

## JLBC Staff – October Budget Update

### Summary of the General Fund Budget Outlook

- General Fund revenues are currently growing rapidly – up 19.3% for the first quarter of FY 2021.
- The outcome of pending referenda, litigation and federal policy decisions will affect the level of available resources.
- As a result, numerous scenarios are possible for the level of available resources. For planning purposes, we project an available ongoing balance of \$700 million and a one-time balance of \$1.7 billion under a "maximum commitment" scenario.

### Caveats to the October FAC \$700 Million/\$1.7 Billion Scenario

This "maximum commitment" scenario 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 the referenda or the litigation. The October FAC scenario assumes:

- Proposition 208 is upheld in litigation.
- We put \$918 million in reserve pending the outcome of the Proposition 208 litigation. The General Fund could be currently holding \$918 million of General Fund income tax collections that belong to Proposition 208. If the proposition is upheld, these monies will be transferred to the Proposition 208 fund. If the proposition is not upheld, the state will issue refunds.
- The enacted income tax reductions, including the triggers, go into effect.
- The federal government does not extend the enhanced Medicaid match rate past March 2022. The federal government just extended the higher rate from December 2021 to March 2022.

### Reporting Requirements

The FY 2022 General Appropriation Act requires the JLBC Staff to report by October 15, 2021 as to whether FY 2022'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 2022 projected ending balance is now \$2.62 billion, or \$2.42 billion higher than the \$202 million 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 2021 ending balance estimates and updated its 4-sector revenue projections in conjunction with the October 28<sup>th</sup> Finance Advisory Committee (FAC) meeting. In addition, the JLBC Staff

has revised its spending projections through FY 2025 based on current statutory funding formulas.

**FY 2021 Actuals**

The enacted budget projected the FY 2021 ending balance to be \$442 million. The Executive's preliminary FY 2021 ending balance projection is \$894 million, or a net increase of \$452 million above the enacted budget. This increase is mostly the result of \$430 million in higher-than-anticipated revenues (*see discussion below*). In addition, state spending was \$(22) million lower-than-budgeted. The Arizona Department of Administration is required by law to publish the final FY 2021 ending balance by December 1, 2021.

Higher-than-Expected Revenues – Excluding Urban Revenue Sharing, the beginning balance and one-time transfers, General Fund revenue grew 28.3% in FY 2021, the largest such increase in more than 40 years. Without the deferral of Individual Income Tax collections from April 2020 to July 2020, the increase would have been 17.9%.

Individual Income Tax accounted for \$241 million of the total FY 2021 net revenue gain of \$430 million. Sales Tax and Corporate Income Tax accounted for \$97 million and \$95 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.

	<b>Enacted Budget</b>	<b>Prelim Actual</b>	<b>Above/(Below) Forecast (\$ in Millions)</b>
Sales and Use	14.0%	15.8%	\$97
Individual Income	38.9%	44.2%	241
Corporate Income	47.2%	65.5%	95
Insurance Premium	12.3%	15.2%	15
Other	<u>4.4%</u>	<u>1.8%</u>	<u>(18)</u>
<b>Total</b>	<b>24.5%</b>	<b>28.3%</b>	<b>\$430</b>

The state's extraordinary growth in FY 2021 was likely attributable to several factors, including:

- \$51 billion in federal pandemic aid led to an 8% increase in Arizona personal income during FY 2021. A portion of this aid ultimately resulted in higher Sales Tax and Income Tax collections.
- A shift in consumer spending from services (mostly nontaxable) to taxable durable goods, boosting Sales Tax collections.

- A 16% gain in the stock market and 20% gain in home prices likely boosted capital gains that are subject to Income Tax.
- A low FY 2020 "base" due to the economic shutdown in the spring of 2020.

### **Updated October Revenue Forecast**

Excluding Urban Revenue Sharing, one-time transfers and new tax reductions, the enacted budget forecast assumed total General Fund revenue of \$14.16 billion in FY 2022. After adjusting for the income tax deferral, the enacted budget was based on a General Fund revenue decline of (1.3)%.

General Fund revenue was up by 19.3% in the first quarter of FY 2022, after adjusting for the deferral. This large overage has led to a FY 2022 year-to-date forecast gain of \$639 million above the enacted budget forecast.

Based on the first quarter experience, the 4-sector forecast updates our revenue projections through FY 2025. This forecast is based on equal input from the following: the FAC panelists, the University of Arizona's "base" and "more cautious" econometric revenue models, and JLBC Staff.

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.

The updated October 4-sector forecast was prepared prior to tax law reductions, changes in Urban Revenue Sharing and one-time financing sources (such as fund transfers and the beginning balance).

Under the October 4-sector forecast, net General Fund revenue is projected to grow by 9.8% in FY 2022 without the deferral. Given the 19.3% first quarter growth, General Fund revenues would have to grow 7.0% over the remaining 9 months of FY 2022. This projection appears cautious given the growth in the last year.

In FY 2023 through FY 2025, the projected 4-sector revenue growth rates are 3.5%, 4.9% and 4.8%, respectively. Details of the October 2021 4-sector forecast are summarized in *Table 2 and Attachments A and B*.

Excluding the cash balance, Urban Revenue Sharing, fund transfers and tax law changes, total base General Fund revenue is expected to increase from \$15.74 billion in FY 2022 to \$16.29 billion in FY 2023. The projected FY 2024 and FY 2025 base revenue estimates are \$17.09 billion and \$17.92 billion, respectively.

Following *Table 2* is a discussion of the main trends in the 3 largest revenue categories.

**Table 2**

**October FAC Forecast**  
**Base Revenue Growth Rates Without Impact of Deferral**  
**Excludes Fund Transfers/URS**

	<b>FY 2022</b> <b><u>YTD % Change</u></b>	<b>FY 2022</b> <b><u>% Change</u></b>	<b>FY 2023</b> <b><u>% Change</u></b>
Sales Tax	15.6%	9.1%	3.5%
Individual Income	18.1%	9.6%	4.9%
Corporate Income	23.5%	8.8%	3.5%
Insurance Premium	29.7%	6.5%	2.6%
Other Revenues	<u>104.3%</u>	<u>21.2%</u>	<u>(7.4)%</u>
<b>Total</b>	<b>19.3%</b>	<b>9.8%</b>	<b>3.5%</b>

Sales Tax – Year over year, Sales Tax revenue increased by 15.6% in the first quarter of FY 2022. This increase comes on top of the 11.0% growth rate recorded in the first quarter of FY 2021. The surge in sales tax collections has been fueled by various federal pandemic-related assistance programs.

Another contributing factor was a sizeable shift of consumer spending from services to goods during the pandemic. Based on national personal consumption expenditure data, consumer spending on durable goods increased by 25.4% in the 4 most recent quarters compared to a slight increase of 0.7% for spending on services. This helped the state since sales tax is imposed on goods but not services.

The strong recovery in leisure and hospitality industry that began in April of this year has also contributed to the strong sales tax growth and is expected to continue through the rest of the year. Sales tax collections from restaurants and bars are up by 35.2%, year to date. Comparable growth rates for the amusements and lodging classifications are 256.3% and 68.8%, respectively.

Under the 4-sector forecast, sales tax is expected to grow 9.1% for all of FY 2022. Given the first quarter growth of 15.6%, the remaining 9 months would have to increase by 7.1%.

Sales tax gains are expected to be moderate in FY 2023 through FY 2025 in the range of 3.5% to 4.9%.

Income Tax – After adjusting for the impact of the deferral, the first quarter Individual Income Tax (IIT) growth is an estimated 18.1%, as shown in *Table 2* above.

IIT withholding grew by 11.9% in the first quarter of FY 2022, which is likely due to a combination of substantial job gains and strong wage growth. Arizona employers added 161,400 net new jobs in the first 3 months of FY 2022 over the same period in the prior year.

This corresponds to nonfarm employment growth of 5.8%. Average hourly earnings of Arizona private sector employees increased by 2.8% in the first quarter of FY 2022.

After adjusting for the deferral, estimated and final payments are up by 50.3% through the first 3 months of FY 2022. The large growth in payments may be in part due to strong stock market performance and real estate capital gains.

Compared to IIT's overall 18.1% first quarter growth, the 4-sector forecast envisions a year-end gain of 9.6%. In the remaining 9 months, IIT would need to increase 7.1% to achieve the forecast.

In FY 2023 through FY 2025, the 4-sector foresees base IIT growth of between 4.9% and 5.3%. These estimates are prior to the tax law changes approved during the 2021 Regular Session. The tax reductions are discussed in more detail below.

Corporate Income Tax – Through September, Corporate Income Tax (CIT) collections are up by 23.5%. This follows a 65.5% increase in FY 2021. The surge in Corporate Income Tax collections is likely due to strong corporate profitability. According to the Bureau of Economic Analysis (BEA), before-tax profits were up by 45% in the second calendar quarter compared to 2020. S&P 500 operating earnings, another measure of corporate profitability, are estimated to have also grown by 45% in the second calendar quarter.

The 4-sector forecast projects a year-end FY 2022 gain of 8.8% in corporate collections. With the 23.5% first quarter growth, CIT would have to increase by 4.0% to match the forecast.

As in the other tax categories, the 4-sector has lower CIT growth rates after FY 2022. The percent gains would range between 3.5% and 5.3% in FY 2023 through FY 2025.

## **Revenue/Tax Policy Implementation**

Beyond updating the base revenue forecast, the JLBC Staff has also updated its FY 2022 – FY 2025 estimates of revenue and tax policy changes enacted as part of the FY 2022 budget.

### Enacted Tax Reductions

The Legislature enacted numerous tax reductions in the 2021 session. We have updated our estimates of these reductions in line with the October forecast. *See Table 3.*

**Tax Rate Reductions** – Laws 2021, Chapter 412, the Tax Omnibus bill, reduced the current 4 Individual Income Tax brackets to 2 starting in Tax Year (TY) 2022/FY 2023. The rates will be 2.55% for taxable income up to \$27,272 in a single household and \$54,544 in a married filing jointly household. The rate will become 2.98% above those thresholds. We estimate that this tax reduction will cost \$1.18 billion in FY 2023.

Further rate reductions are contingent upon FY 2022 and FY 2023 General Fund revenues exceeding the enacted budget forecast and reaching certain "trigger" levels. The TY 2023 rates will be determined in September 2022 and the TY 2024 rates in September 2023. Excluding the beginning balance, the "trigger" target is set at \$12.78 billion in FY 2022 and \$12.98 billion in FY 2023 and each year thereafter. Based on the October forecast, we currently project that the state will exceed both trigger targets and we have incorporated the additional rate cuts into our estimates. The FY 2022 October forecast is \$14.27 billion compared to the \$12.78 billion trigger. The FY 2023 forecast is \$13.61 billion compared to the \$12.98 billion trigger.

Under the triggers, the rates will be reduced to 2.53%/2.75% starting in TY 2023/FY 2024 and a single rate of 2.5% in TY 2024/FY 2025. The FY 2024 reductions will cost an additional \$(282) million and the FY 2025 reductions will result in a further additional cost of \$(365) million in FY 2025.

Compared to our base revenue forecast, the total revenue rate reduction will be \$(1.18) billion in FY 2023, \$(1.53) billion in FY 2024 and \$(1.97) billion in FY 2025.

A voter referendum has been submitted to the Secretary of State for signature validation which would put these rate reductions on the November 2022 general election ballot for approval. If sufficient signatures are verified, we will need to reserve the dollar value of the tax reductions on the balance sheet pending the election. There is also litigation challenging the legal validity of the referendum effort.

**4.5% Maximum Income Tax Rate** - Pursuant to Laws 2021, Chapter 411 (Revenue Budget Reconciliation Bill) beginning in TY 2021, the total individual income tax rate for taxable income above \$250,000/\$500,000, including the Proposition 208 surcharge, cannot exceed 4.5%. The combined regular/Proposition 208 rate for these households would otherwise be 8.0% in TY 2021.

Proposition 208 will receive the proceeds from the 3.5% surcharge. The remaining 1% will be deposited in the General Fund. Based on the October forecast, this provision is estimated to reduce General Fund revenues by \$(918) million in FY 2022. The revenue impact is less in future years and reaches \$(457) million by FY 2025. The cost declines as the top combined regular/Proposition 208 rate falls from 8.0% in FY 2022 to 6.0% in FY 2025.

There is pending Proposition 208 litigation that would affect the Maximum Income Tax rate. In *Fann v. Arizona*, the Arizona Supreme Court has ruled that the surcharge is unconstitutional if it causes the K-12 Aggregate Expenditure Limit to be exceeded. A trial court has yet to make that determination.

If Proposition 208 is ultimately ruled invalid, then the General Fund would not incur the cost of the 4.5% maximum tax rate as outlined above.

<b>October FAC Forecast Tax Reductions</b>				
	<b>\$ in millions</b>			
	<b>FY '22</b>	<b>FY '23</b>	<b>FY '24</b>	<b>FY '25</b>
Income Tax Rate Reduction				
- Reduce to 2.55%/2.98% rate		(1,183)	(1,246)	(1,309)
- Reduce to 2.53%/2.75% rate			(282)	(297)
- Reduce to single 2.5% rate				(365)
- Total Rate Reduction		(1,183)	(1,528)	(1,971)
4.5% Maximum IIT Rate	(918)	(545)	(507)	(457)
Alternative Tax Rate (SB 1783)	229	192	182	191
Other Enacted Reductions	(48)	(38)	(41)	(44)
<b>Total Reductions</b>	<b>(737)</b>	<b>(1,574)</b>	<b>(1,894)</b>	<b>(2,281)</b>

**Alternative Income Tax Rate (SB 1783)** - Laws 2021, Chapter 436 (SB 1783) provides an option for individuals with certain types of income, such as interest and dividends, business profits, and capital gains from the sale of certain capital assets, to be taxed under either the regular individual income tax or an alternative income tax established by SB 1783. An individual who elects to be taxed under SB 1783's alternative income tax is not subject to the 3.5% Proposition surcharge. Instead, SB 1783 alternative income tax collections will be deposited into the General Fund.

The SB 1783 alternative tax rate is 3.5% in TY 2021 and 3.0% in TY 2022. The rate will be further reduced to 2.8% in TY 2023 and TY 2024 and 2.5% in TY 2025.

The shift of taxable income from the regular income tax to the alternative income tax results in a General Fund savings relative to the 4.5% maximum tax rate. SB 1783 reduces the cost of the 4.5% maximum regular rate as income is diverted to the alternative rate. This savings is estimated to be \$229 million in TY 2021/FY 2022 and subsequently declines to \$191 million by TY 2024/FY 2025.

The SB 1783 fiscal impact will also depend on the outcome of referenda and litigation. As with the rate reductions, a voter referendum has been submitted to the Secretary of State for signature validation which would put the SB 1783 alternative rate structure on the November 2022 general election ballot for approval. In addition, the Proposition 208 litigation would also affect the ultimate dollar impact of this policy.

**Other Tax Impacts** – In the 2021 session, the Legislature approved several smaller tax provisions, which are estimated to reduce revenue by \$(48) million in FY 2022 to \$(44) million in FY 2025. The main reduction is exempting all veterans' pension payments from state Individual Income Tax.

**Summary** – Table 3 displays the estimated total impact of these tax provisions between FY 2022 and FY 2025. The net revenue impact is \$(737) million in FY 2022, \$(1.57) billion in FY 2023, \$(1.89) billion in FY 2024 and \$(2.28) billion in FY 2025.

Urban Revenue Sharing – Urban Revenue Sharing (URS) involves annual distributions to all cities in the state. The amount is a percentage of the combined total of Individual and Corporate Income Tax collections from 2 years prior. Due to the deferral of Income Tax collections from FY 2020 to FY 2021, URS will be lower than normal in FY 2022 and higher than normal in FY 2023. The Individual Income Tax reductions described above will begin to affect URS distributions in FY 2024.

In addition, Laws 2021, Chapter 412 (Tax Omnibus) increases the URS distribution from 15% to 18% starting in FY 2024.

URS was \$828 million in FY 2021 and will drop to \$756 million in FY 2022 before rising to \$1.11 billion in FY 2023. All 3 numbers are final since they are based on actual collections from 2 years prior.

In FY 2024, URS is projected to grow to \$1.21 billion, followed by an FY 2025 URS allocation of \$1.13 billion.

Gaming Revenue – Laws 2021, Chapter 234 authorized various gaming expansions in the state, including: event wagering (sports betting), fantasy sports contests and several new Lottery games (keno and a mobile draw game). The General Fund receives license fees as well as a percentage of the "net win" of gaming operators.

The JLBC Staff's original fiscal note assumed that the gaming expansion would generate \$34 million for the General Fund in third year of operation as the market matured. The enacted budget instead assumed Chapter 234 would generate \$200 million of General Fund revenue in FY 2023 and \$300 million in FY 2024.

We have reassessed our fiscal note estimates as part of the October forecast update. For example, we now know the level of license fees and the number of licensed operators. In addition, the prior estimate assumed that the Arizona Department of Gaming (ADG) would establish a fee/tax rate of 8% - our analysis now uses the actual rates for event wagering (8% retail/10% mobile) and fantasy sports (5%). We also have information on the level of transactions for event wagering. Due to timing issues, however, we effectively do not yet have information on the state's proceeds from a percentage of net win.

As part of our reassessment, we adjusted our license fee collections upward in line with the actual fees and number of operators. Based on comparison states, we extrapolated the transaction data to estimate the total volume of the Arizona event wagering market. Wagering volume is assumed to grow 15% in FY 2023 with lower growth rates in future years (10% in FY 2024 and 7% in FY 2025) as the gaming market reaches a mature size.



The state has not yet implemented the new Lottery keno and mobile draw games.

We now project that the gaming expansion will generate \$26 million in FY 2022. By FY 2025, General Fund proceeds are expected to reach \$40 million as the market expands over time. Of that FY 2025 amount, \$20 million would be from event wagering, \$1 million from fantasy sports and \$18 million from Lottery keno and mobile draw.

### Spending Projections

As part of the October FAC process, we have updated our FY 2022 - FY 2025 projection of Baseline spending. (See Attachment C and D.) These amounts reflect spending changes associated with statutory and other active funding formulas. In addition, it reflects changes that were assumed in the FY 2022 enacted budget's 3-year spending plan. For example, our estimates delete spending labeled as one-time in that budget.

Overall state spending is projected to increase by \$277 million in FY 2023, which represents an increase of 2.2% from the prior year. Total FY 2023 General Fund spending would be \$12.82 billion.

The increase in FY 2023 Baseline spending is due to ongoing spending requirements increasing by \$406 million (see Table 5), with that partially offset by the elimination of \$(129) million of one-time spending (see Table 6).

Under the Baseline projections, spending is projected to grow by \$455 million in FY 2024 (3.5% growth) and \$479 million in FY 2025 (3.6% growth). (See Table 4.)

	<u>\$ in B</u>	<u>% Growth</u>
FY 2022	12.54	(7.7)
FY 2023	12.82	2.2
FY 2024	13.28	3.5
FY 2025	13.76	3.6

We have adjusted the FY 2022 spending estimate to reflect a change in assumptions for savings from the increased federal match rate through the end of the federal public health emergency. Previously, the enacted budget had assumed the enhanced match rate would be in effect through December 31, 2021. The federal emergency has now been extended, which results in the enhanced federal match rate currently being in effect through March 31, 2022. This extension will generate an additional \$(133) million of FY 2022 savings compared to the enacted budget.

The FY 2022 estimates have also been revised to include a projected surplus of \$(150) million in the Department of Education's Basic State Aid formula due to reductions in district transportation route miles (\$130 million) and student counts (\$20 million) during the 2020-2021 school year. Under the K-12 formula, Transportation Support Level (TSL) funding and District Additional Assistance (DAA) funding for the current year are based on prior-year route miles and student counts. The enacted budget did not include savings from pandemic-related enrollment declines in FY 2022. We think that FY 2022 current year enrollment data is still too speculative to make more adjustments at this time.

Ongoing FY 2023 Statutory Formula Spending

During FY 2023, statutory formula/ongoing spending (excluding one-time spending) is projected to change as follows:

	<u>\$ in M</u>
AHCCCS - Medicaid Formula	90
ADE - K-12 Formula	283
ADE - Property Tax Changes	34
DES - Medicaid Formula	39
DFFM - Fire Mitigation Changes	35
ADC/DPS - Pension Payoff Savings	(110)
Technical Adj. (Revertments)	27
Other	<u>8</u>
<b>Total</b>	<b>406</b>

	<u>\$ in M</u>
Remove Medicaid Match Savings	400
Remove One-Time K-12 Savings	150
Move K-12 DAA/CAA to Ongoing	(68)
Remove K-12 Rollover Payoff	(65)
Other K-12 Funding	(16)
ADC Funding	(41)
Commerce Authority Funding	(55)
Community College Funding	(30)
SFB Building Renewal Grants	(91)
SFB - Fewer New Buildings	(80)
University Funding	(46)
University 27 <sup>th</sup> Payroll	(20)
Other Agency Spending Changes	(75)
Capital Projects	<u>(92)</u>
<b>Total</b>	<b>(129)</b>

- Arizona Department of Education (ADE) ongoing formula spending is projected to increase by \$283 million in FY 2023. This estimate includes the following changes:
  - \$122 million for 0.6% student enrollment growth.
  - \$142 million for 2.0% inflation. This is based on estimated calendar year 2021 inflation of 3.68%. A.R.S. § 15-901.01 stipulates that the minimum inflation adjustment is the actual inflation rate or 2.0%, whichever is less.
  - \$19 million for all other ongoing formula adjustments.
- ADE ongoing spending is estimated to increase by an additional \$34 million in FY 2023 for an increase in the Homeowner's Rebate percentage from 47.19% to 50.0% of the Qualifying Tax Rate (QTR) and for the first year of a 4-year phased-in reduction in the commercial property assessment ratio from 18.0% to 16.0%. These changes were previously enacted by the FY 2022 Tax Omnibus (Laws 2021, Chapter 412).

- ADE ongoing spending is estimated to increase by \$230 million in FY 2024 and \$241 million in FY 2025.
- AHCCCS ongoing FY 2023 funding is projected to increase by \$90 million in FY 2023 above the enacted FY 2022 budget. This increase is based on 3.1% capitation growth offset by a downward enrollment adjustment. While the federal health emergency is in effect, AHCCCS cannot disenroll individuals due to income changes. The October estimate assumes that AHCCCS will begin to disenroll some of these individuals over a 9-month period starting at the end of the health emergency in March 2022 (unless it is extended again).
- AHCCCS spending is estimated to increase by \$209 million in FY 2024 and \$163 million in FY 2025.
- Department of Economic Security (DES) Medicaid spending for the Developmental Disabilities (DD) program is projected to increase by \$39 million in FY 2023 above the enacted FY 2022 budget. This increase is based on 5.0% enrollment growth and 3.0% capitation growth. DES spending is expected to increase by \$104 million in FY 2024 and \$72 million in FY 2025.
- Department of Forestry and Fire Management (DFFM) spending increases by \$35 million as part of the annualization of FY 2022 firefighting initiatives as detailed in the enacted budget's 3-year spending plan.
- The annual Department of Corrections and Department of Public Safety employer retirement costs will decline by \$(110) million in FY 2023 based on the assumptions included in the enacted budget. The FY 2022 budget included a total of \$1 billion to reduce the unfunded actuarial liabilities of the ADC Correctional Officers Retirement Plan and the DPS Public Safety Personnel Retirement System. The effect on the employer contribution rate will first occur in FY 2023. This savings estimate will be updated when the retirement system actuarial valuations are released in December.

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

In addition, the projections assume \$865 million in K-12 spending will be "rolled over" to the following fiscal year; this amount is a decrease of \$(65) million from prior years due to legislation to reduce the rollover.

### One-Time Spending

As part of the FY 2022 budget 3-year spending plan, the Legislature designated certain spending items as one-time in each of FY 2022, FY 2023, and FY 2024. Under the enacted budget 3-year spending plan, FY 2023 one-time spending is \$165 million, which is a decline of \$(129) million from FY 2022. (*See Attachment E.*)

Various items labeled as one-time spending for FY 2022 support operating expenditures or addressing reoccurring issues. While these items have been removed in our FY 2023 spending projections, the continuation of these funding allocations may be considered in the upcoming budget process. The total dollar value of these items is approximately \$180 million.

## Ending Balance Projections

Given the revenue and spending forecasts, we currently project a FY 2022 General Fund ending balance of \$1.70 billion at the end of FY 2022 after \$918 million has been set aside for Proposition 208 purposes.

Proposition 208 Reserve – Proposition 208 adds a 3.5% income tax surcharge for single households with more than \$250,000 in income and married households with more than \$500,000 starting in TY 2021. While the status of the surcharge is being litigated, these taxpayers may have decided to pay the higher surcharge in case the legal challenges are not successful.

Taxpayers may have either increased their withholding or their estimated payments. Until taxpayers file their returns in April 2022, however, we are unaware of a mechanism to determine the level of these payments. As a result, Proposition 208-related withholding or payments are part of the General Fund balance.

If the surcharge is upheld in court, any Proposition 208 revenue would be transferred to the Proposition 208 fund in the summer of 2022. If the surcharge is not upheld, the state would refund any of these advance payments.

We suggest setting aside \$918 million of the General Fund balance until this issue is resolved next summer. This dollar amount represents our updated estimate of Proposition 208 collections. This projection is higher than the 2021 Regular Session \$836 million estimate due to growth in Individual Income Tax liability over the last year.

FY 2023 – FY 2025 Ending Balances – Ongoing versus One-Time Availability – The projected FY 2023 ending cash balance is \$2.49 billion. Assuming this amount is allocated during the 2022 Regular Session, the projected FY 2024 and FY 2025 ending balances are \$710 million and \$755 million, respectively. (See Table 7).

The future year ending cash balances effectively limit how much of the \$2.49 billion FY 2023 balance can be spent for ongoing initiatives. Any ongoing initiatives above \$700 million will create a cash shortfall in future years.

Ongoing initiatives of \$700 million would reduce the \$2.49 billion FY 2023 balance by that amount. In addition, we suggest a final FY 2023 cash balance of no less than \$100 million. After deducting both the \$700 million and \$100 million from the FY 2023 balance, \$1.69 billion would be available for one-time initiatives as part of the FY 2023 budget.

All the cash balance projections exclude the Budget Stabilization Fund (BSF). That account has a current balance of approximately \$970 million.

**Table 7**

**October Ending Balance Projections**

	<b>Fiscal Year</b>			
	<u><b>FY '22</b></u>	<u><b>FY '23</b></u>	<u><b>FY '24</b></u>	<u><b>FY '25</b></u>
Balance Forward/Other	\$ 0.89 B	\$ 1.70 B	\$ 0.00 B	\$ 0.00 B
Projected Revenues	14.27 B	13.61 B	13.99 B	14.51 B
Less:				
Ongoing Baseline Spending	12.25 B	12.65 B	13.21 B	13.69 B
One-Time Spending	0.29 B	0.17 B	0.07 B	0.07 B
Proposition 208 Reserve	<u>0.92 B</u>	<u>0.00 B</u>	<u>0.00 B</u>	<u>0.00 B</u>
<b>Cash Balance</b>	<b>\$1.70 B</b>	<b>\$2.49 B*</b>	<b>\$710 M</b>	<b>\$755 M</b>

\* The projected FY 2023 cash balance is presumed to be allocated as part of the FY 2023 budget process.

## October 28, 2021 FAC 4-Sector Forecast

	FY 2022	FY 2023	FY 2024	FY 2025
<b><u>Sales Tax</u></b>				
JLBC Staff	10.8%	3.5%	4.0%	4.0%
UA - Low	7.4%	1.2%	4.4%	4.8%
UA - Base	9.7%	3.0%	5.4%	5.1%
FAC	8.5%	6.1%	5.8%	5.3%
<b>Average:</b>	<b>9.1%</b>	<b>3.5%</b>	<b>4.9%</b>	<b>4.8%</b>
<b><u>Individual Income Tax</u></b>				
JLBC Staff	2.1%	3.6%	4.2%	4.3%
UA - Low	-1.2%	4.7%	5.0%	4.9%
UA - Base	0.1%	5.3%	5.4%	5.2%
FAC	0.4%	6.0%	6.6%	5.8%
<b>Average:</b>	<b>0.4%</b>	<b>4.9%</b>	<b>5.3%</b>	<b>5.1%</b>
<b><u>Corporate Income Tax</u></b>				
JLBC Staff	10.0%	2.5%	4.0%	4.4%
UA - Low	10.0%	3.3%	4.2%	5.1%
UA - Base	11.4%	4.6%	5.1%	6.4%
FAC	3.9%	3.5%	5.1%	5.1%
<b>Average:</b>	<b>8.8%</b>	<b>3.5%</b>	<b>4.6%</b>	<b>5.3%</b>
<b><u>Insurance Premium Tax</u></b>				
JLBC Staff	7.0%	1.5%	3.3%	3.4%
UA - Low	6.3%	1.6%	0.9%	3.2%
UA - Base	7.1%	3.0%	1.4%	3.4%
FAC	5.6%	4.5%	3.5%	3.8%
<b>Average:</b>	<b>6.5%</b>	<b>2.6%</b>	<b>2.3%</b>	<b>3.5%</b>
<b>JLBC Weighted Average:</b>	<b>6.6%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>4.1%</b>
<b>UA Low Weighted Average:</b>	<b>3.6%</b>	<b>2.9%</b>	<b>4.5%</b>	<b>4.8%</b>
<b>UA Base Weighted Average:</b>	<b>5.3%</b>	<b>4.1%</b>	<b>5.2%</b>	<b>5.2%</b>
<b>FAC Consensus Weighted Average:</b>	<b>4.4%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>5.4%</b>
<b>"Big-4" Weighted Average:</b>	<b>5.0%</b>	<b>4.1%</b>	<b>4.9%</b>	<b>4.9%</b>
<b>Consensus Weighted Average: *</b>	<b>5.7%</b>	<b>3.5%</b>	<b>4.9%</b>	<b>4.8%</b>

\* Represents ongoing revenue adjusted for small revenue categories

# October 2021 4-Sector Forecast

## GENERAL FUND REVENUE - FY 2021 - FY 2023

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	Prel. ACTUAL FY 2021	% CHANGE PRIOR YR	FORECAST FY 2022	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2023	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	6,243,648.6	15.8%	6,811,703.5	9.1%	568,054.9	7,047,609.4	3.5%	235,905.9
Income - Individual	6,532,753.2	44.2%	6,507,862.3	-0.4%	(24,891.0)	5,655,722.5	-13.1%	(852,139.8)
- Corporate	847,020.8	65.5%	921,625.2	8.8%	74,604.4	953,679.0	3.5%	32,053.8
Property	22,380.0	-7.3%	21,500.0	-3.9%	(880.0)	20,581.8	-4.3%	(918.2)
Luxury - Tobacco	21,687.1	3.9%	21,412.0	-1.3%	(275.1)	21,191.5	-1.0%	(220.5)
- Liquor	43,150.6	19.0%	43,443.4	0.7%	292.8	44,217.3	1.8%	773.9
Insurance Premium	616,251.4	15.2%	656,282.1	6.5%	40,030.7	673,608.5	2.6%	17,326.4
Other Taxes	15,290.3	6.1%	15,519.7	1.5%	229.4	15,985.3	3.0%	465.6
Subtotal - Taxes	14,342,182.1	29.6%	14,999,348.1	4.6%	657,166.0	14,432,595.2	-3.8%	(566,752.9)
<b>Other Non-Tax Revenues:</b>								
Lottery	104,740.4	1.1%	232,701.3	122.2%	127,960.9	208,509.5	-10.4%	(24,191.8)
Gaming Revenue	0.0	N/A	26,101.3	N/A	26,101.3	18,467.0	-29.2%	(7,634.3)
Licenses, Fees and Permits	38,901.1	11.8%	40,680.4	4.6%	1,779.3	41,778.8	2.7%	1,098.4
Interest	(58.1)	N/A	39,414.5	N/A	39,472.6	25,000.0	-36.6%	(14,414.5)
Sales and Services	26,049.0	16.2%	27,038.9	3.8%	989.9	27,985.3	3.5%	946.4
Other Miscellaneous	147,887.4	17.4%	153,063.5	3.5%	5,176.1	156,185.9	2.0%	3,122.4
Transfers and Reimbursements	129,876.4	11.5%	94,320.6	-27.4%	(35,555.8)	63,805.3	-32.4%	(30,515.3)
Public Safety Transfers	23,357.7	0.1%	0.0	-100.0%	(23,357.7)	0.0	N/A	0.0
Disproportionate Share Revenue	84,858.6	-0.1%	82,729.0	-2.5%	(2,129.6)	95,417.3	15.3%	12,688.3
Subtotal - Other Non-Tax	555,612.6	0.8%	696,049.5	25.3%	140,436.9	637,149	-8.5%	(58,900.4)
<b>Net Ongoing Revenue</b>	<b>14,897,794.7</b>	<b>28.2%</b>	<b>15,695,397.5</b>	<b>5.4%</b>	<b>797,602.9</b>	<b>15,069,744.2</b>	<b>-4.0%</b>	<b>(625,653.4)</b>
Urban Revenue Sharing (URS)	(828,492.9)	N/A	(756,388.3)	N/A	72,104.6	(1,106,966.1)	N/A	(350,577.8)
<b>Net Ongoing Revenue w/ URS</b>	<b>14,069,301.8</b>	<b>29.3%</b>	<b>14,939,009.2</b>	<b>6.2%</b>	<b>869,707.5</b>	<b>13,962,778.1</b>	<b>-6.5%</b>	<b>(976,231.2)</b>
<b>One-Time Financing Sources:</b>								
Prescription Drug Rebate Fund Transfer	16,700.0	-75.8%	0.0	-100.0%	(16,700.0)	0.0	N/A	0.0
DPS Highway Patrol Fund Transfer	24,205.7	N/A	0.0	-100.0%	(24,205.7)	0.0	N/A	0.0
Water Infrastructure Repayment	0.0	N/A	20,000.0	N/A	20,000.0	0.0	-100.0%	(20,000.0)
4.5% Maximum Tax Rate	0.0	N/A	(917,862.7)	N/A	(917,862.7)	(544,607.4)	N/A	373,255.4
SB 1783 Impact	0.0	N/A	228,810.1	N/A	228,810.1	191,987.8	-16.1%	(36,822.2)
Subtotal - One-Time Financing Sources	40,905.7	-55.0%	(669,052.7)	N/A	(709,958.4)	(352,619.5)	N/A	316,433.1
<b>Subtotal - Revenues</b>	<b>14,110,207.5</b>	<b>28.6%</b>	<b>14,269,956.5</b>	<b>1.1%</b>	<b>159,749.1</b>	<b>13,610,158.6</b>	<b>-4.6%</b>	<b>(659,798.1)</b>
Balance Forward	372,457.0	-61.1%	893,700.0	139.9%	521,243.0	1,702,060.2	90.5%	808,360.2
<b>Total - Resources</b>	<b>14,482,664.5</b>	<b>21.4%</b>	<b>15,163,656.6</b>	<b>4.7%</b>	<b>680,992.1</b>	<b>15,312,218.8</b>	<b>1.0%</b>	<b>148,562.1</b>

# October 2021 4-Sector Forecast

## GENERAL FUND REVENUE - FY 2024 - FY 2025

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2024	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,392,786.0	4.9%	345,176.6	7,747,445.1	4.8%	354,659.1
Income - Individual	5,672,996.4	0.3%	17,273.9	5,328,770.5	-6.1%	(344,225.9)
- Corporate	997,476.5	4.6%	43,797.5	1,049,974.0	5.3%	52,497.5
Property	20,250.0	-1.6%	(331.8)	20,000.0	-1.2%	(250.0)
Luxury - Tobacco	21,203.8	0.1%	12.4	21,492.1	1.4%	288.3
- Liquor	45,280.9	2.4%	1,063.6	46,551.7	2.8%	1,270.8
Insurance Premium	688,912.8	2.3%	15,304.4	712,775.2	3.5%	23,862.3
Other Taxes	16,528.8	3.4%	543.5	17,107.3	3.5%	578.5
Subtotal - Taxes	14,855,435.2	2.9%	422,840.1	14,944,115.8	0.6%	88,680.5
<b>Other Non-Tax Revenues:</b>						
Lottery	228,286.5	9.5%	19,777.0	240,334.9	5.3%	12,048.4
Gaming Revenue	20,110.2	8.9%	1,643.2	21,421.2	6.5%	1,311.0
Licenses, Fees and Permits	43,324.6	3.7%	1,545.8	44,970.9	3.8%	1,646.3
Interest	27,500.0	10.0%	2,500.0	30,000.0	9.1%	2,500.0
Sales and Services	28,964.7	3.5%	979.5	29,978.5	3.5%	1,013.8
Other Miscellaneous	160,678.3	2.9%	4,492.4	165,334.7	2.9%	4,656.4
Transfers and Reimbursements	64,536.1	1.1%	730.8	64,591.1	0.1%	55.0
Public Safety Transfers	0.0	N/A	0.0	0.0	N/A	0.0
Disproportionate Share Revenue	95,474.3	0.1%	57.0	95,644.9	0.2%	170.6
Subtotal - Other Non-Tax	668,874.8	5.0%	31,725.7	692,276.2	3.5%	23,401.5
<b>Net Ongoing Revenue</b>	<b>15,524,310.0</b>	<b>3.0%</b>	<b>454,565.8</b>	<b>15,636,392.0</b>	<b>0.7%</b>	<b>112,082.0</b>
Urban Revenue Sharing (URS)	(1,213,278.3)	N/A	(106,312.2)	(1,126,220.7)	N/A	87,057.5
<b>Net Ongoing Revenue w/ URS</b>	<b>14,311,031.7</b>	<b>2.5%</b>	<b>348,253.6</b>	<b>14,510,171.3</b>	<b>1.4%</b>	<b>199,139.5</b>
<b>One-Time Financing Sources:</b>						
Prescription Drug Rebate Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
DPS Highway Patrol Fund Transfer	0.0	N/A	0.0	0.0	N/A	0.0
Water Infrastructure Repayment	0.0	N/A	0.0	0.0	N/A	0.0
4.5% Maximum Tax Rate	(506,927.4)	N/A	37,679.9	0.0	N/A	506,927.4
SB 1783 Impact	181,972.5	-5.2%	(10,015.4)	0.0	-100.0%	(181,972.5)
Subtotal - One-Time Financing Sources	(324,955.0)	N/A	27,664.5	0.0	N/A	324,955.0
<b>Subtotal - Revenues</b>	<b>13,986,076.8</b>	<b>2.8%</b>	<b>375,918.1</b>	<b>14,510,171.3</b>	<b>3.7%</b>	<b>524,094.5</b>
Balance Forward	-	-100.0%	(1,702,060.2)	-	N/A	0.0
<b>Total - Resources</b>	<b>13,986,076.8</b>	<b>-8.7%</b>	<b>(1,326,142.1)</b>	<b>14,510,171.3</b>	<b>3.7%</b>	<b>524,094.5</b>



**October FAC - Statement of General Fund Revenues and Expenditures  
With One-Time Financing Sources**

**Attachment C**

	FY 2022 October FAC	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC
<b>REVENUES</b>				
Ongoing Revenues	\$15,743,697,500	\$16,290,377,400	\$17,093,134,100	\$17,915,973,600
Enacted Rate Reduction (2.55%/2.98%)		(1,182,733,200)	(1,245,593,100)	(1,308,636,600)
Tier 1 Trigger Rate Reduction (2.53%/2.75%)			(282,431,000)	(296,725,700)
Tier 2 Trigger Rate Reduction (2.5% Flat Rate)				(365,200,900)
4.5% Maximum Tax Rate				(456,501,100)
SB 1783 Impact				191,182,700
Other Enacted Tax Reductions	(48,300,000)	(37,900,000)	(40,800,000)	(43,700,000)
Urban Revenue Sharing	(756,388,300)	(1,106,966,100)	(1,213,278,300)	(1,126,220,700)
Net Ongoing Revenues	\$14,939,009,200	\$13,962,778,100	\$14,311,031,700	\$14,510,171,300
One-time Financing Sources				
Balance Forward	\$893,700,000	\$1,702,060,200		
4.5% Maximum Tax Rate (Ongoing in FY 25)	(917,862,700)	(544,607,400)	(506,927,400)	
SB 1783 Impact (Ongoing in FY 25)	228,810,100	191,987,900	181,972,500	
Water Infrastructure Repayment	20,000,000			
Subtotal One-time Revenues	\$224,647,400	\$1,349,440,700	(\$324,954,900)	\$0
<b>Total Revenues</b>	\$15,163,656,600	\$15,312,218,800	\$13,986,076,800	\$14,510,171,300
<b>EXPENDITURES</b>				
Ongoing Operating Appropriations	\$12,321,812,800	\$12,700,916,300	\$13,251,748,500	\$13,731,644,100
Administrative Adjustments	120,000,000	158,000,000	158,000,000	158,000,000
Revertments	(192,000,000)	(203,000,000)	(203,000,000)	(203,000,000)
Subtotal Ongoing Expenditures	\$12,249,812,800	\$12,655,916,300	\$13,206,748,500	\$13,686,644,100
One-time Expenditures				
Capital Outlay	\$92,632,900			
Reduce K-12 Rollover	65,000,000			
Operating One-Time Spending	666,235,900	165,243,100	69,117,200	68,596,500
New Medicaid Federal Match Reversion <u>1/</u>	(400,000,000)			
New ADE Formula Funding Reversion <u>1/</u>	(150,000,000)			
University 27th Pay Period	20,052,100			
Subtotal One-time Expenditures	\$293,920,900	\$165,243,100	\$69,117,200	\$68,596,500
<b>Total Expenditures</b>	\$12,543,733,700	\$12,821,159,400	\$13,275,865,700	\$13,755,240,600
<b>Proposition 208 Reserve <u>2/</u></b>	\$917,862,700			
<b>Ending Balance <u>3/</u></b>	\$1,702,060,200	\$2,491,059,400 <u>4/</u>	\$710,211,100	\$754,930,700

1/ Reflects revertments of savings for a higher federal Medicaid match rate and lower K12 formula costs.

2/ Reflects Proposition 208 uncertainty. If surcharge upheld, revenue would be transferred to Proposition 208 fund. If surcharge not upheld, state would refund revenue.

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

4/ The FY 2023 cash balance is presumed to be allocated as part of the FY 2023 budget process.

**GENERAL FUND SPENDING BY BUDGET UNITS 1/  
ONGOING FUNDING**

	<u>FY 2022</u> <u>October FAC</u>	<u>FY 2023</u> <u>\$ Above FY 2022</u>	<u>FY 2023</u> <u>October FAC</u>	<u>FY 2024</u> <u>\$ Above FY 2023</u>	<u>FY 2024</u> <u>October FAC</u>	<u>FY 2025</u> <u>\$ Above FY 2024</u>	<u>FY 2025</u> <u>October FAC</u>
<b>EXPENDITURES</b>							
Operating Budget							
-- Department of Administration	\$8,155,000		\$8,155,000		\$8,155,000		\$8,155,000
-- Office of Administrative Hearings	891,800		891,800		891,800		891,800
-- African-American Affairs Commission	128,800		128,800		128,800		128,800
-- Arizona Department of Agriculture	12,415,700		12,415,700		12,415,700		12,415,700
-- AHCCCS	2,095,630,200	89,956,000	2,185,586,200	208,833,800	2,394,420,000	163,260,100	2,557,680,100
-- Attorney General	25,239,800		25,239,800		25,239,800		25,239,800
-- State Board for Charter Schools	2,103,000		2,103,000		2,103,000		2,103,000
-- Department of Child Safety	390,590,600		390,590,600		390,590,600		390,590,600
-- Commerce Authority	16,175,000		16,175,000		16,175,000		16,175,000
-- Community Colleges	79,404,700	(452,700)	78,952,000	2,579,200	81,531,200	2,740,400	84,271,600
-- Corporation Commission	623,100		623,100		623,100		623,100
-- Department of Corrections	1,243,120,300	1,794,700	1,244,915,000	7,226,800	1,252,141,800		1,252,141,800
-- County Funding	10,650,700		10,650,700		10,650,700		10,650,700
-- Schools for the Deaf and the Blind	23,255,700		23,255,700		23,255,700		23,255,700
-- Office of Economic Opportunity	470,300		470,300		470,300		470,300
-- Department of Economic Security	917,578,500	39,057,700	956,636,200	103,918,500	1,060,554,700	72,381,200	1,132,935,900
-- State Board of Education	2,340,000		2,340,000		2,340,000		2,340,000
-- Department of Education	5,761,522,700	317,391,700	6,078,914,400	230,107,000	6,309,021,400	240,857,700	6,549,879,100
-- Dept. of Emergency & Military Affairs	12,846,600		12,846,600		12,846,600		12,846,600
-- Department of Environmental Quality	15,000,000		15,000,000		15,000,000		15,000,000
-- State Board of Equalization	663,900		663,900		663,900		663,900
-- Board of Executive Clemency	1,153,300		1,153,300		1,153,300		1,153,300
-- Dept. of Forestry and Fire Management	14,227,600	35,021,200	49,248,800	(2,991,400)	46,257,400		46,257,400
-- Department of Gaming	13,029,500	1,000,000	14,029,500		14,029,500		14,029,500
-- Office of the Governor	8,807,100		8,807,100		8,807,100		8,807,100
-- Gov's Ofc of Strategic Planning and Budgeting	2,695,200		2,695,200		2,695,200		2,695,200
-- Department of Health Services	98,259,200		98,259,200		98,259,200		98,259,200
-- Arizona Historical Society	2,906,000		2,906,000		2,906,000		2,906,000
-- Prescott Historical Society	900,600		900,600		900,600		900,600
-- Industrial Commission	95,000	(15,000)	80,000		80,000		80,000
-- Dept. of Insurance and Financial Institutions	7,663,400		7,663,400		7,663,400		7,663,400
-- Judiciary	145,093,000	59,100	145,152,100		145,152,100		145,152,100
-- Department of Juvenile Corrections	30,696,600		30,696,600		30,696,600		30,696,600
-- State Land Department	11,815,100		11,815,100		11,815,100		11,815,100
-- Legislature							
Auditor General	20,808,500		20,808,500		20,808,500		20,808,500
House of Representatives	16,429,300		16,429,300		16,429,300		16,429,300
Joint Legislative Budget Committee	2,841,900		2,841,900		2,841,900		2,841,900
Legislative Council	9,090,400		9,090,400		9,090,400		9,090,400
Senate	12,969,100		12,969,100		12,969,100		12,969,100
SUBTOTAL - Legislature	\$62,139,200	\$0	\$62,139,200	\$0	\$62,139,200	\$0	\$62,139,200
-- State Mine Inspector	1,558,200		1,558,200		1,558,200		1,558,200
-- Navigable Stream Adjudication Commission	129,300		129,300		129,300		129,300
-- Commission for Postsecondary Education 2/	1,680,900		1,680,900		1,680,900		1,680,900
-- Department of Public Safety	287,300,400		287,300,400		287,300,400		287,300,400

**GENERAL FUND SPENDING BY BUDGET UNITS 1/**  
**ONGOING FUNDING**

	FY 2022 October FAC	FY 2023 \$ Above FY 2022	FY 2023 October FAC	FY 2024 \$ Above FY 2023	FY 2024 October FAC	FY 2025 \$ Above FY 2024	FY 2025 October FAC
-- Public Safety Personnel Retirement System	6,000,000		6,000,000		6,000,000		6,000,000
-- State Real Estate Department	2,922,100		2,922,100		2,922,100		2,922,100
-- Department of Revenue	53,076,100		53,076,100		53,076,100		53,076,100
-- School Facilities Board <u>2/</u>	28,323,400		28,323,400		28,323,400		28,323,400
-- Secretary of State	12,907,700	4,000,000	16,907,700	70,000	16,977,700		16,977,700
-- Tax Appeals, State Board of	283,300		283,300		283,300		283,300
-- Office of Tourism	8,231,500		8,231,500		8,231,500		8,231,500
-- State Treasurer	3,010,200		3,010,200		3,010,200		3,010,200
-- Governor's Office on Tribal Relations	63,500		63,500		63,500		63,500
-- Universities	831,829,500	843,000	832,672,500	589,100	833,261,600	156,100	833,417,700
-- Department of Veterans' Services	8,625,500	(42,000)	8,583,500		8,583,500		8,583,500
-- Department of Water Resources	17,074,400		17,074,400		17,074,400		17,074,400
-- Phoenix Convention Center Payment	24,498,500	500,900	24,999,400	499,200	25,498,600	500,100	25,998,700
-- Rio Nuevo District	16,000,000		16,000,000		16,000,000		16,000,000
-- Pension Payoff Savings (Payoff Funded in FY 21)		(110,000,000)	(110,000,000)		(110,000,000)		(110,000,000)
-- Unallocated Risk Management Adjustments	6,400	(6,400)					
-- Unallocated AFIS Transaction Fee Adjustments	4,700	(4,700)					
Total - Operating Budget	<u>\$12,321,812,800</u>	<u>\$379,103,500</u>	<u>\$12,700,916,300</u>	<u>\$550,832,200</u>	<u>\$13,251,748,500</u>	<u>\$479,895,600</u>	<u>\$13,731,644,100</u>
-- New Medicaid Federal Match Reversion	(400,000,000)	400,000,000					
-- New ADE Formula Funding Reversion	(150,000,000)	150,000,000					
-- Capital Outlay	92,632,900	(92,632,900)					
-- Reduce K-12 Rollover	65,000,000	(65,000,000)					
-- Operating One-Time Spending	666,235,900	(500,992,800)	165,243,100	(96,125,900)	69,117,200	(520,700)	68,596,500
-- Additional (27th) University Pay Period	20,052,100	(20,052,100)					
-- Administrative Adjustments	120,000,000	38,000,000	158,000,000		158,000,000		158,000,000
-- Revertments	(192,000,000)	(11,000,000)	(203,000,000)		(203,000,000)		(203,000,000)
Total Spending	<u>\$12,543,733,700</u>	<u>\$277,425,700</u>	<u>\$12,821,159,400</u>	<u>\$454,706,300</u>	<u>\$13,275,865,700</u>	<u>\$479,374,900</u>	<u>\$13,755,240,600</u>

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 20).

2/ Under the FY 2022 enacted budget, the Commission for Postsecondary Education's responsibilities will be transferred to the Arizona Board of Regents, and the School Facilities Board will become the School Facilities Divisions within the Arizona Department of Administration. These agency funding shifts will be displayed in the FY 2023 Baseline.

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	FY 2022 October FAC	FY 2023 October FAC	FY 2024 October FAC	FY 2025 October FAC
<b>Operating</b>				
ADOA - Permitting Dashboard	\$ 100,000			
ADOA - Accounting System Upgrade		\$ 490,000	\$ 560,000	
ADOA - K-12 Transportation Grants	10,000,000	20,000,000		
ADOA/Automation Projects Fund - K-12 Financial Transparency	614,100			
ADOA/Automation Projects Fund - Charter Board Upgrade	3,000,000	1,500,000	1,500,000	
Agriculture - Cloud Migration	2,000,000			
Agriculture - State Agriculture Lab Equipment	2,500,000			
DCS - Higher Congregate Care Provider Rates	19,238,200	19,238,200		
DCS - Backfill Potential Loss of Federal Funds	5,900,000	5,900,000		
Commerce - Blockchain/Wearables (\$2.5 M Each)	5,000,000			
Commerce - Major Events Fund Deposit (4-Year Pilot)	7,500,000	7,500,000	7,500,000	\$ 7,500,000
Commerce - Competes Fund Deposit	50,000,000			
Commerce - Frankfurt Germany Trade Office	250,000			
Community Colleges - Rural Funding	14,000,000			
Community Colleges - Maricopa/Pima Funding	13,000,000			
Community Colleges - Maricopa/Pima STEM Funding	2,000,000			
Community Colleges - Out-of-County Reimbursement Aid	500,000			
Corrections - Radio Replacement	17,329,500			
Corrections - Ballistic and Stab Vest Replacement	3,851,900			
Corrections - Substance Abuse Treatment Expansion	5,000,600			
Corrections - Medical Staff Augmentation Funding	15,000,000			
Counties/ADOA - Re-Entry Planning Services	10,000,000	7,000,000	7,000,000	
ACJC - Re-Entry Planning Services	1,000,000			
DES - Return to Work Grants	7,500,000			
DES - Adult and Aging Services Funding	1,474,000			
DES - After School/Summer Youth Program	500,000			
ADE - High Quality Teacher Scholarships	400,000			
ADE - CTED Incentive Program	5,000,000			
ADE - Fully Restore Additional Assistance Funding	67,774,600			
ADE - Extraordinary Special Needs Fund Deposit	5,000,000			
ADE - Statewide Assessment Funding	5,000,000			
ADE - Procure Statewide Gifted Assessment	850,000			
DEMA - Aircraft Communication Equipment	220,500			
DEMA - National Guard Cyber Response Funding	300,000			
Forestry - Rural Fire District Reimbursement	2,500,000			
Forestry - One-Time Vehicle Purchases		3,190,000		
Gaming - County Fair Promotion	730,000			
Gaming - County Fair Racing Promotion	2,000,000			
Governor - Arizona Civics Corp	1,000,000			
DHS - Rural Hospital Prenatal Equipment	500,000			

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
	<b>October FAC</b>	<b>October FAC</b>	<b>October FAC</b>	<b>October FAC</b>
DHS - Board of Medical Student Loans	2,000,000			
DHS - Cognitive Decline/Caregiver Modules	160,000			
DHS - Adoption/Birth Certificate Records Release	1,000,000			
DHS - Family Health Pilot Program	1,500,000	1,500,000		
IRC - Commission Funding	7,900,000			
Judiciary - Supreme Court - Digital Evidence Storage	400,000	490,000		
Judiciary - Supreme Court - Records Sealing		500,000		
Judiciary - Superior Court - One-Time Vehicle Purchase	187,500			
Land - Appraisal Development	1,500,000	1,500,000		
Legislature - Auditor General - K-12 Federal Funds Oversight	250,000	200,000		
Legislature - Auditor General - Audit Non Gov't Election Funding	165,000			
Legislature - Legislative Council - IT Improvements	1,000,000			
Legislature - House of Representatives	5,000,000			
Legislature - Senate	5,000,000			
Parks - Heritage Fund Deposit	5,000,000			
Parks - State Lake Improvement Fund Deposit	4,000,000	4,000,000		
DPS - Training of K-9 Dogs	250,000			
DPS - Civil Asset Forfeiture Offset	3,500,000			
DPS - Rapid DNA Testing Equipment	600,000			
DOR - Pass Through Business Tax Change IT Upgrade	466,300			
SFB - Building Renewal Grants	90,832,100			
SFB - New School Construction (FY 21 Authorization)	11,730,900			
SFB - New School Construction (FY 22 Authorization)	76,881,700	47,950,000		
SFB - New School Construction (FY 22 Budget - Retroactive Increase)	63,526,200			
SFB - New School Construction (FY 22 Budget - Yuma HS Project)	16,515,200	16,515,200		
SFB - New School Construction (FY 22 Budget - Kirkland Elementary)	3,000,000			
SFB - New School Construction (FY 23 Authorization)		27,269,700	15,269,700	
SFB - New School Construction (FY 24 Authorization)			37,287,500	34,787,500
SFB - New School Construction (FY 25 Authorization)				26,309,000
Tourism - Southern Arizona Study Committee	250,000			
Transportation - Rental Vehicle Surcharge/VLT Hold Harmless	3,300,000			
Treasurer - Election Integrity Fund Deposit	12,000,000			
Universities - ASU - Operating/Capital Funding	18,831,300			
Universities - NAU - Operating/Capital Funding	9,006,300			
Universities - UA - Operating/Capital Funding	9,600,000			
Universities - ASU - Eastern Europe Cultural Collaborative	250,000			
Universities - ASU - School of Civic and Economic Thought and Leadership	2,750,000			
Universities - ASU - Political History and Leadership School	250,000			
Universities - NAU - Economic Policy Institute	250,000			
Universities - UA - Center for the Philosophy of Freedom	1,250,000			
Universities - UA - Wind Tunnel	3,500,000			

SUMMARY OF ONE-TIME GENERAL FUND ADJUSTMENTS 1/

	<u>FY 2022</u> <u>October FAC</u>	<u>FY 2023</u> <u>October FAC</u>	<u>FY 2024</u> <u>October FAC</u>	<u>FY 2025</u> <u>October FAC</u>
Universities - UA - Agriculture Workforce Program	500,000	500,000		
Universities - UA - Kazakhstan Exchange Program	250,000			
DWR - Water Protection Fund Deposit	1,000,000			
DWR - Agua Fria Insurance Study	350,000			
WIFA - Water Supply Development Revolving Fund Deposit	6,000,000			
WIFA - Water Project Assistance Grants	5,000,000			
WIFA - Small Water Systems Fund Deposit	1,000,000			
<b>Subtotal - Operating Funding</b>	<b>\$ 666,235,900</b>	<b>\$ 165,243,100</b>	<b>\$ 69,117,200</b>	<b>\$ 68,596,500</b>
<b>University 27th Pay Period</b>	<b>\$ 20,052,100</b>			
<b>New Medicaid Federal Match Reversion</b>	<b>\$ (400,000,000)</b>			
<b>New ADE Formula Funding Reversion</b>	<b>\$ (150,000,000)</b>			
<b>Reduce K-12 Rollover</b>	<b>\$ 65,000,000</b>			
<b>Capital Outlay</b>				
Capital - ADOA - ADC Building Demolition	2,800,000			
Capital - ADOA - Air Handler Replacement - Phase 2	3,500,000			
Capital - ADOA - Building Renewal Funding	6,200,000			
Capital - ADOA - Taylor Rodeo Arena	1,000,000			
Capital - ADOA - Fountain Hills Discovery Center/Observatory	2,500,000			
Capital - ADC - Eyman Fire/Life Safety Projects (Plus \$15.6 M OF)	10,000,000			
Capital - ADC - Building Renewal Funding	22,205,800			
Capital - DEMA - Fire Suppression System Upgrades	927,100			
Capital - State Fair - Building Renewal	1,000,000			
Capital - State Fair - Coliseum Fire Alarm Replacement	1,000,000			
Capital - Leg Council - Historic State Capitol Renovation	11,500,000			
Capital - Veterans - Northwest Veterans Home	25,000,000			
Capital - Yuma Fairgrounds Relocation	5,000,000			
<b>Subtotal - Capital Outlay</b>	<b>\$ 92,632,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total - One-time Spending</b>	<b>\$ 293,920,900</b>	<b>\$ 165,243,100</b>	<b>\$ 69,117,200</b>	<b>\$ 68,596,500</b>

1/ The displayed amounts reflect one-time General Fund adjustments included in the FY 2022 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 18 and 19.