LONG TERM GENERAL FUND ESTIMATES

Summary

A.R.S. § 35-125 requires the annual General Appropriation 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 2017, as shown in *Table 2*. Based on the assumptions described below, the Baseline ending shortfall is estimated to be $(17) million in FY 2016 and $(383) million in FY 2017, or $(400) million if the FY 2016 shortfall is not resolved. Under the legislative 2-year Highway User Revenue Fund (HURF) proposal, the FY 2016 ending shortfall is estimated to be $(256) million in FY 2016 and $(383) million in FY 2017, or $(639) million if the FY 2016 shortfall is not resolved.

Under the current terms of the state's 2010 $1.5 billion debt financing, the state must begin to buy back that debt if its reserves reach a certain level. Based on FY 2015 balances, the required FY 2017 buyback is estimated at $210 million. Unless the Executive revises the buyback terms, the FY 2017 shortfall under the 2-year HURF proposal would become $(593) million. If the FY 2016 shortfall is not resolved, the FY 2017 shortfall would be $(849) million.

These estimates exclude the Budget Stabilization Fund (BSF) monies. The BSF is estimated to have a fund balance of approximately $460 million by the end of FY 2015.

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 2015 through FY 2017 would change the ending balance calculations by $575 million in the third year.

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2015 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 5.3% in FY 2015, 5.2% in FY 2016 and 5.6% in FY 2017. *Table 1* includes the individual forecast components in FY 2016 and FY 2017. These growth rates reflect revenue growth prior to tax law changes and Urban Revenue Sharing.

The Legislature enacted significant multi-year tax reductions in prior years. In FY 2016, these adjustments are projected to reduce revenue by $(116) million relative to FY 2015. There would be a further reduction of $(109) million in FY 2017 relative to FY 2016. The details of the tax reductions are in *Table 6* of the *General Fund Revenue* section.

Due to the impact of the 2011 and 2012 tax reductions and declining levels of the beginning balance, General Fund revenues are projected to remain relatively flat between FY 2014 and FY 2017. The projected level of General Fund revenue would decrease from $9.46 billion in FY 2014 to $9.36 billion in FY 2015, then increase slightly to $9.39 billion in FY 2016 and $9.47 billion in FY 2017, including balances. These figures are prior to the legislative 2-year HURF proposal; including the proposal, the FY 2016 beginning balance would be $208 million instead of $327 million under the Baseline. Neither the Baseline nor the legislative 2-year HURF proposal would provide a beginning balance for FY 2017. The *General Fund Revenue* section also details the potential risks to the forecast.

Table 1
4-Sector Consensus Forecast Percentages

	FAC	UA Low	UA Base	JLBC	Avg
FY 2016					
Sales Tax	5.8%	4.7%	7.2%	6.1%	6.0%
Individual Income Tax	5.5%	3.0%	5.4%	5.9%	5.0%
Corporate Income Tax	5.6%	1.9%	8.1%	4.1%	5.0%
Wgt Avg					5.2%
FY 2017					
Sales Tax	5.5%	5.6%	7.1%	6.2%	6.1%
Individual Income Tax	5.4%	5.2%	5.9%	6.2%	5.7%
Corporate Income Tax	5.8%	2.4%	4.7%	5.5%	4.6%
Wgt Avg					5.6%

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 $370 million in FY 2016 (4.1%) above FY 2015 and $652 million in FY 2017 (6.9%) above FY 2016 prior to the legislative 2-year HURF proposal. Without the $210 million debt buyback, the FY 2017 increase would be $442 million, or 4.7%, above FY 2016.

These spending adjustments include normal caseload growth in caseload-driven agencies such as the Arizona

Department of Education (ADE) and AHCCCS. The adjustments also include $61 million in FY 2016 and $122 million in FY 2017 for the conversion of certain district schools to charter status. This issue is explained in more detail in the ADE section of the Baseline narrative.

Overall spending, including one-time adjustments, would be $9.41 billion in FY 2016 and $9.85 billion in FY 2017 prior to the legislative 2-year HURF proposal. *(See Table 3 for the projected spending levels of major agencies under this scenario.)*

In addition, the long term estimates assume the continued annual suspension of over $300 million of funding formula requirements that are permanently authorized in law and the continued non-funding of $136 million in non-statutory funding formulas for building renewal. *(See Table 4.)* If these programs or any other new permanent initiatives are funded in the FY 2015 budget, the projected FY 2016 and FY 2017 shortfalls would increase.

Table 2

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

	FY 2014 Adjusted	FY 2015 Baseline	FY 2016 Baseline	FY 2017 Baseline
REVENUES				
Ongoing Revenues	$8,969,009,900	$9,446,166,700	$9,797,137,900	$10,225,172,700
Previously Enacted Changes		(129,100,000)	(115,600,000)	(108,700,000)
Urban Revenue Sharing	(561,001,200)	(608,935,700)	(620,454,200)	(651,407,600)
Net On-going Revenues	$8,408,008,700	$8,708,131,000	$9,061,083,700	$9,465,065,100
One-time Financing Sources				
Balance Forward	$895,475,000	$655,224,900	$327,428,100	
Fund Transfers	153,591,600			
Subtotal One-time Revenues	$1,049,066,600	$655,224,900	$327,428,100	$0
Total Revenues	$9,457,075,300	$9,363,355,900	$9,388,511,800	$9,465,065,100
EXPENDITURES				
Operating Budget Appropriations	$8,816,495,400	$9,084,447,100	$9,445,812,100	$9,887,998,000
FY 2014 Supplementals	(1,166,900)			
Administrative Adjustments	22,380,200	51,480,700	60,000,000	60,000,000
Revertments	(85,801,100)	(100,000,000)	(100,000,000)	(100,000,000)
Subtotal Ongoing Expenditures	$8,751,907,600	$9,035,927,800	$9,405,812,100	$9,847,998,000
One-time Expenditures				
Capital Outlay	$49,942,800			
Operating Debt Buyback				210,000,000 3/
Subtotal One-time Expenditures	$49,942,800	$0	$0	$210,000,000
Total Expenditures	$8,801,850,400	$9,035,927,800	$9,405,812,100	$10,057,998,000
Baseline Ending Balance 4/	$655,224,900	$327,428,100	($17,300,300)	($592,932,900) 3/5/
Legislative HURF Proposal		*$119,247,100*	*$119,247,100*	
Ending Balance - w/ HURF Proposal 6/	*$655,224,900*	*$208,181,000*	*($255,794,500)*	*($592,932,900)* 3/7/
Structural Balance 8/	*($343,898,900)*	*($327,796,800)*	*($344,728,400)*	*($382,932,900)*

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/ Under the current terms of the state's 2010 $1.5 billion debt financing, the state must begin to buy back that debt if its reserves reach a certain level. Based on the FY 2015 ending balance, the required FY 2017 buyback is estimated to be approximately $210 million. Unless the Executive revises the terms of the financing agreement, the FY 2017 projected shortfall would become $(592,932,900).

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

5/ The FY 2017 Baseline Ending Balance assumes the FY 2016 projected shortfall is solved prior to the beginning of FY 2017. If the shortfall were carried forward, the FY 2017 projected shortfall would become $(610,233,200).

6/ This calculation reflects the difference between total revenues and total expenditures, including the Legislative HURF Proposal, which has an annual cost of $119,247,100 in FY 2015 and FY 2016. Excludes any Budget Stabilization Fund balance.

7/ The FY 2017 "Ending Balance - w/ HURF Proposal" amount assumes the FY 2016 projected shortfall is solved prior to the beginning of FY 2017. If the shortfall were carried forward, the FY 2017 projected shortfall would become $(848,727,400).

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

Table 3

BASELINE SPENDING ESTIMATES BY MAJOR BUDGET UNITS

	FY 2014 Adjusted	FY 2015 $ Above FY 14	FY 2015 Baseline	FY 2016 $ Above FY 15	FY 2016 Baseline	FY 2017 $ Above FY 16	FY 2017 Baseline
EXPENDITURES							
Operating Budget							
-- Department of Administration	$11,694,300		$11,694,300		$11,694,300		$11,694,300
-- ADOA Automation Projects Fund	18,400,000	7,100,000	25,500,000	(9,198,000)	16,302,000	(9,202,000)	7,100,000
-- AHCCCS	1,334,933,400	(49,883,900)	1,285,049,500	65,270,600	1,350,320,100	72,212,800	1,422,532,900
-- Attorney General	22,464,600		22,464,600		22,464,600		22,464,600
-- Commerce Authority	31,500,000		31,500,000		31,500,000		31,500,000
-- Community Colleges	69,508,700	(4,110,500)	65,398,200	1,851,400	67,249,600	1,526,000	68,775,600
-- Department of Corrections	971,743,900	24,733,200	996,477,100	10,753,000	1,007,230,100	2,683,100	1,009,913,200
-- County Funding	7,150,500		7,150,500		7,150,500		7,150,500
-- Department of Economic Security	690,112,900	45,136,300	735,249,200	26,605,700	761,854,900	29,476,700	791,331,600
-- Department of Education	3,620,831,200	166,687,900	3,787,519,100	229,896,400	4,017,415,500	302,642,800	4,320,058,300
-- Department of Environmental Quality	7,000,000		7,000,000		7,000,000		7,000,000
-- Department of Health Services	550,646,400	64,905,200	615,551,600	18,214,800	633,766,400	20,795,300	654,561,700
-- Judiciary	109,841,000	36,000	109,877,000		109,877,000		109,877,000
-- Department of Juvenile Corrections	43,822,700		43,822,700		43,822,700		43,822,700
-- State Land Department	12,345,400	160,300	12,505,700		12,505,700		12,505,700
-- Department of Public Safety	51,560,800	(750,000)	50,810,800		50,810,800		50,810,800
-- Public Safety Personnel Retirement System	5,000,000		5,000,000		5,000,000		5,000,000
-- Department of Revenue	47,025,300		47,025,300		47,025,300		47,025,300
-- School Facilities Board	193,181,400	(3,823,600)	189,357,800	2,721,500	192,079,300	6,774,700	198,854,000
-- Office of Tourism	7,102,600		7,102,600		7,102,600		7,102,600
-- Universities	735,517,300	15,273,700	750,791,000	15,273,700	766,064,700	15,273,700	781,338,400
-- Department of Water Resources	12,326,400		12,326,400		12,326,400		12,326,400
-- All Other Budgets	158,164,500	2,729,000	160,893,500	(15,000)	160,878,500		160,878,500
-- Civic Center Payment	20,449,000		20,449,000		20,449,000		20,449,000
-- Asset Sale/Lease-Back Debt Service	84,119,800	3,900	84,123,700	(9,100)	84,114,600	2,800	84,117,400
-- Lease-Purchase/Rent		(192,500)	(192,500)		(192,500)		(192,500)
-- Unallocated Adjustments	53,300	(53,300)	0				
Total - Operating Budget	$8,816,495,400	$267,951,700	$9,084,447,100	$361,365,000	$9,445,812,100	$442,185,900	$9,887,998,000
-- FY 2014 Supplementals	($1,166,900)	$1,166,900					
-- Capital Outlay	49,942,800	(49,942,800)					
-- Operating Debt Buyback						210,000,000	210,000,000
-- Administrative Adjustments	22,380,200	29,100,500	51,480,700	8,519,300	60,000,000		60,000,000
-- Revertments	(85,801,100)	(14,198,900)	(100,000,000)		(100,000,000)		(100,000,000)
Total Spending	$8,801,850,400	$234,077,400	$9,035,927,800	$369,884,300	$9,405,812,100	$652,185,900	$10,057,998,000

Table 4

FY 2015 FUNDING FORMULA SUSPENSIONS 1/

	FY 2015 Formula Requirement	
Statutory		
Community Colleges - STEM and Workforce Programs State Aid Suspension	$ 21,930,500	
Department of Education - District Additional Assistance	238,985,500	2/
Department of Education - Charter School Additional Assistance	15,656,000	
Department of Education - Fund Large JTEDs at 91%	4,162,000	
Department of Environmental Quality - WQARF	8,000,000	
Department of Health Services - Restoration to Competency (RTC)	1,200,000	3/
Department of Health Services - Sexually Violent Persons (SVP)	3,130,000	4/
Universities - Financial Aid Trust	21,363,000	
Total - FY 2015 Statutory Funding Formula Suspensions/No HURF Shift in FY 15/16	$ 314,427,000	
Department of Public Safety - Highway User Revenue Fund (HURF)	109,247,100	5/
Total - FY 2015 Statutory Funding Formula Suspensions/Continue HURF Shift	$ 423,674,100	
Non-Statutory		
Department of Administration - Building Renewal	$ 28,033,200	
Universities - Building Renewal	107,480,500	
Total - FY 2015 Non-Statutory Funding Formula Suspensions	$ 135,513,700	

1/ Represents the cost of funding formulas that are currently suspended on an annual basis.
2/ Excludes $19,511,800 suspended in non-state aid districts, which are not funded through the state budget.
3/ Excludes costs that counties incur to treat RTC patients in alternative facilities.
4/ Reflects estimate of remaining direct costs to counties for SVP care.
5/ This amount is in addition to the $10 million allocated to DPS from the HURF pursuant to A.R.S. § 28-6993.