Summary
Appropriations Chairmen Budget Options

The current FY 2009 budget shortfall is estimated at $1.6 billion, due primarily to revenues falling short of budgeted levels. Based on projected revenues and funding formula growth, the FY 2010 budget is anticipated to have a shortfall of $3.0 billion. In response, the Appropriations Chairmen have developed over 500 budget options to address these shortfalls. These options total $1.85 billion in FY 2009 and $3.03 billion in FY 2010.

The Chairmen Options do not represent a specific budget proposal to address the FY 2009 and FY 2010 budget shortfalls. As the dollar value of the options exceeds the projected shortfall, they are intended to give members of the Legislature some flexibility in choosing among the proposals as a specific plan is developed during the session.

Table 1 summarizes the 4 main categories of options, General Fund Spending Reductions, Fund Transfers, Temporary Federal Assistance, and Additional Revenues. Following *Table 1* is the Detailed List of Budget Options. The Detailed List includes a page number where more information can be found on each proposal.

The Chairmen developed the options using the following parameters:

- General Fund expenditures as well as all other state funds were considered as part of the analysis. In FY 2009, the General Fund expenditure options total $758 million; in FY 2010 the options total $2.22 billion. There are also $668 million in Non-General Fund spending and fund balance options in FY 2009 and $360 million in FY 2010.
- The options also include $400 million in Temporary Federal Assistance in both FY 2009 and FY 2010 as well as Revenue proposals totaling $21 million in FY 2009 and $51 million in FY 2010.

<u>General Fund Spending Reductions</u>

- Of the $758 million and $2.22 billion in General Fund proposals, $261 million in FY 2009 and $629 million in FY 2010 are generated from a lump sum reduction to non-statutory spending. This amount typically is 10% in FY 2009 and 15% in FY 2010, but varies somewhat by agency. In a lump sum reduction, an agency may determine how to allocate the savings as long as they continue to comply with existing law.
- A second lump sum proposal would take the form of a state employee personnel expense reduction. This would generate $52 million in FY 2009 and $124 million in FY 2010. The amount was calculated by reducing agencies' General Fund personnel expenses by 4.2% in FY 2009 and 10% in FY 2010. Constitutional officers and some life/safety-related positions were exempted from the calculation. Agencies would be allowed to determine how to achieve these reductions, including vacancy savings, unpaid furloughs, or reductions in force.
- Apart from these lump sum proposals, the remainder of the $758 million in FY 2009 agency spending reductions, or $445 million, reflects specific reduction proposals. A portion of these proposals, totaling $273 million, would require a change in an existing permanent or

session laws. In FY 2010, the non-lump sum proposals equal $1.5 billion, including $1.1 billion in statutory changes.

Fund Transfers

- Lump sum reductions are also applied to Non-General Fund expenditures and are known as FRATs: Fund Reduction and Transfers. Any reduction in Non-General Fund spending would be "swept" into the General Fund so as to help with the budget shortfall. These FRATs are typically 5% of non-General Fund spending in FY 2009 and 10% in FY 2010. The FRATs also include the 4.2% personnel expense reduction in FY 2009 and 10% in FY 2010 that is an option for General Fund agencies as well. The FRATs total $102 million in FY 2009 and $194 million in FY 2010.
- Beyond these FRATS, there are also Excess Balance Transfers (EBTs). These are the traditional fund sweeps that were employed in last year's budget proposals. The EBTs typically would reduce each fund's FY 2009 ending balance by 50% and then reduce the remaining balance by another 50% in FY 2010 (or 75% across the 2 years). These EBTs total $245 million in FY 2009 and $116 million in FY 2010.
- The options include another $321 million in FY 2009 and $50 million in FY 2010 in other fund transfers that do not conform to the 50% EBT rule. For example, the remaining $130 million Budget Stabilization Fund balance is included in the $321 million set of options for FY 2009.

Temporary Federal Assistance

- The proposal includes a placeholder of $400 million in both FY 2009 and FY 2010 for temporary federal assistance. The federal government is currently considering a proposal to increase the federal share of Title 19 Medicaid costs, thereby generating state savings.

Revenue

- The options also include $21 million of Revenue proposals in FY 2009 and $53 million in FY 2010. These options are not tax increases.

Budget Options Summary

	FY 2009	Savings as % of GF Budget	Savings as % of Total 5/ Spending	FY 2010	Savings as % of GF Budget	Savings as % of Total 5/ Spending
General Fund Spending Reductions 1/2/3/						
7 Large Agencies						
Dept. of Education	($103,208,600)	-2.5%	-1.7%	($891,799,300)	-19.8%	-14.1%
AHCCCS 4/	(160,241,600)	-11.2%	-6.9%	(372,181,900)	-22.9%	-15.2%
Universities	(174,531,400)	-16.2%	-5.3%	(313,532,100)	-29.0%	-9.3%
Dept. of Corrections	(21,851,900)	-2.3%	-2.1%	(132,249,000)	-13.4%	-12.1%
Dept. of Economic Security	(110,431,600)	-13.7%	-4.4%	(199,810,100)	-24.1%	-7.9%
Dept. of Health Services	(39,043,900)	-6.4%	-2.3%	(94,154,700)	-14.2%	-7.2%
Community Colleges	(12,000,000)	-8.1%	-0.8%	(41,170,100)	-26.6%	-2.6%
All Other Agencies	(121,191,500)	-15.0%	-3.2%	(175,551,200)	-17.9%	-5.3%
Capital	(15,650,200)			(384,700)		
Subtotal - General Fund Agencies	($758,150,700)	-7.6%	-3.8%	($2,220,833,100)	-20.5%	-10.0%
Fund Transfers						
Excess Balance Transfers (EBTs)	(244,816,800)			(115,692,900)		
Fund Reduction and Transfers (FRATs)	(101,819,400)			(193,702,700)		
Budget Stabilization Fund	(130,000,000)			0		
All Other Fund Transfers	(191,300,800)			(50,465,200)		
Subtotal - Fund Sweeps	($667,937,000)			($359,860,800)		
Temporary Federal Assistance 4/	($400,000,000)			($400,000,000)		
Additional Revenue	($21,007,500)			($50,855,000)		
TOTAL	**($1,847,095,200)**			**($3,031,548,900)**		

1/ The dollar value of General Fund savings assumes a February 1st implementation date.
2/ In FY 2009 and FY 2010, statutory changes would be required to implement $273 million and $1.1 billion worth of reductions respectively.
3/ The individual agency amounts include the savings for the Personnel Expense Reduction option. In the attached spreadsheet, these amounts are not allocated by agency.
4/ Acceptance of the temporary federal assistance may reduce FY 2009 AHCCCS options by $102 million.
5/ % of total spending includes reductions in federal and non-General Fund state funding.