LONG TERM GENERAL FUND ESTIMATES

Summary

Laws 2012, Chapter 244 requires the annual General Appropriations Act to include a 3-year revenue and expenditure projection. To assist in this effort, the JLBC Staff has developed General Fund Baseline estimates through FY 2016. Based on the assumptions described below, the Baseline ending balance is estimated to be $25 million in FY 2015 compared to a $(70) million shortfall in FY 2016.

Given the multiple year forecast, 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 2014 through FY 2016 would change the ending balance calculations by over $500 million in the third year.

Given that uncertainty, the JLBC Staff has developed an Alternate forecast scenario to accompany the Baseline estimates. In an Alternate scenario of lower revenue growth and higher spending, there would be shortfalls of $(411) million in FY 2015 and $(572) million in FY 2016, or a combined 2-year shortfall of $(983) million.

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2014 revenues, the long run estimates average 4 different forecasts. This process is described in more detail in the *General Fund Revenue* section.

The "4-sector" consensus projected an average General Fund base revenue growth of 5.7% in FY 2014-2016, with 4.9% in FY 2014, 5.9% in FY 2015 and 6.2% in FY 2016. *Table 1* includes the individual forecast components in FY 2015 and FY 2016. These growth rates reflect revenue growth prior to tax law changes and Urban Revenue Sharing.

The Legislature enacted significant multi-year tax reductions in 2011 and 2012. In FY 2015, these adjustments are projected to reduce revenue by $(133) million relative to FY 2014. There would be a further reduction of $(108) million in FY 2016 relative to FY 2015. The details of the tax reductions are in *Table 6* of the *General Fund Revenue* section.

Due to the loss of the 1 cent sales tax, General Fund revenues are projected to decline between FY 2013 and FY 2016. The projected level of General Fund revenue would fall from $9.36 billion in FY 2013 to $8.78 billion in FY 2014, $9.0 billion in FY 2015 and $9.14 billion in FY 2016. *(See Table 2.)* These estimates include a beginning balance of $310 million in FY 2015 and $25 million in FY 2016.

The *General Fund Revenue* section also details the potential risks to the forecast, including the uncertainty of the current 0% interest rate environment, the unknown outcome of the "federal fiscal cliff 2" deliberations in Washington D.C. and the inability to predict natural disasters or future political events.

Given all these factors, the Alternate scenario reduces the 3-year revenue growth average by 1% -- from 5.7% to 4.7%. The latter factor is used in each year, rather than assume that growth will accelerate over the 3-year time horizon.

No single revenue forecast, especially over 3 years, is likely to be accurate. To assess the potential risk of each scenario, the JLBC Staff has assigned a probability to each forecast. Based on input from the 4-sectors of the consensus forecast, the estimated probability of meeting or exceeding the Baseline forecast is 65%. With a slower growth rate, the Alternate probability is 75%.

Table 1

4-Sector Consensus Forecast Percentages

	FAC	UA Low	UA Base	JLBC	Avg
FY 2015					
Sales Tax	5.7%	5.8%	7.9%	5.6%	6.3%
Individual Income Tax	5.8%	2.2%	6.3%	6.5%	5.3%
Corporate Income Tax	7.5%	6.5%	10.2%	4.1%	7.2%
Wgt Avg					5.9%
FY 2016					
Sales Tax	5.2%	7.5%	7.9%	5.7%	6.6%
Individual Income Tax	5.9%	4.8%	7.3%	6.5%	6.2%
Corporate Income Tax	7.6%	0.8%	2.4%	6.1%	7.6%
Wgt Avg					6.2%

Table 2

FY 2013 - FY 2016
Revenue Changes

	$ in M
FY 2013 Total	9,364
Base Revenue	1,517
Loss of 1 Cent	(925)
Tax Reductions	(283)
Urban Revenue Sharing	(109)
Beg. Balance Decline	(372)
Other	(43)
FY 2016 Total	**9,149**

Baseline Spending

The long term General Fund expenditures reflect the requirements of existing statutory funding formulas and other obligations. This spending is projected to increase by $302 million in FY 2015 (3.5%) above FY 2014 and $242 million in FY 2016 (2.7%) above FY 2015.

These spending adjustments include normal caseload growth and mandatory federal changes to the state Medicaid system that will occur in January 2014 due to the Affordable Care Act. These changes are explained in more detail in the AHCCCS section of the Baseline narrative. Of the overall spending adjustments, $140 million in FY 2015 and $22 million in FY 2016 are due to these new federal requirements.

Overall spending, including one-time adjustments, would be $8.97 billion in FY 2015 and $9.21 billion in FY 2016. *(See Table 4 for the projected spending levels of major agencies under this scenario.)*

In addition, the long term estimates assume the continued annual suspension of $678 million of funding formula requirements that are permanently authorized in law. *(See Table 7.)* If these programs or any other new permanent initiatives are funded in the FY 2014 budget, the projected FY 2015 balance would decline and the FY 2016 shortfall estimate would increase.

In the Alternate scenario, JLBC Staff has developed possible spending estimates above the Baseline. Given the projected FY 2014 ending balance of $310 million, the Legislature may decide to enact new permanent initiatives. *(See Table 6 for the projected spending levels of major agencies.)*

In the Alternate scenario, FY 2015 spending is $220 million higher than the Baseline and FY 2016 spending is $206 million higher. These adjustments include:

1) Optional Medicaid expansion to 133% of the federal poverty level;
2) New K-12 school construction funding;
3) Continuation of one-time state employee pay adjustments; and
4) Continuation of a one-time backfill of a shortfall in the Department of Economic Summary.

These changes are explained in more detail in the Alternate Scenario section of the *FY 2014 Baseline Summary*. These 4 adjustments are only illustrative of potential changes and other alternatives could be developed. For example, the optional Medicaid expansion could be replaced with higher K-12 spending.

Ending Balance and Ongoing Revenue and Spending

In FY 2015, the Baseline's projected ending balance is $25 million. The FY 2015 budget, however, would only be balanced due to a $310 million balance at the beginning of the year. In structural terms – the difference between ongoing revenues and spending – FY 2015 has a shortfall of $(285) million.

If the FY 2014 budget includes $13 million in new permanent initiatives above the Baseline, the projected FY 2015 balance would be negative. ($13 million in new FY 2014 spending that reoccurs in FY 2015 would cost $26 million between the 2 years and eliminate the projected $25 million ending balance.)

In FY 2016, the Baseline's projected ending balance is a $(70) million shortfall. *Table 3* summarizes the ending balances in the Baseline scenario.

The ending balances decline more quickly in the Alternate scenario with lower revenue growth and higher spending. The projected FY 2015 Alternate ending balance is $(411) million. Assuming that shortfall is resolved before the beginning of the next year, the FY 2016 shortfall is forecast to be $(572) million. If the shortfall is not resolved, the combined 2-year shortfall is $(983) million.

Table 5 summarizes the Alternate scenario ending balances; *Table 6* provides Alternate scenario spending levels of major agencies.

Table 3

JLBC BASELINE 1/
STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 2/
WITH ONE-TIME FINANCING SOURCES

	FY 2013 Adjusted	FY 2014 Baseline	FY 2015 Baseline	FY 2016 Baseline
REVENUES				
Ongoing Revenues	$8,512,182,700	$8,928,557,600	$9,407,385,900	$9,848,864,300
Previously Enacted Changes 3/		(46,900,000)	(133,500,000)	(108,300,000)
1¢ Sales Tax	924,237,300			
Urban Revenue Sharing	(513,584,100)	(559,486,400)	(587,726,400)	(622,202,100)
Net On-going Revenues	$8,922,835,900	$8,322,171,200	$8,686,159,500	$9,118,362,200
One-time Financing Sources				
Balance Forward	396,960,000	$650,987,100	$309,668,800	$24,626,200
Previously Enacted Changes 3/	(52,000,000)			
Fund Transfers	96,000,000	6,000,000		
Subtotal One-time Revenues	$440,960,000	$656,987,100	$309,668,800	$24,626,200
Total Revenues	$9,363,795,900	$8,979,158,300	$8,995,828,300	$9,142,988,400
EXPENDITURES				
Operating Budget Appropriations	$8,512,886,700	$8,575,369,700	$8,907,098,500	$9,149,423,100
FY 2013 Supplementals 4/	116,900			
Administrative Adjustments	37,600,000	60,000,000	60,000,000	60,000,000
Revertments	(133,800,000)	(80,000,000)	(80,000,000)	(80,000,000)
Asset Sale/Lease-Back Debt Service	84,119,800	84,119,800	84,103,600	84,094,500
Subtotal Ongoing Expenditures	$8,500,923,400	$8,639,489,500	$8,971,202,100	$9,213,517,600
One-time Expenditures				
Capital Outlay	$20,252,000	$30,000,000		
Budget Stabilization Fund Deposit	200,000,000			
Employee Retention Payments	16,633,400			
Health Insurance Premium Holiday	(25,000,000)			
Subtotal One-time Expenditures	$211,885,400	$30,000,000	$0	$0
Total Expenditures	$8,712,808,800	$8,669,489,500	$8,971,202,100	$9,213,517,600
Ending Balance 5/	$650,987,100	$309,668,800	$24,626,200	($70,529,200)
Structural Balance 6/		*($317,318,300)*	*($285,042,600)*	*($95,155,400)*

1/ Represents an estimate of available balances with a consensus revenue forecast and a statutory funding formula expenditure projection.

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

3/ See General Fund Revenue Section for details.

4/ See page S-27 for details.

5/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund

6/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments.

Table 4

BASELINE SPENDING ESTIMATES BY MAJOR BUDGET UNITS

	FY 2013 Adjusted	FY 2014 $ Above FY 13	FY 2014 Baseline	FY 2015 $ Above FY 14	FY 2015 Baseline	FY 2016 $ Above FY 15	FY 2016 Baseline
EXPENDITURES							
Operating Budget							
-- Department of Administration	30,230,300	1,200,000	31,430,300		31,430,300	3,000,000	34,430,300
-- AHCCCS	1,397,607,300	(29,574,400)	1,368,032,900	174,204,500	1,542,237,400	92,746,500	1,634,983,900
-- Attorney General	23,049,900	(1,200,000)	21,849,900		21,849,900		21,849,900
-- Commerce Authority	31,500,000		31,500,000		31,500,000		31,500,000
-- Community Colleges	65,942,600	(2,577,300)	63,365,300	(489,300)	62,876,000	243,000	63,119,000
-- Department of Corrections	956,404,200	9,240,700	965,644,900	19,322,800	984,967,700	7,262,700	992,230,400
-- Department of Economic Security	612,296,200	17,288,500	629,584,700	25,650,900	655,235,600	28,161,800	683,397,400
-- Department of Education	3,496,900,300	55,167,300	3,552,067,600	54,235,500	3,606,303,100	81,646,700	3,687,949,800
-- Department of Environmental Quality	7,000,000		7,000,000		7,000,000		7,000,000
-- Department of Health Services	587,120,700	(10,397,200)	576,723,500	55,570,100	632,293,600	29,484,400	661,778,000
-- Judiciary	108,596,000		108,596,000		108,596,000		108,596,000
-- Department of Juvenile Corrections	43,428,400		43,428,400		43,428,400		43,428,400
-- State Land Department	1,258,600	10,779,500	12,038,100		12,038,100		12,038,100
-- Department of Public Safety	45,524,000		45,524,000		45,524,000		45,524,000
-- Department of Revenue	45,442,100	(132,200)	45,309,900		45,309,900		45,309,900
-- School Facilities Board	173,708,300	4,735,300	178,443,600	(209,000)	178,234,600	(220,500)	178,014,100
-- Office of Tourism	7,000,000		7,000,000		7,000,000		7,000,000
-- Universities	707,333,800		707,333,800		707,333,800		707,333,800
-- Department of Water Resources	12,033,300		12,033,300		12,033,300		12,033,300
-- All Other Budgets	154,900,300	(6,953,600)	147,946,700	3,443,300	151,390,000		151,390,000
-- Civic Center Payment	5,595,000	14,854,000	20,449,000		20,449,000		20,449,000
-- Unallocated Adjustments	15,400	(15,400)					
-- Health Insurance Premium Holiday	(25,000,000)	25,000,000					
-- Employee Retention Payments	16,633,400	(16,633,400)					
-- Lease-Purchase/Rent		67,800	67,800		67,800		67,800
Total - Operating Budget	8,504,520,100	70,849,600	8,575,369,700	331,728,800	8,907,098,500	242,324,600	9,149,423,100
-- FY 13 Supplementals	116,900	(116,900)					
-- Capital Outlay	20,252,000	9,748,000	30,000,000	(30,000,000)			
-- Budget Stabilization Fund	200,000,000	(200,000,000)					
-- Administrative Adjustments	37,600,000	22,400,000	60,000,000		60,000,000		60,000,000
-- Revertments	(133,800,000)	53,800,000	(80,000,000)		(80,000,000)		(80,000,000)
-- Debt Service	84,119,800		84,119,800	(16,200)	84,103,600	(9,100)	84,094,500
Total Spending	8,712,808,800	(43,319,300)	8,669,489,500	301,712,600	8,971,202,100	242,315,500	9,213,517,600

Table 5

ALTERNATE SCENARIO 1/
STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 2/
WITH ONE-TIME FINANCING SOURCES

	FY 2013 Adjusted	FY 2014 Baseline	FY 2015 Baseline	FY 2016 Baseline
REVENUES				
Ongoing Revenues	$8,512,182,700	$8,912,255,300	$9,282,027,000	$9,578,507,800
Previously Enacted Changes 3/		(46,900,000)	(133,500,000)	(108,300,000)
1¢ Sales Tax	924,237,300			
Urban Revenue Sharing	(513,584,100)	(559,486,400)	(587,726,400)	(622,202,100)
Net On-going Revenues	$8,922,835,900	$8,305,868,900	$8,560,800,600	$8,848,005,700
One-time Financing Sources				
Balance Forward	396,960,000	$650,987,100	$219,208,300	
Previously Enacted Changes 3/	(52,000,000)			
Fund Transfers	96,000,000	6,000,000		
Subtotal One-time Revenues	$440,960,000	$656,987,100	$219,208,300	$0
Total Revenues	$9,363,795,900	$8,962,856,000	$8,780,008,900	$8,848,005,700
EXPENDITURES				
Operating Budget Appropriations	$8,529,520,100	$8,649,527,900	$9,127,066,300	$9,355,912,600
FY 2013 Supplementals 4/	116,900			
Administrative Adjustments	37,600,000	60,000,000	60,000,000	60,000,000
Revertments	(133,800,000)	(80,000,000)	(80,000,000)	(80,000,000)
Asset Sale/Lease-Back Debt Service	84,119,800	84,119,800	84,103,600	84,094,500
Subtotal Ongoing Expenditures	$8,517,556,800	$8,713,647,700	$9,191,169,900	$9,420,007,100
One-time Expenditures				
Capital Outlay	$20,252,000	$30,000,000		
Budget Stabilization Fund Deposit	200,000,000			
Health Insurance Premium Holiday	(25,000,000)			
Subtotal One-time Expenditures	$195,252,000	$30,000,000	$0	$0
Total Expenditures	$8,712,808,800	$8,743,647,700	$9,191,169,900	$9,420,007,100
Ending Balance 5/	$650,987,100	$219,208,300	($411,161,000)	($572,001,400)
Structural Balance 6/		*($407,778,800)*	*($630,369,300)*	*($572,001,400)*

1/ Alternate scenario represents assumptions with lower revenue growth and higher spending than the JLBC Baseline.
2/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue ar expenditures.
3/ See General Fund Revenue Section for details.
4/ See page S-27 for details.
5/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization
6/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments.

Table 6

ALTERNATE SCENARIO SPENDING ESTIMATES BY MAJOR BUDGET UNITS

	FY 2013 Adjusted	FY 2014 $ Above FY 13	FY 2014 Baseline	FY 2015 $ Above FY 14	FY 2015 Baseline	FY 2016 $ Above FY 15	FY 2016 Baseline
EXPENDITURES							
Operating Budget							
-- Department of Administration	30,230,300	1,200,000	31,430,300		31,430,300	3,000,000	34,430,300
-- AHCCCS	1,397,607,300	(25,009,300)	1,372,598,000	251,266,800	1,623,864,800	82,062,900	1,705,927,700
-- Attorney General	23,049,900	(1,200,000)	21,849,900		21,849,900		21,849,900
-- Commerce Authority	31,500,000		31,500,000		31,500,000		31,500,000
-- Community Colleges	65,942,600	(2,577,300)	63,365,300	(489,300)	62,876,000	243,000	63,119,000
-- Department of Corrections	956,404,200	9,240,700	965,644,900	19,322,800	984,967,700	7,262,700	992,230,400
-- Department of Economic Security	612,296,200	26,904,900	639,201,100	60,251,800	699,452,900	28,161,800	727,614,700
-- Department of Education	3,496,900,300	55,167,300	3,552,067,600	54,235,500	3,606,303,100	81,646,700	3,687,949,800
-- Department of Environmental Quality	7,000,000		7,000,000		7,000,000		7,000,000
-- Department of Health Services	587,120,700	(9,204,000)	577,916,700	75,716,500	653,633,200	26,689,700	680,322,900
-- Judiciary	108,596,000		108,596,000		108,596,000		108,596,000
-- Department of Juvenile Corrections	43,428,400		43,428,400		43,428,400		43,428,400
-- State Land Department	1,258,600	10,779,500	12,038,100		12,038,100		12,038,100
-- Department of Public Safety	45,524,000		45,524,000		45,524,000		45,524,000
-- Department of Revenue	45,442,100	(132,200)	45,309,900		45,309,900		45,309,900
-- School Facilities Board	173,708,300	41,340,900	215,049,200	13,791,000	228,840,200	(220,500)	228,619,700
-- Office of Tourism	7,000,000		7,000,000		7,000,000		7,000,000
-- Universities	707,333,800		707,333,800		707,333,800		707,333,800
-- Department of Water Resources	12,033,300		12,033,300		12,033,300		12,033,300
-- All Other Budgets	154,900,300	(6,953,600)	147,946,700	3,443,300	151,390,000		151,390,000
-- Civic Center Payment	5,595,000	14,854,000	20,449,000		20,449,000		20,449,000
-- Unallocated Adjustments	15,400	(15,400)					
-- Health Insurance Premium Holiday	(25,000,000)	25,000,000					
-- Employee Retention Payments	16,633,400	5,544,500	22,177,900		22,177,900		22,177,900
-- Lease-Purchase/Rent		67,800	67,800		67,800		67,800
Total - Operating Budget	8,504,520,100	145,007,800	8,649,527,900	477,538,400	9,127,066,300	228,846,300	9,355,912,600
-- FY 13 Supplementals	116,900	(116,900)					
-- Capital Outlay	20,252,000	9,748,000	30,000,000	(30,000,000)			
-- Budget Stabilization Fund	200,000,000	(200,000,000)					
-- Administrative Adjustments	37,600,000	22,400,000	60,000,000		60,000,000		60,000,000
-- Revertments	(133,800,000)	53,800,000	(80,000,000)		(80,000,000)		(80,000,000)
-- Debt Service	84,119,800		84,119,800	(16,200)	84,103,600	(9,100)	84,094,500
Total Spending	8,712,808,800	30,838,900	8,743,647,700	447,522,200	9,191,169,900	228,837,200	9,420,007,100

Table 7

FY 2014 FUNDING FORMULA SUSPENSIONS 1/ 2/

	FY 2014 Formula Requirement
Statutory	
Community Colleges - Capital State Aid Suspension	$22,991,600
Department of Education - Soft Capital Formula	158,120,700
Department of Education - Charter School Additional Assistance	15,656,000
Department of Education - Capital Outlay Revenue Limit (CORL)	80,864,800
Department of Education - Fund JTEDs at 91%	5,854,700
Department of Emergency & Military Affairs - Governor's Emergency Fund	1,100,000
Department of Environmental Quality - WQARF	8,000,000
Department of Health Services - Restoration to Competency	1,740,600
Department of Health Services - Sexually Violent Persons	2,670,300
School Facilities Board - Building Renewal	260,009,700
Universities - Financial Aid Trust	11,321,800
Subtotal - Current Statutory Suspensions	$568,330,200
Future Year Cost - School Facilities Board - New School Construction	109,816,900
Total - FY 2014 Statutory Funding Formula Suspensions	$678,147,100
Non-Statutory	
Department of Administration - Building Renewal	$28,033,200
Universities - Building Renewal	100,401,400
Total - FY 2014 Non-Statutory Funding Formula Suspensions	$128,434,600

1/ Represents the cost of funding formulas that are currently suspended on an annual basis.
2/ Excludes AHCCCS suspension of Proposition 204 Childless Adults.