

JLBC Staff – October Budget Update

Summary of the General Fund Budget Outlook

- After a 17% increase in FY 2022, base General Fund revenue growth is expected to moderate to 6% in FY 2023 and 2% 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 ongoing balance of \$140 million and a one-time balance of \$2.5 billion for new initiatives.
- Given the economic uncertainty, our estimate of available resources could change considerably as we go through the FY 2024 budget process.

Caveats to the Forecast

This forecast is based on outcomes that use up the most resources – so that we do not overstate how much will be available next session. This scenario is a means of budgeting prudently, not a prediction of the results of federal policy decisions or future ballot propositions. This October "maximum commitment" scenario assumes:

- The federal government does not extend the enhanced Medicaid match rate past December 2022.
- Proposition 123 is not renewed – which would reduce the land trust distributions for K-12 starting in FY 2026.
- Absent any other statutory change, the General Fund would backfill the Proposition 123 loss at a cost of \$300 million in FY 2026.

Reporting Requirements

The FY 2023 General Appropriation Act requires the JLBC Staff to report by October 15, 2022 as to whether FY 2023's General Fund revenues and ending balance are projected to change by more than \$50 million from the budgeted levels. We currently forecast exceeding both metrics by significantly more than \$50 million. For example, the FY 2023 projected ending balance is now \$2.80 billion, or \$1.72 billion higher than the \$1.08 billion level in the enacted budget.

In addition, A.R.S. § 35-125 requires the Legislature to provide 3-year estimates in each year's budget bill. In fulfilling these requirements, the JLBC Staff has reviewed the preliminary FY 2022 ending balance estimates and updated its 4-sector revenue projections in conjunction with the October 6th Finance Advisory Committee (FAC) meeting. In addition, the JLBC Staff has revised its spending projections through FY 2026 based on current statutory funding formulas.

FY 2022 Actuals

The enacted budget projected the FY 2022 ending balance to be \$4.51 billion. The Executive's preliminary FY 2022 ending balance projection is \$4.71 billion, or a net increase of \$201 million above the enacted budget. This increase is primarily the result of \$286 million in higher-than-anticipated revenues (*see discussion below*). In addition, state spending was \$85 million higher-than-budgeted. The Arizona Department of Administration is required by law to publish the final FY 2022 ending balance by December 1, 2022.

Higher-than-Expected Revenues – Excluding Urban Revenue Sharing, the beginning balance and one-time transfers, General Fund revenue grew by 17.0% in FY 2022.

Individual Income Tax accounted for \$129 million of the total FY 2022 net revenue gain of \$286 million. Sales Tax and Corporate Income Tax accounted for \$69 million and \$52 million, respectively, of the forecast overage.

Table 1 displays the performance of the state's largest revenue categories as compared to the enacted budget forecast.

Table 1			
FY 2022 Revenue Growth Rates by Category			
	Enacted Budget	Prelim Actual	Above/(Below) Forecast (\$ in Millions)
Sales and Use	14.3%	15.4%	\$69
Individual Income	13.3%	15.3%	129
Corporate Income	31.2%	37.4%	52
Insurance Premium	10.0%	14.8%	30
Other	<u>24.4%</u>	<u>30.0%</u>	<u>6</u>
Total	15.1%	17.0%	\$286

Each of the state's major revenue categories saw significant increases, with a variety of economic conditions causing this widespread growth:

- Spending down of accumulated pandemic savings boosted consumer activity, directly affecting Sales Tax collections and also helping to boost corporate profitability and associated Corporate Income Tax collections.
- General inflationary pressure impacted retail goods pricing (increasing Sales Tax) and also caused higher wages (increasing Individual Income Tax).
- Significant gains in asset prices during calendar year 2021 drove increases in Individual Income Tax payments and likely helped Sales Tax collections through the "wealth effect" for consumers.

Updated October Revenue Forecast

Due to recession concerns, the enacted FY 2023 budget forecast assumed that General Fund "base" revenue would decline by (2.0)% in FY 2023 compared to FY 2022. This base revenue calculation represents the underlying growth in the economy by excluding the phase in of previously enacted tax reductions, Urban Revenue Sharing, the beginning balance, and one-time revenue adjustments.

The FAC forecast update is typically based on the average revenue forecast from each of the following "4 sectors": the FAC panelists, the JLBC Staff and two different forecasts from the University of Arizona's econometric revenue model. The 4-sector forecast includes the 4 largest General Fund revenue categories: Sales Tax, Individual and Corporate Income Tax, and Insurance Premium Tax. The JLBC Staff forecasts the remaining small revenue categories, which make up 5% of General Fund revenue.

At present time, there are several downside risks to the U.S. and Arizona economy, which make the current revenue outlook especially uncertain. First, the Federal Reserve Board's (the Fed) ongoing effort to combat inflation by aggressively raising interest rates and reducing the size of their balance sheet ("quantitative tightening") has significantly increased the risk of tipping the the U.S. economy into a recession. Second, there is also a risk that the Russia-Ukraine conflict intensifies and drags on longer, leading to higher prices for energy, industrial commodities, and grains, which would cause a further slowdown of global economic growth. Third, if the correction of supply-chain issues takes longer than anticipated, it would likely dampen economic activity and make the Fed's inflation-fighting task more difficult.

Under the October 4-sector forecast, General Fund base revenue is projected to grow by 6.0% in FY 2023. In FY 2024 through FY 2026, the projected base revenue growth rates are 2.0%, 4.0% and 4.9%, respectively. Details of the updated October 2022 forecast are summarized in *Attachments A and B*.

Through the first 3 months of FY 2023, revenue growth has been 10.4%. Although the threat of recession exists, the economy's current momentum makes the 6.0% growth for all of FY 2023 reasonable. Since the enacted budget assumed a (2.0)% FY 2023 decline, a 6.0% growth rate is projected to generate over \$1 billion in additional revenue above the enacted budget estimates.

Based on the current forecast, however, these added FY 2023 revenues are mostly one-time in nature. By the time FY 2024 begins in July, the 4-sector envisions that the Fed's interest rate hikes will slow economic momentum and result in 2.0% FY 2024 growth. Under the 4-sector projections, the slowdown would be relatively short as the growth rate rebounds to 4.0% in FY 2025 and 4.9% in FY 2026.

Tax Reductions

Tax Year 2022/FY 2023 Tax Changes - Laws 2021, Chapter 412, the Tax Omnibus bill, reduced 4 Individual Income Tax brackets to 2 starting in Tax Year (TY) 2022/FY 2023. The rate is 2.55% for taxable income up to \$27,272 in a single household and \$54,544 in a married filing jointly household. The rate is 2.98% above those thresholds. Based on the updated October FAC forecast, we estimate that this tax reduction will cost \$1.5 billion in FY 2023. After including this tax law change, the 6.0% base revenue growth would decline to a revenue growth rate of (2.6)%.

Future Tax Changes - The 2021 tax legislation made additional reductions to the 2.55%/2.98% Individual Income Tax rates contingent upon reaching certain General Fund revenue levels. Pursuant to A.R.S § 43-243 and A.R.S § 43-244, the Directors of the Joint Legislative Budget Committee (JLBC) Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) are required to report jointly to the Arizona Department of Revenue (ADOR) on the level of prior year state General Fund revenue, excluding the beginning balance. This notification is to be made annually on or before September 30th of each year until the required revenue levels are achieved. JLBC Staff and OSPB jointly reported to ADOR on September 29th that the FY 2022 revenue level was \$16.7 billion.

Upon receiving a JLBC/OSPB report that General Fund revenue exceeds \$12,782,800,000, statute requires ADOR to reduce the income tax rates to 2.53% and 2.75% in the following Tax Year. After receiving a report that General Fund revenue exceeds \$12,976,300,000, ADOR is to set the income tax rate at a single 2.5% rate in the following Tax Year.

The enacted FY 2023 budget assumed the 2.53%/2.75% tax rates would be implemented in TY 2023 and the single 2.5% tax rate would be implemented in TY 2024.

Based on the September 29th revenue report, ADOR will implement the 2.5% single tax rate in TY 2023 starting this January.

As described above, the enacted budget assumed the TY 2023 tax rates would be 2.53%/2.75%. That tax reduction will reduce revenues by \$(338) million in FY 2024. Implementing the 2.5% single tax rate in TY 2023 is projected to reduce state revenues on a one-time basis by an additional \$(378) million during FY 2024 compared to the enacted budget. The reduction from the 2.55%/2.98% tax rates to the 2.5% single tax rate will reduce revenues by a total of \$(716) million in FY 2024.

Total Revenues

In FY 2024, total General Fund revenues are projected to be \$17.8 billion, including a carryforward balance of \$2.8 billion from FY 2023.

Spending Projections

As part of the October FAC process, we have updated our FY 2023 - FY 2026 projection of Baseline spending. (See *Attachments C and D.*) These amounts reflect spending changes associated with statutory and other active funding formulas. In addition, the amounts reflect changes that were assumed in the FY 2023 enacted budget's 3-year spending plan. These changes included any planned future year spending increases and deleted spending labeled as one-time in that budget.

Overall state spending is projected to decrease by \$(383) million in FY 2024, which represents a decrease of (2.5)% from the prior year. Total FY 2024 General Fund spending is projected to be \$15.1 billion.

The decrease in FY 2024 Baseline spending is due to offsetting issues: ongoing spending requirements increasing by \$395 million (see *Table 3*), with that offset by the level of one-time spending declining by \$(778) million (see *Table 4*).

Under the Baseline projections, spending is projected to increase by \$630 million in FY 2025 and increase by \$368 million in FY 2026. (See *Table 2*.)

Table 2		
Total General Funding Spending		
	<u>\$ in B</u>	<u>% Growth</u>
FY 2023	15.45	19.8
FY 2024	15.07	(2.5)
FY 2025	15.70	4.2
FY 2026	16.06	2.3

The current year FY 2023 spending estimate has been adjusted to reflect additional savings from the increased federal Medicaid match rate, which results from the federal public health emergency. The enacted budget did not include any savings for this policy in FY 2023, as the budget assumed the enhanced match rate would be in effect through June 30, 2022. The federal emergency has now been extended, which results in the enhanced federal match rate currently being in effect through December 31, 2022. This extension will generate an additional \$(307) million of savings during FY 2023. If the enhanced match rate is extended for at least one more quarter, there would be additional FY 2023 savings of approximately \$(154) million not incorporated into our October estimates.

Ongoing FY 2024 Statutory Formula Spending

During FY 2024, statutory formula/ongoing spending (excluding one-time spending) is projected to change as follows:

Table 3	
'24 Ongoing Spending Changes	
	<u>\$ in M</u>
Medicaid Formula	245
ADE - K-12 Formula	220
Pension Payoff Savings	(100)
Other	<u>30</u>
Total	395

Table 4	
'24 One-Time Spending Additions/Deletions	
	<u>\$ in M</u>
Remove Medicaid Match Savings	307
Water Supply Funding	333
Remove K-12 Rollover Payoff	(65)
Wildfire Expenses	(65)
State Employee Health Insurance	(103)
SFD Building Renewal Grants	(183)
SFD Fewer New Schools	(81)
University Funding	(123)
Other Agency Spending	(506)
Transportation Projects	(73)
Capital Projects	<u>(219)</u>
Total	(778)

- Arizona Department of Education (ADE) ongoing formula spending is projected to increase by \$220 million in FY 2024. This estimate includes the following changes:
 - \$58 million for 0.6% student enrollment growth.
 - \$155 million for 2.0% inflation. The estimated calendar year 2022 inflation rate is 7.25%. A.R.S. § 15-901.01 stipulates that the minimum inflation adjustment is the actual inflation rate or 2.0%, whichever is less.
 - \$42 million for formula funding increases required by Sections 127 and 128 of the FY 2023 General Appropriation Act, including \$29 million for Additional Assistance and \$13 million for the Group B weight for FRPL-eligible students.
 - \$(35) million for all other ongoing formula adjustments.
- In FY 2026, ADE spending will be affected by the expiration of Proposition 123. The temporary increase in the land trust distribution from 2.5% to 6.9% required by Proposition 123 will expire in that year in the absence of a voter-approved constitutional extension. As part of our "maximum commitment" scenario, the October estimates assume that Proposition 123 is not replaced. The expiration has the following impacts on our numbers:
 - The amount of land trust distribution available to cover the cost of the K-12 Basic State Aid formula would decrease by an estimated \$(300) million in FY 2026 compared with FY 2025. Our estimates assume there would be a corresponding \$300 million General Fund spending increase in FY 2026 above FY 2025 to backfill the reduced land trust distribution. The backfill would occur unless there were further statutory changes.
 - Beginning in FY 2026, Proposition 123 provides legislative flexibility regarding otherwise voter-protected K-12 inflation adjustments in certain circumstances. If the K-12 share of state General Fund spending is greater than 49.0%, the Legislature may forego the annual inflation adjustment or reduce K-12 spending equal to the level of inflation. If K-12 spending exceeds 50.0%, the Legislature may forego the annual inflation adjustment or reduce K-12 funding by twice the level of inflation. Since this language was part of the original ballot proposition, it would remain in

- effect even if the Proposition 123 land trust distribution is not extended. Under our forecast, ADE appropriations would represent 46.9% of General Fund appropriations in FY 2025 and there would be no legislative flexibility on FY 2026 inflation adjustments.
- In FY 2026, ADE General Fund appropriations are projected to represent 49.4% of estimated General Fund appropriations for that year. The 49.4% would affect the Proposition 123 trigger in determining FY 2027 ADE funding. In that scenario, the Legislature would have to decide whether to apply the regular inflation adjustment as part of the FY 2027 budget process or reduce K-12 spending by up to the level of inflation.
 - Medicaid funding in AHCCCS and the Department of Economic Security (DES) is projected to increase by \$245 million in FY 2024. This estimate is based on the following changes:
 - A decrease in the regular federal match rate from 69.56% currently to 66.92% effective October 1, 2023. This decline is associated with the state's increase in its per capita personal income relative to other states and is not related to the enhanced federal match during the pandemic.
 - A 3.1% capitation rate increase.
 - Projected AHCCCS enrollment declines resulting from the end of the federally-declared public health emergency while enrollment in DES' Developmental Disabilities program is expected to increase by 4.5%.
 - Annual employer retirement costs will decline by \$(100) million in FY 2024 based on the assumptions included in the enacted budget. The FY 2023 budget included a total of \$1.14 billion to eliminate the unfunded actuarial liabilities across various Public Safety Personnel Retirement System (PSPRS) and Correctional Officers Retirement Plan (CORP) state employer groups. The effect on the employer contribution rate will first occur in FY 2024. This savings estimate will be updated when the retirement system actuarial valuations are released in December.

For a complete list of ongoing spending changes, please see *Attachment D*.

One-Time Spending

As part of the FY 2023 budget 3-year spending plan, the Legislature designated certain spending items as one-time in each of FY 2023, FY 2024, and FY 2025. The enacted budget 3-year spending plan would result in FY 2024 one-time spending of \$512 million, which is a decline of \$(778) million from FY 2023. (*See Table 4 and Attachment E.*)

Ending Balance Projections

Given the revenue and spending forecasts, we currently project an FY 2023 General Fund ending cash balance of \$2.80 billion. The projected FY 2024 ending cash balance is \$2.75 billion. Assuming this amount is allocated during the 2023 Regular Session, the projected FY 2025 and FY 2026 ending balances are \$142 million and \$705 million, respectively. (*See Attachment C*)

The future year ending cash balances effectively limit how much of the \$2.75 billion FY 2024 balance can be spent for ongoing initiatives. Any ongoing initiatives above \$140 million will create a cash shortfall in future years.

Ongoing initiatives of \$140 million would reduce the \$2.75 billion FY 2024 balance by that amount. In addition, we suggest a final FY 2024 cash balance of no less than \$100 million. After deducting both the \$140 million and \$100 million from the FY 2024 balance, \$2.5 billion would be available for one-time initiatives as part of the FY 2024 budget.

All the cash balance projections exclude the Budget Stabilization Fund (BSF). That account is projected to have a balance of approximately \$1.4 billion at the end of FY 2023.

October 6, 2022 FAC 4-Sector Forecast

	FY 2023	FY 2024	FY 2025	FY 2026
<u>Sales Tax</u>				
JLBC Staff	6.0%	2.0%	4.0%	4.5%
UA - Low	4.3%	1.5%	3.1%	3.9%
UA - Base	6.5%	3.5%	4.2%	4.5%
FAC	6.7%	2.9%	5.3%	5.7%
Average:	5.9%	2.5%	4.2%	4.7%
<u>Individual Income Tax</u>				
JLBC Staff	5.3%	2.0%	4.6%	4.9%
UA - Low	5.9%	2.8%	4.3%	4.7%
UA - Base	6.3%	4.8%	5.1%	5.1%
FAC	4.6%	1.9%	6.6%	6.3%
Average:	5.5%	2.9%	5.1%	5.2%
<u>Corporate Income Tax</u>				
JLBC Staff	5.3%	-1.6%	3.8%	4.0%
UA - Low	4.3%	-2.3%	3.7%	4.9%
UA - Base	6.0%	0.3%	4.2%	5.1%
FAC	8.3%	-1.8%	9.4%	7.7%
Average:	6.0%	-1.4%	5.3%	5.5%
<u>Insurance Premium Tax</u>				
JLBC Staff	4.6%	-2.4%	4.0%	3.7%
UA - Low	6.6%	5.0%	4.5%	4.7%
UA - Base	7.0%	5.6%	5.1%	5.0%
FAC	6.0%	3.9%	5.2%	5.5%
Average:	6.1%	3.1%	4.7%	4.8%
JLBC Weighted Average:	5.6%	1.6%	4.3%	4.6%
UA Low Weighted Average:	5.1%	2.0%	3.8%	4.4%
UA Base Weighted Average:	6.4%	4.0%	4.7%	4.8%
FAC Consensus Weighted Average:	5.9%	2.2%	6.2%	6.1%
"Big-4" Weighted Average:	5.7%	2.4%	4.7%	5.0%
Consensus Weighted Average: *	6.0%	2.0%	4.0%	4.9%

* Represents ongoing revenue adjusted for small revenue categories

October 2022 4-Sector Forecast

Attachment B

GENERAL FUND REVENUE - FY 2022 - FY 2024

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	PREL. ACTUAL FY 2022	% CHANGE PRIOR YR	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,208,861.8	15.4%	7,632,628.4	5.9%	423,766.6	7,821,669.1	2.5%	189,040.7
Income - Individual	7,530,010.7	15.3%	6,450,015.1	-14.3%	(1,079,995.6)	5,913,170.6	-8.3%	(536,844.5)
- Corporate	1,163,468.9	37.4%	1,232,928.0	6.0%	69,459.1	1,216,223.2	-1.4%	(16,704.8)
Property	26,787.4	19.7%	26,198.1	-2.2%	(589.3)	25,674.2	-2.0%	(524.0)
Luxury - Tobacco	21,040.8	-6.8%	20,514.8	-2.5%	(526.0)	20,309.6	-1.0%	(205.1)
- Liquor	43,920.0	-2.3%	45,369.3	3.3%	1,449.4	46,730.4	3.0%	1,361.1
Insurance Premium	707,654.0	14.8%	750,537.8	6.1%	42,883.8	773,535.0	3.1%	22,997.1
Other Taxes	16,301.4	6.5%	17,002.3	4.3%	701.0	17,546.4	3.2%	544.1
Subtotal - Taxes	16,718,044.9	16.5%	16,175,193.9	-3.2%	(542,851.1)	15,834,858.4	-2.1%	(340,335.5)
Other Non-Tax Revenues:								
Lottery	183,680.2	75.4%	180,694.9	-1.6%	(2,985.4)	192,604.1	6.6%	11,909.2
Gaming Revenue	10,437.0	N/A	37,227.1	256.7%	26,790.1	20,348.6	-45.3%	(16,878.4)
Licenses, Fees and Permits	41,088.0	4.3%	42,772.6	4.1%	1,684.6	43,841.9	2.5%	1,069.3
Interest	46,383.0	5118.2%	180,000.0	288.1%	133,617.0	100,000.0	-44.4%	(80,000.0)
Sales and Services	30,351.5	16.5%	31,565.6	4.0%	1,214.1	32,417.8	2.7%	852.3
Other Miscellaneous	154,467.6	4.4%	150,563.6	-2.5%	(3,904.0)	153,250.1	1.8%	2,686.5
Transfers and Reimbursements	169,833.8	29.5%	110,487.6	-34.9%	(59,346.2)	129,775.9	17.5%	19,288.3
Disproportionate Share Revenue	87,833.5	3.5%	79,802.6	-9.1%	(8,030.9)	76,614.4	-4.0%	(3,188.2)
Subtotal - Other Non-Tax	724,074.6	29.7%	813,113.9	12.3%	89,039.3	748,852.9	-7.9%	(64,261.0)
Net Ongoing Revenue	17,442,119.5	17.0%	16,988,307.7	-2.6%	(453,811.8)	16,583,711.3	-2.4%	(404,596.5)
Urban Revenue Sharing (URS)	(756,388.3)	N/A	(1,106,958.7)	N/A	(350,570.4)	(1,564,826.3)	N/A	(457,867.7)
Net Ongoing Revenue w/ URS	16,685,731.2	18.5%	15,881,349.0	-4.8%	(804,382.2)	15,018,885.0	-5.4%	(862,464.2)
One-Time Financing Sources:								
Water Infrastructure Repayment	20,000.0	N/A	0.0	-100.0%	(20,000.0)	0.0	N/A	0.0
TPT Diversions	0.0	N/A	(2,287,489.6)	N/A	(2,287,489.6)	0.0	N/A	2,287,489.6
Newly Enacted Tax Reductions	0.0	N/A	(50,000.0)	N/A	(50,000.0)	0.0	N/A	50,000.0
Other One-Time Revenue Changes	0.0	N/A	(3,500.0)	N/A	(3,500.0)	0.0	N/A	3,500.0
Subtotal - One-Time Financing Sources	20,000.0	N/A	(2,340,989.6)	N/A	(2,360,989.6)	0.0	N/A	2,340,989.6
Subtotal - Revenues	16,705,731.2	18.3%	13,540,359.4	-18.9%	(3,165,371.8)	15,018,885.0	10.9%	1,478,525.4
Balance Forward	894,636.0	140.2%	4,710,000.0	426.5%	3,815,364.0	2,801,273.9	-40.5%	(1,908,726.1)
Total - Resources	17,600,367.2	21.5%	18,250,359.4	3.7%	649,992.2	17,820,158.9	-2.4%	(430,200.7)

October 2022 4-Sector Forecast

Attachment B

GENERAL FUND REVENUE - FY 2025 - FY 2026

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,147,511.1	4.2%	325,842.0	8,527,582.5	4.7%	380,071.4
Income - Individual	6,209,537.4	5.0%	296,366.9	6,528,036.8	5.1%	318,499.4
- Corporate	1,280,806.8	5.3%	64,583.6	1,350,796.5	5.5%	69,989.7
Property	25,212.0	-1.8%	(462.1)	24,833.8	-1.5%	(378.2)
Luxury - Tobacco	20,208.1	-0.5%	(101.5)	20,167.7	-0.2%	(40.4)
- Liquor	48,225.8	3.2%	1,495.4	49,865.5	3.4%	1,639.7
Insurance Premium	810,060.5	4.7%	36,525.6	848,604.8	4.8%	38,544.2
Other Taxes	18,406.2	4.9%	859.8	19,344.9	5.1%	938.7
Subtotal - Taxes	16,559,967.9	4.6%	725,109.5	17,369,232.3	4.9%	809,264.5
Other Non-Tax Revenues:						
Lottery	203,478.2	5.6%	10,874.1	214,753.0	5.5%	11,274.8
Gaming Revenue	22,280.6	9.5%	1,932.0	23,954.2	7.5%	1,673.5
Licenses, Fees and Permits	45,683.3	4.2%	1,841.4	47,647.7	4.3%	1,964.4
Interest	50,000.0	-50.0%	(50,000.0)	50,000.0	0.0%	0.0
Sales and Services	33,747.0	4.1%	1,329.1	35,198.1	4.3%	1,451.1
Other Miscellaneous	157,240.1	2.6%	3,990.1	161,493.5	2.7%	4,253.4
Transfers and Reimbursements	72,111.8	-44.4%	(57,664.1)	73,540.4	2.0%	1,428.6
Disproportionate Share Revenue	76,397.0	-0.3%	(217.4)	76,459.3	0.1%	62.3
Subtotal - Other Non-Tax	660,938.1	-11.7%	(87,914.8)	683,046.2	3.3%	22,108.1
Net Ongoing Revenue	17,220,905.9	3.8%	637,194.7	18,052,278.6	4.8%	831,372.6
Urban Revenue Sharing (URS)	(1,382,929.8)	N/A	181,896.6	(1,283,290.9)	N/A	99,638.9
Net Ongoing Revenue w/ URS	15,837,976.1	5.5%	819,091.3	16,768,987.7	5.9%	931,011.5
One-Time Financing Sources:						
Water Infrastructure Repayment	0.0	N/A	0.0	0.0	N/A	0.0
TPT Diversions	0.0	N/A	0.0	0.0	N/A	0.0
Newly Enacted Tax Reductions	0.0	N/A	0.0	0.0	N/A	0.0
Other One-Time Revenue Changes	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - Revenues	15,837,976.1	5.5%	819,091.3	16,768,987.7	5.9%	931,011.5
Balance Forward	0.0	-100.0%	(2,801,273.9)	0.0	N/A	0.0
Total - Resources	15,837,976.1	-11.1%	(1,982,182.6)	16,768,987.7	5.9%	931,011.5

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES WITH ONE-TIME FINANCING SOURCES

Attachment C

	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC
REVENUES				
Ongoing Revenues	\$18,492,824,100	\$18,853,726,600	\$19,614,566,600	\$20,578,004,000
Previously Enacted Tax Reductions	(1,504,516,400)	(2,270,015,300)	(2,393,660,700)	(2,525,725,400)
Urban Revenue Sharing	(1,106,958,700)	(1,564,826,300)	(1,382,929,800)	(1,283,290,900)
Net Ongoing Revenues	\$15,881,349,000	\$15,018,885,000	\$15,837,976,100	\$16,768,987,700
One-Time Revenues				
Balance Forward	\$4,710,000,000	\$2,801,273,900		
TPT Diversions	(2,287,489,600)			
Previously Enacted Tax Reductions	(50,000,000)			
Other One-Time Revenue Changes	(3,500,000)			
Subtotal One-Time Revenues	\$2,369,010,400	\$2,801,273,900	\$0	\$0
Total Revenues	\$18,250,359,400	\$17,820,158,900	\$15,837,976,100	\$16,768,987,700
EXPENDITURES				
Ongoing Operating Appropriations	\$14,204,683,200	\$14,599,442,100	\$15,221,078,600	\$15,977,411,000
Administrative Adjustments	170,000,000	170,000,000	170,000,000	170,000,000
Revertments	(215,000,000)	(215,000,000)	(215,000,000)	(215,000,000)
Subtotal Ongoing Expenditures	\$14,159,683,200	\$14,554,442,100	\$15,176,078,600	\$15,932,411,000
One-Time Expenditures				
Capital Outlay	\$250,257,400	\$31,422,000	\$29,832,100	\$23,700,000
Transportation Funding	83,000,000	10,000,000		
Reduce K-12 Rollover	65,000,000			
Pension Payoff (EORP Deposit)	60,000,000			
Operating One-Time Spending	1,138,340,500	137,311,200	157,274,200	108,018,600
Water Supply Funding (TPT Diversion in FY 23)		333,000,000	333,000,000	
New Medicaid Federal Match Reversion <u>1/</u>	(307,195,600)			
Subtotal One-Time Expenditures	\$1,289,402,300	\$511,733,200	\$520,106,300	\$131,718,600
Total Expenditures	\$15,449,085,500	\$15,066,175,300	\$15,696,184,900	\$16,064,129,600
Ending Balance <u>2/3/</u>	\$2,801,273,900	\$2,753,983,600	\$141,791,200	\$704,858,100

1/ Reflects revertments of savings for a higher federal Medicaid match rate.

2/ Reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

3/ The projected cash balance amounts would result in \$140 million of ongoing resources and \$2.5 billion of one-time resources being available during the FY 2024 budget process. These estimates of available resources would maintain \$100 million in the FY 2024 ending balance.

GENERAL FUND SPENDING BY BUDGET UNITS 1/ ONGOING FUNDING

	FY 2023 October FAC	FY 2024 \$ Above FY 2023	FY 2024 October FAC	FY 2025 \$ Above FY 2024	FY 2025 October FAC	FY 2026 \$ Above FY 2025	FY 2026 October FAC
EXPENDITURES							
Operating Budget							
-- Department of Administration	\$9,022,800		\$9,022,800		\$9,022,800		\$9,022,800
-- ADOA - School Facilities Division	28,211,600		28,211,600		28,211,600		28,211,600
-- Office of Administrative Hearings	966,800		966,800		966,800		966,800
-- African-American Affairs Commission	141,500		141,500		141,500		141,500
-- Arizona Department of Agriculture	14,577,700		14,577,700		14,577,700		14,577,700
-- AHCCCS	2,294,168,500	129,850,900	2,424,019,400	174,756,600	2,598,776,000	101,806,500	2,700,582,500
-- Attorney General	26,816,300		26,816,300		26,816,300		26,816,300
-- State Board for Charter Schools	3,292,600	(394,900)	2,897,700		2,897,700		2,897,700
-- Department of Child Safety	447,055,700	10,000,000	457,055,700	5,000,000	462,055,700		462,055,700
-- Commerce Authority	18,550,000		18,550,000		18,550,000		18,550,000
-- Community Colleges	89,531,400	4,271,300	93,802,700	3,209,000	97,011,700	3,409,500	100,421,200
-- Corporation Commission	771,600		771,600		771,600		771,600
-- Department of Corrections	1,398,205,100	7,226,800	1,405,431,900		1,405,431,900		1,405,431,900
-- County Funding	10,650,700		10,650,700		10,650,700		10,650,700
-- Arizona Criminal Justice Commission	4,600,000		4,600,000		4,600,000		4,600,000
-- Schools for the Deaf and the Blind	24,678,400		24,678,400		24,678,400		24,678,400
-- Office of Economic Opportunity	512,800		512,800		512,800		512,800
-- Department of Economic Security	1,071,653,800	115,282,700	1,186,936,500	109,690,900	1,296,627,400	80,463,300	1,377,090,700
-- State Board of Education	3,392,800	(30,900)	3,361,900		3,361,900		3,361,900
-- Department of Education	6,837,309,700	219,674,500	7,056,984,200	320,187,800	7,377,172,000	573,557,600	7,950,729,600
-- Dept. of Emergency & Military Affairs	16,181,400		16,181,400		16,181,400		16,181,400
-- Department of Environmental Quality	15,000,000		15,000,000		15,000,000		15,000,000
-- State Board of Equalization	778,300	(50,000)	728,300		728,300		728,300
-- Board of Executive Clemency	1,314,800		1,314,800		1,314,800		1,314,800
-- Dept. of Forestry and Fire Management	53,068,000	(2,991,400)	50,076,600		50,076,600		50,076,600
-- Department of Gaming	16,956,500		16,956,500		16,956,500		16,956,500
-- Office of the Governor	9,160,300		9,160,300		9,160,300		9,160,300
-- Gov's Ofc of Strategic Planning and Budgeting	2,900,100		2,900,100		2,900,100		2,900,100
-- Department of Health Services	116,429,700	(1,000,000)	115,429,700		115,429,700		115,429,700
-- Arizona Historical Society	3,123,200		3,123,200		3,123,200		3,123,200
-- Prescott Historical Society	978,900		978,900		978,900		978,900
-- Arizona Dept. of Homeland Security	10,000,000		10,000,000		10,000,000		10,000,000
-- Industrial Commission	84,600		84,600		84,600		84,600
-- Dept. of Insurance and Financial Institutions	8,024,500		8,024,500		8,024,500		8,024,500
-- Judiciary	157,683,100	5,410,800	163,093,900	1,136,000	164,229,900		164,229,900
-- Department of Juvenile Corrections	37,437,300		37,437,300		37,437,300		37,437,300
-- State Land Department	12,799,700		12,799,700		12,799,700		12,799,700
-- Legislature							
Auditor General	25,854,500		25,854,500		25,854,500		25,854,500
House of Representatives	21,448,600		21,448,600		21,448,600		21,448,600
Joint Legislative Budget Committee	3,079,600		3,079,600		3,079,600		3,079,600
Legislative Council	9,395,800		9,395,800		9,395,800		9,395,800
Ombudsman	1,489,800		1,489,800		1,489,800		1,489,800
Senate	17,983,000		17,983,000		17,983,000		17,983,000
SUBTOTAL - Legislature	\$79,251,300	\$0	\$79,251,300	\$0	\$79,251,300	\$0	\$79,251,300
-- State Mine Inspector	2,261,400		2,261,400		2,261,400		2,261,400
-- Navigable Stream Adjudication Commission	139,100		139,100		139,100		139,100
-- Department of Public Safety	325,854,600	6,345,400	332,200,000	7,000,000	339,200,000		339,200,000

GENERAL FUND SPENDING BY BUDGET UNITS 1/

ONGOING FUNDING

	FY 2023 October FAC	FY 2024 \$ Above FY 2023	FY 2024 October FAC	FY 2025 \$ Above FY 2024	FY 2025 October FAC	FY 2026 \$ Above FY 2025	FY 2026 October FAC
-- Public Safety Personnel Retirement System	6,000,000		6,000,000		6,000,000		6,000,000
-- State Real Estate Department	3,142,500		3,142,500		3,142,500		3,142,500
-- Department of Revenue	59,293,900		59,293,900		59,293,900		59,293,900
-- Secretary of State	17,665,900	70,000	17,735,900		17,735,900	(4,000,000)	13,735,900
-- Tax Appeals, State Board of	308,100		308,100		308,100		308,100
-- Office of Tourism	8,465,600		8,465,600		8,465,600		8,465,600
-- State Treasurer	4,660,800		4,660,800		4,660,800		4,660,800
-- Governor's Office on Tribal Relations	68,100		68,100		68,100		68,100
-- Universities	873,522,900	589,100	874,112,000	156,100	874,268,100	596,800	874,864,900
-- Department of Veterans' Services	11,295,700		11,295,700		11,295,700		11,295,700
-- Department of Water Resources	24,569,300		24,569,300		24,569,300		24,569,300
-- Phoenix Convention Center Payment	24,999,400	499,200	25,498,600	500,100	25,998,700	498,700	26,497,400
-- Rio Nuevo District	17,000,000		17,000,000		17,000,000		17,000,000
-- New Pension Payoff FY 24 Savings		(99,840,200)	(99,840,200)		(99,840,200)		(99,840,200)
-- Unallocated FY 23 Rent Adjustments	(1,200)	1,200					
-- Unallocated FY 23 HRIS Fee Adjustments	2,100	(2,100)					
-- Unallocated FY 23 Salary Adjustments	153,500	(153,500)					
Total - Operating Budget	\$14,204,683,200	\$394,758,900	\$14,599,442,100	\$621,636,500	\$15,221,078,600	\$756,332,400	\$15,977,411,000
-- Water Supply Funding		333,000,000	333,000,000		333,000,000	(333,000,000)	
-- New Medicaid Federal Match Reversion	(307,195,600)	307,195,600					
-- Capital Outlay	250,257,400	(218,835,400)	31,422,000	(1,589,900)	29,832,100	(6,132,100)	23,700,000
-- Reduce K-12 Rollover	65,000,000	(65,000,000)					
-- Pension Payoff (EORP Deposit)	60,000,000	(60,000,000)					
-- Transportation Funding	83,000,000	(73,000,000)	10,000,000	(10,000,000)			
-- Operating One-Time Spending	1,138,340,500	(1,001,029,300)	137,311,200	19,963,000	157,274,200	(49,255,600)	108,018,600
-- Administrative Adjustments	170,000,000		170,000,000		170,000,000		170,000,000
-- Revertments	(215,000,000)		(215,000,000)		(215,000,000)		(215,000,000)
Total Spending	\$15,449,085,500	(\$382,910,200)	\$15,066,175,300	\$630,009,600	\$15,696,184,900	\$367,944,700	\$16,064,129,600

1/ Individual agency spending amounts listed above exclude "Operating One-Time Spending" amounts. These amounts are accounted for in the "Operating One-Time Spending" line and are summarized on the "Summary of One-Time General Fund Adjustments" table (see page 15).

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC
Operating				
ADOA - K-12 Transportation Grants	20,000,000			
ADOA - Healthcare Interoperability Grants	12,000,000			
ADOA - Ballot Paper Testing	1,000,000			
ADOA - Secure Ballot Boxes	500,000			
ADOA - Fire Incident Management System Grants	6,100,000			
ADOA - County Sheriff Interoperability	20,000,000			
ADOA/Automation Projects Fund - Charter Board Upgrade	1,500,000	1,500,000		
ADOA/Automation Projects Fund - Business One-Stop Phase 2	15,614,300			
ADOA/Automation Projects Fund - Agriculture IT Projects/Cloud Migration	2,000,000			
ADOA/Automation Projects Fund - DOR Tax System	9,632,700	11,794,100	11,847,300	11,725,500
ADOA/SFD - Building Renewal Grants	183,300,000			
ADOA/SFD - New School Construction (FY 22 Authorization)	47,950,000			
ADOA/SFD - New School Construction (FY 22 Budget - Yuma HS Project)	16,515,200			
ADOA/SFD - New School Construction (FY 23 Budget - Kirkland Site Conditions)	400,000			
ADOA/SFD - New School Construction (FY 23 Authorization)	48,253,900	31,753,900		
ADOA/SFD - New School Construction (FY 24 Authorization)		363,200		
ADOA/SFD - New School Construction (FY 25 Authorization)			69,226,900	69,226,900
ADOA/SFD - New School Construction (FY 26 Authorization)				27,066,200
Agriculture - Livestock Operator Grants	10,000,000			
AHCCCS - Management Information System Replacement	500,000	700,000		
AHCCCS - Secure Behavioral Health Residential Facilities	25,000,000			
Arts Commission - Arts Trust Fund Deposit	5,000,000			
Attorney General - Missing and Murdered Indigenous Persons Investigations	2,000,000			
DCS - Higher Congregate Care Provider Rates	19,238,200			
DCS - Backfill Potential Loss of Federal Funds	5,900,000			
Commerce - Major Events Fund Deposit (4-Year Pilot Thru FY 25)	7,500,000	7,500,000	7,500,000	
Commerce - Business Water Infrastructure	15,000,000			
Community Colleges - Rural Funding	7,000,000			
Community Colleges - Southern Arizona First Responder Academy	6,250,000			
Corrections - Vehicle Purchases	7,488,400			
Corrections - Community Treatment For Imprisoned Women And Their Children	2,000,000			
Counties/ADOA - Re-Entry Planning Services	7,000,000	7,000,000		
ACJC - Rural County Attorney Diversion Program Grants	10,000,000			
ASDB - Increase Bus Transportation Capacity	1,106,200			
DES - IT Infrastructure/Security - Development Costs	1,400,500			
DES - DD Group Home Monitoring Pilot	1,200,000	1,200,000	1,200,000	
DES - Area Agencies on Aging Provider Rate Increases	2,000,000			
ADE - Childhood Trauma Awareness/Prevention Grants	100,000			
ADE - Office of Indian Education	5,000,000			
ADE - Code Writers Initiative Program	1,000,000			
ADE - Foster Youth Transitional Housing	10,000,000			
ADE - Electronic Incident Prevention Program	150,000			

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC
ADE - Postsecondary Success Program	1,000,000			
ADE - Assessment Funding	4,000,000			
DEMA - Readiness Center Maintenance Backlog	13,300,000			
DEQ - Water Quality Fee Fund Deposit	6,400,000			
DEQ - Direct Potable Reuse of Treated Wastewater	1,500,000	1,500,000		
Forestry - One-Time Vehicle Purchases	3,190,000			
Forestry - Wildfire Expenses	65,000,000			
Forestry - Mount Lemmon Fire District Renovations	2,230,900			
Forestry - Gila River Nonnative Species Eradication	5,000,000			
Forestry - Good Neighbor/Fire Marshal Vehicle Purchases	730,000			
DHS - Family Health Pilot Program	3,000,000			
DHS - Accelerated Nursing	50,000,000			
DHS - ASH Surveillance System Upgrade	7,100,000			
DHS - Homeless Pregnant Women Services	300,000			
DHS - Arizona Nurse Education Investment Pilot Program	15,000,000	15,000,000	15,000,000	
DHS - Preceptor Grant Program for Graduate Students	500,000	500,000	500,000	
AZ Dept. of Homeland Security - State Cybersecurity Controls	2,000,000			
Housing - Housing Trust Fund Deposit	60,000,000			
Housing - Homeless Services Grant Pilot	10,000,000			
IRC - Commission Funding		1,500,000		
Judiciary - Supreme Court - Digital Evidence Storage	490,000			
Judiciary - Supreme Court - Automation Revenue Shortfall	1,000,000			
Judiciary - Supreme Court - Records Sealing	500,000			
Judiciary - Court of Appeals - Additional 6 Judges - Capital Costs	900,000			
Land - Appraisal Development	1,500,000			
Legislature - Auditor General - K-12 Federal Funds Oversight	200,000			
Legislature - Auditor General - Adult Protective Services Audit	300,000			
Legislature - House of Representatives	5,000,000			
Legislature - Senate	5,000,000			
Mine Inspector - Abandoned Mines Program Equipment/Vehicle Costs	522,000			
Parks - Heritage Fund Deposit	2,500,000			
Parks - State Lake Improvement Fund Deposit	4,000,000			
DPS - 400 Patrol Vehicle Bumper Tethers	1,800,000			
DPS - Expand Public Services Portal	2,631,500			
DPS - Upgrade Recently Purchase Helicopter	2,559,600			
DPS - Purchase 1 Helicopter	10,900,000			
DPS - Replace 276 Vehicles	11,709,300			
DPS - Civil Air Patrol	5,000,000			
DPS - K-9 Facility Improvements and Vehicles	1,900,000			
SOS - Early Ballot Tracking System	250,000			
SOS - Election Funding	4,000,000			
Tourism - Southern Arizona Sports, Tourism and Film Authority	750,000			
Tourism - Wine Promotion	1,000,000			

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC
Treasurer - Crime Victim Public Safety Notifications	3,800,000			
Treasurer - Arizona Health Innovation Trust Fund Deposit	100,000			
Treasurer - Election Security Funding		5,000,000	6,000,000	
Treasurer - County Election Funding		6,000,000		
Universities - ABOR - Arizona Veterinary Loan Assistance Program	6,000,000			
Universities - ABOR - Food Product and Safety Lab	10,900,000			
Universities - ABOR - Enclosed Feeding Facility	9,500,000			
Universities - ABOR - Camp Verde Meat Processing Facility	9,700,000			
Universities - ASU - Operating Funding	21,200,000	21,200,000	21,200,000	
Universities - ASU - Operating/Capital Funding	54,000,000			
Universities - NAU - Operating Funding	10,100,000	10,100,000	10,100,000	
Universities - NAU - Operating/Capital Funding	26,000,000			
Universities - UA - Operating Funding	14,700,000	14,700,000	14,700,000	
Universities - UA - Wind Tunnel Upgrades	3,000,000			
Universities - UA - Agriculture Workforce Program	500,000			
Universities - UA - Veterinary Diagnostic Lab	2,500,000			
Universities - UA - Natural Resource Policy Center Endangered Species Study	450,000			
Veterans' Services - Tribal Ceremonies for Members Discharged From Military	1,000,000			
DWR - New River Flood Insurance Study	350,000			
WIFA - Water Project Assistance Grants	10,000,000			
Other - HITF Employer Premium Increase	103,277,800			
Subtotal - Operating Funding	\$ 1,138,340,500	\$ 137,311,200	\$ 157,274,200	\$ 108,018,600
Pension Payoff (EORP Deposit)	\$ 60,000,000			
New Medicaid Federal Match Reversion	\$ (307,195,600)			
Reduce K-12 Rollover	\$ 65,000,000			
Water Supply Funding		\$ 333,000,000	\$ 333,000,000	
Capital Outlay				
Capital - ADOA - Building Renewal Funding	37,594,200			
Capital - ADOA - 1616 and 1688 W. Adams Renovation (Demolish 1624 W. Adams)	47,274,000			
Capital - ADOA - Demolition (1818 W. Adams/1850 W. Jackson/1720 W. Madison)	1,568,000			
Capital - ADOA - Homeless Veterans Housing (Fort Whipple)	2,386,600			
Capital - ADOA - Astronomy Centers	7,500,000			
Capital - ADOA - Navajo Nation Lukachukai Veterans Multipurpose Complex	500,000			
Capital - ADOA - Kayenta Judicial Complex	2,000,000			
Capital - ADOA - Little Colorado River Visitor Center (Navajo County)	1,000,000			
Capital - ADOA - Navajo Technical University Environmental Testing Lab	4,000,000			
Capital - ADOA - Dine College Student Center Construction	8,000,000			
Capital - ADOA - Navajo Nation Teesto Multipurpose Community Center Site	1,000,000			

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC	FY 2026 October FAC
Capital - ADOA - Navajo Nation Dilkon Center Improvements	3,000,000			
Capital - ADC - Building Renewal Funding	30,551,100			
Capital - ADC - Replace Evaporative Cooling with AC Systemwide	47,600,000	31,422,000	29,832,100	23,700,000
Capital - ADC - Doors/Locks/Fire Systems	20,400,000			
Capital - ASDB - Food Service Equipment	350,000			
Capital - ASDB - Security Upgrades (Electronic Locks)	420,000			
Capital - ASDB - Classroom Notification Replacement	96,000			
Capital - DEMA - Fire Suppression	1,151,100			
Capital - DEMA - Tucson Readiness Center Construction Cost Increase	1,800,000			
Capital - Judiciary - Air Handler and Sewer Replacement	3,200,000			
Capital - DJC - Replumbing	400,000			
Capital - Leg Council - Capitol Renovations	5,700,000			
Capital - DPS - Purchase Building and Property and Evidence Vehicle Storage	1,016,400			
Capital - DPS - Replace 25 Remote Officer Housing Units and Adds 5 Units	9,750,000			
Capital - ABOR - Mining, Mineral and Natural Resources Museum	12,000,000			
Subtotal - Capital Outlay	\$ 250,257,400	\$ 31,422,000	\$ 29,832,100	\$ 23,700,000
Transportation Funding				
Loop 101 Slip Ramp	25,000,000			
Ruby Road Bridge Improvements	3,000,000			
Cesar Chavez Blvd Widening/Improvements	33,000,000			
US-89 & N. Lake Powell Blvd Traffic Circle/Control Device	5,000,000			
Ganado School Loop Road (County Road 420)	1,000,000			
N-9402 Improvements	10,000,000			
N-35 Improvements	6,000,000			
SR 97 Improvements		10,000,000		
Subtotal - Transportation Funding	\$ 83,000,000	\$ 10,000,000	\$ -	\$ -
Total - One-Time Spending	\$ 1,289,402,300	\$ 511,733,200	\$ 520,106,300	\$ 131,718,600

1/ The displayed amounts reflect one-time General Fund adjustments included in the FY 2023 enacted budget's multi-year spending plan. The Legislature makes the one-time classification as part of its 3-year spending plan. These items are not included in the ongoing agency spending amounts listed on pages 13 and 14.