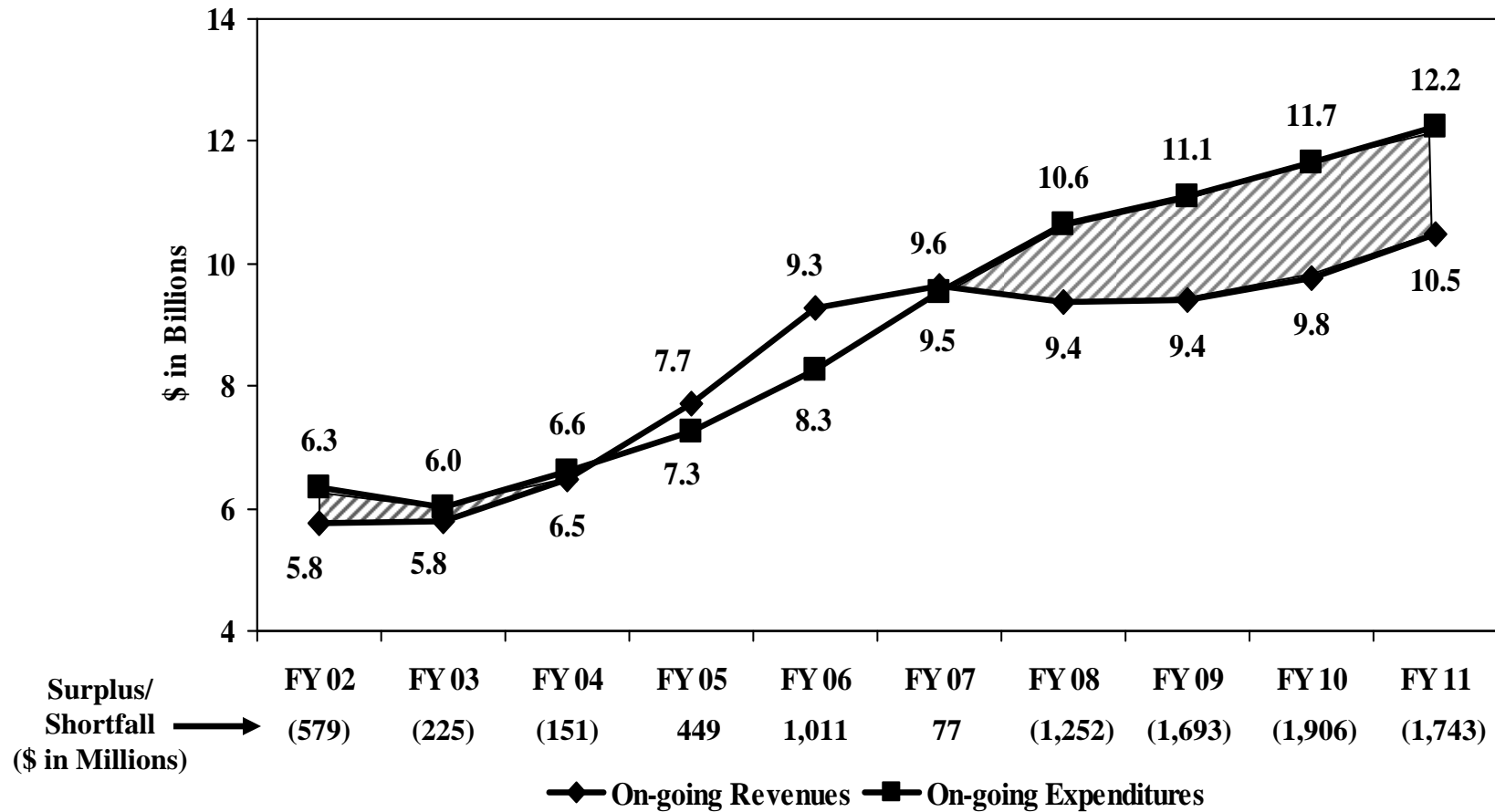
Long-Term Forecast

Through FY 2011, General Fund Shortfall Remains Near \$(1.7) B

- Revenue growth is based on consensus estimates:
 - 3.7% in FY '10 and 7.5% in FY '11.
- Spending growth is based on statutory formulas.
- Calculation can be made either using current policy or current statutory requirement.
- Long term numbers are very sensitive to small % changes:
 - A 1% change in revenues in '09 -'11 would change the shortfall calculation by almost \$600 million.

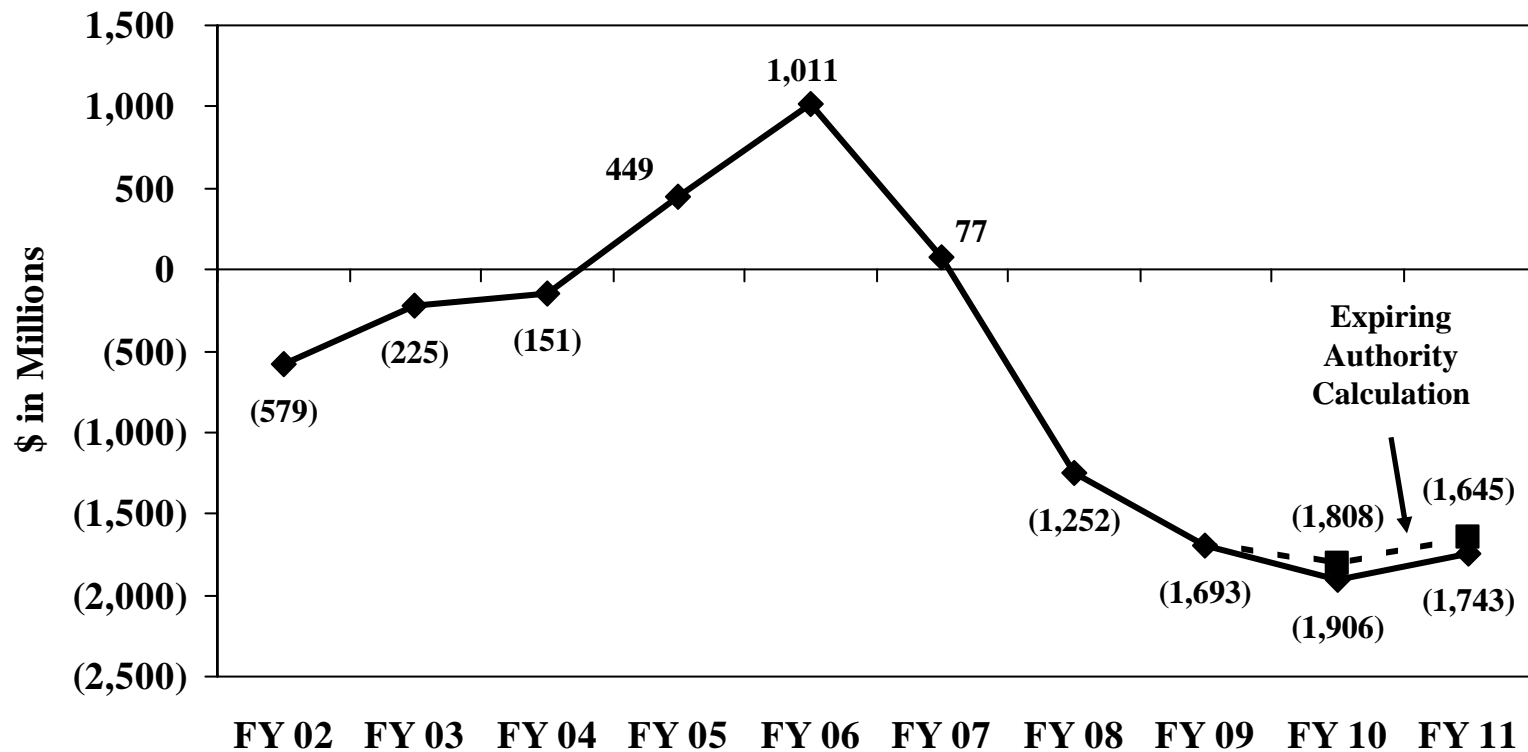
Structural Shortfall Remains Near \$(1.7) B if Maintain Current Policy

- Assumes Equalization Assistance Tax Rate Remains at \$0



Basing Structural Balance on Expiring Legislation Would Reduce FY 2010 Shortfall By \$98 M

- Equalization Assistance Tax Would Be Re-Instated
 and BRB Savings Would Be Discontinued



On-Going Revenues Compared to On-Going Expenditures
 Surplus (+) / Shortfall (-)

Chairmen's Question:

What Spending is Voter Protected?

- Prop 105 prohibits changes to ballot propositions without a 75% vote to “further the purpose”
- This “voter protection” limits, but does not eliminate, Legislature’s ability to modify K12 and AHCCCS spending
- There has been no litigation to clarify the scope of Prop 105

Dollar Impacts of Ballot Propositions

- Prop 301 guarantees a K12 base level and inflation indexing – but does not protect discretionary programs and formula add-ons
 - Of \$6 B total formula, cost of base level is \$3.2 B to \$3.8 B.
- Prop 204 requires AHCCCS coverage up to 100% of Federal Poverty Level
 - Of \$1.3 B, non-voter protected services cost \$400 M to \$450 M.
 - Prop 204 does not protect benefit package – but feds require actuarially sound program.

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