

## HIGHLIGHTS OF THE FY 2012 BUDGET

The FY 2012 budget is based primarily upon the actions of the 50<sup>th</sup> Legislature's 1<sup>st</sup> Regular Session. On April 6, 2011, the Governor signed into law the FY 2012 budget for the year beginning July 1, 2011.

The state's FY 2012 General Fund budget is \$8.32 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$26.9 billion. (*See the Summary of Appropriated Funds and Summary of Total Spending Authority for more details.*)

**Revised FY 2011 Budget** – At the time of publication of the *FY 2011 Appropriations Report* in May 2010 after the 49<sup>th</sup> Legislature's 2<sup>nd</sup> Regular Session, the FY 2011 ending balance was assumed to be \$63 million. By January 2011, however, the positive balance had become an estimated shortfall of \$(543) million. (This estimate was listed as \$(531) million in the *FY 2012 Baseline Book*, but was revised to \$(543) million for technical reasons.) The primary adjustments included:

- A projected FY 2011 beginning balance of \$48 million became a shortfall of \$(6) million due to a greater than expected decline in FY 2010 revenues. The net loss was \$(54) million.
- The failure of 2 ballot fund transfers at the November 2010 General Election increased the shortfall by \$(469) million. The original FY 2011 budget assumed passage of the ballot propositions.
- A revised FY 2011 revenue forecast increased the shortfall by \$(86) million.

As part of the FY 2012 budget, the Legislature approved \$211 million in FY 2011 shortfall solutions, including spending reductions (\$119 million), fund transfers (\$52 million), and revenue adjustments (\$40 million). These adjustments resulted in a projected FY 2011 shortfall of \$(332) million carried forward into FY 2012. This shortfall was resolved as part of the FY 2012 budget. (*See FY 2011 General Fund Adjustments at the end of this Appropriations Report for more details.*)

**Comparison to the JLBC Baseline** – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2012 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$9.28 billion. Based on a 5.2% General Fund base revenue increase in FY 2011 and a 5.4% increase in FY 2012, General Fund revenues were anticipated to be \$8.31 billion in FY 2012.

Under the JLBC Baseline, the FY 2012 budget was projected to have a \$(974) million shortfall. In comparison, the Executive estimated the FY 2012 shortfall at over \$(1.1) billion. One major reason for the difference in estimates was whether certain reductions should be

classified as part of the Baseline or as a solution to the shortfall. For example, the Executive reduced some Medicaid payment rates by (5)% on April 1, 2011 which generated annualization savings in FY 2012. The JLBC included those savings as part of the Baseline, while the Executive counted that reduction as part of the solution to the shortfall.

To create more comparability, the JLBC Baseline was restated using the Executive methodology and certain caseload estimates were updated as well. The restated FY 2012 shortfall was \$(1.18) billion (*see Table 1*).

After adjusting for the \$(332) million FY 2011 carry forward, the total projected FY 2012 Baseline shortfall was \$(1.51) billion.

The Legislature approved FY 2012 solutions totaling \$1.52 billion as follows:

- \$1.1 billion in new reductions, including \$524 million from Medicaid waiver plan savings.
- \$172 million in new fund transfers (in addition to \$85 million in the Baseline for a total of \$256 million).
- \$53 million in other revenue, including \$22 million for a one-time Tax Amnesty Program.
- \$66 million cash payments or redirected local revenue (in addition to \$35 million in the Baseline for a total of \$101 million).
- \$70 million in additional base revenue above the Baseline estimate.

As part of the last solution, the Legislature adopted revenue growth rates of 5.6% in FY 2011 and 5.7% in FY 2012.

(*See FY 2012 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2012 changes.*)

**Comparison to the FY 2011 Budget** – General Fund revenues, including one-time monies, are projected to increase from \$8.00 billion in FY 2011 to \$8.33 billion in FY 2012. Base ongoing revenues are projected to increase by \$423 million, from \$7.41 billion in FY 2011 to \$7.83 billion in FY 2012. After technical adjustments, the projected base growth is 5.7%, which will be further modified by the following revenue changes (*see the General Fund Revenue section*):

- \$76 million gain from the temporary 1-cent sales tax; projected revenues are forecast to increase from \$825 million to \$901 million.
- \$59 million net gain due to \$66 million in increased local contributions, primarily through redirecting Highway User Revenue Fund monies that previously had gone to

local governments. That amount is offset by \$(8) million in enacted tax law and other revenue changes.

- \$50 million gain due to decreased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.
- A \$(278) million loss in other one-time revenues from \$240 million in FY 2011 to \$(38) million in FY 2012. The decline is a result of a negative carry forward increasing from \$(6) million at the beginning of FY 2011 to \$(332) million at the beginning of FY 2012.

General Fund spending is projected to decline slightly from \$8.33 billion in FY 2011 to \$8.32 billion in FY 2012, which is a decrease of \$(17) million, or (0.2)%. The small decrease reflects \$1.1 billion in backfill and caseload increases offset by \$(1.1) billion in new spending reductions. The backfill and caseload increases include:

- \$778 million to replace one-time Federal Funds and for caseload growth in Medicaid;
- \$143 million to replace one-time Federal Funds and for caseload growth in K-12;
- \$97 million to replace one-time funding and for increased debt service in the School Facilities Board; and
- \$79 million for one-time costs of a 27<sup>th</sup> pay period for state employees.

The primary reductions include:

- \$(524) million in Medicaid waiver plan savings;
- \$(60) million in to annualize April 1, 2011 Medicaid provider rate reductions;
- \$(199) million in new K-12 reductions;
- \$(198) million for University lump sum reductions;
- \$(73) million for Community College operating state aid reductions; and
- \$(63) million for employee benefit changes, including \$(41) million to increase the employee share of the Arizona State Retirement System contribution from 50% to 53%, \$(10) million to institute a waiting period for new state employee health and retirement benefits and \$(12) million from greater use of state employee health savings accounts.

*(See FY 2012 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)*

Excluding one-time rollover adjustments and Federal Funds backfill, permanent spending is expected to decrease by \$(1.13) billion, or (12.0)%, in FY 2012.

**General Fund Balance** – The FY 2012 General Fund cash balance is projected to be \$14 million. Beyond its cash balance, a budget is also evaluated by the difference between ongoing revenues and expenditures. The state can have a cash balance but a shortfall in ongoing funds through the use of one-time revenue and/or expenditure savings. Including the 1-cent sales tax, ongoing revenues are projected to exceed ongoing spending by \$131 million

in FY 2012. Excluding the 1-cent sales tax, ongoing revenues are projected to be less than ongoing spending by \$(770) million in FY 2012. *(See page BH-4 for more details.)*

**Special Sessions** – While the Legislature was in Regular Session, 2 Special Sessions were held. The 1<sup>st</sup> Special Session was convened in January 2011 to approve legislation requiring AHCCCS to seek a waiver of federal maintenance of effort requirements. *(See page 19 for more information.)*

The 2<sup>nd</sup> Special Session was held in February to consider the Governor's proposal to replace the Department of Commerce with the Arizona Commerce Authority and to authorize new tax reductions. *(See page 44 and page 291 for more information.)* Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 is projected to have a \$(38) million fiscal impact in FY 2012, which was incorporated into the revised JLBC Baseline estimates. Chapter 1's projected impact grows to \$(538) million by FY 2018.

	<b>\$ in M</b>
JLBC January Base	\$ (973.8)
AHCCCS Rate Shifted to Reductions	(62.2)
Commerce Authority	(38.2)
Community College Formula	(10.7)
ADE Property Tax Revisions	(14.3)
ADE Caseload Decrease	18.9
DHS Caseload Increase	(44.0)
University Funding Shifted to Reductions	(52.9)
<b>Revised Baseline</b>	<b>\$(1,177.2)</b>

**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 1/  
WITH ONE-TIME FINANCING SOURCES**

	<b>FY 2011 Enacted</b>	<b>FY 2012 Enacted</b>
<b>REVENUES</b>		
Ongoing Revenues	\$7,411,696,300	\$7,834,223,800
Budget Legislation Changes <u>2/</u>	0	58,690,900
1¢ Sales Tax	824,756,300	901,024,500
Urban Revenue Sharing	(474,006,500)	(424,423,400)
Net On-going Revenues	\$7,762,446,100	\$8,369,515,800
One-time Financing Sources		
Balance Forward	(5,723,000)	(332,260,300)
Budget Legislation Changes <u>3/</u>	(1,956,000)	38,000,000
Fund Transfers <u>4/</u>	247,291,800	256,074,600
Subtotal One-time Revenues	\$239,612,800	(\$38,185,700)
<b>Total Revenues</b>	\$8,002,058,900	\$8,331,330,100
<b>EXPENDITURES</b>		
Operating Budget Appropriations	\$9,405,051,100	\$8,276,436,300
FY 2011 Baseline Adjustments <u>5/</u>	(6,441,600)	
Administrative Adjustments	78,000,000	73,388,300
Revertments <u>6/</u>	(112,905,100)	(111,256,400)
Subtotal Ongoing Expenditures	\$9,363,704,400	\$8,238,568,200
One-time Expenditures		
Capital Outlay	\$4,000,000	
Additional (27th) Pay Period		79,000,000
Temporary Federal Assistance	(973,385,200)	
SFB Debt Refinance	(60,000,000)	
Subtotal One-time Expenditures	(\$1,029,385,200)	\$79,000,000
<b>Total Expenditures</b>	\$8,334,319,200	\$8,317,568,200
<b>Ending Balance <u>7/</u></b>	(\$332,260,300)	\$13,761,900
Structural Balance (with 1¢ TPT Increase) <u>8/</u>	(\$1,601,258,300)	\$130,947,600
Structural Balance (without 1¢ TPT Increase) <u>8/</u>	(\$2,426,014,600)	(\$770,076,900)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

2/ See page 287 for details.

3/ See page 289 for details.

4/ See page 337 for details.

5/ See page 367 for details.

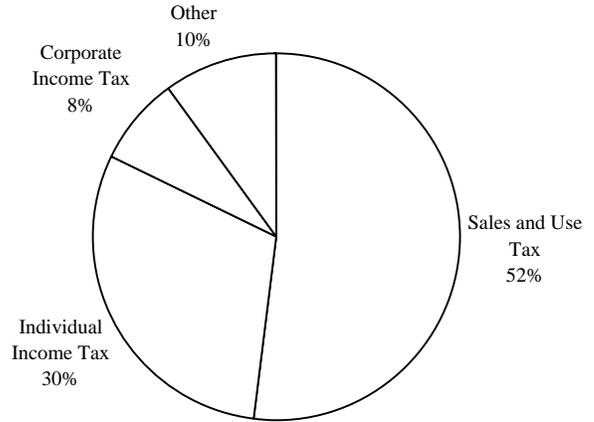
6/ Assumes that the level of continuing appropriations remains at the FY 2010 level of \$35.5 million through FY 2012.

7/ This calculation reflects the difference between total revenues and total expenditures.

8/ This calculation reflects the difference between ongoing revenues and expenditures.

## FY 2012 General Fund Revenue - Where it Comes From

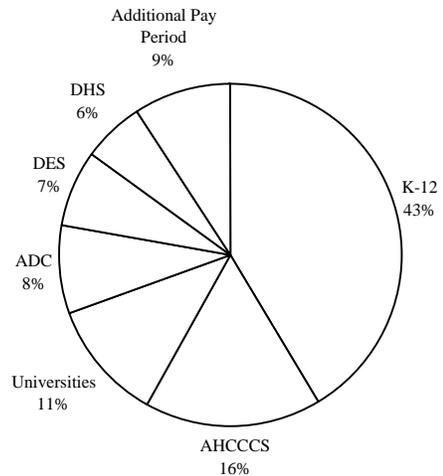
<u>Source</u>	<u>Revenue (Millions)</u>
Sales and Use Tax	\$ 4,567.5
Individual Income Tax	2,671.4
Corporate Income Tax	686.8
Other	868.2
<b>TOTAL REVENUE</b>	<b><u>\$ 8,793.9</u> <sup>1/</sup></b>



<sup>1/</sup> Includes all legislative revenue changes, but does not include beginning balance shortfall of \$(332) million, urban revenue sharing, or other one-time revenue adjustments.

## FY 2012 General Fund Appropriations - Where it Goes

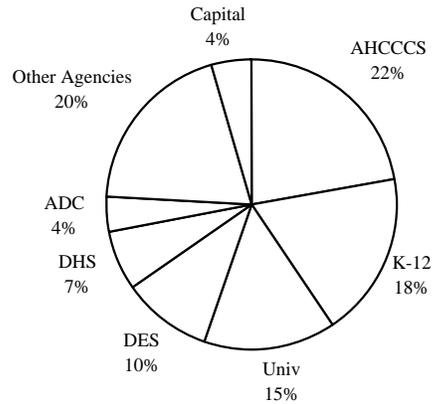
<u>Budget Unit</u>	<u>Appropriation (Millions)</u>
Education (K-12)	\$ 3,436.5
AHCCCS	1,363.7
Corrections	948.2
Universities	682.5
Economic Security	602.6
Health Services	494.3
One-time 27th Pay Period	79.0
Other Agencies	748.6
<b>TOTAL OPERATING BUDGET</b>	<b><u>\$ 8,355.4</u> <sup>1/</sup></b>



<sup>1/</sup> Does not include administrative adjustments and revertsments

### FY 2012 Total Spending - All Sources <sup>1/</sup>

<u>Budget Unit</u>	<u>Spending (Millions)</u>
AHCCCS	\$ 5,993.2
Education (K-12)	4,923.4
Universities	3,971.3
Economic Security	2,710.3
Health Services	1,780.0
Corrections	1,062.2
Other Agencies	5,286.1
Capital	1,194.4
TOTAL	<u>\$ 26,920.9 <sup>2/</sup></u>

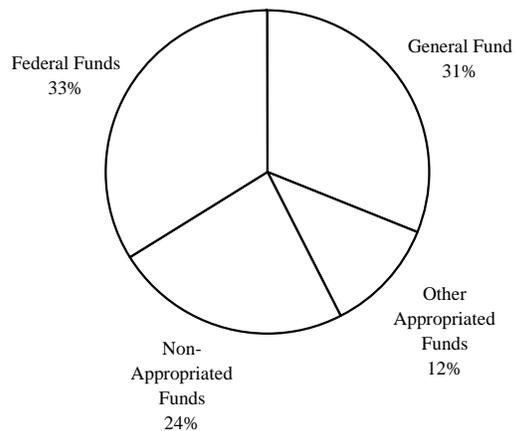


<sup>1/</sup> Does not include administrative adjustments and revertsments.

<sup>2/</sup> Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

### FY 2012 Total Spending by Fund Source <sup>1/</sup>

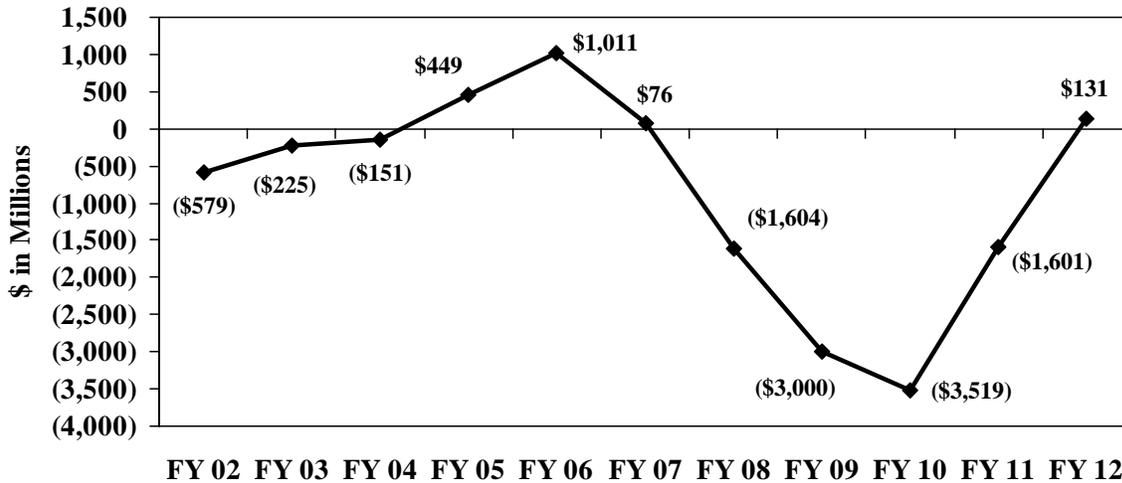
<u>Fund Source</u>	<u>Spending (Millions)</u>
General Fund	\$ 8,355.4
Other Appropriated Funds	3,097.4
Non-Appropriated Funds	6,361.5
Federal Funds	9,106.6
TOTAL	<u>\$ 26,920.9 <sup>2/</sup></u>



<sup>1/</sup> Does not include administrative adjustments and revertsments.

<sup>2/</sup> Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

**The Structural General Fund Balance**  
**Difference Between Ongoing Revenues and Ongoing Expenditures**



**Ongoing Fund Surplus (+) / Shortfall (-)**  
**Counts 1 ¢ Sales Tax as Ongoing in FY '11 and FY '12**

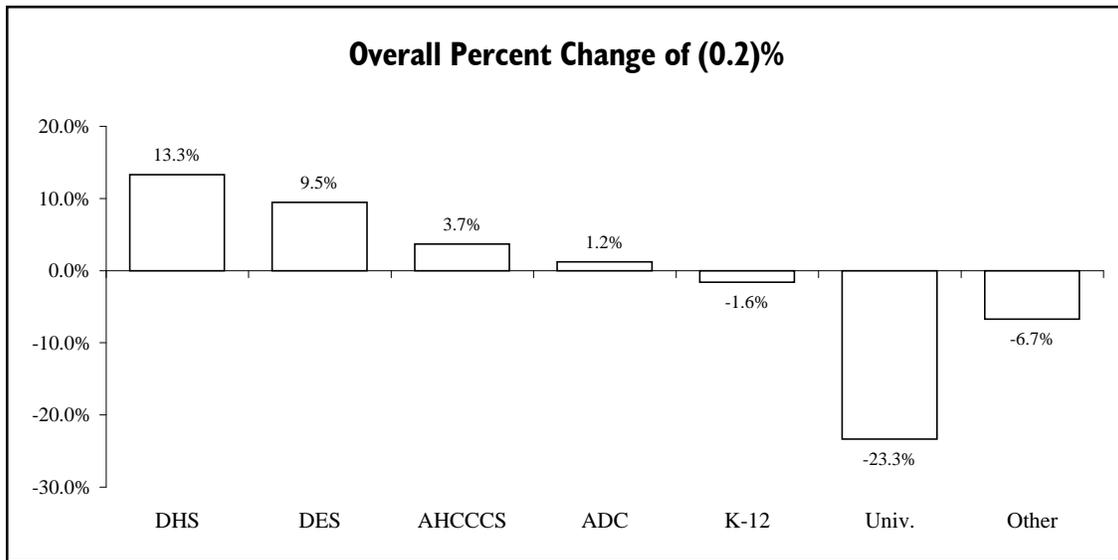
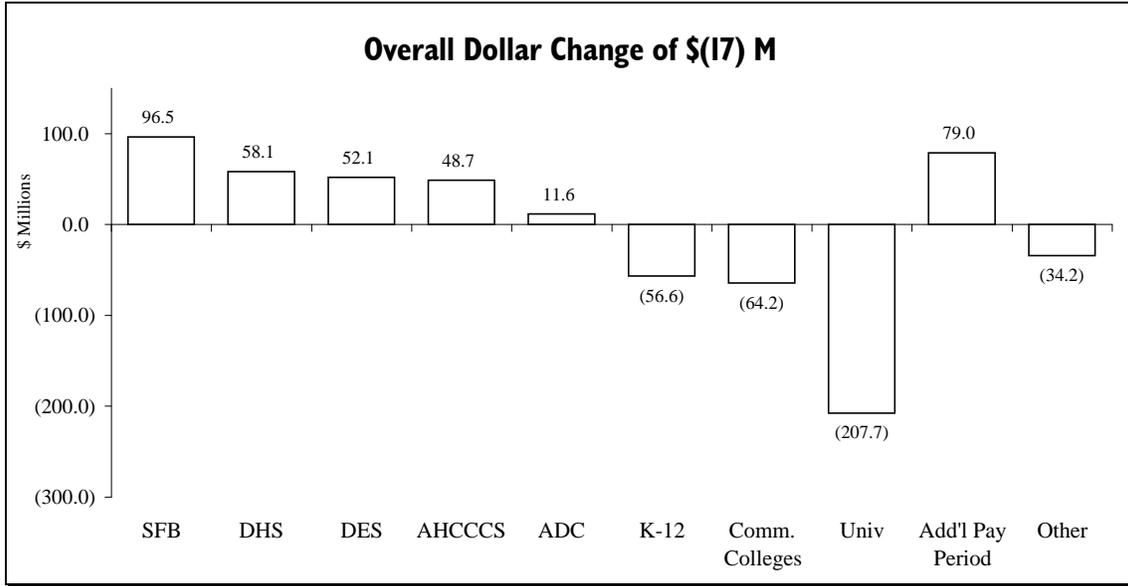
**Recent History of Ongoing General Fund Balance <sup>1/</sup>**  
**(\$ in Millions)**

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
2002	5,760	6,339	(579)
2003	5,801	6,026	(225)
2004	6,462	6,613	(151)
2005	7,719	7,270	449
2006	9,266	8,255	1,011
2007	9,624	9,548	76
2008	8,765	10,369	(1,604)
2009	6,967	9,967	(3,000)
2010	6,295	9,814	(3,519)
2011	7,763 <sup>2/</sup>	9,364	(1,601)
2012	8,370 <sup>2/</sup>	8,239	131

<sup>1/</sup> Excludes one-time revenues and expenditures.

<sup>2/</sup> Includes the 1-cent sales tax increase from Proposition 100 as ongoing revenue. Without the 1-cent tax, there is a \$(770) million shortfall.

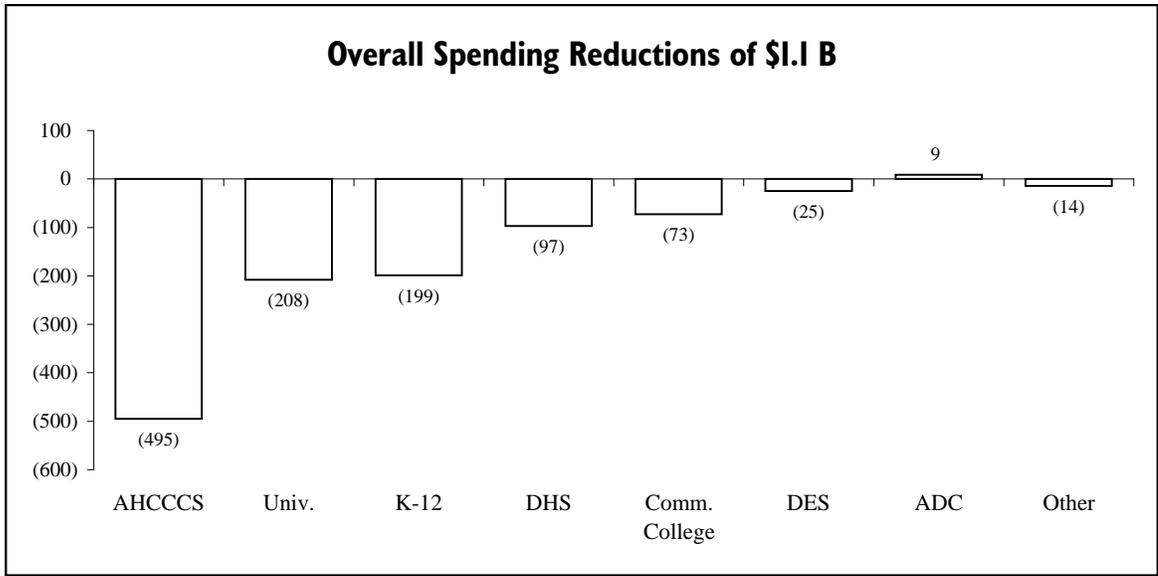
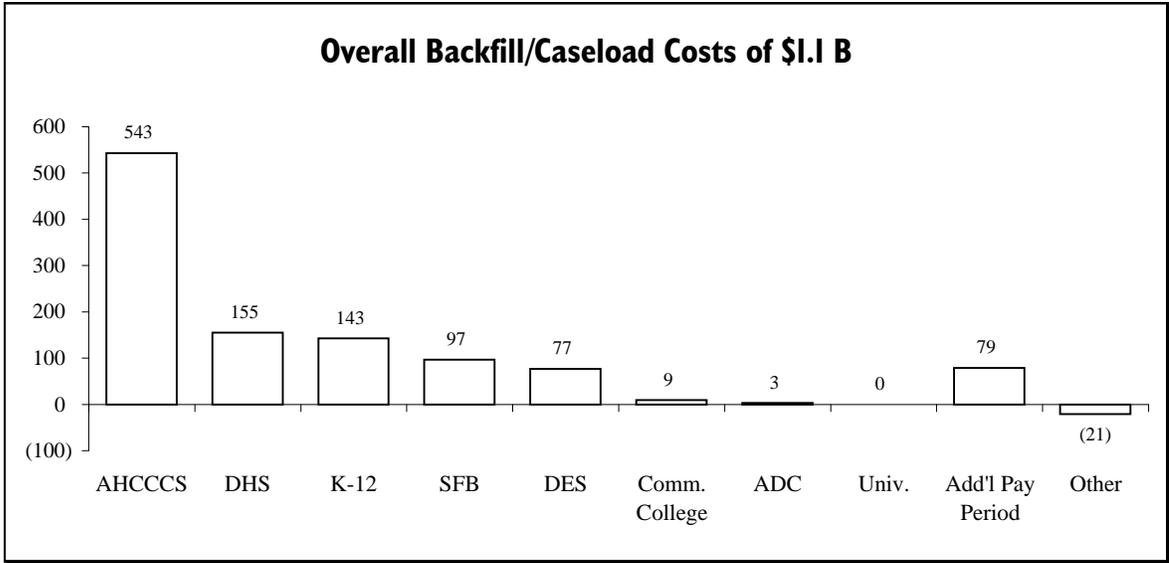
**CHANGES TO MAJOR AGENCIES' GENERAL FUND BUDGET <sup>1/2/</sup>**  
**FY 2011 to FY 2012**



<sup>1/</sup> Represents change in total General Fund spending from FY 2011 (including supplementals and ex-appropriations) to FY 2012. See page BD-6.

<sup>2/</sup> See BH-9 for major caseload/backfill dollar changes versus reductions.

**CHANGES TO MAJOR AGENCIES' GENERAL FUND BUDGET FROM FY 2011 TO FY 2012**  
**\$1.1 B of Backfill/Caseload Costs Were Offset With \$1.1 B of New Reductions**



# FY 2012 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

## General Fund Balances

- Given FY 2012 revenues of \$8.33 billion and spending of \$8.32 billion, the state has a projected FY 2012 surplus of \$13.8 million.
- The state's fiscal condition is also evaluated by the comparison between the state's permanent ongoing revenues and permanent ongoing spending. The FY 2012 budget has a structural surplus of \$131 million with the 1-cent sales tax and a \$(770) million shortfall without it.
- The state is projected to have a structural surplus of \$300 million in FY 2013 with the 1-cent tax and a shortfall of \$(600) million in FY 2014, the latter due to the expiration of the 1-cent sales tax increase.

## General Fund Revenues

- FY 2011 base revenues are projected to increase by 5.6%, excluding tax law changes. Including one-time revenues, projected FY 2011 revenues are \$8.0 billion and with spending of \$8.33 billion, the state is projected to have a \$(332) million shortfall at the end of FY 2011. That shortfall is resolved as part of the FY 2012 budget.
- FY 2012 General Fund revenues are projected to be \$8.33 billion, including the FY 2011 shortfall. FY 2012 base revenues are projected to increase by 5.7%, excluding tax law and other statutory changes.
- Urban Revenue Sharing (URS) distributions for FY 2012 will total \$424.4 million. By statute, URS is based on 15% of income tax collections 2 years prior. This amount is a reduction of \$(49.6) million compared to FY 2011, due to the substantial decline in income tax revenues.
- The budget includes \$59 million of new ongoing revenue associated with enacted legislation. Of this amount, \$66 million is from higher local contributions, including:
  - ⇒ \$4.0 million related to increased county cash contributions, from \$34.6 million to \$38.6 million.
  - ⇒ \$38.6 million for shifting Motor Vehicle Division funding from the Highway Fund to the Highway User Revenue Fund (HURF).
  - ⇒ \$23.6 million for shifting Department of Public Safety funding from the Highway Fund to HURF.
- The budget assumed new one-time revenue of \$38 million, including \$22 million related to a tax amnesty program which begins in September 2011.
- The budget includes \$256 million of fund transfers including:
  - ⇒ \$16.1 million - Risk Management Fund.
  - ⇒ \$40.3 million - State Employee Health Insurance Trust Fund.
  - ⇒ \$20.0 million - Clean Election Fund.
  - ⇒ \$30.0 million - Department of Economic Security Long Term Care Fund.
  - ⇒ \$28.0 million - Department of Transportation Vehicle License Tax Transfer.

## General Fund Spending

- FY 2012 General Fund spending is projected to be \$8.32 billion.
- Due to the expiration of one-time federal assistance and funding formula adjustments, FY 2012 spending would increase \$1.1 billion. This increase is offset by enacted spending reductions of \$1.1 billion. In total, spending would decrease by \$(16.8) million, or (0.2)%, below the FY 2011 budget.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$27 billion.

## Education

### **Department of Education**

- ADE spending decreases by \$(56.5) million, or (1.6)%. The \$(56.5) million adjustment consists of 3 elements.
- \$143.2 million in baseline formula changes, including:
  - ⇒ \$90.9 million for an increase of 12,300 students, or 1.2%, for a total of 1,070,400.
  - ⇒ \$92.8 million to offset one-time federal assistance in FY 2011.
  - ⇒ \$3.8 million for a 0.9% inflation adjustment for transportation and charter additional assistance. Prior to FY 2011, the state had inflated the per pupil "base level" as well. That adjustment would have cost another \$39.9 million.
  - ⇒ \$(21.4) million net decrease for 1.5% new property growth.
  - ⇒ \$50.0 million to annualize the FY 2011 funding shortfall.
  - ⇒ \$(70.5) million for savings from limiting the 40% subsidy of homeowner property taxes to statewide school taxes. This change was enacted last year.
  - ⇒ \$(2.0) million for the Special Education Fund due to caseload decline.
- \$(33.5) million for statewide adjustments, which almost entirely consist of a reduction in formula funding for school districts due to increasing the employee share of retirement contributions from 50% to 53%.
- \$(166.2) million in new reductions, including:

- ⇒ \$(71.5) million for Capital Outlay Revenue Limit (CORL)/Additional Assistance reduction.
- ⇒ \$(35.0) million for a new reduction that would be offset by the 2010 Federal Stimulus Funds (EduJobs).
- ⇒ \$(23.0) million for increased Soft Capital suspension.
- ⇒ \$(29.8) million for no JTED 9th Grade funding.
- ⇒ \$(14.5) million for Career Ladder phase out.
- ⇒ \$5.0 million for Student Accountability and Information System replacement.
- ⇒ \$4.5 million to offset declining Joint Technological Education Districts (JTED) Qualifying Tax Rate revenues.
- ⇒ \$(1.9) million due to one-time FY 2011 funding.

**School Facilities Board**

- SFB spending increases by \$96.5 million, or 142.9%. The \$96.5 million adjustment includes:
  - ⇒ \$26.5 million to pay for increased debt service associated with past lease-purchase agreements.
  - ⇒ \$60.0 million to backfill one-time FY 2011 savings associated with refinancing SFB’s outstanding debt.
  - ⇒ \$10.1 million to pay for debt service related to issuances made in FY 2010 and FY 2011.
- The budget assumes no additional new construction is authorized in FY 2012.

**Universities**

- The Universities’ General Fund spending decreases by \$(207.7) million, or (23.3)%, including:
  - ⇒ \$(198) million lump sum reduction which is distributed proportionally by each campus’s share of the overall university General Fund budget.
  - ⇒ \$(9.5) million associated with statewide adjustments, which mostly includes savings from the enacted retirement contribution and benefit waiting period changes.
- University enrollment is projected to be 123,416 full-time equivalent students in FY 2012, representing a comparable increase of 4,217 in-state students, or 5.0% above FY 2011. University enrollment growth is not part of a statutorily-required formula. Enrollment growth would have cost \$28.4 million.

**Community Colleges**

- Community College General Fund spending decreases by \$(64.3) million, or (47.5)%, including:
  - ⇒ \$9.0 million for General Fund operating state aid and equalization aid formula growth.
  - ⇒ \$(72.9) million for an operating state aid reduction. Community College non-General Fund revenues were projected to increase by 6% above FY 2011 levels. The \$(72.9) million represents an offsetting (6)% reduction, all applied against operating state aid.
- Enrollment is projected to increase by 11,992 full-time equivalent students, or 9.7%, for a total enrollment of 135,789.

**Health and Welfare**

**AHCCCS**

- AHCCCS’ General Fund spending increases by \$48.7 million, or 3.7%. The \$48.7 million includes:
  - ⇒ \$543.4 million for the backfill of one-time federal Medicaid match assistance, caseload growth, and \$(55) million in FY 2011 one-time reductions.
  - ⇒ \$(478.9) million for a reduction in Proposition 204 and other Medicaid spending.
  - ⇒ \$(6.0) million for eligibility verification savings.
  - ⇒ \$(49.4) million to annualize FY 2011 April 1 provider rate reductions.
  - ⇒ \$36.4 million to transfer the Children’s Rehabilitative Services program from the Department of Health Services (DHS) to AHCCCS.
  - ⇒ \$(1.8) million for statewide adjustments.
- Without any changes in program eligibility, total caseloads would be projected to increase 1.9% from June 2011 to June 2012. Total population would reach 1.37 million by June 2012.
- As of this writing, the Executive has submitted a waiver request to the Federal Government to modify the state’s Medicaid program, consistent with the \$(478.9) million in budgeted savings. Depending on the federal decision, these changes could affect program eligibility.

**Department of Health Services**

- DHS’ General Fund spending increases by \$58.1 million, or 13.3%. The \$58.1 million includes:
  - ⇒ \$127.3 million for the backfill of one-time federal Medicaid match assistance.
  - ⇒ \$27.3 million for new FY 2012 caseload growth.
  - ⇒ \$(43.5) million for a reduction in Proposition 204 and other Medicaid spending.
  - ⇒ \$(11.0) million to annualize the FY 2011 April 1 Medicaid provider rate reduction.
  - ⇒ \$(36.4) million to move the Children’s Rehabilitative Services program from DHS to AHCCCS.

- ⇒ \$(1.2) million to shift Vital Records costs to new fees.
- ⇒ \$(2.7) million to increase counties' share of the cost of treatment of sexually violent persons from 25% to 50%.
- ⇒ \$(1.6) million related to the statewide adjustments.
- Without any changes in program eligibility, the Medicaid behavioral health caseload is projected to increase 2.3% from June 2011 to June 2012. The total served population would reach 129,000 by June 2012. As described in the AHCCCS section, the federal waiver request could affect program eligibility.

### **Department of Economic Security**

- DES General Fund spending increases by \$52.1 million, or 9.5%. The \$52.1 million includes:
  - ⇒ \$62.1 million for the backfill of one-time federal Medicaid match assistance.
  - ⇒ \$18.0 million for an increase of 1,202 new clients, or 5.0%, in the Medicaid Developmental Disabilities Long Term Care program. Total caseload would equal 25,244.
  - ⇒ \$(3.4) million for a Temporary Assistance for Needy Families (TANF) caseload decline. In addition, continues a mid-year FY 2011 reduction of \$(25.0) million for a total reduction of \$(28.4) million. This reduction reflects a caseload decline of (27,160) recipients from the budgeted FY 2011 caseload of 70,000. Current caseload has already declined to less than 42,000.
  - ⇒ \$(8.6) million from reducing the lifetime time limit for TANF Cash Benefits from 36 to 24 months.
  - ⇒ \$(13.8) million to eliminate General Fund support for child care subsidies. In addition, continues a mid-year FY 2011 reduction of \$(10.0) million for a total reduction of \$(23.8) million.
  - ⇒ \$(1.6) million from the Developmentally Disabled program for savings from the Medicaid Waiver Proposal.
  - ⇒ \$4.5 million to backfill Federal Funds for eligibility determinations and child support enforcement.
  - ⇒ \$(5.2) million for statewide adjustments.
- The budget also continues \$(21.0) million of enacted FY 2011 reductions:
  - ⇒ Continues a \$(15.0) million mid-year FY 2011 reduction to be offset by \$15.0 million in additional TANF Block Grant monies.
  - ⇒ Continues a \$(6.0) million mid-year FY 2011 reduction from shifting Adult Services funding to the Social Services Block Grant.

### **Criminal Justice**

### **Department of Corrections**

- ADC General Fund spending increases by \$11.6 million or 1.2%, including:
  - ⇒ \$10.0 million to backfill one-time FY 2011 savings.
  - ⇒ \$4.2 million to annualize the cost of 5,000 new state beds opened in FY 2011.
  - ⇒ \$(3.2) million for lower than budgeted private prison contracted rates.
  - ⇒ \$(1.2) million for statewide adjustments.
- The budget assumes population growth of 27 inmates/month for a total of 34,099 prisoners in state beds.
- ADC is expected to have a 1,527 bed shortfall by June 2011 and 1,851 by June 2012.
- The budget would require counties to house prisoners sentenced less than a year or pay ADC to do so on their behalf, effective July 1, 2012.

### **Environment**

### **Parks Board**

- Parks General Fund spending declines from \$20 million to \$0 to reflect the last deposit to the Land Conservation Fund required by the 1998 ballot proposition. Park operations are primarily funded from park fees.
- Fee spending authority was increased by \$1.1 million to level fund Parks operating budget between FY 2011 and FY 2012, based on all of the agency's funding sources.

### **General Government**

- The budget eliminated all General Fund support for the following:
  - ⇒ The Arizona Commission on the Arts.
  - ⇒ The Department of Military Affairs Project Challenge program.
  - ⇒ Rangers' Pensions due to the death of 1 remaining recipient.
- The budget enacted several agency consolidations:
  - ⇒ The Department of Mines and Mineral Resources merged into the Geological Survey and the Arizona Historical Society.
  - ⇒ Government Information Technology Agency (GITA) merged into the Arizona Department of Administration.
  - ⇒ The Arizona Biomedical Research Commission merged into the Department of Health Services.

- The budget eliminated the \$1.4 million General Fund appropriation to the Department of Commerce. Separate legislation created a new Arizona Commerce Authority as a replacement. The Authority is funded with \$31.5 million redirected from the General Fund.

#### **Financing and Payment Deferral**

- The budget includes an increase of \$77.9 million from the General Fund for debt and lease-purchase payments in FY 2012. The total General Fund debt service payment would be \$287.8 million, which includes:
  - ⇒ \$49.1 million for the annual payment for the \$1.0 billion state building sale/lease-back issuance.
  - ⇒ \$78.6 million for traditional capital lease-purchase payments.
  - ⇒ \$160.1 million for outstanding SFB lease-purchase agreements.
  - ⇒ The budget also includes \$20.7 million in diverted General Fund lottery revenues to pay the debt service on the \$450 million of lottery revenue bonds issued in FY 2010.
- The budget includes no net change in existing payment deferrals. The budget defers \$1.3 billion in General Fund spending from FY 2012 to FY 2013, including:
  - ⇒ \$953 million of school district payments.
  - ⇒ \$200 million of payments to the University system.
  - ⇒ \$113 million of AHCCCS payments.
  - ⇒ \$35 million of DES payments.

#### **State Employee Issues**

##### **FTE Positions**

- The budget would fund an increase of 47.6 Full-Time Equivalent (FTE) Positions in FY 2012, including:
  - ⇒ 144 additional positions to open a new veteran's home.
  - ⇒ A decrease of (15.5) FTE Positions associated with agency eliminations and consolidations.
  - ⇒ A decrease of (80.9) FTE Positions due to technical changes, including the shifting of 64.9 positions from the Department of Commerce to non-appropriated status in the newly-created Arizona Commerce Authority.
- These adjustments would bring total appropriated FTE Positions to 49,847.1.

##### **Employee Pay and Salary Issues**

- The budget includes \$79 million in one-time funding for an additional employee payday. There are 27 scheduled pay periods in FY 2012, as opposed to the 26 that typically occur in other fiscal years.
- The budget partially continues the 5% statewide salary reduction that was enacted in the FY 2011 budget. This salary reduction consisted of a 2.75% pay reduction and 6 furlough days. The pay reduction continued and the furlough days were removed, however, agencies did not receive restoration of funding for the furlough days except for certain smaller agencies.
- The budget includes \$62.0 million of savings due to employee benefit changes:
  - ⇒ \$41.3 million due to increasing the employee share of Arizona State Retirement System (ASRS) contributions from 50% to 53%.
  - ⇒ \$12.0 million by implementing an expanded Health Savings Account option for state employees.
  - ⇒ \$10.0 million by requiring that state employees work regularly for at least 90 days to be eligible for health benefits and 6 months to become a member of the ASRS.
- The budget includes no change in funding for the employee or employer share of health insurance for existing state employees, as surplus health insurance funds are expected to cover any cost increase.

#### **Statewide Issues**

- The above narrative references statewide adjustments which were enacted in the FY 2012 budget. These adjustments affect most agencies and include the following changes:
  - ⇒ Health Insurance - State agencies will now be billed based on actual health insurance costs.
  - ⇒ Lease-Purchase/Rent Adjustment - Technical adjustment include rent changes and expiration of lease-purchase agreements.
  - ⇒ Risk Management Adjustment - Adjustments reflect risk management changes.
  - ⇒ New Hire Benefit Waiting Period - Savings are achieved by delaying benefits for new employees (90 days for employee benefits, 6 months to join the ASRS).
  - ⇒ Uncaptured Pay Savings - Unbudgeted savings are from the prior enacted FY 2011 pay reduction.
  - ⇒ Retirement Contribution Adjustment - Savings are achieved by increasing the employee share of ASRS contributions from 50% to 53%.
- Agency funding totals listed above exclude the additional pay period due to it being a significant amount of one-time funding.