FY 2027 JLBC January Baseline

January 16, 2026

Key Points

- The January Budget Update includes revised General Fund revenue and expenditure projections through FY 29.
- The projected cash balance is positive in each year after accounting for statutory funding formula growth.
- Based on the lowest ending balance in the 3-year budget projection, there is $577 M available for discretionary purposes.
- In comparison, we estimated $67 M would be available in our October update, but revenue growth is higher than expected.

Major Issues Not Funded In Baseline

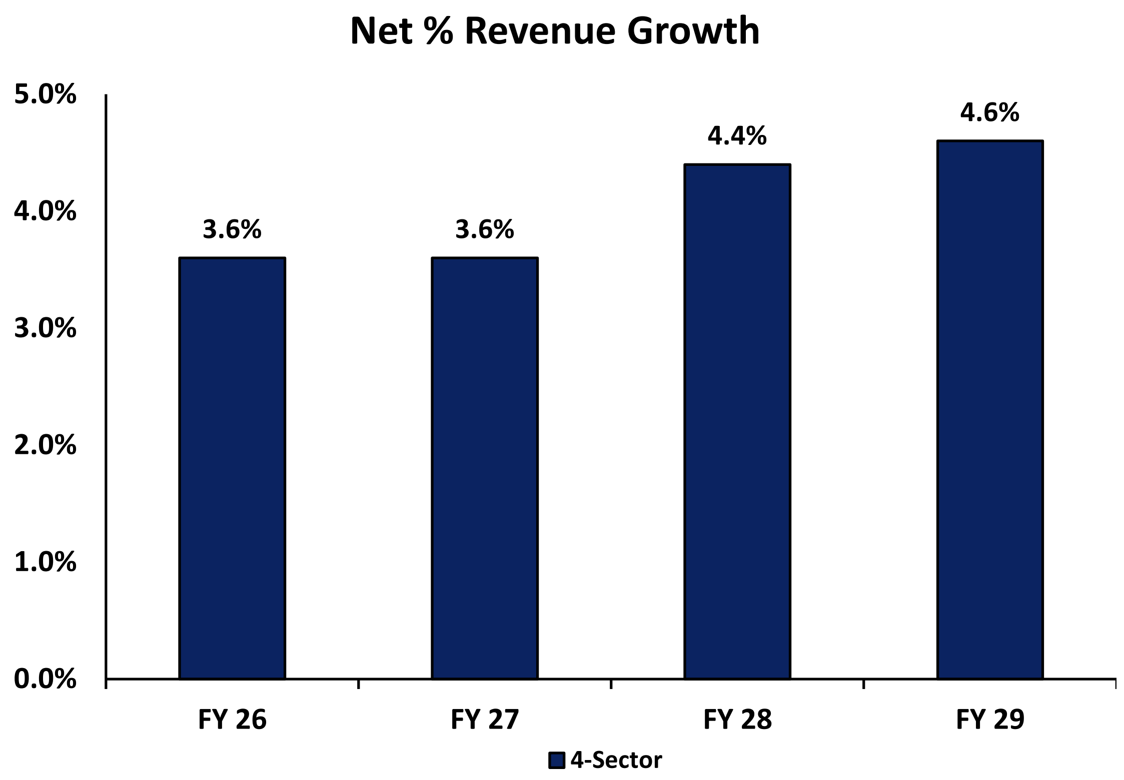
- Conforming state income tax laws to 2025 federal tax law changes
  - FY 26-FY 29 cost of total conformity is $1.45 B.
  - House/Senate bill conforms with most provisions with some changes at a cost of $1.44 B.
- Continuing traditional “ongoing one-time” spending items for FY 2027.
  - State Employee Health Insurance subsidy of $195 M.
  - School Facility Building Repairs of $183 M.
- Funding administrative costs of implementing the new federal Medicaid & SNAP work requirements and more frequent eligibility checks.
  - AHCCCS and DES requested $112 M in September
  - As of this writing, we are awaiting the Governor's proposal for admin costs

Forecasting State Revenues

4-Sector: 3.6% Growth In Both FY 26 and FY 27
- Year to Date Growth Through December is 3.5%
- Gradual Improvement in FY 28 and FY 29

<u>4-Sector Components</u>

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



Excludes balance forward, fund transfers and urban revenue sharing

See Appendix A and B

Spending Adjustments

Baseline Spending Projections

- Baseline reflects changes to active statutory/other funding formulas.
  - ADE, Medicaid and the Community Colleges.
- The Baseline annually adjusts federal Medicaid matching rates. H.R. 1 sets 2 new federal-state matching rates in the SNAP program.
  - State share of SNAP admin expenses increases from 50% to 75% = $33 M FY 27 cost
  - State share of SNAP benefits increases from 0% to 10% due to AZ’s error rate in administering the program. Cost = $139 M in FY 28
- Follows guidance of the enacted budget 3-year plan by reducing one-time spending from $1.2 B in FY 26 to $219 M in FY 27 spending

FY 27 Baseline Spending Projected To Decrease By $(170) M

FY 27 Ongoing Spending Changes	
	$ in M
DES – Medicaid Formula	286
ADE – K-12 Formula	278
AHCCCS – Medicaid Formula	233
DES – SNAP Admin. Formula	33
Other	28
Total	**858**

Total Spending Changes	**$(170) M**
Total Spending	**$17.62 B**
% Change	**(1.0)%**

FY 27 One-Time Spending Changes	
	$ in M
Backfill AHCCCS Hospital Assessment Shift	100
State Employee Health Insurance	(195)
K-12 Building Renewal Grants	(183)
DES Housing/Services Funding	(128)
K-12/ADE Funding	(84)
Transportation/Capital Projects	(106)
Remove FY 26 Supplementals	(209)
Other Agency Spending	(223)
Total	**(1,028)**

Baseline Includes $209 M in FY 26 General Fund Supplementals
- Related to Statutory Funding Formula Requirements

	$ in M
• Department of Economic Security – Developmental Disabilities	97
- Projected costs are growing by 15% compared to a budgeted rate of 8%.	
• AHCCCS	65
- Enrollment has decreased by (209,000), or (10)% and average per member cost has increased 14% in the last year.*	
- As caseload has declined, remaining population has higher health needs.	
• Department of Education	47
- Public school enrollment has declined (25,000) and ESA recipients have increased by 16,000 in the last year.	
- Average cost per child has increased by 3%.	

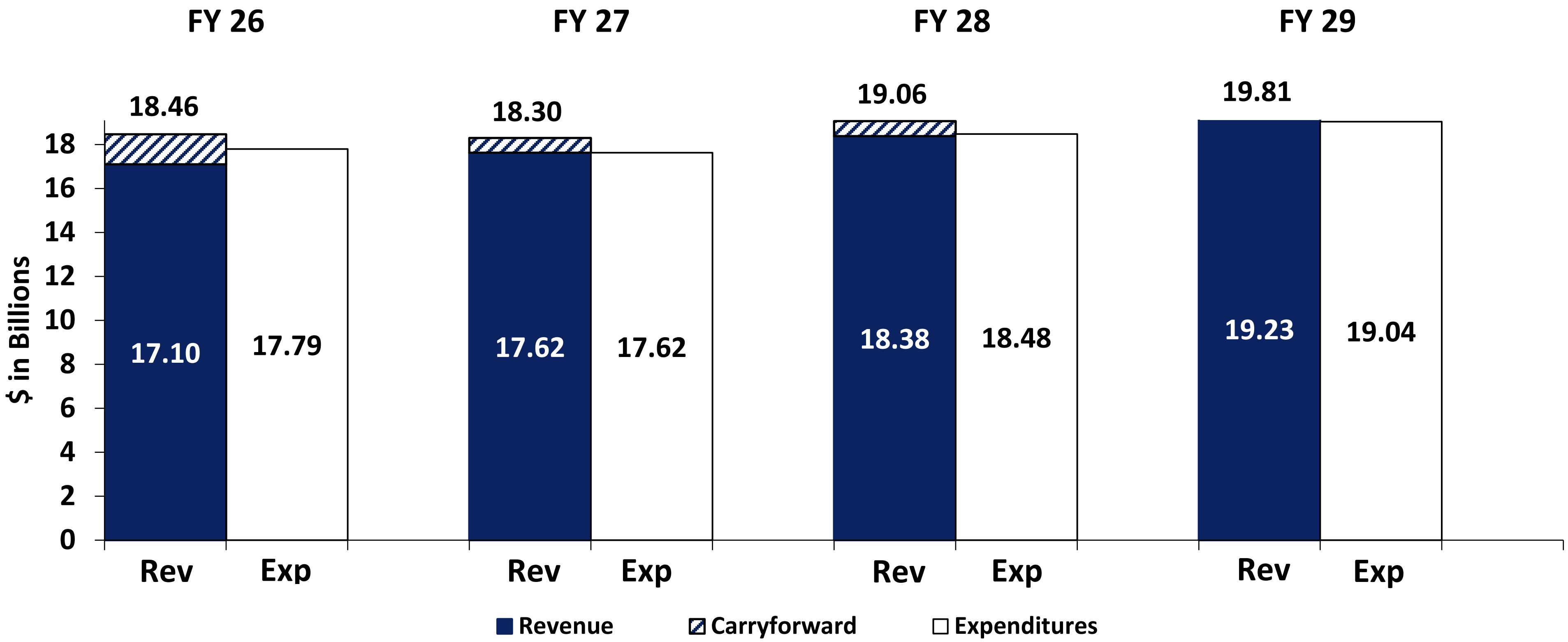
* While DES SNAP benefits are not paid by the state, the caseload has declined by (217,000), or (24)% in the last 3 months.

Projected Ending Balances

Excludes $1.7 B in Budget Stabilization Fund

More Information in Appendix C

Projected Cash Balance Low Point is $578 M in FY 28
- Each Year's Carryforward Is Used to Balance The Following Year Budget



Cash Balance	$673 M	$675 M	$578 M	$770 M

STAFF OF THE
JOINT LEGISLATIVE BUDGET COMMITTEE

Director	Richard Stavneak
Deputy Directors	Jack Brown
	Patrick Moran
Chief Economist	Hans Olofsson
Assistant Directors	Micaela Larkin Andrews
	Geoffrey Paulsen
Principal Fiscal Analysts	Jordan Johnston
	Maggie Rocker
Senior Fiscal Analysts	Nate Belcher
	Chandler Coiner
	Gordon Robertson
Senior Economist	Ben Newcomb
Fiscal Analysts	Brian Belakovsky
	Trevor Malzewski
	Destin Moss
	Ethan Scheider
	Grace Timpany
Senior Administrative Assistant / JLBC Clerk	Kristy Paddack
Administrative Assistant / JCCR Clerk	Jennifer Burns

Appendix A: October 4-Sector Revenue Forecast

	2026	2027	2028	2029
Sales Tax				
JLBC Forecast	3.7%	4.4%	4.2%	4.3%
UA – Low	2.0%	2.6%	3.9%	4.1%
UA – Base	3.2%	3.9%	4.4%	4.4%
FAC	3.0%	3.0%	4.4%	4.4%
Average:	**3.0%**	**3.5%**	**4.2%**	**4.3%**
Individual Income Tax				
JLBC Forecast	6.5%	6.0%	5.3%	5.0%
UA – Low	3.9%	4.7%	5.7%	5.6%
UA – Base	5.6%	6.2%	6.1%	6.1%
FAC	5.6%	4.6%	5.8%	5.7%
Average:	**5.4%**	**5.4%**	**5.7%**	**5.6%**
Corporate Income Tax				
JLBC Forecast	7.0%	4.0%	4.0%	4.0%
UA – Low	1.8%	1.7%	2.9%	3.6%
UA – Base	3.6%	3.4%	3.2%	3.8%
FAC	7.4%	5.2%	6.6%	5.9%
Average:	**5.0%**	**3.6%**	**4.2%**	**4.4%**

JLBC Weighted Average	**5.1%**	**4.9%**	**4.6%**	**4.5%**
UA Low Weighted Average	**2.7%**	**3.3%**	**4.4%**	**4.6%**
UA Base Weighted Average	**4.1%**	**4.7%**	**4.9%**	**5.0%**
FAC Consensus Weighted Average	**4.4%**	**3.8%**	**5.2%**	**5.1%**
“Big-4” Weighted Average	**4.1%**	**4.2%**	**4.8%**	**4.8%**
Consensus Weighted Average *	**3.6%**	**3.6%**	**4.4%**	**4.6%**

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: 4-Sector Forecast FY 25 - FY 27

FORECAST REVENUE GROWTH

($ in Thousands)

	ACTUAL FY 2025	% CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2027	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	8,151,850.1	2.7%	8,395,047.0	3.0%	243,196.9	8,686,395.1	3.5%	291,348.1
Income - Individual	5,482,950.4	13.1%	5,778,801.2	5.4%	295,850.9	6,089,008.3	5.4%	310,207.1
- Corporate	1,750,547.2	0.3%	1,837,345.2	5.0%	86,798.0	1,903,284.7	3.6%	65,939.5
Property	35,136.7	35.2%	36,571.4	4.1%	1,434.8	37,229.7	1.8%	658.3
Luxury - Tobacco	16,233.8	-16.9%	16,436.2	1.2%	202.3	16,419.7	-0.1%	(16.4)
- Liquor	48,610.0	8.2%	50,307.6	3.5%	1,697.6	52,521.1	4.4%	2,213.5
Insurance Premium	923,760.0	12.6%	1,038,306.2	12.4%	114,546.2	1,085,030.0	4.5%	46,723.8
Other Taxes	19,006.4	10.5%	19,936.9	4.9%	930.5	21,013.5	5.4%	1,076.6
Subtotal - Taxes	16,428,094.6	6.3%	17,172,751.6	4.5%	744,657.1	17,890,902.0	4.2%	718,150.4
Other Non-Tax Revenues:								
Lottery	217,294.1	-2.2%	171,343.3	-21.1%	(45,950.8)	168,752.5	-1.5%	(2,590.8)
Gaming Revenue	39,734.4	8.9%	47,942.3	20.7%	8,207.9	64,946.8	35.5%	17,004.5
Licenses, Fees and Permits	55,470.5	5.3%	55,076.6	-0.7%	(393.9)	57,555.1	4.5%	2,478.4
Interest	286,881.2	-22.7%	228,000.0	-20.5%	(58,881.2)	175,000.0	-23.2%	(53,000.0)
Sales and Services	28,469.5	-7.4%	31,416.4	10.4%	2,946.9	32,830.2	4.5%	1,413.7
Other Miscellaneous	363,676.6	60.2%	363,676.6	0.0%	0.0	381,860.4	5.0%	18,183.8
Transfers and Reimbursements	111,219.3	-66.1%	88,846.2	-20.1%	(22,373.1)	49,212.0	-44.6%	(39,634.2)
Medicaid Hospital Revenue	93,477.4	3.7%	93,320.8	-0.2%	(156.6)	93,169.8	-0.2%	(151.0)
Subtotal - Other Non-Tax	1,196,222.9	-11.9%	1,079,622.2	-9.7%	(116,600.7)	1,023,326.7	-5.2%	(56,295.5)
Net Ongoing Revenue	**17,624,317.5**	**4.8%**	**18,252,373.9**	**3.6%**	**628,056.3**	**18,914,228.8**	**3.6%**	**661,854.9**
Urban Revenue Sharing (URS)	(1,268,257.8)	N/A	(1,186,305.8)	N/A	81,952.0	(1,302,029.6)	N/A	(115,723.8)
Net Ongoing Revenue w/ URS	**16,356,059.7**	**7.3%**	**17,066,068.1**	**4.3%**	**710,008.3**	**17,612,199.2**	**3.2%**	**546,131.1**
One-Time Financing Sources:								
Fund Transfers	30,491.8	-96.4%	15,500.0	-49.2%	(14,991.8)	9,700.0	-37.4%	(5,800.0)
One-Time Income Tax Rebate	(16.1)	-100.0%	0.0	N/A	16.1	0.0	N/A	0.0
One-Time Revenue Forecast Adjustment	0.0	N/A	0.0	N/A	0.0	0.0	N/A	0.0
Enhanced FMAP One-Time Rev. Adjustment	0.0	N/A	0.0	N/A	0.0	0.0	N/A	0.0
Other One-Time Revenue Adjustments	71,249.0	N/A	14,574.4	-79.5%	(56,674.6)	0.0	-100.0%	(14,574.4)
Subtotal - One-Time Financing Sources	101,724.7	-82.1%	30,074.4	-70.4%	(71,650.3)	9,700.0	-67.7%	(20,374.4)
Subtotal - Revenues	**16,457,784.4**	**4.1%**	**17,096,142.5**	**3.9%**	**638,358.0**	**17,621,899.2**	**3.1%**	**525,756.7**
Balance Forward	962,823.0	-61.9%	1,367,290.0	42.0%	404,467.0	673,119.0	-50.8%	(694,171.0)
Total - Resources	**17,420,607.4**	**-5.0%**	**18,463,432.5**	**6.0%**	**1,042,825.0**	**18,295,018.2**	**-0.9%**	**(168,414.3)**

Appendix B: 4-Sector Forecast FY 28 - FY29

FORECAST REVENUE GROWTH

($ in Thousands)

	FORECAST FY 2028	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2029	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	9,054,251.8	4.2%	367,856.7	9,443,768.1	4.3%	389,516.3
Income - Individual	6,437,176.5	5.7%	348,168.2	6,797,683.6	5.6%	360,507.1
- Corporate	1,983,519.8	4.2%	80,235.2	2,070,279.4	4.4%	86,759.5
Property	37,676.5	1.2%	446.8	38,053.2	1.0%	376.8
Luxury - Tobacco	16,255.5	-1.0%	(164.2)	16,174.3	-0.5%	(81.3)
Insurance Premium	54,779.5	4.3%	2,258.4	57,025.5	4.1%	2,246.0
	1,133,856.3	4.5%	48,826.3	1,184,879.9	4.5%	51,023.5
Other Taxes	22,169.2	5.5%	1,155.7	23,299.9	5.1%	1,130.6
Subtotal - Taxes	18,739,685.2	4.7%	848,783.2	19,631,163.8	4.8%	891,478.6
Other Non-Tax Revenues:						
Lottery	174,597.6	3.5%	5,845.1	182,521.8	4.5%	7,924.3
Gaming Revenue	83,842.2	29.1%	18,895.4	88,034.3	5.0%	4,192.2
Licenses, Fees and Permits	59,857.3	4.0%	2,302.2	62,850.2	5.0%	2,992.9
Interest	120,000.0	-31.4%	(55,000.0)	112,000.0	-6.7%	(8,000.0)
Sales and Services	34,143.4	4.0%	1,313.2	35,509.1	4.0%	1,365.7
Other Miscellaneous	397,134.8	4.0%	15,274.4	413,020.2	4.0%	15,885.4
Transfers and Reimbursements	49,761.4	1.1%	549.5	50,330.4	1.1%	568.9
Medicaid Hospital Revenue	93,169.8	0.0%	0.0	93,169.8	0.0%	0.0
Subtotal - Other Non-Tax	1,012,506.5	-1.1%	(10,820.2)	1,037,435.8	2.5%	24,929.3
Net Ongoing Revenue	**19,752,191.7**	**4.4%**	**837,962.9**	**20,668,599.6**	**4.6%**	**916,407.9**
Urban Revenue Sharing (URS)	(1,370,906.4)	N/A	(68,876.8)	(1,438,612.7)	N/A	(67,706.4)
Net Ongoing Revenue w/ URS	**18,381,285.3**	**4.4%**	**769,086.1**	**19,229,986.9**	**4.6%**	**848,701.5**
One-Time Financing Sources:						
Fund Transfers	600.0	-93.8%	(9,100.0)	0.0	-100.0%	(600.0)
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
One-Time Revenue Forecast Adjustment	0.0	N/A	0.0	0.0	N/A	0.0
Enhanced FMAP One-Time Rev. Adjustment	0.0	N/A	0.0	0.0	N/A	0.0
Other One-Time Revenue Adjustments	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	600.0	-93.8%	(9,100.0)	0.0	-100.0%	(600.0)
Subtotal - Revenues	**18,381,885.3**	**4.3%**	**759,986.1**	**19,229,986.9**	**4.6%**	**848,101.5**
Balance Forward	675,054.7	0.3%	1,935.7	577,515.7	-14.4%	(97,539.0)
Total - Resources	**19,056,940.0**	**4.2%**	**761,921.8**	**19,807,502.6**	**3.9%**	**750,562.5**

Appendix C: General Fund Balance Sheet

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

	FY 2026 Baseline	FY 2027 Baseline	FY 2028 Baseline	FY 2029 Baseline
REVENUES				
Ongoing Revenues	$18,252,373,900	$18,914,228,800	$19,752,191,700	$20,668,599,600
Urban Revenue Sharing	(1,186,305,800)	(1,302,029,600)	(1,370,906,400)	(1,438,612,700)
Net Ongoing Revenues	$17,066,068,100	$17,612,199,200	$18,381,285,300	$19,229,986,900
One-Time Revenues				
Balance Forward	1,367,290,000	673,119,000	675,054,700	577,515,700
Marana Prison Sale Revenue	14,574,400			
Fund Transfers	15,500,000	9,700,000	600,000	
Subtotal One-Time Revenues	$1,397,364,400	$682,819,000	$675,654,700	$577,515,700
Total Revenues	$18,463,432,500	$18,295,018,200	$19,056,940,000	$19,807,502,600
EXPENDITURES				
Ongoing Operating Appropriations	$16,614,985,900	$17,456,094,300	$18,240,435,400	$18,915,330,300
Administrative Adjustments	135,000,000	145,000,000	145,000,000	145,000,000
Revertments	(206,500,000)	(200,000,000)	(200,000,000)	(200,000,000)
Subtotal Ongoing Expenditures	$16,543,485,900	$17,401,094,300	$18,185,435,400	$18,860,330,300
One-Time Expenditures				
Capital Outlay	$26,227,100		$25,000,000	
Transportation Funding	109,989,000	30,000,000	125,000,000	
FY 26 One-Time Supplementals	208,577,900			
Operating One-Time Spending	1,002,033,600	188,869,200	143,988,900	177,275,800
Hospital Assessment Savings	(100,000,000)			
Subtotal One-Time Expenditures	$1,246,827,600	$218,869,200	$293,988,900	$177,275,800
Total Expenditures	$17,790,313,500	$17,619,963,500	$18,479,424,300	$19,037,606,100
Ending Balance	$673,119,000	$675,054,700	$577,515,700	$769,896,500