

HIGHLIGHTS OF THE FY 2015 BUDGET

The FY 2015 budget is based primarily upon the actions of the 51st Legislature's 2nd Regular Session and 2nd Special Session. On April 11, 2014, the Governor signed into law the FY 2015 budget for the year beginning July 1, 2014. On May 29, 2014, the Governor signed Laws 2014, 2nd Special Session, Chapter 2, which transferred child welfare resources from the Department of Economic Security to the newly-created Department of Child Safety and appropriated additional child welfare resources.

The state's FY 2015 General Fund budget is \$9.27 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$31.7 billion. (*See the Summary of Appropriated Funds and Summary of Total Spending Authority for more details.*)

Revised FY 2014 Budget – At the time of publication of the *FY 2014 Appropriations Report* in July 2013 after the 51st Legislature's 1st Regular Session, the FY 2014 ending balance was forecasted to be \$248 million. By January 2014, however, the projected FY 2014 balance had grown to an estimated \$655 million. The primary adjustments included:

- Increased balance forward from FY 2013 of \$895 million, or \$202 million above the original forecast.
- Increased FY 2014 revenue of \$100 million, albeit at a lower growth rate.
- Increased one-time funding sources of \$101 million, due primarily to the delayed receipt of the national mortgage settlement proceeds.

As part of the FY 2015 budget, the Legislature approved additional FY 2014 changes. The Legislature also added \$60 million in supplemental spending, including \$47 million in K-12 formula spending, \$11 million in new child safety staff and services, \$1 million for Independent Redistricting Commission costs, and \$443,600 in miscellaneous supplementals. An \$18 million supplemental for DHS and a \$(73) million ex-appropriation were previously accounted for in reversion estimates and so had no net impact to the balance sheet.

These adjustments result in a budgeted FY 2014 ending balance of \$596 million. (*See FY 2014 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 2015 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$9.04 billion.

In comparison, the January Baseline Revenues were based on the 4-sector consensus projections. Excluding enacted

statutory changes and one-time adjustments, base revenues were forecast to grow 4.3% in FY 2014 and 5.3% in FY 2015. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$9.36 billion in FY 2015.

The Legislature adopted those January revenue growth rates as part of the final budget. In addition, the budget assumed \$54 million in a fund transfer from the Health Insurance Trust Fund, a \$35 million in an ongoing shift of Long Term Care System Fund (LTCSF) and \$20 million in newly enacted revenues changes. After further adjusting the estimates for a lower FY 2014 carry-forward balance, total General Fund revenues are now anticipated to be \$9.40 billion in FY 2015.

The Legislature also made subsequent revisions to the Baseline spending level of \$9.04 billion, which resulted in a final FY 2015 budget of \$9.27 billion. These changes to the Baseline included the following:

- \$112 million for the Department of Child Safety (DCS), including \$31 million appropriated to DCS in the FY 2015 General Appropriation Act (Chapter 18), \$55 million appropriated to DCS in Laws 2014, 2nd Special Session, Chapter 2, \$30 million appropriated to the Arizona Department of Administration (ADOA) for one-time transition costs of establishing DCS and upgrading the Department of Economic Security (DES) data center, and \$1 million for DCS attorneys appropriated to the Attorney General.
- \$21 million for K-12 education, including \$20 million for Student Success Funding and \$8 million for increased testing costs, partially offset by \$(9) million in savings from "rolling back" the number of eligible charter schools to those established in FY 2013.
- \$20 million for Universities, including \$12 million in additional parity funding to ASU and NAU, \$4.5 million in additional operating monies, and \$3.5 million for UA cooperative extension.
- \$30 million in the Department of Public Safety (DPS) to free up Highway User Revenue Fund (HURF) revenues for distribution to local governments.
- \$8 million for retirement formula increases in the Department of Corrections and DPS.
- \$6 million for STEM formula funding in the Community Colleges.
- \$15 million for building renewal in the ADOA, University, and Department of Corrections building systems.
- \$9 million for a new veterans' home in Yuma.
- \$28 million for non-child welfare items in DES, primarily \$23 million for a technical shift reflecting the use of LTCSF monies as General Fund revenue instead of using monies to offset DES/DCS costs.

Under the JLBC Baseline, the FY 2015 budget was projected to have a \$327 million ending balance. The revenue changes and additional spending reduced the projected ending balance to \$130 million.

(See FY 2015 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2015 changes.)

Comparison to the FY 2015 Budget – General Fund revenues, including one-time monies, are projected to decrease from \$9.46 billion in FY 2014 to \$9.40 billion in FY 2015. Base ongoing revenues are projected to increase by \$477 million, from \$8.99 billion in FY 2014 to \$9.47 billion in FY 2015. After technical adjustments, the projected base growth is 5.3%, which will be further modified by the following revenue changes (*see the General Fund Revenue section*):

- \$(127) million net loss from previously-enacted budget legislation.
- \$19 million net gain from budget legislation enacted in the 2014 Legislative Session, including a \$35 million shift of LTCSF revenues to the General Fund partially offset by \$(16) million in other tax law changes, primarily \$(15) million from exempting electricity and natural gas purchased by manufacturing and smelting operations from sales tax.
- \$(48) million loss due to increased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2015 budget also has a net \$648 million in one-time revenues (in comparison, FY 2014 one-time revenues were \$1.02 billion due to a \$895 million beginning balance). The \$648 million amount reflects \$54 million in a fund transfer from the state's Health Insurance Trust Fund. The net one-time revenues also include a \$596 million projected carry-forward balance from FY 2014.

General Fund spending is projected to increase from \$8.86 billion in FY 2014 to \$9.27 billion in FY 2015, which is an increase of \$410 million, or 4.6%.

The FY 2015 budget has the following adjustments:

- \$141 million for K-12 education, including \$111 million in formula changes (which includes statutorily-mandated inflation increase of 1.4%), \$20 million for Student Success Funding, and \$8 million for increase testing costs.
- \$120 million for the Department of Child Safety (DCS), including \$16 million for new caseworkers, \$7 million for Office of Child Welfare Investigations, \$23 million in non-permanent costs to eliminate a backlog of inactive cases, and \$21 million for additional services. (The \$120 million increase differs from the \$112 million referenced on page BH-2 for technical reasons.)

- \$19 million for non-child welfare items in DES, including \$29 million to backfill one-time funds, \$7 million for Developmental Disabilities formula changes, and \$3 million for additional Adult Protective Services staff. This amount also includes the transfer of \$(22) million to DCS for non-Division of Child Safety and Family Services expenses.
- \$13 million in increased AHCCCS spending, including \$14 million in formula spending, \$3 million for higher skilled nursing facility rates, and \$3 million for critical access hospitals, partially offset by \$(3) million in administrative match rate cost shifts.
- \$45 million in increased DHS spending, primarily associated with Medicaid behavioral health adjustments.
- \$33 million in increased University funding, including \$28 million for parity funding, \$4.5 million in additional operating monies, and \$3.5 million for UA cooperative extension.
- \$30 million in the Department of Public Safety (DPS) to free up Highway User Revenue Fund (HURF) revenues for distribution to local governments.
- \$8 million for retirement formula increases in the Department of Corrections and DPS.
- \$6 million for STEM formula funding in the Community Colleges.
- \$15 million for building renewal in the ADOA, University, and Department of Corrections building systems.
- \$9 million for a new veterans' home in Yuma.
- \$(57) million in technical estimates of net administrative adjustment spending and revertsments.

(See FY 2015 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

General Fund Balance – The FY 2015 General Fund cash balance is projected to be \$130 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. Ongoing spending is projected to exceed ongoing revenues by \$494 million in FY 2015.

Long-Term Projections – A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the following 3 years. The expenditure estimates are to be based on existing statutory funding requirements.

Discussions on the FY 2015 budget included analyzing the impact of budget decisions on estimated FY 2016 and FY 2017 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-5 incorporates the FY 2016 and FY 2017 estimates, which are based upon Baseline revenue projections and existing statutory funding requirements. Based on legislative guidance, the FY 2016

and FY 2017 estimates also include the continuation of FY 2015 initiatives which were considered to be ongoing.

The figures reflected in the 4-Year Analysis on page BH-7 differ from the figures listed in the FY 2015 General Appropriation Act due to technical reasons such as the incorporation of bills with a fiscal impact signed into law after the passage of budget bills, as well as the impact of Laws 2014, 2nd Special Session, Chapter 2. The General Appropriation Act gives JLBC Staff the authority to make such technical adjustments.

The General Appropriation Act forecasted FY 2016 revenues to be \$9.20 billion and expenditures to be \$9.42 billion, with a \$(221) million shortfall. After accounting for legislation enacted separately from the budget and technical adjustments, the FY 2016 shortfall is estimated to be \$(237) million. The spending includes statutory formula caseload growth. FY 2015 ongoing revenues are primarily based on a 4-sector consensus growth rate of 5.2%, but also incorporate separately enacted tax law changes.

The General Appropriation Act forecasted FY 2017 revenues to be \$9.24 billion and expenditures to be \$9.72 billion, with a \$(477) million shortfall. After accounting for legislation enacted separately from the budget and technical adjustments, the FY 2016 budget is estimated to have a \$(489) million shortfall, including the FY 2016 estimated \$(237) million shortfall. The ongoing spending includes caseload growth. The revenues reflect base growth of 5.6%. Those revenues also incorporate separately enacted tax law changes.

The Budget Stabilization Fund is expected to have a balance of \$459 million at the end of FY 2015 which could be used to offset any FY 2016 shortfall.

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 2015 through FY 2017 would change the ending balance calculations by nearly \$600 million in the third year. As a result, these projections are subject to considerable change.

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

	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Estimate	FY 2017 Estimate
REVENUES				
Ongoing Revenues	\$8,993,809,900	\$9,470,966,700	\$9,842,375,900	\$10,257,757,800
Previously Enacted Changes		(127,300,000)	(115,600,000)	(108,700,000)
Newly Enacted Changes		18,638,000	(12,652,900)	(508,100)
Urban Revenue Sharing	(561,001,200)	(608,935,700)	(620,454,200)	(651,407,600)
Net On-going Revenues	<u>\$8,432,808,700</u>	<u>\$8,753,369,000</u>	<u>\$9,093,668,800</u>	<u>\$9,497,142,100</u>
One-time Financing Sources				
Balance Forward	895,475,000	595,520,600	129,528,400	(236,754,900)
Previously Enacted Changes	(24,800,000)	(1,800,000)		
Newly Enacted Changes			(6,100,000)	
Fund Transfers	153,591,600	53,900,000		
Subtotal One-time Revenues	<u>\$1,024,266,600</u>	<u>\$647,620,600</u>	<u>\$123,428,400</u>	<u>(\$236,754,900)</u>
Total Revenues	\$9,457,075,300	\$9,400,989,600	\$9,217,097,200	\$9,260,387,200
EXPENDITURES				
Operating Budget Appropriations	\$8,816,495,400	\$9,311,780,500	\$9,493,852,100	\$9,789,667,500
FY 2014 Supplementals	2,736,300			
Administrative Adjustments	62,980,200	51,480,700	60,000,000	60,000,000
Reversions	(70,600,000)	(116,000,000)	(100,000,000)	(100,000,000)
Subtotal Ongoing Expenditures	<u>\$8,811,611,900</u>	<u>\$9,247,261,200</u>	<u>\$9,453,852,100</u>	<u>\$9,749,667,500</u>
One-time Expenditures				
Capital Outlay	\$49,942,800	\$24,200,000		
Subtotal One-time Expenditures	<u>\$49,942,800</u>	<u>\$24,200,000</u>	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$8,861,554,700	\$9,271,461,200	\$9,453,852,100	\$9,749,667,500
Ending Balance <u>2/</u>	<u>\$595,520,600</u>	<u>\$129,528,400</u>	<u>(\$236,754,900)</u>	<u>(\$489,280,300)</u>
<i>Structural Balance <u>3/</u></i>	<i>(\$378,803,200)</i>	<i>(\$493,892,200)</i>	<i>(\$360,183,300)</i>	<i>(\$252,525,400)</i>

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. Excludes any Budget Stabilization Fund balance.

3/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund

ENACTED GENERAL FUND SPENDING BY MAJOR BUDGET UNITS

	<u>FY 2014 Enacted</u>	<u>FY 2015 Enacted</u>	<u>FY 2016 Estimate</u>	<u>FY 2017 Estimate</u>
EXPENDITURES				
Operating Budget				
-- Department of Administration	\$11,694,300	\$11,193,000	\$11,193,000	\$11,193,000
-- ADOA - Automation Projects Fund	18,400,000	35,500,000	19,602,000	10,400,000
-- ADOA - Dept. of Child Safety		25,000,000		
-- AHCCCS	1,334,933,400	1,274,403,200	1,323,555,000	1,374,570,300
-- Attorney General	22,464,600	23,465,100	23,465,100	23,465,100
-- Department of Child Safety	240,838,400	361,005,400	350,130,600	341,724,400
-- Commerce Authority	31,500,000	31,800,000	31,500,000	31,500,000
-- Community Colleges	69,508,700	71,906,400	73,332,800	74,858,800
-- Department of Corrections	971,743,900	996,845,600	1,007,598,600	1,010,281,700
-- County Funding	7,150,500	7,650,500	7,150,500	7,150,500
-- Department of Economic Security	449,274,500	479,290,300	505,396,000	534,872,700
-- Department of Education	3,620,831,200	3,808,392,700	3,952,789,100	4,133,831,900
-- Department of Environmental Quality	7,000,000	7,000,000	7,000,000	7,000,000
-- Department of Health Services	550,646,400	613,362,100	625,636,500	639,684,200
-- Judiciary	109,841,000	110,495,600	109,995,600	109,995,600
-- Department of Juvenile Corrections	43,822,700	44,165,900	44,165,900	44,165,900
-- State Land Department	12,345,400	12,509,800	12,509,800	12,509,800
-- Department of Public Safety	51,560,800	89,324,900	88,574,900	118,574,900
-- Public Safety Personnel Retirement System	5,000,000	6,000,000	6,000,000	6,000,000
-- Department of Revenue	47,025,300	48,139,400	48,139,400	48,139,400
-- School Facilities Board	193,181,400	189,358,400	192,079,900	191,854,600
-- Office of Tourism	7,102,600	9,103,700	7,103,700	7,103,700
-- Universities	735,517,300	768,421,900	765,900,700	769,755,200
-- Department of Water Resources	12,326,400	13,330,300	13,330,300	13,330,300
-- All Other Budgets	158,164,500	169,543,600	163,139,100	163,139,100
-- Civic Center Payment	20,449,000	20,449,000	20,449,000	20,449,000
-- Asset Sale/Lease-Back Debt Service	84,119,800	84,123,700	84,114,600	84,117,400
-- Unallocated Adjustments	53,300			
Total - Operating Budget	<u>\$8,816,495,400</u>	<u>\$9,311,780,500</u>	<u>\$9,493,852,100</u>	<u>\$9,789,667,500</u>
-- FY 2014 Supplementals	2,736,300			
-- Capital Outlay	49,942,800	24,200,000		
-- Administrative Adjustments	62,980,200	51,480,700	60,000,000	60,000,000
-- Revertments	(70,600,000)	(116,000,000)	(100,000,000)	(100,000,000)
Total Spending	<u>8,861,554,700</u>	<u>\$9,271,461,200</u>	<u>\$9,453,852,100</u>	<u>\$9,749,667,500</u>

ENACTED GENERAL FUND BUDGET *

\$ in Millions

	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Estimate	FY 2017 Estimate	Notes
1	\$ 895.5	\$ 595.6	\$ 129.0	\$ (237.5)	
2	\$ 8,561.6	\$ 8,732.9	\$ 9,087.7	\$ 9,491.7	
3		(14.6)	(18.2)	(18.2)	
4			(10.0)	(10.0)	
5			1.5	1.5	
6		(0.5)	(0.5)	(0.5)	
7		(0.9)	(1.3)	(1.7)	
8		(0.2)	(0.1)	(0.2)	
9			(6.1)		
10		(0.2)	(0.5)	(0.5)	
11		35.0	35.0	35.0	
12		53.9			
13 Total Revenues	\$ 9,457.1	\$ 9,401.0	\$ 9,216.5	\$ 9,259.6	
14	\$ 8,801.9	\$ 8,801.9	\$ 8,801.9	\$ 8,801.9	
15		353.3	723.2	1,256.1	
16 Total JLBC Baseline with HURF	\$ 8,801.9	\$ 9,155.2	\$ 9,525.1	\$ 10,058.0	
Changes to JLBC Baseline					
17		(0.5)	(0.5)	(0.5)	
18		\$25k	\$25k	\$25k	
19		0.1	0.1	0.1	3 FTEs and \$125k
20		(12.9)	(29.0)	(50.2)	
21		(0.4)	(0.4)	(0.4)	5 FTEs
22		(3.2)	(3.2)	(3.2)	
23		2.8	2.8	2.8	
24		3.0	3.0	3.0	2% Provider Rate Increase
25		Absorb	Absorb	Absorb	\$180k
26		0.2	0.2	0.2	
27		25.0			Intent Language Footnote
28		5.0	5.0	5.0	
29		0.2			
30		4.2			
31		6.8	4.5		
32		7.6	5.1		
33		4.2	2.8		
34	5.7	21.5	20.3	20.3	332 FTEs
35		1.7	1.7	1.7	
36	5.1				
37		6.5	6.5	6.5	
38		0.2	0.2	0.2	
39		0.4	0.4	0.4	
40			4.0	8.0	
41		7.1	7.4	7.4	93 FTEs
42		2.2	1.9	1.9	
43		0.2	0.2	0.2	
44		3.0			
45		1.0	1.0	1.0	Attorney General SLI. 12 FTEs
46		0.5	0.5	0.5	5 FTEs
47		5.6	5.6	5.6	Separate Line Item for In Home vs. Out of Home
48		6.0	6.0	6.0	
49		(1.5)	(1.5)	(1.5)	

ENACTED GENERAL FUND BUDGET *

\$ in Millions

	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Estimate	FY 2017 Estimate	Notes
50	DCS - Intensive Family Services	3.5	3.5	3.5	
51	ACA - Mexico City Office	0.3			
52	CCO - STEM Formula Funding	6.2	6.2	6.2	Executive Proposal + \$2 M Maricopa/Pima
53	CCO - Apache/Greenlee Out of County Payments	0.4			\$425k
54	DOC - 500 Maximum Security Beds	(0.2)	(0.2)	(0.2)	
55	DOC - Population Growth/Other	(3.0)	(3.0)	(3.0)	
56	DOC - Employer Retirement	3.5	3.5	3.5	
57	ASDB - Replacement of Network Core Infrastructure	0.7			
58	DES - DD Formula Changes	(3.0)	(3.0)	(3.0)	2% Provider Rate Increase
59	DES - Long Term Care System Fund Backfill	23.2	23.2	23.2	
60	DES - AZ Early Intervention Prog Caseload Growth	1.0	1.0	1.0	
61	DES - Adult Protective Svcs Growth	3.0	3.0	3.0	37 FTEs
62	DES - Data Center (ADOA)				See DES/DCS - Startup
63	DES - Rural Autism/Parenting Skills	0.3	0.3	0.3	
64	DES - Long-Term Care/Assisted Living	0.3	0.3	0.3	
65	DES - Homeless Capital Grant Program	0.5			
66	ADE - Formula Changes	47.0			\$47 M FY 14 Supplemental
67	ADE - Charter Conversion Rollback	(8.8)	(94.1)	(215.7)	Fund 14 Conversions at \$24.5 M
68	ADE - Student Success Funding	20.0	20.0	20.0	Incentive Payments
69	ADE - Testing Cost	8.0	8.0	8.0	
70	ADE - K-12 Broadband	Report			
71	ADE - IT Certifications	1.0	1.0	1.0	
72	ADE - AZELLA Administration	2.5	2.5	2.5	
73	ADE - Structured English Immersion Fund Adjust.	(3.8)	(3.8)	(3.8)	
74	ADE - Data System (ADOA)	5.0			
75	ADE - JTED Performance Funding	0.5			
76	ADE - Fund JTED @ 95.5%	1.5	1.5	1.5	
77	EMA - Mental Health Therapists	0.1	0.1	0.1	2 FTEs
78	EMA - Military Installation Fund	2.5			
79	EXE - Executive Director & Support Staff	0.1	0.1	0.1	
80	FBLS - Mesa Fire School	0.2	0.2	0.2	\$175k
81	FOR - Wildland Firefighting Training (1 FTE)	0.1	0.1	0.1	\$147k
82	FOR - Removing Hazardous Vegetation	1.4	1.4	1.4	
83	FOR - Dispatch Center Dispatchers (2 FTEs)	0.1	0.1	0.1	\$136k
84	FOR - Tucson District Fire Engine	0.1			\$57k
85	FOR - Operating Expenses for Satellite Offices	0.1	0.1	0.1	\$74k
86	FOR - Environmental County Grants	0.1			
87	DHS - Formula Changes	(3.3)	(8.0)	(14.8)	\$17.6 M FY 14 Supplemental Plus \$13 M AXS Transfer
88	DHS - Alzheimer's Research	1.3			
89	DHS - TGen Funding	3.0	3.0	3.0	\$3 M for 5 yrs. Allocate to NAU
90	DHS - LaPaz Shift to Critical Access Hospital	(0.3)	(0.3)	(0.3)	
91	DHS - Multidisciplinary Mental Health Grants	0.3	0.3	0.3	50% Urban / 50% Rural
92	IRC - Funding	1.5	1.1		
93	JUD - Foster Care Review Board (3 FTE)	Yes	Yes	Yes	Absorbed in Judiciary (\$175k cost). 3 FTE footnote
94	JUD - Drug Treatment Alternative to Prison	0.3			\$250k
95	JUD - Court Ordered Counseling	0.3			\$250k
96	JUD - Court of Appeals	0.2	0.2	0.2	\$229.6k
97	LEG - Auditor General DCS Audit	0.3			
98	LEG - Ombudsman CPS	0.2	0.2	0.2	
99	NUR - Nursing Assistant Program	0.2			
100	Parks - Yarnell Hill Memorial	0.5			
101	DPS - Reduce HURF Shift	(89.2)	(89.2)	60.0	Increase Local HURF Funding \$30 M/\$30 M/\$ 60 M
102	DPS - Continue ACTIC Funding	0.8			Plus \$700k Non-GF Funds
103	DPS - Employer Retirement	4.5	4.5	4.5	Funds HURF adjustment from GF

ENACTED GENERAL FUND BUDGET *

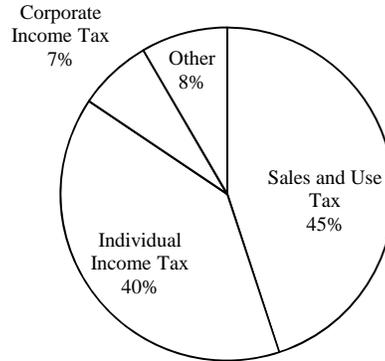
\$ in Millions

	FY 2014 Enacted	FY 2015 Enacted	FY 2016 Estimate	FY 2017 Estimate	Notes
104	DPS - Salary Increase	3.3	3.3	3.3	DPS Operating Budget
105	PSPRS - Prescott PSPRS Liabilities	1.0	1.0	1.0	\$1.0 M Annually for 5 Yrs (FY 15 - 19)
106	DOR - Tobacco Tax/MSA/Audit (8 FTEs)	AXS Funds	AXS Funds	AXS Funds	
107	DOR - TPT Implementation HB 2111	1.0	1.0	1.0	19 FTEs
108	DOR - Capital Gains Staff	0.1	0.1	0.1	
109	DOR - Capital Gains Programming (ADOA)	In Baseline			
110	DOR - Tobacco Tax System (ADOA)	AXS Funds			
111	DOR - New IT Projects (ADOA)		(1.7)	(1.7)	
112	SFB - New School Construction			(7.0)	
113	SOS - Election Year Funding	(0.5)	(0.5)	(0.5)	
114	TOU - Arizona Promotion	2.0			
115	UNI - \$27M Parity	12.2	(3.0)	(18.3)	27.5/27.5/27.5 vs Baseline 15.3/30.5/45.8
116	UNI - Research Infrastructure Pymt Adjustment	(5.6)	(8.1)	(4.3)	
117	UNI - Additional Funding (UofA)	2.0	2.0	2.0	
118	UNI - Additional Funding (ASU)	2.0	2.0	2.0	
119	UNI - Additional Funding (NAU)	0.5	0.5	0.5	
120	UNI - Cooperative Extension (UofA)	3.5	3.5	3.5	28 FTEs
121	USL - Eliminate Funding	(0.1)	(0.1)	(0.1)	
122	VSC - Veterans' Home Construction	9.2			
123	WIFA - Water Supply Funding	1.0			
124	WAT - DWR Staff	1.0	1.0	1.0	6 FTEs
125	WEI - Forklift for Metrology Department	\$36k			
126	WEI - Vehicle for Hire Program Expansion	0.2	0.2	0.2	2 FTEs
127	Capital - Building Renewal	15.0			ADOA - \$9 M / DOC - \$3 M / ABOR - \$3 M
128	Other - No Debt Buyback			(210.0)	
129	Other - Rainy Day Fund Transfer to Arts	Rainy Day Fund			\$1.0 M
130	Other - Graham County Assistance	0.5			
131	Other - Revertments	(16.0)			
132	Other - Retirement Adjustment	0.4	0.4	0.4	
133	Net Spending Issues Above JLBC	\$ 59.6	\$ 116.8	\$ (71.1)	\$ (308.4)
134	Total Spending Change Above '14	\$ 59.6	\$ 470.1	\$ 652.1	\$ 947.7
135	Total Spending	\$ 8,861.50	\$ 9,272.0	\$ 9,454.0	\$ 9,749.6
136	Ending Cash Balance	\$ 595.6	\$ 129.0	\$ (237.5)	\$ (490.0)
137	Structural Balance	\$ (378.8)	\$ (494.5)	\$ (360.4)	\$ (252.5)

* While the chart includes new resources for the Department of Child Safety, it does not display the shift of existing resources from the Department of Economic Security to the newly created Department of Child Safety.

FY 2015 General Fund Revenue - Where it Comes From

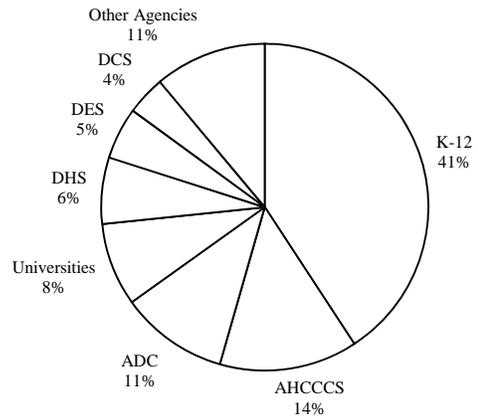
<u>Source</u>	<u>Revenue (Millions)</u>
Sales and Use Tax	\$ 4,207.6
Individual Income Tax	3,696.7
Corporate Income Tax	670.8
Other	787.2
TOTAL REVENUE	<u>\$ 9,362.3</u> ^{1/}



^{1/} Includes all legislative revenue changes, but does not include beginning balance of \$596 million, urban revenue sharing, or other one-time revenue adjustments.

FY 2015 General Fund Appropriations - Where it Goes

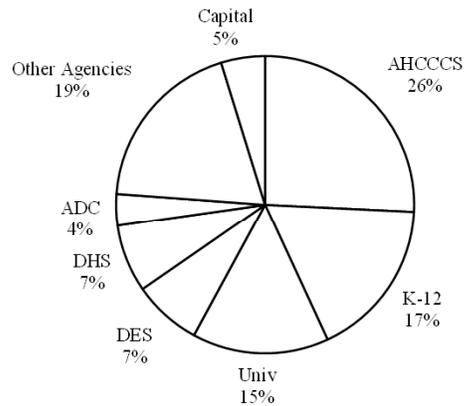
<u>Budget Unit</u>	<u>Appropriation (Millions)</u>
Education (K-12)	\$ 3,808.4
AHCCCS	1,274.4
Corrections	996.8
Universities	768.4
Health Services	613.4
Economic Security	479.3
Child Safety	361.0
Other Agencies	1,034.3
TOTAL BUDGET	<u>\$ 9,336.0</u> ^{1/}



^{1/} Does not include administrative adjustments and revertments

FY 2015 Total Spending - All Sources ^{1/}

<u>Budget Unit</u>	<u>Spending (Millions)</u>
AHCCCS	\$ 8,188.9
Education (K-12)	5,516.8
Universities	4,708.6
Economic Security	2,365.9
Health Services	2,343.5
Corrections	1,095.4
Other Agencies	6,056.7
Capital	1,515.7
TOTAL	<u>\$ 31,791.4</u> ^{2/}

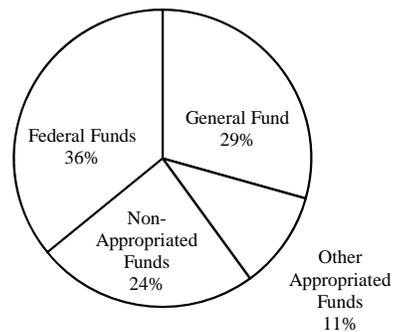


^{1/} Does not include administrative adjustments and revertsments.

^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

FY 2015 Total Spending by Fund Source ^{1/}

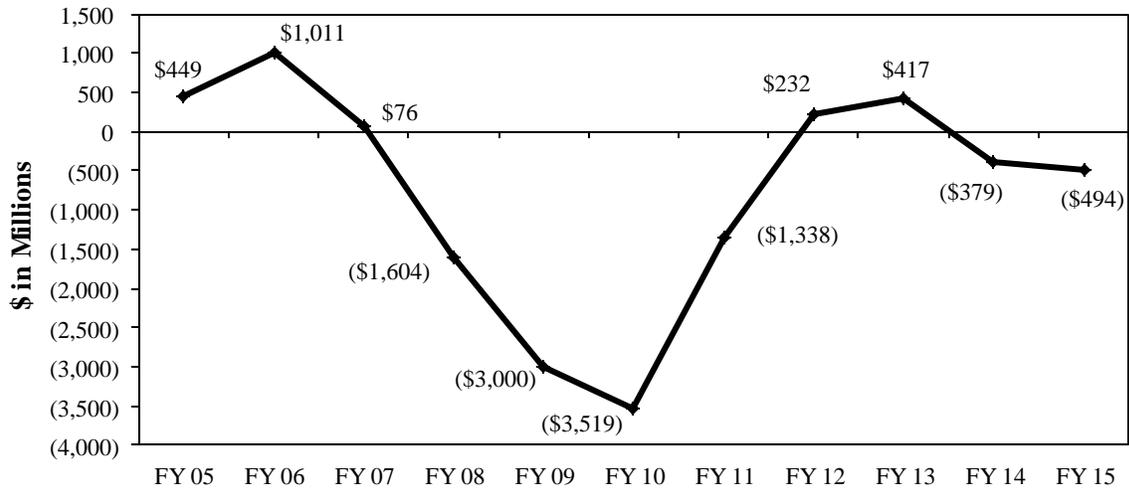
<u>Fund Source</u>	<u>Spending (Millions)</u>
General Fund	\$ 9,336.0
Other Appropriated Funds	3,377.1
Non-Appropriated Funds	7,671.8
Federal Funds	11,406.5
TOTAL	<u>\$ 31,791.4</u> ^{2/}



^{1/} Does not include administrative adjustments and revertsments.

^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

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



Ongoing Fund Surplus (+) / Shortfall (-)

Counts 1 ¢ Sales Tax as Ongoing in FY '11 - FY '13

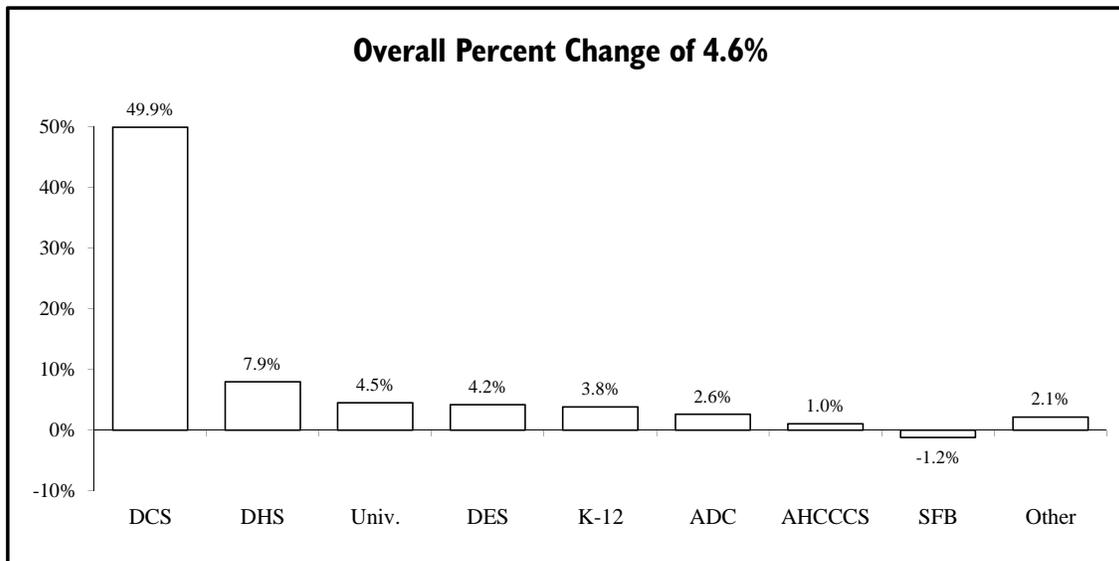
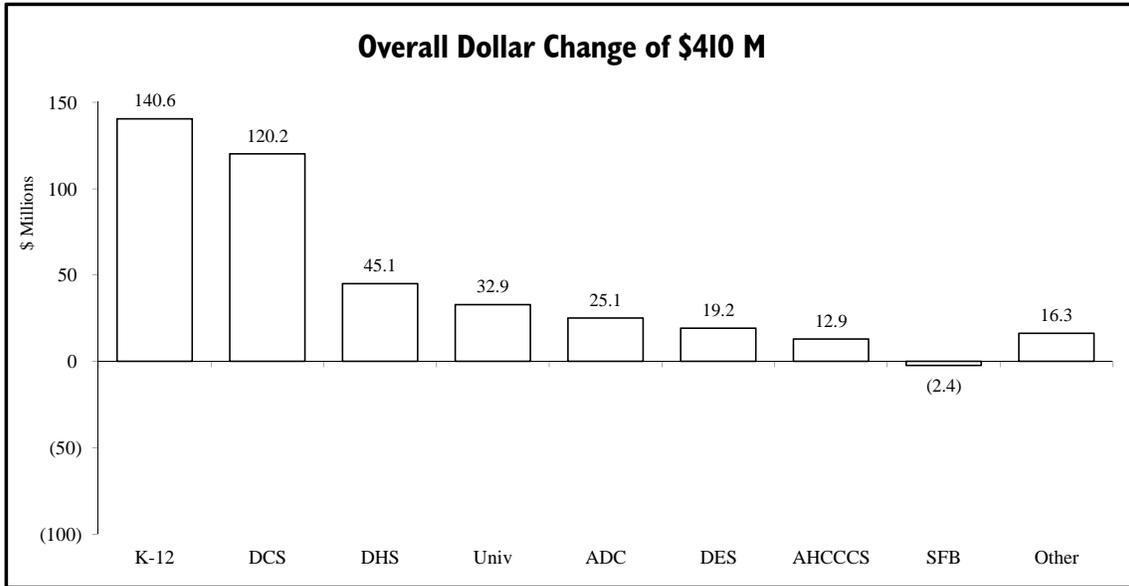
**Recent History of Appropriated Ongoing
General Fund Balance 1/
(\$ in Millions)**

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
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	8,056 ^{2/}	9,394	(1,338)
2012	8,535 ^{2/}	8,303	232
2013	8,923 ^{2/}	8,506	417
2014	8,433	8,812	(379)
2015	8,753	9,247	(494)

^{1/} Excludes one-time revenues and expenditures.

^{2/} Includes the 1-cent sales tax increase from Proposition 100 as ongoing revenue.

Changes to Major Agencies' General Fund Budget ^{1/} FY 2014 to FY 2015



^{1/} Represents change in total General Fund spending from FY 2014 (including supplementals and ex-appropriations) to FY 2015. See page BD-6.

FY 2015 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

General Fund Balances

- Given forecasted FY 2015 General Fund revenues of \$9.40 billion and spending of \$9.27 billion, the budget has a projected FY 2015 balance of \$130 million.
- Under the 3-year budget projections, there would be an ending shortfall of \$(237) million in FY 2016 and \$(489) million in FY 2017.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve of \$459 million.

General Fund Revenues

- Projected FY 2015 revenues are \$9.40 billion. While base revenues are forecast to grow in FY 2015, overall net revenues would decline by \$(56) million compared to FY 2014.
 - ⇒ Based on JLBC's 4-sector consensus, base revenues are projected to grow by \$477 million, or 5.3%.
 - ⇒ A \$(300) million decrease in the beginning balance, from \$895 million at the beginning of FY 2014 to \$596 million at the start of FY 2015.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would grow from \$561 million to \$609 million, thereby reducing state revenue by \$(48) million.
 - ⇒ Previously enacted tax and revenue legislative changes would reduce state revenue by \$(127) million, primarily from reductions in corporate income taxes.
 - ⇒ Newly enacted changes would increase State Revenue by a net \$19 million – among other changes, a gain of \$35 million from the deposit of certain Long Term Care System Fund monies would be offset by a \$(15) million reduction associated with a manufacturer's sales tax exemption for electricity/natural gas sales.
 - ⇒ A \$(100) million reduction in fund transfers. The remaining \$54 million transfer is from the State Employee Health Insurance Fund.

General Fund Spending

- FY 2015 General Fund spending is projected to be \$9.27 billion, an increase of \$410 million, or 4.6% above FY 2014.
- The entire FY 2015 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$31.7 billion.

Education

Department of Education

- ADE General Fund spending increases by \$140.6 million, or 3.8%, including:
 - ⇒ \$62.5 million for 1.1% student growth.
 - ⇒ \$21.8 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$24.5 million for charter school conversions.
 - ⇒ \$74.6 million for a 1.4% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(47.0) million for a one-time FY 2014 supplemental.
 - ⇒ \$(42.3) million for property tax and Homeowner's Rebate changes.
 - ⇒ \$22.3 million for higher Basic State Aid and Homeowner's Rebate costs due to recent statutory changes.
 - ⇒ \$(5.2) million for the 4th year of the 5-year Career Ladder phase out.
 - ⇒ \$20.0 million for Student Success Funding.
 - ⇒ \$8.0 million for Achievement Testing.
 - ⇒ \$(3.8) million for the Structured English Immersion Fund to reflect current expenditure levels.
 - ⇒ \$2.5 million for English Learner testing.
 - ⇒ \$1.5 million to fund large Joint Technical Education Districts (JTEDs) at 94.5%.
 - ⇒ \$1.0 million for Information Technology Certifications.
 - ⇒ \$500,000 for JTED Performance Pay.
 - ⇒ \$(207,900) for other base adjustments and standard changes.

School Facilities Board

- SFB's General Fund spending decreases by \$(2.4) million, or (1.2)%, including:
 - ⇒ \$(2.6) million for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$186,200 for new construction funding for the second year of a project in the Thatcher district.

Universities

- The Universities' General Fund spending increases by \$32.9 million, or 4.5%, including:
 - ⇒ \$27.5 million to complete the "parity" initiative to raise Arizona State University (ASU) and Northern Arizona University (NAU) per student funding to the University of Arizona (UA) level.
 - ⇒ \$4.5 million for additional operating funding – \$2.0 million to ASU and UA and \$500,000 to NAU.
 - ⇒ \$3.5 million for the University of Arizona Cooperative Extension.
 - ⇒ \$3.0 million for a biotechnology research partnership between NAU and a nonprofit medical research entity.
 - ⇒ \$(5.6) million for savings from the refinancing of 2003 Certificates of Participation for research infrastructure.
- Total university enrollment was 140,000 full-time equivalent students in the past year.

Community Colleges

- Community College General Fund spending increases by \$2.4 million, or 3.4%, due to increases for STEM and Workforce Development funding and Rural County Reimbursement subsidies.
- Enrollment decreased by (7,557) full-time equivalent students, or (5.3)%, for a total enrollment of 133,917 in FY 2013.

Health and Welfare

Medicaid Agencies

- All 3 Medicaid agencies are adjusted for the following funding formula factors: enrollment changes, an increase in the regular federal match rate from 66.84% to 68.15%, and a 2% - 3% capitation rate increase.

AHCCCS

- AHCCCS' General Fund spending increases by \$12.9 million, or 1.0%, including:
 - ⇒ \$(142.0) million to annualize hospital assessment savings.
 - ⇒ \$98.9 million to annualize the mandatory costs associated with the federal Affordable Care Act, primarily from an increase in the currently eligible but not enrolled "traditional" population.
 - ⇒ \$80.0 million to restore the childless adult population.
 - ⇒ \$(23.6) million for formula adjustments. An increase in the federal matching rate will decrease state costs.
 - ⇒ \$(0.8) million for various other adjustments.
- AHCCCS enrollment is projected to grow to 1.61 million by June 2015. This level represents a caseload increase of 219,000, or 15.7%, above June 2014. The higher caseload includes the following 228,000 new recipients related to federal health care changes:
 - ⇒ An additional 79,000 enrollees due to mandatory coverage provisions. This population consists of currently eligible, but not enrolled individuals and children in families with income from 100-133% of the federal poverty level (FPL).
 - ⇒ An additional 149,000 enrollees due to optional expansion of adult eligibility. Of this population, 114,000 of these individuals are childless adults from 0-100% FPL and 35,000 are adults from 100-133% FPL.

Department of Health Services

- DHS General Fund spending increases by \$45.1 million, or 7.9%, including:
 - ⇒ \$36.8 million to annualize the costs associated with mandatory federal health care legislation.
 - ⇒ \$15.5 million to annualize the costs associated with Medicaid expansion and the Childless Adult restoration.
 - ⇒ \$(5.7) million for formula adjustments, due primarily to a higher federal match rate.
 - ⇒ \$(2.8) million for shifting services of most enrollees in the Children's Rehabilitative Services program to AHCCCS.
 - ⇒ \$1.3 million for Alzheimer's research.
 - ⇒ \$300,000 for Multidisciplinary Mental Health Grants.
 - ⇒ \$(0.3) million to shift funding for La Paz Regional Hospital to the Critical Access Hospital program in the AHCCCS budget.

Department of Economic Security

- DES General Fund spending increases by \$19.2 million, or 4.2%, including:
 - ⇒ \$13.4 million for new FY 2015 Developmentally Disabled (DD) Medicaid caseload growth.
 - ⇒ \$(13.8) million for savings associated with a higher federal Medicaid match rate.
 - ⇒ \$7.1 million for a 2% DD capitation rate increase in FY 2015.
 - ⇒ \$1.0 million for Arizona Early Intervention program caseload growth.
 - ⇒ \$29.2 million to backfill one-time Long Term Care System Fund and federal Temporary Assistance for Needy Families Block Grant monies.
 - ⇒ \$(21.8) million transfer out to the Department of Child Safety for non-Division of Child Safety and Family Service expenses. The FY 2014 Base has already been adjusted to reflect direct DCSFS costs for comparability.
 - ⇒ \$300,000 for a new autism parenting skills program in rural areas.

- ⇒ \$300,000 for a new Long Term Care Assisted Living program in counties other than Maricopa and Pima.
- ⇒ \$3.0 million for 37 Adult Protective Services staff.
- ⇒ \$500,000 for a new Homeless Capital Grant program.

Department of Child Safety

- DCS General Fund spending increases by \$120.2 million, or 49.9%, including:
 - ⇒ \$15.8 million to add 332 Child Safety caseworkers and related staff.
 - ⇒ \$1.7 million for Child Safety retention pay.
 - ⇒ \$7.1 million for 93 Office of Child Welfare Investigations staff.
 - ⇒ \$3.4 million for legal, records and inspection bureau staff.
 - ⇒ \$0.5 million for training resources and internet crimes against children investigations.
 - ⇒ \$23.1 million for overtime and services to eliminate the backlog of cases with no action in 60 days.
 - ⇒ \$6.0 million for Adoption Services caseload growth.
 - ⇒ \$5.6 million for in-home and out-of-home support services.
 - ⇒ \$3.5 million for intensive family services growth.
 - ⇒ \$1.4 million for emergency and residential placements to backfill the loss of one time funds.
 - ⇒ \$3.0 million to reduce the rollover of payments into the following fiscal year.
 - ⇒ \$21.2 million transfer in from DES for non-Division of Child Safety and Family Services expenses.
 - ⇒ \$29.5 million to backfill one-time Long Term Care System Fund and federal Temporary Assistance for Needy Families Block Grant monies.
 - ⇒ \$(1.5) million to eliminate one-time contingency monies.

Department of Child Safety/Department of Administration

- The Department of Administration is appropriated \$25 million for one-time transition costs associated with establishing the new Department of Child Safety and the cost of replacing the DES Data Center facility.

Criminal Justice/Public Safety

Department of Corrections

- Arizona Department of Correction’s (ADC) General Fund spending increases by \$25.1 million, or 2.6%, including:
 - ⇒ \$11.9 million for opening 500 private medium security beds in January 2015, and annualizing the costs of operating and monitoring the 500 beds that open in January 2014.
 - ⇒ \$9.7 million for staffing 500 maximum security prison beds set to open December 1, 2014.
 - ⇒ \$3.5 million for an employer retirement rate increase.
- The total public and private population is projected to be 42,286. In terms of male beds, ADC would have a rated bed shortfall of (4,471) in June 2015. This shortfall would be offset with the availability of 5,301 temporary beds.

Judiciary

- Judiciary’s General Fund spending increases by \$654,600, or 0.6%, including:
 - ⇒ \$229,600 for health and dental insurance in the Court of Appeals (COA).
 - ⇒ \$250,000 for a one-time appropriation for court-ordered counseling services.
 - ⇒ \$250,000 for a one-time appropriation to the Drug Treatment Alternative to Prison program.
 - ⇒ \$126,000 to fund an operating shortfall for the Gila River Water Master.
 - ⇒ \$(90,000) to eliminate one-time funding.
 - ⇒ \$(111,000) for statewide adjustments.

Department of Public Safety

- Department of Public Safety’s (DPS) General Fund spending increases by \$37.8 million, or 73.2%, including:
 - ⇒ \$30.0 million to shift operating expenses from the Highway User Revenue Fund (HURF) to the General Fund.
 - ⇒ \$3.3 million for a 2% salary increase.
 - ⇒ \$4.5 million for an employer retirement rate increase.

Local Issues

- The budget increases the local HURF allocation by \$30 million (by shifting DPS expenses to the General Fund).
- The budget includes \$500,000 for additional assistance to Graham County.
- The budget also continues a \$7.2 million cash payment from the General Fund for county governments, in which each county except Maricopa and Pima receives \$550,000.

- The budget includes an increase of \$47.9 million, or 8.5%, for higher urban revenue sharing payments to city governments. Total funding would be \$608.9 million.

General Government

Automation

- The budget includes \$70.0 million for large-scale automation projects financed through the Automation Projects Fund. Of this amount, \$35.5 million is financed from the General Fund and \$34.5 million is financed from Other Funds. In comparison, the FY 2014 General Fund spending was \$25.5 million. The \$70.0 million FY 2015 amount includes the following:
 - ⇒ \$26.5 million for the third year of a 4-year project to replace the state's financial and accounting system.
 - ⇒ \$9.0 million for technology projects at ADOA, including:
 - \$3.1 million for enhancing statewide data security.
 - \$2.9 million to improve the state's data center.
 - \$2.2 million for project management and oversight.
 - \$500,000 for enhancing enterprise architecture.
 - \$325,000 for projects related to E-government.
 - ⇒ \$12.0 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$8.0 million for the second year of a 3-year project to replace ADC's Adult Inmate Management System (AIMS).
 - ⇒ \$6.8 million for the Department of Environmental Quality's E-Licensing Project.
 - ⇒ \$5.0 million to replace the Children's Information Library and Data Source (CHILDS) at DES.
 - ⇒ \$2.7 million for projects to enhance tax analysis at the Department of Revenue, including \$1.0 million to process tobacco tax collections.

Payment Deferral

- The budget continues to defer \$1.2 billion in General Fund spending from FY 2015 to FY 2016, including:
 - ⇒ \$930.7 million of school district payments.
 - ⇒ \$200.0 million of payments to the University system.
 - ⇒ \$21.0 million of DES payments.
 - ⇒ \$11.0 million of DCS payments, a decrease of \$(3) million from the previous \$14 million amount for the child welfare portion of DES.

Reversions

- The budget continues projected Reversions at \$(116) million, compared to \$(71) million in FY 2014. Reversions are unspent appropriations offset by any administrative adjustments.
- FY 2015 Administrative Adjustments are forecasted to be \$51 million, compared to \$63 million in the FY 2014 budget.

State Employee Issues

FTE Positions

- The budget increases the Full-Time Equivalent (FTE) ceiling by 613.7 Positions in FY 2015, primarily due to opening a new ADC prison facility as well as increased DCS staffing.
- These adjustments would bring the total appropriated FTE Position ceiling to 50,480.7.

Employee Pay and Salary Issues

- Employer and employee retirement rates will increase in FY 2015 in all retirement systems, except the Elected Officials Retirement Plan. In the Arizona State Retirement System (ASRS), both employer and employee rates will increase from 11.54% to 11.60%. In the Public Safety Personnel Retirement System (PSPRS), aggregate employer rates will increase by up to 2.1% and aggregate employee rates will increase by up to 0.7%.
- The FY 2015 budget includes \$409,100 from the General Fund and \$716,200 from Other Funds to fund the increased ASRS employer contribution rate. Increases for employer contributions for PSPRS and CORP are detailed in their respective agencies above.

Capital

- The budget includes a \$15.0 million increase for building renewal projects, consisting of \$9.0 million in ADOA, \$3.0 million in ABOR, and \$3.0 million for ADC.
- The budget includes \$9.2 million to fund the 35% state share of constructing a new veterans' home in Yuma. The federal government will fund the remaining costs of the project.

- The budget removes funding that was used to complete 500 maximum-security prison beds operated by the Department of Corrections. The Department of Corrections currently expects construction to be completed in time to accept prisoners by early December 2014.
- The budget includes no adjustment in state rental rates. The FY 2015 budget does include \$(192,500) of General Fund savings for lease-purchase and privatized lease-to-own payments changes, which are related to the refinancing of several lease-purchase agreements in February 2013.
- The budget includes a decrease of \$(9.4) million from the General Fund for debt and lease-purchase payments in FY 2015, due to the refinancing of outstanding SFB lease-purchase agreements.

FY 2015 FUNDING FORMULA SUSPENSIONS ^{1/}

	FY 2015 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 13,774,400 ^{2/}
Department of Education - District Additional Assistance	238,985,500 ^{3/}
Department of Education - Charter School Additional Assistance	15,656,000
Department of Education - Large JTEDs at 95.5%	1,747,400 ^{4/}
Department of Environmental Quality - WQARF	8,000,000
Department of Health Services - Restoration to Competency (RTC)	900,000 ^{5/}
Department of Health Services - Sexually Violent Persons (SVP)	3,021,400 ^{6/}
Universities - Financial Aid Trust	12,645,800
Department of Public Safety - Highway User Revenue Fund (HURF)	79,255,000 ^{7/}
 Total - FY 2015 Statutory Funding Formula Suspensions	 \$ 373,985,500
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 15,962,300
Department of Corrections - Building Renewal	7,945,000
Universities - Building Renewal	104,480,500
 Total - FY 2015 Non-Statutory Funding Formula Suspensions	 \$ 128,387,800

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

^{2/} Represents partial suspension of Maricopa and Pima formula; rural district formula funding is not suspended.

^{3/} Excludes approximately \$20,000,000 suspended in non-state aid districts, which are not funded through the state budget.

^{4/} Estimate based on FY 2014 data. Affects only Maricopa and Pima County JTEDs.

^{5/} Excludes costs that counties incur to treat RTC patients in alternative facilities.

^{6/} Reflects estimate of remaining costs to counties for SVP care.

^{7/} This amount is in addition to the \$10 million allocated to DPS from the HURF pursuant to A.R.S. § 28-6993.