FY 2024 JLBC Baseline
January 13, 2023
Key Points of the January Baseline

• After a 17% increase in FY 22, General Fund revenue growth is expected to moderate to 7.5% in FY 23 and 2% in FY 24.

• The declining growth rate is related to recession concerns as the Fed raises interest rates in an attempt to lower inflation.

• The state will have a large 1-time balance of $1.8 Billion in FY 24 but the balance declines to $1 Million by FY 25.

• We have substantial capacity for 1-time budget proposals, but ongoing initiatives would create a shortfall in FY 25.
Forecasting State Revenues
January 4-Sector “Consensus”: Much Slower Growth in FY 24 & FY 25 - With Moderate Recovery in FY 26

4-Sector Components
- Finance Advisory Committee
- UA model – base forecast
- UA model – more cautious
- JLBC Staff

Other Considerations
- Rates are Prior to Enacted Tax Cuts
- With Tax Cuts, FY 23 & FY 24 net growth is negative

![Base % Revenue Growth](chart.png)

Excludes balance forward, one-time transfers, tax law changes and urban revenue sharing
Economic Projections Are Inherently Uncertain
- Latest Example: Federal Reserve Board’s Projected CY 23 Interest Rates

Fed’s Interest Rate Projections
December 2021 vs December 2022

- Dec. 2021: 0.9%, 1.6%, 2.1%, 2.5%
- Dec. 2022: 4.4%, 5.1%, 4.1%, 3.1%, 2.5%

2022 2023 2024 2025 Longer Run

Dec. 2021: Red
Dec. 2022: Blue
Spending Adjustments
Baseline Spending Projections

- Baseline reflects projected changes to the cost of statutory funding formulas like K-12 and Medicaid
- Also reflects the enacted FY 23 budget’s 3-year spending plan
  - Assumes spending classified as one-time does not continue
  - Includes future year spending increases that were agreed to in the budget
- Certain budget items are continuously budgeted as one-time rather than as ongoing: K-12 building repairs & state employee insurance
# FY 24 Baseline Spending Projected To Decrease By $(47) M

## FY 24 Ongoing Spending Changes

<table>
<thead>
<tr>
<th></th>
<th>$ in M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid Formula</td>
<td>321</td>
</tr>
<tr>
<td>ADE – K-12 Formula</td>
<td>356</td>
</tr>
<tr>
<td>Pension Payoff Savings</td>
<td>(100)</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
</tr>
<tr>
<td>Technical Adj. (Unspent Appropriations)</td>
<td>(140)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>464</strong></td>
</tr>
</tbody>
</table>

**Total Spending Changes**: $(47) M

**Total Spending**: $15,547 M

**% Change**: (0.3)%

## FY 24 1-Time Spending Additions/Deletions

<table>
<thead>
<tr>
<th></th>
<th>$ in M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of Medicaid Match Savings</td>
<td>482</td>
</tr>
<tr>
<td>Water Supply Funding</td>
<td>333</td>
</tr>
<tr>
<td>Remove K-12 Rollover Payoff</td>
<td>(65)</td>
</tr>
<tr>
<td>Wildfire Expenses</td>
<td>(65)</td>
</tr>
<tr>
<td>State Employee Health Insurance</td>
<td>(103)</td>
</tr>
<tr>
<td>K-12 Capital – Building Repair Grants</td>
<td>(183)</td>
</tr>
<tr>
<td>K-12 Capital – Fewer New Schools</td>
<td>11</td>
</tr>
<tr>
<td>University Funding</td>
<td>(123)</td>
</tr>
<tr>
<td>Other Agency Spending</td>
<td>(506)</td>
</tr>
<tr>
<td>Transportation Projects</td>
<td>(73)</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>(219)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(511)</strong></td>
</tr>
</tbody>
</table>
• Outside of the budget, 2022 legislation authorized universal enrollment in the Empowerment Scholarship Account program

• To date, there are 30,000 new “universal” students – represents an unbudgeted cost of $200 M
  - Since K-12 spending largely governed by law, ADE does not have the flexibility to manage this shortfall and will require a FY 23 Supplemental appropriation

• We have no template for forecasting future growth. Our best guess is that universal enrollment will be 52,500 in FY 24 at a cost of $376 M.
K 12 Baseline Issue 2: The Future of Proposition 123

• Prop 123 is scheduled to expire at the end of FY 25

• If not extended or revised, the level of land trust distributions to K-12 schools will be reduced in FY 26

• Absent any other statutory change, the General Fund would backfill the Prop 123 loss at a cost of $300 M in FY 26

• Our Baseline includes this cost to ensure this obligation is covered if no other action is taken
K-12 Baseline Issue 3: Aggregate Expenditure Limit (AEL)

- ADE calculates district spending compared to AEL by 11/1 of each year

- School district budgets for FY 23 are $1.4 B above the AEL; 2/3rds of the Legislature can override the limit by 3/1/23

- With no override, districts would need to reduce their budgets in the current fiscal year

- District budget reductions would not generate state savings because ADE is still required to make full Basic State Aid (BSA) payment
Projected Ending Balances

Excludes $1.4 B in Budget Stabilization Fund
Available Balances: $1.8 B for One-Time Initiatives Only
- Any Ongoing Initiatives Would Create FY 25 Shortfall
- FY 25 Initially Was $(260) M Short; Solved by Using Part of FY 24 Surplus

* This amount is after $260 M is carried into FY 25 to resolve that year's shortfall.
Final Thoughts

• Given the economic uncertainty, our revenue estimates will likely change considerably as we go through the FY 24 budget process.

• Due to all the uncertainty, we may not want to allocate the entire $1.8 B 1-time surplus in FY 24 to maintain flexibility.

• Given this budget picture, there will be an incentive to label ongoing initiatives as 1-time
  - This technique can create future budget problems – hard to change labeling in future years
STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE

Director..............................................................Richard Stavneak
Office Manager....................................................Linda Monsanto
Deputy Directors.....................................................Stefan Shepherd
..............................................................Jack Brown
Chief Economist....................................................Hans Olofsson
Assistant Directors................................................Micaela Larkin
..............................................................Patrick Moran
..............................................................Rebecca Perrera
Principal Fiscal Analysts.......................................Morgan Dorcheus
..............................................................Geoffrey Paulsen
Senior Fiscal Analysts..........................................Ryan Fleischman
..............................................................Jordan Johnston
..............................................................Maggie Rocker
Economists.........................................................Ben Newcomb
Fiscal Analysts....................................................Nate Belcher
..............................................................Chandler Coiner
..............................................................Cameron Mortensen
Senior Administrative Assistant / JLBC Clerk...............Kristy Paddack
Administrative Assistant / JCCR Clerk......................Jennifer Burns