SUMMARY OF FY 2012 BASELINE ASSUMPTIONS

- The Baseline provides an estimate of the General Fund shortfall for the current and upcoming budget year. The revenue projections reflect the consensus economic forecasts while the spending estimates represent funding formula requirements and other obligations.

General Fund Balances

- Given FY 2011 revenues of $7.91 billion and spending of $8.44 billion, the state has a projected current year shortfall of $(531) million.
- In terms of FY 2012, the Baseline revenue estimate is $8.31 billion, compared to Baseline spending of $9.28 billion. The Baseline cash shortfall is $(974) 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 Baseline has a structural shortfall of $(978) million.
- If no FY 2012 solutions are permanent, the state is projected to have a shortfall of $(612) million in FY 2013 and $(1.12) billion in FY 2014, the latter due to the expiration of the one-cent sales tax increase.

General Fund Revenues

- Based on the JLBC Staff forecast, FY 2011 base revenues are projected to increase by 5.2%, excluding tax law changes. Including one-time revenues, projected FY 2011 revenues are $7.91 billion, which is $(649) million below the enacted budget, largely due to the failure of the 2 budget related ballot propositions.
- FY 2012 General Fund revenues are projected to be $8.31 billion. FY 2012 base revenues are projected to increase by 5.4%, excluding tax law 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.

General Fund Spending

- FY 2012 General Fund spending is projected to be $9.28 billion.
- Spending would increase by $841.8 million, or 10.0%, above the FY 2011 budget, largely due to the General Fund backfill of one-time federal assistance for statutory funding formulas. Excluding the one-time Federal Funds backfill, spending would decline by approximately $(35) million, or (0.4)%.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be approximately $29 billion.

Education

Department of Education

- ADE spending would increase by $147.7 million, or 4.2%. Excluding Federal Funds backfill, the net increase in ADE spending would be $54.9 million, or 1.5%. The $147.7 million adjustment includes:
- $92.8 million to offset one-time federal assistance.
- $54.9 million for formula changes:
  - ⇒ $109.8 million for an increase of 14,900 students, or 1.4%, for a total of 1,073,000.
  - ⇒ $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.
  - ⇒ $(35.7) million net decrease for 2.3% property growth.
  - ⇒ $(70.5) million for savings from limiting the 40% subsidy of homeowner property taxes to statewide school taxes. This change was enacted last year.
  - ⇒ $50.0 million for a projected prior year shortfall.

School Facilities Board

- SFB spending would increase by $96.6 million, or 142.9%. The $96.6 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 Baseline assumes no new cash payments for construction in FY 2012.

Universities

- The Universities' General Fund spending would decrease by $(52.9) million, or (5.9)%, due to the implementation of the statewide salary reduction/furlough as required by last year's budget legislation. The implementation for the Universities was delayed until FY 2012 due to the federal stimulus maintenance of effort requirements.
- 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 and is not included in the Baseline. Enrollment growth would have cost $28.4 million.

Community Colleges

- The Community College's General Fund spending would decrease by $(2.1) million, or (1.6)% primarily due to statutory equalization aid formula decreases.
- 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 would increase by $437.3 million, or 31.9%. Excluding Federal Funds backfill, the AHCCCS budget would decrease by $(144.3) million, or (10.5)%. The $437.3 million includes:
  - ⇒ $581.6 million for the backfill of one-time federal Medicaid match assistance.
  - ⇒ $(57.1) million for FY 2011 caseload savings.
  - ⇒ $(30.1) million for the continued utilization savings from the October 2010 capitation adjustment.
  - ⇒ $(20.0) million for drug rebate savings.
  - ⇒ $(62.2) million for the new 5% April 2011 provider rate adjustment.
  - ⇒ $25.1 million for new FY 2012 caseload growth.
- Under current eligibility levels, total caseloads would be projected to increase 1.9% from June 2011 to June 2012. Total population would reach 1.41 million by June 2012.

Department of Health Services

- DHS' General Fund spending would increase by $110.6 million, or 25.2%. Excluding one-time Federal Funds backfill, the DHS budget would decrease by $(16.7) million, or (3.8)%. The $110.6 million includes:
  - ⇒ $127.3 million for the backfill of one-time federal Medicaid match assistance.
  - ⇒ $5.0 million for new FY 2012 caseload growth.
  - ⇒ $(14.3) million to reverse a shift of monies from Medicaid services to the agency's operating budget.
- Healthcare provider payments would not increase for inflation and utilization. A 5% adjustment would have otherwise cost $21.8 million.
- Total number of individuals receiving Medicaid behavioral health services is projected to increase 2.3% from June 2011 to June 2012. The total served population would reach 129,000 by June 2012.

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Department of Economic Security

- DES General Fund spending would increase by $64.2 million, or 10.3%. Excluding one-time Federal Funds backfill, the DES Baseline would decrease by $(10.4) million, or (1.7)%. The $64.2 million includes:
  - ⇒ $74.6 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.
  - ⇒ $(28.4) million for a Temporary Assistance for Needy Families (TANF) caseload decline of (27,160) recipients from the budgeted FY 2011 caseload of 70,000. Current caseload has already declined to 45,400.
- The Baseline includes no baseline increase for Developmental Disabilities provider payments due to inflation. A 5% adjustment for provider rate inflation would have otherwise cost $16.1 million.

Criminal Justice

Department of Corrections

- ADC General Fund spending would decrease by $(7.3) million, or (0.8)%. The Baseline includes:
  - ⇒ $4.2 million to annualize the cost of 5,000 new state beds opened in FY 2011.
  - ⇒ $(8.4) million from eliminating all remaining provisional beds in accordance with contract expiration dates.
  - ⇒ $(3.2) million for lower than budgeted private prison contracted rates.
- The Baseline does not include funding for 5,000 private prison beds authorized by the FY 2010 budget as these beds are not expected to begin opening until FY 2013.
- The Baseline does not include funds for population growth or health care inflation. The Baseline assumes population growth of 27 inmates/month for a total of 34,158 prisoners in state beds.
- ADC is expected to have a 1,586 bed shortfall by June 2011 and 1,910 by June 2012.

Environment

Parks Board

- Parks General Fund spending would decline 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.

Financing and Payment Deferral

- The Baseline includes $287.8 million from the General Fund for debt and lease-purchase payments in FY 2012. This 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 Baseline 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 Baseline includes no net change in existing payment deferrals. The Baseline defers $1.31 billion in spending from FY 2012 to FY 2013, including:
  - ⇒ $953 million of school district payments.
  - ⇒ $200 million of payments to the University system.
  - ⇒ $118 million of AHCCCS payments.
  - ⇒ $42 million of DES payments.

State Employee Issues

FTE Positions

- The Baseline would fund an increase of 125.5 Full-Time Equivalent (FTE) Positions in FY 2012, including:
  - ⇒ 144 additional positions to open a new veteran's home.
  - ⇒ A decrease of (18.5) FTE Positions due to technical changes.
- These adjustments would bring total appropriated FTE Positions to 49,923.5.

Employee Pay and Salary Issues

- The Baseline includes $80 million 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 Baseline continues the 5% statewide salary reduction that was enacted in the FY 2011 budget. This salary reduction was implemented as follows:
  - ⇒ For all state agencies, excluding non-gubernatorial elected officials, a 2.75% pay reduction, along with 6 furlough days (which equate to approximately a 2.3% pay reduction).
  - ⇒ For the offices of non-gubernatorial elected officials, a 5% personnel expenses reduction to be achieved through the use of pay reductions, furloughs, and/or vacancy savings.
- The Baseline does not include a change in funding for the employer share of health insurance and retirement costs. Surplus health insurance funds are expected to be sufficient to cover any cost increase in the former item. State agencies would absorb the employer share of higher retirement costs.