SUMMARY OF FY 2014 BASELINE REVENUE AND SPENDING ASSUMPTIONS

The JLBC Baseline revenue estimates include the 4-Sector consensus forecast and previously enacted tax law and other revenue changes, while the expenditures represent a projection of active funding formula requirements and other obligations.

General Fund Revenues

- The projected FY 2013 revenues of $9.36 billion are $342 million higher than originally forecasted due to:
  - ⇒ A higher than projected FY 2013 beginning balance. The original budget assumed a FY 2013 beginning balance of $122 million. Due to unexpected growth in FY 2012, the state began FY 2013 with $397 million, or $275 million more than forecast.
  - ⇒ An increase of $66 million in ongoing revenue above the original FY 2013 budget estimate. Excluding one-time and statutory adjustments, the underlying FY 2013 base revenue growth is forecast to be 4.0%.
- While base revenues are forecast to grow in FY 2014, one-time factors would reduce FY 2014 collections by $(385) million to $8.98 billion:
  - ⇒ Based on JLBC's 4-sector consensus, base revenues are projected to grow by $416 million, or 4.9%.
  - ⇒ A $254 million increase in the beginning balance, from $397 million at the beginning of FY 2013 to $651 million at the start of FY 2014.
  - ⇒ The Proposition 100 1-cent sales tax increase approved by voters expires at the end of FY 2013, reducing FY 2014 revenues by $(924) million.
  - ⇒ The state set-aside for urban revenue sharing formula distributions would grow from $514 million to $559 million, thereby reducing state revenue by $(46) million.
  - ⇒ Previously enacted legislative changes would reduce state revenue by $(47) million, primarily from a reduction in capital gains taxes and increased usage of a $3,000 new job tax credit.
  - ⇒ Elimination of most fund transfers would reduce revenue by $(90) million.
  - ⇒ An increase of $52 million due to a nonrecurring one-time cost in FY 2013.

General Fund Spending

- FY 2014 General Fund spending is projected to be $8.67 billion, an increase of $157 million, or 1.8%, increase above FY 2013. This estimate excludes the one-time deposit to the Budget Stabilization Fund in FY 2013.
- The entire FY 2014 state budget, including both appropriated and non-appropriated funds, is projected to be approximately $29 billion.

Education

Department of Education

- ADE General Fund spending would increase by $55.2 million, or 1.6%. The $55.2 million includes:
  - ⇒ $66.5 million for 0.7% ADM growth plus 5.0% special education growth
  - ⇒ $(46.0) million net decrease for 2.2% new property growth.
  - ⇒ $19.9 million for Homeowner's Rebate increase to prevent a shift in residential property taxes as the statutory reduction in commercial assessed value is implemented.
  - ⇒ $19.5 million for Homeowner's Rebate shortfall in FY 2013.
  - ⇒ $8.4 million for a 1.8% inflation adjustment of transportation and charter additional assistance. Adjusting the per pupil "base level" would have cost another $81.7 million.
  - ⇒ $(8.0) million to eliminate one-time funding for the ADE data system and other programs.
  - ⇒ $(7.1) million for third year of 5-year Career Ladder phase out.
  - ⇒ $2.0 million for other adjustments.

School Facilities Board

- SFB spending would increase by $4.7 million, or 2.7%, due to increased debt service associated with past lease-purchase agreements.
- The Baseline assumes no additional new construction is authorized in FY 2014. SFB has requested $109 million for 10 new schools, including $22.3 million for 6 schools expected to exceed capacity by FY 2014.

Universities

- The Universities' General Fund spending would remain unchanged other than for statewide adjustments.
- University enrollment was 136,000 full-time equivalent students in fall 2012 (FY 2013), an increase of 3,223, or 2.4%, above fall 2011.

Community Colleges

- Community College General Fund spending would decrease by $(2.6) million, or (3.9)%, due to statutory operating aid and equalization aid formula decreases.
- Enrollment decreased by (3,996) full-time equivalent students, or (2.7)%, for a total enrollment of 141,474.

Health and Welfare

Medicaid Agencies

- All 3 Medicaid agencies are adjusted for the following funding formula factors: enrollment changes, an increase in the federal match rate from 66.09% to 66.84%, and a 2% capitation rate increase.

AHCCCS

- AHCCCS' General Fund spending would decrease by $(29.6) million, or (2.1)%. The $(29.6) million includes:
  - ⇒ $(87.9) million for formula adjustments.
  - ⇒ $58.3 million for new mandatory costs associated with the expansion of federal health care requirements. When combined with DHS costs *(see below)*, the overall mandatory cost is $74.2 million.
- AHCCCS enrollment is projected to grow to 1.32 million by June 2014. This level represents a caseload increase of 74,100, or 6.0%, above June 2013. The higher caseload includes 86,500 new recipients related to federal health care changes and a decline of (12,400) in the base population, primarily due to the Childless Adult freeze.

Department of Health Services

- DHS' General Fund spending would decrease by $(10.4) million, or (1.8)%, for changes comparable to the AHCCCS budget. The $(10.4) million includes the following:
  - ⇒ $(26.3) million for formula adjustments.
  - ⇒ $15.9 million for mandatory costs associated with federal health care legislation.

Department of Economic Security

- DES' General Fund spending would increase by $17.3 million, or 2.8%. The $17.3 million includes the following Medicaid changes:
  - ⇒ An increase of $5.2 million for new FY 2014 Developmentally Disabled (DD) Medicaid caseload growth.
  - ⇒ An increase of $5.4 million for the annualization of the April 1, 2013 provider rate adjustment.
  - ⇒ An increase of $6.7 million for a 2% capitation rate increase in FY 2014.

Corrections

Department of Corrections

- Arizona Department of Corrections (ADC) General Fund spending would increase by $9.2 million for activation of 500 private prison beds and start-up costs associated with the July 2014 opening of 500 new state-operated maximum security beds.
- The total public and private population is projected to be 40,000. ADC would have a rated bed shortfall of (2,883) in June 2014. This shortfall would be offset by the availability of 5,000 temporary beds.

Revertments

- The Baseline includes an increase of $76.2 million from the General Fund for the loss of one-time net revertments in FY 2013. Revertments are unspent appropriations offset by any administrative adjustments.
- In FY 2013, AHCCCS and DHS are expected to revert funding due to lower than expected caseloads, while ADE will revert funding due to an early disbursement of FY 2013 obligations in FY 2012.

Financing and Payment Deferral

- The Baseline includes an increase of $19.6 million from the General Fund for debt and lease-purchase payments in FY 2013. This increase includes:
  - ⇒ $14.9 million related to financing payments for the expansion of the Phoenix Convention Center.
  - ⇒ $4.7 million due to increased debt service associated with past SFB new construction lease-purchase agreements.
- The Baseline includes no net change in budgeted payment deferrals or "rollovers." The budget continues to defer $1.2 billion in General Fund spending from FY 2013 to FY 2014, including:
  - ⇒ $953 million of school district payments.
  - ⇒ $200 million of payments to the University system.
  - ⇒ $35 million of DES payments.

State Employee Issues

FTE Positions

- The Baseline would decrease the Full-Time Equivalent (FTE) ceiling by (579.0) Positions in FY 2014, almost entirely due to the privatization of Department of Corrections Inmate Health Care Services.
- These adjustments would bring the total appropriated FTE Position ceiling to 48,794.4.

Employee Pay and Salary Issues

- The Baseline includes a $(16.6) million reduction in funding for a one-time FY 2013 employee retention payment.
- Employer and employee retirement rates will increase in FY 2014 in all retirement systems. The Baseline includes no change in funding for the employer or employee share of these rate increases. If funded, the General Fund cost would be $13.8 million.
- The Baseline eliminates $(25.0) million in savings for a one-time payment holiday of state employee health insurance. Other than this elimination, the Baseline includes no change in funding for the employee or employer share of health insurance, as surplus health insurance funds are expected to cover any cost increase.

Capital

- The Baseline includes $30 million as appropriated in the FY 2013 budget to complete 500 maximum-security prison beds operated by the Department of Corrections, an increase of $10 million above the $20 million appropriated in FY 2013 for this purpose.
- The Baseline adjusts rental rates to reflect the change from usable square feet to rentable square feet. This change generates an increase of $697,800 to the Capital Outlay Stabilization Fund, but reflects no net General Fund impact. The Baseline also includes $67,800 of General Fund monies for lease-purchase and privatized lease-to-own payments changes.