

SUMMARY OF FY 2016 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 Balances

- Given forecasted FY 2015 General Fund revenues of \$9.21 billion and spending of \$9.36 billion, the budget has a projected FY 2015 shortfall of \$(148) million. With the K-12 inflation “reset” ruling, the shortfall would be \$(480) million.
- Given forecasted FY 2016 General Fund revenues of \$8.77 billion and spending of \$9.45 billion, the budget has a projected FY 2016 shortfall of \$(678) million. With the “reset” ruling, the shortfall would be \$(1.02) billion.
- Under the 3-year budget projections, there would be a shortfall of \$(690) million in FY 2017 and \$(581) million in FY 2018. With the “reset” ruling, the shortfall would be \$(1.03) billion in FY 2017 and \$(928) million in FY 2018.
- The ending balance projections exclude the state’s Budget Stabilization Fund reserve of \$464 million.

General Fund Revenues

- Projected FY 2016 revenues are \$8.77 billion. While base revenues are forecast to grow in FY 2016, overall net revenues would decline by \$(440) million compared to FY 2015.
 - ⇒ Based on JLBC’s 4-sector consensus, base revenues are projected to grow by \$300 million, or 3.3%.
 - ⇒ A \$(577) million decrease in the beginning balance, from \$577 million at the beginning of FY 2015 to zero at the start of FY 2016.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would decline from \$609 million to \$606 million, thereby increasing state revenue by \$3 million.
 - ⇒ Enacted tax and revenue legislative changes would reduce state revenue by \$(112) million, primarily from a reduction in corporate income taxes.
 - ⇒ Elimination of all fund transfers would reduce revenue by \$(54) million.

General Fund Spending

- FY 2016 General Fund spending is projected to be \$9.45 billion, an increase of \$90 million, or 1.0% above FY 2015.
- The entire FY 2016 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$33.2 billion.

Education

Department of Education

- ADE General Fund spending would increase by \$181.2 million, or 4.8%, including:
 - ⇒ \$16.5 million for higher-than-budgeted FY 2015 enrollment growth.
 - ⇒ \$7.4 million for higher-than-budgeted 1% cap cost in FY 2015.
 - ⇒ \$82.2 million for 1.4% student growth, for a total student count of 1,097,260.
 - ⇒ \$22.5 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$87.0 million for a 1.59% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(36.8) million for an increase in property tax collections due to new construction.
 - ⇒ \$26.0 million for higher Homeowner’s Rebate due to enacted property tax reductions.
 - ⇒ \$(24.5) million for charter school conversions.
 - ⇒ \$3.2 million for new voter-approved Yuma County JTED.
- If the Superior Court ruling on the K-12 inflation litigation is upheld, ADE’s budget would increase by another \$332.0 million in FY 2015 and \$336.7 million in FY 2016. The Superior Court has held that the K-12 formula is to be adjusted for any foregone inflation payments between FY 2009 and FY 2013.

School Facilities Board

- SFB General Fund spending would increase by \$2.1 million, or 1.1%, including \$2.2 million for increased debt service associated with past lease-purchase agreements.
- The cost of new school construction is projected to decrease by \$(91,600).

Universities

- The Universities’ General Fund spending would decrease by \$(2.5) million, or (0.3)%, for previously appropriated adjustments from the refinancing of the lease-purchase payments for research infrastructure.
- Total university enrollment is expected to be 151,866 full-time equivalent students in FY 2016, or 3.6% above FY 2015.

Community Colleges

- Community College General Fund spending would decrease by \$(1.3) million, or (1.8)%, due to statutory changes.
- FY 2014 enrollment decreased by (5,832) full-time equivalent students, or (4.4)%, for a total enrollment of 128,085.

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, and a 3% capitation rate increase.

AHCCCS

- AHCCCS' General Fund spending would decrease by \$(2.1) million, or (0.2)%, including:
 - ⇒ \$13.3 million for formula adjustments, including a 2% enrollment increase.
 - ⇒ \$(15.3) million in mandatory expansion adjustments, primarily due to a lower-than-expected child expansion enrollment and an enhanced federal match rate.
 - ⇒ The hospital assessment continues to fund the state AHCCCS costs of the Proposition 204 population and Adult Expansion.
- AHCCCS enrollment is projected to grow to 1.67 million by June 2016. This level represents a caseload increase of 33,467, or 2.0%, above June 2015.

Department of Child Safety

- DCS General Fund spending would decrease by \$(9.9) million, or (2.7)%, including:
 - ⇒ \$4.0 million for preventive services funding.
 - ⇒ \$(10.7) million to remove one-time FY 2015 funding related to the backlog of 60-day non-active cases.
 - ⇒ \$1.0 million to shift DCS-related funding from the Attorney General's budget to DCS.
 - ⇒ \$(1.5) million to remove one-time equipment funding for staff added in FY 2015.
 - ⇒ \$(3.0) million to remove one-time funding used to pay off a portion of the deferral.
- Main Baseline changes were based on the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. The Baseline also removes \$(25.0) million in one-time funding to the Arizona Department of Administration (ADOA) for costs associated with the establishment of DCS.

Department of Health Services

- DHS General Fund spending would increase by \$8.9 million, or 1.5%, including:
 - ⇒ \$10.2 million for formula adjustments, including a 2% enrollment increase.
 - ⇒ \$(1.3) million for the elimination of one-time funding for the Alzheimer's Disease Research line item.

Department of Economic Security

- DES General Fund spending would increase by \$22.3 million, or 4.7%, including:
 - ⇒ \$22.8 million for formula adjustments, including a 4.5% enrollment and 3% capitation rate increase in FY 2016.
 - ⇒ \$(500,000) for removal of one-time Homeless Capital Grant funding.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending would increase by \$7.5 million, or 0.8%, including:
 - ⇒ \$7.2 million for annualizing the costs of the 500 private medium-security beds that opened January 1, 2015.
 - ⇒ \$343,900 for annualizing the costs for the 500 maximum-security beds opened in early December 2014.
- The total public and private population is projected to be 43,693, or a growth of 960 inmates above FY 2015. ADC would have a permanent bed shortfall of (5,512) in June 2016. The shortfall would be offset with the availability of 5,478 temporary beds.

Judiciary

- Judiciary General Fund spending would decrease by \$(500,000), or (0.5)%, to eliminate one-time funding.

Department of Public Safety

- DPS General Fund spending would decrease by \$(750,000), or (0.8)%, to remove one-time funding for the operating costs of the Arizona Counter Terrorism Information Center (ACTIC).

Local Issues

- The Baseline continues a \$7.2 million cash payment from the General Fund for county governments. Each county receives \$550,000 except Maricopa and Pima. The Baseline deletes a one-time extra allocation of \$500,000 to Graham County.
- The Baseline includes a decrease of \$(3.3) million, or (0.5)%, for lower urban revenue sharing payments to city governments. Total funding would be \$605.6 million.

General Government

Automation

- The Baseline includes \$20.1 million for large-scale automation projects. Of this amount, \$16.3 million is financed from the General Fund and \$3.8 million is financed from Other Funds. The \$20.1 million FY 2016 amount includes the following:
 - ⇒ \$9.2 million for the final year of a 4-year project to replace the state's financial and accounting system.
 - ⇒ \$2.2 million for technology projects and project management at ADOA.
 - ⇒ \$7.0 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$1.7 million for projects to enhance tax analysis at the Department of Revenue.

Payment Deferral

- The Baseline continues to defer \$1.2 billion in General Fund spending from FY 2015 to FY 2016, including:
 - ⇒ \$931 million of school district payments.
 - ⇒ \$200 million of payments to the University system.
 - ⇒ \$21 million of DES payments and \$11 million of DCS payments.

Reversions

- The Baseline assumes projected reversions at \$(85.0) million. (Reversions are unspent appropriations.)
- FY 2016 Administrative Adjustments are forecast to be \$60.0 million.

FY 2015 General Fund Supplementals

- The Baseline includes a net decline of \$(7.0) million for FY 2015 adjustments, including:
 - ⇒ \$(33.2) million as a one-time ex-appropriation associated with a Medicaid surplus in AHCCCS.
 - ⇒ \$8.7 million for additional funding associated with a Medicaid shortfall in DHS.
 - ⇒ \$(9.4) million as a one-time ex-appropriation associated with a School Facilities Board refinancing agreement.
 - ⇒ \$64,200 for the Land Department's Central Arizona Project payments.
 - ⇒ \$2.9 million for ADE costs associated with the Transwestern property tax settlement.
 - ⇒ \$23.9 million for additional funding for ADE state aid shortfall.

State Employee Issues

FTE Positions

- The Baseline increases the Full-Time Equivalent (FTE) ceiling by 45.2 Positions in FY 2016. The Department of Economic Security is adding 47.1 FTE Positions due to Developmental Disabilities caseload growth in FY 2016. The DES base has been adjusted for 207 existing positions that were previously covered by vacant Department of Child Safety positions.
- These adjustments would bring the total appropriated FTE Position ceiling to 50,732.9.

Employee Pay and Salary Issues

- In the Arizona State Retirement System, both employer and employee contribution rates will decrease from 11.60% to 11.47%.
- Employer and employee retirement contribution rates will increase in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP).
 - ⇒ The employer contribution rate increases in PSPRS and CORP are primarily due to the *Fields v. Elected Officials' Retirement Plan* litigation, which restored the prior formula for permanent benefit increases. To diminish the immediate fiscal impact of these increases, the PSPRS Board of Trustees has adopted a policy allowing employers to choose to pay the full contribution amount calculated by plan actuaries (which includes the immediate impact of the *Fields* ruling) or a reduced rate (phased-in rate) that gradually increases to the actuarial rate by FY 2018.
 - ⇒ In PSPRS, the FY 2016 increase in the aggregate employer contribution rate would be either 2.1% or 8.8%, depending on whether a phased-in or full contribution rate is selected; the employee contribution rates will increase by up to 0.6% as part of prior-year retirement legislation.

- ⇒ In CORP, the FY 2016 increase in the aggregate employer contribution rate would be either 0.6% or 3.8%, depending on whether a phased-in or full contribution rate is selected; the employee contribution rates will remain same.
- In the Elected Officials' Retirement Plan, both employer and employee contribution rates will remain the same as the rates are fixed in statute. Given the *Fields* ruling, the higher cost requirements would leave the EORP Fund depleted in 22 years.
 - If the Legislature chooses to fund the FY 2016 employer contribution rate changes, there are at least 2 budget scenarios. In Scenario 1, the employer contribution rate increase for PSPRS and CORP would be phased-in, costing the General Fund \$2.3 million (\$2.8 million Total State Funds) in FY 2016. In Scenario 2, the employer contribution rate for PSPRS and CORP would be increased to the full actuarial rate and the employer contribution rate for EORP would also be increased, costing the General Fund \$20.7 million (\$32.2 million Total State Funds) in FY 2016. The Baseline does not include funding for the employer share of these rate adjustments in agency budgets.

Capital

- The Baseline removes funding that was used to complete 500 maximum-security prison beds operated by the Department of Corrections. The Department of Corrections opened beds in December 2014.
- The Baseline includes no adjustment for lease-purchase and privatized lease-to-own payments changes, and also includes no adjustment for rent charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.