LONG-TERM GENERAL FUND ESTIMATES

Summary

The JLBC Staff has developed General Fund Baseline estimates through FY 2014 to assist the Legislature in evaluating the state's long-run fiscal condition. Given the multiple years involved in these calculations, long-run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2012 through FY 2014 would change the cumulative ending balance calculations by $500 - $600 million. As a result, the following projections are subject to considerable change.

Based on the assumptions described below, the cash shortfall is estimated to be $(612.3) million in FY 2013 and $(1.12) billion in FY 2014. *(See Table 2.)*

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2012 revenues, the long-run estimates are based on the average of 4 different forecasts. This process is described in more detail in the *General Fund Revenue* section.

The projected overall ongoing General Fund growth is 7.0% in FY 2013 and 7.8% in FY 2014. *Table 1* includes the individual forecast components. These estimates reflect economic expansion during both FY 2013 and FY 2014, returning to historical growth rates. These growth rates reflect revenue growth prior to tax law changes and Urban Revenue Sharing.

In FY 2013, enacted tax law changes will reduce revenue growth by $(16.8) million relative to FY 2012. The main reasons for these adjustments is the impact of Laws 2003, Chapter 266, which requires the state to contribute to the expansion and renovation of the Phoenix Convention Center, and Laws 2010, Chapter 312, which created a tax credit for renewable energy production. The tax credit is capped at $20 million, and this estimate assumes the $20 million cap is reached in 2013. *(See the General Fund revenue section for more detail.)*

The elimination of some temporary revenue sources will also reduce General Fund revenues by an estimated $(52.0) million and $(979.3) million, in FY 2013 and FY 2014, respectively. These temporary measures consist of the lower threshold for estimated sales tax payments, which ends for FY 2013, and the temporary 1-cent sales tax increase, which was approved by the voters through May 2013.

The estimated revenues also assume a continuation of certain fund transfers in FY 2013 and FY 2014. These fund transfers assume reductions to the spending levels of non-General Fund agency funds. An amount equal to the spending reduction is then transferred to the General Fund. As these spending reductions are expected to continue, the transfers are also assumed to continue.

The projected level of General Fund revenue is $8.83 billion in FY 2013 and $8.52 billion in FY 2014. These estimates assume that any prior year shortfall is eliminated before the beginning of the following fiscal year.

Table 1

Consensus Forecast Percentages

	FAC	UA Low	UA Base	JLBC	Avg
FY 2013					
Sales Tax	6.7%	6.3%	9.2%	7.0%	7.3%
Individual Income Tax	7.3%	6.4%	8.0%	7.0%	7.2%
Corporate Income Tax	13.8%	(1.7)%	(1.4)%	7.5%	4.6%
Wgt Avg					7.0%
FY 2014					
Sales Tax	6.2%	8.5%	9.3%	7.2%	7.8%
Individual Income Tax	6.2%	8.1%	8.3%	7.2%	7.5%
Corporate Income Tax	12.0%	6.0%	3.7%	13.2%	8.7%
Wgt Avg					7.8%

Baseline Spending

The long-term General Fund expenditures reflect the requirements of existing statutory funding formulas and other obligations. Excluding one-time items, permanent ongoing baseline spending is projected to increase 2.6% in FY 2013 and 2.1% in FY 2014.

There are 3 major differences between growth in FY 2013 and FY 2014. First, in FY 2013, there is a $35.1 million increase in debt service related to the sale and lease-back of state assets. Second, in FY 2014, there is a $65.8 million increase for the phased opening of 5,000 previously authorized private prison beds. Finally, in FY 2014, the lower growth rate reflects Medicaid savings due to improved match rates related to federal health care legislation.

Overall spending, including one-time adjustments, would be $9.44 billion in FY 2013 and $9.64 billion in FY 2014. *(See Table 3 for the projected spending levels of major agencies.)*

These estimates may be conservative as they do not include any potential discretionary funding increases or inflationary increases. Inflation in Medicaid and K-12 funding would add an estimated $264 million in FY 2013 and $277 million in FY 2014. In addition, there are over $1 billion of funding formula requirements that are currently suspended each year but remain permanently authorized in law. *(See Table 4.)*

Ending Balance and Ongoing Revenue and Spending

The projected FY 2013 and FY 2014 ending balances are a product of both baseline revenue and spending projections for those 2 years as well as legislative decisions. The balance can be discussed in terms of the ending cash balance by comparing total spending to total revenues. Alternatively, the year-end position can be evaluated by excluding one-time revenues and expenditures and instead comparing ongoing or permanent spending to ongoing revenues. This is also called the structural balance.

The following analysis assumes that any solutions to the FY 2011 and FY 2012 shortfalls are not permanent. Any permanent solutions in prior years would correspondingly reduce the shortfall in future years.

Assuming the continuation of current policies and the projected revenue and spending assumptions, the projected ending cash balance in FY 2013 is a $(612.3) million shortfall. This difference would increase to $(1.12) billion in FY 2014. In comparison, the projected ending cash shortfall is $(973.8) billion in FY 2012. *(See Table 2 for a Statement of General Fund Revenues and Expenditures.)*

The structural shortfall is $(644.9) million in FY 2013 and $(1.21) billion in FY 2014. The difference from the projected cash shortfall is due to the temporary continuation of fund transfer revenues, totaling $85 million in FY 2013 and FY 2014, and the elimination of the reduced sales tax estimated payment threshold in FY 2013.

Table 2

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

	FY 2011 Adjusted	FY 2012 Baseline	FY 2013 Baseline	FY 2014 Baseline
REVENUES				
Ongoing Revenues	$7,347,096,300	$7,744,223,800	$8,271,375,200	$8,901,157,400
Budget Legislation Changes		(16,230,200)	(16,775,400)	(28,630,000)
Sales Tax Increase	814,756,300	886,024,500	950,704,289	
County Contributions	34,600,000	34,600,000	34,600,000	34,600,000
Urban Revenue Sharing	(474,006,500)	(424,423,400)	(442,394,200)	(471,637,700)
Net On-going Revenues	$7,722,446,100	$8,224,194,700	$8,797,509,889	$8,435,489,700
One-time Financing Sources				
Balance Forward	($5,723,000)			
Budget Legislation Changes	(1,956,000)		($52,000,000)	
Fund Transfers	195,342,900	$84,548,700	84,548,700	$84,548,700
Subtotal One-time Revenues	$187,663,900	$84,548,700	$32,548,700	$84,548,700
Total Revenues	$7,910,110,000	$8,308,743,400	$8,830,058,589	$8,520,038,400
EXPENDITURES				
Operating Budget Appropriations	$9,524,320,600	$9,240,416,800	$9,482,856,500	$9,685,958,100
FY 2011 Ex-Appropriations	(19,249,100)			
Administrative Adjustments	78,000,000	73,388,300	72,316,700	73,310,100
Revertments	(112,905,100)	(111,256,400)	(112,784,800)	(115,222,100)
Subtotal Ongoing Expenditures	$9,470,166,400	$9,202,548,700	$9,442,388,400	$9,644,046,100
One-time Expenditures				
Capital Outlay	$4,000,000			
Additional (27th) Pay Period		80,000,000		
Temporary Federal Assistance	(973,385,200)			
SFB Debt Refinance	(60,000,000)			
Subtotal One-time Expenditures	($1,029,385,200)	$80,000,000	$0	$0
Total Expenditures	$8,440,781,200	$9,282,548,700	$9,442,388,400	$9,644,046,100
Ending Balance 2/	($530,671,200)	($973,805,300)	($612,329,812)	($1,124,007,700)
Structural Shortfall 3/	($1,747,720,300)	($978,354,000)	($644,878,512)	($1,208,556,400)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.
2/ This calculation reflects the difference between total revenues and total expenditures.
3/ This calculation reflects the difference between ongoing revenues and expenditures.

Table 3

Major Budget Units

	FY 2011 Adjusted	FY 2012 $ Above FY 11	FY 2012 Baseline	FY 2013 $ Above FY 12	FY 2013 Baseline	FY 2014 $ Above FY 13	FY 2014 Baseline
EXPENDITURES							
Operating Budget							
-- Department of Administration	17,734,300	(425,900)	17,308,400		17,308,400		17,308,400
-- AHCCCS	2,029,553,000	(215,358,700)	1,814,194,300	41,726,500	1,855,920,800	(14,961,000)	1,840,959,800
-- Attorney General	17,536,100		17,536,100		17,536,100		17,536,100
-- Department of Commerce	1,466,500		1,466,500		1,466,500		1,466,500
-- Community Colleges	135,344,300	(2,103,800)	133,240,500		133,240,500		133,240,500
-- Department of Corrections	948,692,900	(7,283,600)	941,409,300	7,700,000	949,109,300	65,800,000	1,014,909,300
-- Department of Economic Security	679,226,800	(20,881,800)	658,345,000	15,191,500	673,536,500	15,647,200	689,183,700
-- Department of Education	3,584,023,400	54,945,000	3,638,968,400	115,567,700	3,754,536,100	113,608,400	3,868,144,500
-- Department of Environmental Quality	7,000,000		7,000,000		7,000,000		7,000,000
-- Department of Health Services	581,749,600	(32,219,700)	549,529,900	17,860,900	567,390,800	18,271,700	585,662,500
-- Judiciary	113,886,500		113,886,500		113,886,500		113,886,500
-- Department of Juvenile Corrections	57,008,100		57,008,100		57,008,100		57,008,100
-- State Land Department	3,212,300	(2,060,000)	1,152,300		1,152,300		1,152,300
-- State Parks Board	20,000,000	(20,000,000)			0		0
-- Department of Public Safety	43,070,300		43,070,300		43,070,300		43,070,300
-- Department of Revenue	43,709,000		43,709,000		43,709,000		43,709,000
-- School Facilities Board	67,580,500	96,585,600	164,166,100	9,324,000	173,490,100	4,735,300	178,225,400
-- Universities	890,189,900	(53,060,100)	837,129,800		837,129,800		837,129,800
-- Department of Water Resources	7,052,900		7,052,900		7,052,900		7,052,900
-- All Other Budgets	161,242,300	459,500	161,701,800		161,701,800		161,701,800
-- FY 11 Unallocated Adjustments	190,300	(190,300)			0		0
-- Lease-Purchase Payments		(16,509,100)	(16,509,100)		(16,509,100)		(16,509,100)
Total - Operating Budget	9,409,469,000	(218,102,900)	9,191,366,100	207,370,600	9,398,736,700	203,101,600	9,601,838,300
-- FY 11 Supplementals	(19,249,100)	19,249,100					
-- Capital Outlay	4,000,000	(4,000,000)					
-- Backfills	25,000	(25,000)					
-- Additional Pay Period		80,000,000	80,000,000	(80,000,000)			
-- Administrative Adjustments	78,000,000	(4,611,700)	73,388,300	(1,071,600)	72,316,700	993,400	73,310,100
-- Revertments	(112,905,100)	1,648,700	(111,256,400)	(1,528,400)	(112,784,800)	(2,437,300)	(115,222,100)
-- New Debt Service	54,826,600	(5,775,900)	49,050,700	35,069,100	84,119,800		84,119,800
-- Temporary Federal Assistance - Continued	(973,385,200)	973,385,200					
Total Spending	8,440,781,200	841,767,500	9,282,548,700	159,839,700	9,442,388,400	201,657,700	9,644,046,100

Table 4

FY 2012 FUNDING FORMULA SUSPENSIONS 1/

	FY 2012 Formula Requirement
Statutory	
Community Colleges - Operation and Equalization	$9,028,800
Community Colleges - Capital State Aid Suspension	22,155,200
Department of Education - Soft Capital Formula	165,120,700
Department of Education - New Utilities Formula	100,000,000
Department of Education - Charter School Additional Assistance	10,000,000
Department of Emergency & Military Affairs - Military Installation Fund Deposit	2,800,000
Department of Emergency & Military Affairs - Governor's Emergency Fund	2,100,000
Department of Environmental Quality - WQARF	8,000,000
Judiciary - Probation Revocation Payment	2,410,300
School Facilities Board - Building Renewal	241,593,600
Tourism - Tourism Funding Formula	14,350,100
State Treasurer - Justice of the Peace Salaries	1,115,000
Universities - Financial Aid Trust	4,089,600
Department of Water Resources - Water Protection Fund Transfer	5,000,000
Subtotal - Current Statutory Suspensions	$587,763,300
Future Year Cost - Department of Education - Teacher Performance Pay (by FY 2018)	278,000,000
Future Year Cost - School Facilities Board - New School Construction (if enrollment growth returns to pre-recession level)	386,000,000
Total - FY 2012 Statutory Funding Formula Suspensions	**$1,251,763,300**
Non-Statutory	
Department of Administration - Building Renewal	$38,710,500
Universities - Enrollment	28,432,000
Universities - Building Renewal	90,136,900
Total - FY 2012 Non-Statutory Funding Formula Suspensions	**$157,279,400**

1/ Represents the cost of funding formulas that are currently suspended on an annual basis.