

HIGHLIGHTS OF THE FY 2017 BUDGET

The FY 2017 budget is based primarily upon the actions of the 52nd Legislature's 2nd Regular Session. On May 4, 2016, the Governor signed into law the FY 2017 budget for the year beginning July 1, 2016. The FY 2017 budget also incorporates the impact of the 52nd Legislature, 1st Special Session, which in October 2015 enacted school finance changes and referred to a vote of the people Constitutional changes regarding State Trust Land distributions. Proposition 123 was subsequently approved by voters at the May 2016 Special Election.

The state's FY 2017 General Fund budget is \$9.61 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$36.6 billion. (See the *Summary of Appropriated Funds and Summary of Total Spending Authority* for more details.)

Revised FY 2016 Budget – At the time of publication of the *FY 2016 Appropriations Report* in May 2015 after the 52nd Legislature's 1st Regular Session, the FY 2016 budget was anticipated to have a \$(35) million shortfall. By January 2016, however, the projected FY 2016 shortfall had become an estimated \$499 million surplus. The primary adjustments included:

- Increased balance forward from FY 2015 of \$312 million, or \$300 million above the original forecast.
- Increased FY 2016 revenue of \$312 million, the result of higher-than-budgeted FY 2015 revenues, paired with a slight decrease in the FY 2016 growth rate from 3.8% to 3.5%.
- Increased one-time FY 2016 revenues of \$29 million, primarily due to scoring higher-than-projected collections from the 2015 Tax Amnesty program.
- Increased FY 2016 expenditures of \$107 million, consisting of \$52 million of Proposition 123-related expenditures and \$54 million of supplemental spending for Medicaid, correctional health care, Special Election costs, and higher-than-expected administrative adjustments.

As part of the FY 2017 budget, the Legislature approved \$274 million in additional FY 2016 spending changes. These changes included \$232 million to eliminate payment deferrals from FY 2016 to FY 2017 in the Universities, Department of Economic Security (DES), and Department of Child Safety (DCS); \$21 million in net additional spending, primarily for DCS services; and \$21 million in FY 2016 one-time spending.

Combined with the January FY 2016 ending balance of \$499 million, the additional \$274 million of net new spending is estimated to produce an FY 2016 ending

balance of \$225 million. (Please see the FY 2016 General Fund Adjustments section for further details.)

Comparison to the JLBC Baseline – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2017 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$9.37 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 3.5% in FY 2016 and 4.0% in FY 2017. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$10.00 billion in FY 2017.

The Legislature retained the January revenue growth rate for FY 2017 as part of the final budget. In addition, the budget assumed the reduction of a previously-enacted transfer from the Health Insurance Trust Fund from \$(100) million to \$(79) million and the reduction of a Judiciary fund transfer from \$(6) million to \$(5) million. The budget also assumed the approval of tax legislation that would in total reduce revenues by \$(26) million. After further adjusting the estimates for the reduction of the FY 2016 carry-forward from \$499 million to \$225 million, the FY 2017 General Fund budget was based on a revenue level of \$9.67 billion.

The Legislature also made subsequent revisions to the Baseline spending level of \$9.37 billion, which resulted in a final FY 2016 expenditure level of \$9.61 billion. The \$237 million in changes to the Baseline included the following:

Major Ongoing Increases to the Baseline

- \$36 million in additional DCS services spending, in addition to \$25 million in non-General Fund spending.
- \$29 million to rescind a scheduled decrease in funding for overlapping K-12 regular district/Joint Technological Education Districts (JTEDs).
- \$8 million for Border Security Task Force (BSTF) costs in the Department of Public Safety (DPS).
- \$5 million for 3% pay raise for sworn DPS officers and Highway Patrol civilian staff.
- \$5 million for freedom schools in Arizona State University (ASU) and University of Arizona (UA).

Major Ongoing Decreases from the Baseline

- \$(51) million from re-estimates of Medicaid enrollment in AHCCCS.

- \$(25) million from re-estimates of K-12 enrollment and formula costs.
- \$(22) million from elimination of the Access Our Best Public Schools program.

Major One-Time Increases to the Baseline

- \$87 million to the Arizona Department of Transportation (ADOT), including \$57 million for state projects and \$30 million for distribution to local governments.
- \$39 million to SFB, including \$15 million for Building Renewal grants and \$23 million for the first half of a 2-year appropriation to construct 2 new schools.
- \$38 million to the Arizona Department of Education (ADE) for one-time backfills to hold schools harmless for changes in current-year funding, charter small school weight, and district-sponsored charter funding.
- \$19 million to the Universities.
- \$15 million to DPS for one-time BSTF costs.
- \$13 million for information technology projects for ADE, Corporation Commission, the Judiciary, and “e-procurement.”
- \$10 million for construction of a new veterans’ home in Flagstaff.
- \$8 million for counties to offset FY 2017 costs of Department of Juvenile Corrections cost-sharing.

Under the JLBC Baseline, the FY 2017 budget was projected to have a \$625 million ending balance. The revenue changes and net spending reductions result in a FY 2017 projected ending balance of \$66 million. *(Please see the General Fund Balance discussion below.)*

(See FY 2017 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2017 changes.)

Comparison to the FY 2016 Budget – Besides the comparison with the JLBC Baseline, the FY 2017 budget can also be viewed relative to the FY 2016 budget. General Fund revenues, including one-time monies, are projected to decrease from \$9.74 billion in FY 2016 to \$9.67 billion in FY 2017. After technical adjustments, the projected base growth is 4.0%, which will be further modified by the following revenue changes *(see the General Fund Revenue section)*:

- \$(98) million net loss from previously-enacted budget legislation.
- \$(27) million net loss from budget legislation enacted in the 2016 Legislative Session, including \$(26) million from tax-related legislation and \$(1) million from reduced ongoing Judiciary fund transfers.

- \$(58) million loss due to increased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2017 budget also has a net \$304 million in one-time revenues (in comparison, FY 2016 one-time revenues were \$576 million due in part to a \$312 million beginning balance). The \$304 million amount reflects \$225 million in a FY 2016 carry-forward balance and \$79 million in a fund transfer from the Health Insurance Trust Fund.

General Fund spending is projected to increase from \$9.52 billion in FY 2016 to \$9.61 billion in FY 2017, which is an increase of \$93 million, or 1.0%. Compared to the originally-budgeted FY 2016 total of \$9.13 billion, the FY 2017 budget increases spending by \$474 million, or 5.2%.

The FY 2017 budget includes the following changes compared to the FY 2016 budget, including 1st Special Session and supplemental changes, but excluding elimination of payment deferral funding as noted:

- \$128 million for K-12 education formula changes (which includes statutorily-mandated inflation increase of 0.99%).
- \$34 million in increased University funding, including \$19 million for one-time funds. This increase does not incorporate the \$(200) million reduction in FY 2017 associated with the elimination of the one-time FY 2016 funding to pay off the University payment deferral.
- \$(3) million in decreased SFB spending, including \$(24) from eliminating the Access Our Best Public Schools Program and \$23 million for the first year of new school construction in 2 districts.
- \$546 million in increased AHCCCS spending, including the transfer of \$534 million from DHS for providing behavioral health services, \$29 million for formula adjustments, and \$(18) million for policy changes funding offsets.
- \$(516) million in decreased DHS spending, primarily \$(517) million for the transfer of behavioral health services to AHCCCS.
- \$(12) million in decreased DCS spending, including \$(11) million for elimination of one-time supplemental funding. The budget continues \$23 million of funding also appropriated as a FY 2016 supplemental. This decrease does not incorporate the \$(11) million reduction in FY 2017 associated with the elimination of the one-time FY 2016 funding to pay off the DCS payment deferral.
- \$27 million in increased DES spending, including \$21 million for developmental disabilities (DD) formula spending and \$3 million for a 1% DD provider rate increase. This increase does not incorporate the

\$(21) million reduction in FY 2017 associated with the elimination of the one-time FY 2016 funding to pay off the DES payment deferral.

- \$12 million in ADC spending, including \$17 million for opening 1,000 private medium-security beds in September 2016 and a \$(6) million decrease for statewide adjustments.
- \$28 million in DPS spending, including \$23 million for BSTF ongoing and one-time costs, and \$5 million for a 3% pay raise for sworn officers and for Highway Patrol civilian staff.
- \$87 million in ADOT spending, including \$57 million for state projects and \$30 million for distribution to local governments.

(See FY 2017 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

May 2016 Special Election – The Legislature referred 2 measures to a vote of the people at a Special Election held in May 2016. In October 2015, during the 52nd Legislature, 1st Special Session, the Legislature referred to the ballot Proposition 123, which made Constitutional changes regarding State Trust Land distributions. In addition to Proposition 123, the Legislature enacted school finance changes conditional upon approval of Proposition 123. These changes were estimated to increase total General Fund K-12 spending by \$52 million in FY 2016 and \$58 million above the original FY 2016 budget in FY 2017.

During the 2nd Regular Session, the Legislature referred to the ballot Proposition 124, which made Constitutional changes that permitted Public Safety Personnel Retirement System (PSPRS) benefit changes made by Laws 2016, Chapter 2 to take effect. Chapter 2 replaced the Permanent Benefit Increase (PBI) mechanism for current and future PSPRS members with a new cost-of-living adjustment, modified the Defined Benefit plan for future PSPRS members, and created a new PSPRS defined contribution plan. These changes would reduce the state's employer contribution costs in the long run.

Both Propositions 123 and 124 were subsequently approved by voters at the May 2016 Special Election.

General Fund Balance – Based on \$9.67 billion in revenue and \$9.61 billion in spending, the FY 2017 General Fund cash balance is projected to be a \$66 million surplus.

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. The FY 2017 budget is essentially structurally balanced as ongoing revenues are

projected to exceed ongoing spending by \$3 million in FY 2017.

The ending balance estimates do not reflect the Budget Stabilization Fund (BSF) reserve. The BSF is expected to have a balance of \$464 million at the end of FY 2017.

Long-Term Projections – A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are based on existing statutory funding requirements, but also incorporate future-year changes, such as statutory changes with effective dates beyond the budget year.

Discussions on the FY 2017 budget included analyzing the impact of budget decisions on estimated FY 2018 and FY 2019 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-6 incorporates the FY 2018 and FY 2019 estimates, which were initially based upon Baseline revenue projections and existing statutory funding requirements. Based on legislative guidance, the FY 2018 and FY 2019 estimates also include the continuation of FY 2017 initiatives which were considered to be ongoing.

The figures reflected in the multi-year analysis on page BH-6 differ from the figures listed in the FY 2017 General Appropriation Act due to technical reasons such as the incorporation of bills with a fiscal impact signed into law after the passage of the budget bills. The General Appropriation Act gives JLBC Staff the authority to make such technical adjustments.

The General Appropriation Act forecasted total FY 2018 revenues to be \$9.79 billion and expenditures to be \$9.62 billion, with a \$168 million surplus. After accounting for legislation enacted separately from the budget and technical adjustments, FY 2018 revenues are projected to be \$9.77 billion compared to spending of \$9.62 billion, both figures similar to the original forecast. The FY 2018 surplus is estimated to be \$145 million, including the \$66 million FY 2017 ending balance. The structural surplus for FY 2018 is estimated to be \$103 million.

The FY 2018 spending includes statutory formula caseload growth and removal of FY 2017 spending categorized as one-time in the FY 2017 budget process. FY 2017 ongoing revenues are primarily based on a 4-sector consensus growth rate of 4.6%, but also incorporate separately enacted tax law changes. It also includes \$23 million in one-time FY 2018 spending to complete SFB school construction projects started in FY 2017.

The General Appropriation Act forecasted FY 2019 revenues to be \$10.29 billion and expenditures to be

\$9.82 billion, with a \$467 million surplus. After accounting for separately enacted legislation and technical adjustments, FY 2019 revenues are projected to be \$10.24 billion compared to spending of \$9.82 billion, both figures similar to the original forecast. The FY 2019 budget is estimated to have a \$418 million surplus, including the \$145 million FY 2018 ending balance. The structural surplus for FY 2019 is estimated to be \$272 million.

The FY 2019 spending includes statutory formula caseload growth and removal of one-time FY 2018 spending. FY 2019 ongoing revenues reflect the 4-sector consensus base growth rate of 4.6%, further adjusted for previously enacted tax law changes.

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 2017 through FY 2019 would change the ending balance calculations by \$600 million in the third year. As a result, these projections are subject to considerable change.

In addition, these estimates do not include the impact of potential discretionary revenue and spending changes. For every \$2 of Baseline formula spending, the state has typically added \$1 of discretionary spending.

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

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
REVENUES				
Ongoing Revenues	\$9,769,648,500	\$10,158,379,200	\$10,492,876,600	\$10,851,677,700
Previously Enacted Changes		(97,800,000)	(90,400,000)	(73,300,000)
Newly Enacted Changes		(27,098,600)	(23,400,000)	(4,300,000)
Urban Revenue Sharing	(605,634,300)	(663,652,100)	(676,193,800)	(680,391,800)
Net On-going Revenues	\$9,164,014,200	\$9,369,828,500	\$9,702,882,800	\$10,093,685,900
One-time Financing Sources				
Balance Forward	312,276,000	224,983,500	65,904,600	144,809,200
Tax Amnesty	47,048,500			
Fund Transfers	217,017,700	79,361,600	461,600	461,600
Subtotal One-time Revenues	\$576,342,200	\$304,345,100	\$66,366,200	\$145,270,800
Total Revenues	\$9,740,356,400	\$9,674,173,600	\$9,769,249,000	\$10,238,956,700
EXPENDITURES				
Operating Budget Appropriations	\$9,230,421,600	\$9,407,983,700	\$9,642,729,500	\$9,865,674,900
Supplementals	50,621,300			
Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
Revertments	(110,000,000)	(110,682,500)	(112,868,300)	(114,260,700)
Subtotal Ongoing Expenditures	\$9,256,042,900	\$9,367,301,200	\$9,599,861,200	\$9,821,414,200
One-time Expenditures				
Capital Outlay	\$6,200,000	\$18,000,000		
Eliminate DCS/DES/Univ. Rollover	\$232,000,000			
Transportation Funding		86,500,000		
Other One-Time Spending	\$21,130,000	136,467,800	\$24,578,600	
Subtotal One-time Expenditures	\$259,330,000	\$240,967,800	\$24,578,600	\$0
Total Expenditures	\$9,515,372,900	\$9,608,269,000	\$9,624,439,800	\$9,821,414,200
Ending Balance <u>2/</u>	\$224,983,500	\$65,904,600	\$144,809,200	\$417,542,500
Structural Balance <u>3/</u>	(\$92,028,700)	\$2,527,300	\$103,021,600	\$272,271,700

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 balance.

GENERAL FUND SPENDING BY MAJOR BUDGET UNITS

EXPENDITURES	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
Operating Budget				
-- Department of Administration	\$10,377,300	\$10,264,500	\$10,264,500	\$10,264,500
-- ADOA - Automation Projects Fund	7,783,000	4,581,600	5,000,000	5,000,000
-- AHCCCS	1,205,162,300	1,750,941,400	1,828,134,900	1,925,648,800
-- Attorney General	23,623,700	24,664,800	24,664,800	24,664,800
-- Department of Child Safety	356,448,200	379,179,400	379,179,400	379,179,400
-- Commerce Authority	26,800,000	21,800,000	21,800,000	21,800,000
-- Community Colleges	54,373,200	54,312,700	54,569,300	54,957,900
-- Department of Corrections	1,029,900,600	1,046,682,600	1,053,773,400	1,053,773,400
-- County Funding	6,000,500	6,000,500	6,000,500	6,000,500
-- Department of Economic Security	496,181,900	529,784,400	555,247,300	583,938,100
-- Department of Education	3,941,873,900	4,030,627,800	4,153,365,400	4,281,188,700
-- Department of Environmental Quality	7,000,000	2,823,600	2,823,600	2,823,600
-- Department of Health Services	602,738,300	86,551,700	86,551,700	86,551,700
-- Judiciary	106,178,000	112,069,000	112,269,000	112,369,000
-- Department of Juvenile Corrections	26,984,600	24,180,400	24,180,400	24,180,400
-- State Land Department	12,520,500	12,491,400	12,491,400	12,491,400
-- Department of Public Safety	93,374,800	106,095,700	106,042,200	106,042,200
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	6,000,000	6,000,000
-- Department of Revenue	30,338,600	29,998,300	29,998,300	29,998,300
-- School Facilities Board	216,878,100	189,515,800	188,096,300	152,621,800
-- Office of Tourism	7,110,400	7,112,000	7,112,000	7,112,000
-- Universities	660,845,100	679,472,400	683,683,700	683,682,800
-- Department of Water Resources	12,803,100	12,762,600	12,762,600	12,762,600
-- All Other Budgets	174,545,100	165,504,700	162,104,700	165,504,700
-- Civic Center Payment	20,449,000	20,449,000	22,499,000	22,996,300
-- Rio Nuevo Payment	10,000,000	10,000,000	10,000,000	10,000,000
-- Asset Sale/Lease-Back Debt Service	84,114,600	84,117,400	84,115,100	84,122,000
-- Unallocated Adjustments	16,800			
Total - Operating Budget	<u>\$9,230,421,600</u>	<u>\$9,407,983,700</u>	<u>\$9,642,729,500</u>	<u>\$9,865,674,900</u>
-- FY 2016 Supplementals	50,621,300			
-- Capital Outlay	6,200,000	18,000,000		
-- Payment Deferrals	232,000,000			
-- Transportation Funding		86,500,000		
-- Other One-Time Spending	21,130,000	136,467,800	24,578,600	
-- Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
-- Reversions	(110,000,000)	(110,682,500)	(112,868,300)	(114,260,700)
Total Spending	<u>\$9,515,372,900</u>	<u>\$9,608,269,000</u>	<u>\$9,624,439,800</u>	<u>\$9,821,414,200</u>

All Other Budgets

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
Administrative Hearings, Office of	\$861,700	\$860,500	\$860,500	\$860,500
African-American Affairs Commission	125,000	125,000	125,000	125,000
Agriculture, Arizona Department of	8,287,400	9,162,700	9,162,700	9,162,700
Charter Schools, State Board for	1,200,900	1,185,200	1,185,200	1,185,200
Corporation Commission	614,200	611,600	611,600	611,600
Deaf and the Blind, Schools for the	21,596,400	21,378,100	21,378,100	21,378,100
Economic Opportunity, Office of	0	568,700	568,700	568,700
State Board of Education	1,325,200	1,094,000	1,094,000	1,094,000
Emergency & Military Affairs, Dept of	11,102,700	12,619,500	12,619,500	12,619,500
Equal Opportunity, Governor's Office of	189,000	189,100	189,100	189,100
Equalization, State Board of	642,800	643,000	643,000	643,000
Executive Clemency, Board of	956,000	952,600	952,600	952,600
Financial Institutions, Department of	3,008,000	2,978,200	2,978,200	2,978,200
Fire, Building and Life Safety, Department of	2,202,000	0	0	0
Forestry and Fire Management, Department of	9,012,300	10,140,300	10,140,300	10,140,300
Gaming, Department of	1,779,500	1,779,500	1,779,500	1,779,500
Geological Survey, Arizona	941,000	0	0	0
Governor, Office of the	6,889,000	6,849,900	6,849,900	6,849,900
Gov's Ofc of Strategic Planning and Budgeting	1,994,000	1,994,000	1,994,000	1,994,000
Historical Society, Arizona	3,157,200	2,722,900	2,722,900	2,722,900
Historical Society, Prescott	825,800	824,500	824,500	824,500
Housing, Department of	0	811,400	811,400	811,400
Independent Redistricting Commission	1,115,300	1,115,300	1,115,300	1,115,300
Insurance, Department of	5,867,400	5,824,300	5,824,300	5,824,300
Legislature				
Auditor General	17,933,300	17,866,500	17,866,500	17,866,500
House of Representatives	13,289,500	13,201,500	13,201,500	13,201,500
Joint Legislative Budget Committee	2,490,900	2,488,300	2,488,300	2,488,300
Legislative Council	8,233,300	8,215,400	8,215,400	8,215,400
Senate	8,223,900	9,408,500	9,408,500	9,408,500
SUBTOTAL - Legislature	\$50,170,900	\$51,180,200	\$51,180,200	\$51,180,200
Mine Inspector, State	1,215,200	1,212,500	1,212,500	1,212,500
Navigable Stream Adjudication Commission	126,600	124,000	124,000	124,000
Postsecondary Education, Commission for	1,396,800	1,396,800	1,396,800	1,396,800
Radiation Regulatory Agency	1,595,000	1,563,100	1,563,100	1,563,100
Real Estate Department, State	2,985,200	2,994,900	2,994,900	2,994,900
Secretary of State	24,306,500	14,969,200	11,569,200	14,969,200
Tax Appeals, State Board of	266,400	266,600	266,600	266,600
Transportation, Department of	50,400	50,400	50,400	50,400
Treasurer, State	1,205,100	1,205,100	1,205,100	1,205,100
Tribal Relations, Governor's Office on	57,400	57,500	57,500	57,500
Veterans' Services, Department of	6,077,800	6,054,100	6,054,100	6,054,100
Weights and Measures, Department of	1,399,000	0	0	0
Total Spending	\$174,545,100	\$165,504,700	\$162,104,700	\$165,504,700

SUMMARY OF ONE-TIME SPENDING

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
ADOA/Automation Projects Fund - ADE Information Technology	\$ -	\$ 7,300,000	\$ -
ADOA/Automation Projects Fund - e-Procurement		3,000,000	
Corporation Commission - Information Technology Funding		2,000,000	
Counties - DJC Local Cost Sharing Offset		8,000,000	
DES - Domestic Violence Shelter \$50k Each (Maricopa/Yuma County)		100,000	
DES - ABLE Accounts		240,000	
ADE - District Sponsored Charter Schools		1,148,000	
ADE - Current Year Funding Backfill		31,000,000	
ADE - Small School Weight Hold Harmless		6,500,000	
ADE - Geographic Literacy		100,000	
Forester - Inmate Fire Crew Carriers		190,000	
Forester - Wildland Fire Engines		112,500	
Gaming - Breeders' Award		200,000	
Governor - Youth Success Fund Deposit			1,500,000
Judiciary - Information Technology Funding		948,700	
Legislature - Auditor General		200,000	
DPS - Border Security		14,600,000	
DPS - Testing Sexual Assault Kits		500,000	
DOR - Military Withholding Refunds		2,000,000	
SOS - Presidential Preference Election Funding	6,130,000		
SFB - Building Renewal Grants	15,000,000	15,000,000	
SFB - Public School Credit Enhancement Transaction Costs		500,000	
SFB - New School Construction		23,078,600	23,078,600
WIFA - Small Water Systems Fund Deposit		500,000	
DWR - Water Protection Fund Deposit		250,000	
Universities - ASU		7,000,000	
Universities - NAU		4,000,000	
Universities - UA		8,000,000	
Subtotal - Agency Funding	\$ 21,130,000	\$ 136,467,800	\$ 24,578,600
Universities - Eliminate Payment Deferral	200,000,000		
DCS - Eliminate Payment Deferral	11,000,000		
DES - Eliminate Payment Deferral	21,000,000		
Subtotal - Eliminate Payment Deferral	\$ 232,000,000	\$ -	\$ -
Capital - Transportation - \$56.5 M State / \$30 M Local		86,500,000	
Capital - ADOA - Projects	5,000,000	8,000,000	
Capital - Navajo Nation Highway Construction	1,200,000		
Capital - Veterans Home Flagstaff		10,000,000	
Subtotal - Capital Projects	\$ 6,200,000	\$ 18,000,000	\$ -
Total - One-time Spending	\$ 259,330,000	\$ 240,967,800	\$ 24,578,600

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

		FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
1	Beginning Balance	\$ 312.3	\$ 225.0	\$ 65.9	\$ 144.7
	Ongoing Revenues				
2	Ongoing Revenues - January Baseline	9,164.0	9,396.9	9,754.6	10,150.2
3	Increase Charitable Tax Credit Limit		(2.6)	(2.6)	(2.6)
4	Decrease Ongoing Judiciary Transfer		(1.0)	(3.0)	(3.0)
5	Bonus Depreciation 10% to 100% Over 2 Years		(8.0)	(16.0)	(16.0)
6	Aerial Applicators Aircraft TPT Exemption		\$(19)k	\$(19)k	\$(19)k
7	Divert DEQ General Fund Fees		(0.4)	(0.4)	(0.4)
8	Eliminate Pest Management Fee Deposit		(0.2)	(0.2)	(0.2)
9	Billboard Rental/Lease TPT Exemption		\$(10)k	\$(10)k	\$(10)k
10	Charitable Tax Credit Due Date Extension		(1.7)	(1.7)	(1.7)
11	Gas Transportation Services TPT Exemption		(0.9)	(0.9)	(0.9)
12	Insurance Premium Tax Phase Down		(3.0)	(7.1)	(11.4)
13	Propane Used in Manufacturing/Smelting TPT Exemption		(0.1)	(0.1)	(0.1)
14	Agricultural Feed TPT Exemption		(1.0)	(1.0)	(1.0)
15	Charter Aircraft TPT Exemption			(2.3)	(2.3)
16	Fine Arts TPT Exemption		(1.3)	(1.3)	(1.3)
17	Electricity/Natural Gas for Manufacturing TPT Exemption		(7.0)	(14.0)	(14.0)
18	Other Revenue Adjustments		0.1	(1.2)	(1.5)
19	Subtotal - Ongoing Revenues	\$ 9,164.0	\$ 9,369.8	\$ 9,702.8	\$ 10,093.8
	One-Time Revenues				
20	Tax Amnesty	47.0	Payments/Pre 15		
21	FY 2016 Transfers	217.0			
22	Fund Transfer - ADOA Health Insurance Trust Fund		78.9		
23	Fund Transfer - Accounting System Costs		0.5	0.5	0.5
24	Subtotal - One-Time Revenues (Including Beginning Balance)	\$ 576.3	\$ 304.4	\$ 66.4	\$ 145.2
25	Total Revenues	\$ 9,740.3	\$ 9,674.2	\$ 9,769.2	\$ 10,239.0

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
26	\$ 9,234.8	\$ 9,370.9	\$ 9,606.9	\$ 9,825.4
Ongoing Changes to JLBC Baseline				
27		(0.4)		
28		0.5	0.5	0.5
29		(50.9)	(50.9)	(50.9)
30		1.4	1.4	1.4
31		(0.5)	(0.5)	(0.5)
32		0.8	0.8	0.8
33		5.0	5.0	5.0
34		8.4	8.4	8.4
35		6.4	6.4	6.4
36		8.0	8.0	8.0
37		2.0	2.0	2.0
38		12.5	12.5	12.5
39		2.0	2.0	2.0
40		1.9	1.9	1.9
41		3.1	3.1	3.1
42		6.7	6.7	6.7
43		2.5	2.5	2.5
44	2.7	2.7	2.7	2.7
45		(25.0)	(25.0)	(25.0)
46	34.6			
47		0.2	0.2	0.2
48		COP Savings		
49		COP Savings		
50		Inmate Trigger		
51		0.1	0.1	0.1
52		Yes - DUI/AXS		
53	4.5			
54		3.0	3.0	3.0

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
55 DES - ALTCS Adult Dental		1.2	1.2	1.2
56 DES - DD Room and Board Shortfall		One-time Below		
57 DES - APS Caseload Growth		One-time Below		
58 DES - Vocational Rehabilitation		2.0	2.0	2.0
59 DES - Area Agencies on Aging/Adult Services (Lottery Fund)		OF - One time		
60 ADE - Formula		(24.6)	(42.6)	(38.3)
61 ADE - Increased Testing Costs		Other Fund		
62 ADE - Data System Support		Fund From ADE IT		
63 ADE - JTED Funding/Reforms		29.0	27.2	27.2
64 ADE - College Prep (Formula, 18 Pay on 17 Results)			5.0	5.0
65 ADE - Tribal Dual Enrollment (\$160k to \$250k)		Other Fund - 90k		
66 DEMA - State Match for Army/Air Guard Facilities	0.7	1.5	1.5	1.5
67 DEQ - WQARF Fund Shift		(4.2)	(4.2)	(4.2)
68 DEQ - Reduce VEI Fees (\$3 Reduction)		Yes		
69 FBLS - Consolidate w/ Forester, Housing, Real Estate (\$448k Savings)		(2.2)	(2.2)	(2.2)
70 Forester - FBLS Consolidation (State Fire Marshal)		0.9	0.9	0.9
71 Forester - Risk Management Increase	0.1	0.1	0.1	0.1
72 Forester - Fire Management Software (One-time \$ Below)		0.1	0.1	0.1
73 Geological Survey - Consolidate Into UofA		(0.9)	(0.9)	(0.9)
74 DHS - BHS Caseload/Inflation	(21.4)			
75 DHS - Additional 29 Security Officers/Nurses ASH		1.5	1.5	1.5
76 DHS - Restoration to Competency 3-Year Program		Study Committee		
77 Historical Society - Mines and Minerals Museum Transfer to UA		(0.4)	(0.4)	(0.4)
78 Housing - FBLS Consolidation (Manufactured Housing)		0.8	0.8	0.8
79 Judiciary - Dependency Caseload		3.0	3.0	3.0
80 Judiciary - Adult Standard Probation Growth		1.0	1.0	1.0
81 Judiciary - 2 New Justices Funding		0.5	0.5	0.5
82 Judiciary - 1.5% Judicial Pay Raise (In '17 and '18)		0.1	0.3	0.4
83 Judiciary - Probation Salary Shortfall		0.6	0.6	0.6
84 Judiciary - Probation CORP Adjustment		0.9	0.9	0.9
85 DJC - Lower Population + \$700k County Savings		(1.5)	(1.5)	(1.5)
86 Land - Self Fund Agency		Repeal Referral	12.5	12.5

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
87 Land - CAP Fees		32k	32k	32k
88 Legislature - Senate - Additional Funding (\$1.25 M)		1.3	1.3	1.3
89 Liquor - Staff Funding		62k - PSPRS	62k - PSPRS	62k - PSPRS
90 DPS - Border Security (+ 1-time Below)		8.0	8.0	8.0
91 DPS - Moving Truck Transfer Savings			(0.1)	(0.1)
92 DPS - Pay Raise (3% All Sworn and Highway Patrol Civilian)		4.6	4.6	4.6
93 DPS - Civil Air Patrol		0.2	0.2	0.2
94 Real Estate - FBLS Consolidation (HOA Dispute Process)		18k	18k	18k
95 SFB - Create Public School Credit Enhancement Program	AOBPS \$	(21.5)	(21.5)	(21.5)
96 Universities - Refinance Savings		(1.0)	(0.4)	(0.4)
97 Universities - ASU/UA - Freedom Schools (\$3 M ASU/\$2 M UA)		5.0	5.0	5.0
98 Universities - UA - Mines and Minerals Museum Transfer to UA		0.4	0.4	0.4
99 Other - ADOA - Accounting System Operating Costs		0.5	0.5	0.5
100 Other - ADOA - Fleet Management Charge		80k Mileage/Report		
101 Other - Annualize HITF Savings		(0.2)	(0.2)	(0.2)
102 Other - Named Claimants		\$14k		
103 Other - Revertments/Administrative Adjustments		(0.7)	(2.9)	(4.3)
104 Subtotal - Ongoing Changes to JLBC Baseline	\$ 21.2	\$ (3.6)	\$ (7.0)	\$ (4.0)
105 Total Ongoing Spending	\$ 9,256.0	\$ 9,367.3	\$ 9,599.9	\$ 9,821.4
106 JLBC Baseline One-Time Spending	\$ 6.2	\$ -	\$ -	\$ -
107 One-Time Changes to JLBC Baseline				
108 ADOA/APF - ADE IT		7.3		
109 ADOA/APF - Procurement IT (Plus \$3 M AFIS Contingency)		3.0		
110 ADOA - GTO Funding		Other Fund - \$500k		
111 DCS - Litigation Costs	OF - Risk Mgmt.			
112 Corp Comm - IT Funding		2.0		
113 Counties - DJC Offset		8.0		

ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
114 Counties - Flexibility Language		250k pop, \$1.25 M limit		
115 DES - One-time DV Shelter \$50k Each (Maricopa/Yuma County)		0.1		
116 DES - DD Room and Board Shortfall		Other Fund - 0.6		
117 DES - ABLE Accounts		0.2		
118 DES - APS Caseload Growth		Other Fund - 2.0		
119 ADE - College Prep (Formula, 18 Pay on 17 Results)		Ongoing Above		
120 ADE - District Sponsored Charters - One-time		1.2		
121 ADE - Current Year Funding Backfill - One-time		31.0		
122 ADE - Small School Weight Hold Harmless (One-time)		6.5		
123 ADE - Code Writers Pilot		Other Fund - \$0.5 M		
124 ADE - Geographic Literacy		0.1		
125 DEQ - WQARF Funding		Other Fund - \$2.9 M		
126 Forester - Inmate Fire Crew Carriers		0.2		
127 Forester - Wildland Fire Engines		0.1		
128 Gaming - Breeders' Award		0.2		
129 Governor - Youth Success Fund Deposit			1.5	
130 DHS - Alzheimer's Research		Other Fund - \$1.0 M		
131 DHS - ASH Fund Shortfall		Other Fund - \$2.4 M		
132 Judiciary - IT Funding		0.9		
133 Legislature - Auditor General		0.2		
134 Parks - Arizona Trail (\$150k)		Other Fund - \$150k		
135 DPS - Border Security (Plus Other Fund \$4 M)		14.6		
136 DPS - Virtual Law Enforcement Training (CCW Fund)		Other Fund - \$2.1 M		
137 DPS - Testing Sexual Assault Kits		0.5		
138 DOR - Military Withholding Refunds		2.0		
139 SOS - Presidential Preference Election Funding	6.1			
140 SFB - Building Renewal Grants	15.0	15.0		
141 SFB - Public School Credit Enhancement Transaction Costs		0.5		
142 SFB - New School Construction		23.1	23.1	
143 WIFA - Small Water Systems Fund Deposit		0.5		
144 DWR - Water Protection Fund Deposit (\$250k)		0.3		

ENACTED BUDGET 4-YEAR ANALYSIS 1/

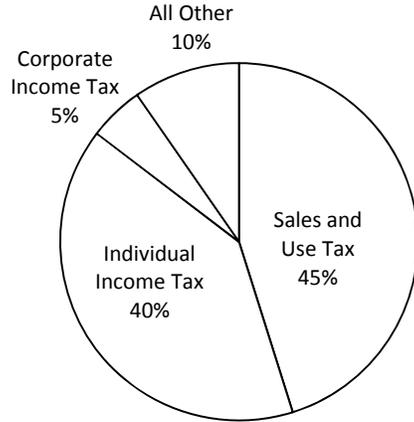
\$ in Millions

		FY 2016 Enacted	FY 2017 Enacted	FY 2018 Estimate	FY 2019 Estimate
145	Universities - Eliminate Payment Deferral	200.0			
146	Universities - One-time Funding - ASU		7.0		
147	Universities - One-time Funding - NAU		4.0		
148	Universities - One-time Funding - UA		8.0		
149	Other - DCS - Eliminate Payment Deferral	11.0			
150	Other - DES - Eliminate Payment Deferral	21.0			
151	Capital - ADOT - \$56.5 M State (Fastlane,189, H60) / \$30 M Local		86.5		
152	Capital - ADOA - Projects (General Fund)		8.0		
153	Capital - ADOA - Projects (OF) (\$4 M DHS/\$120k State Fair Set Aside)		Other Fund - \$10 M		
154	Capital - Vets - Veterans Home Flagstaff		10.0		
155	Subtotal - One-Time Changes to JLBC Baseline	\$ 253.1	\$ 241.0	\$ 24.6	\$ -
156	Total One-Time Spending	\$ 259.3	\$ 241.0	\$ 24.6	\$ -
157	Total Spending	\$ 9,515.3	\$ 9,608.3	\$ 9,624.5	\$ 9,821.4
158	Ending Cash Balance	\$ 225.0	\$ 65.9	\$ 144.7	\$ 417.6
159	Structural Balance	\$ (92.0)	\$ 2.5	\$ 102.9	\$ 272.4

1/ A.R.S. § 35-125 requires the Legislature to delineate revenue and expenditure projections for 3 years (the budget year and 2 succeeding years) in each General Appropriation Act. This chart presents revenues and expenditures during that time period using the January JLBC Baseline as a starting point. All changes are stated relative to the JLBC Baseline.

FY 2017 General Fund Revenue - Where It Comes From

Source	Revenue (Millions)
Sales and Use Tax	\$ 4,529.0
Individual Income Tax	4,036.1
Corporate Income Tax	499.8
Other Ongoing	968.5
One-Time Revenues	79.4
TOTAL REVENUE	\$ 10,112.8 ^{1/2/}

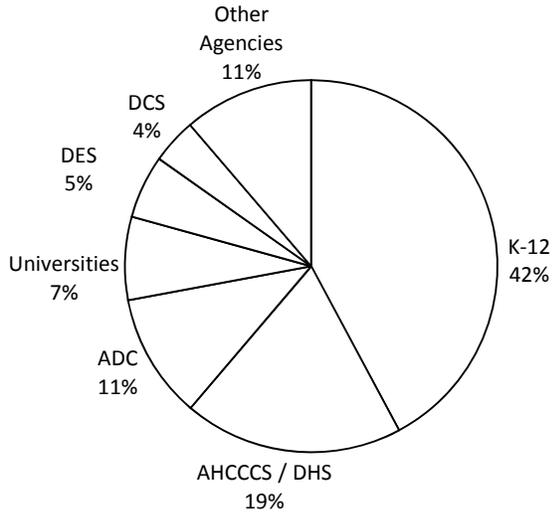


^{1/} Does not include beginning balance of \$225 million.

^{2/} \$664 million of this amount is distributed as urban revenue sharing.

FY 2017 General Fund Appropriations - Where It Goes

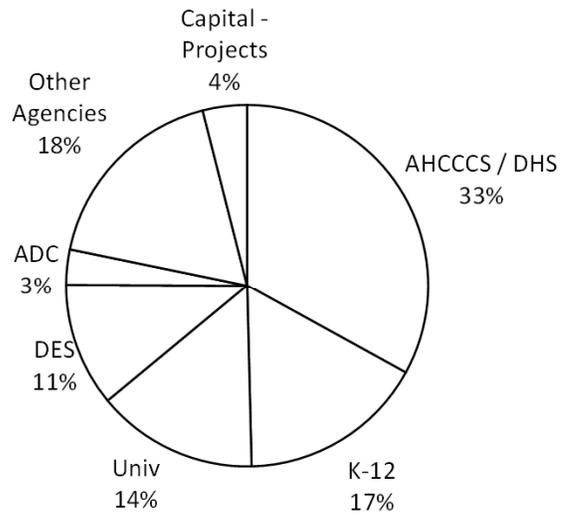
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 4,069.4
AHCCCS / DHS	1,837.5
Corrections	1,046.7
Universities	698.5
Economic Security	530.1
Child Safety	379.2
Other Agencies	1,087.6
TOTAL BUDGET	\$ 9,649.0 ^{1/}



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

FY 2017 Total Spending - All Sources ^{1/}

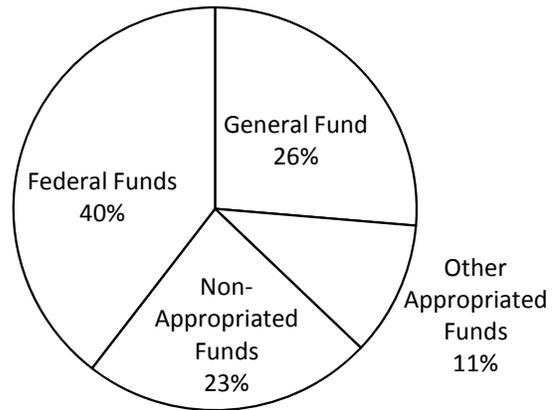
Budget Unit	Spending (Millions)
AHCCCS / DHS	\$ 12,092.5
Education (K-12)	6,083.5
Universities	5,275.2
Economic Security	4,056.4
Corrections	1,158.0
Other Agencies / Distributions	6,521.4
Capital - Projects	1,450.6
TOTAL	\$ 36,637.6 ^{2/}



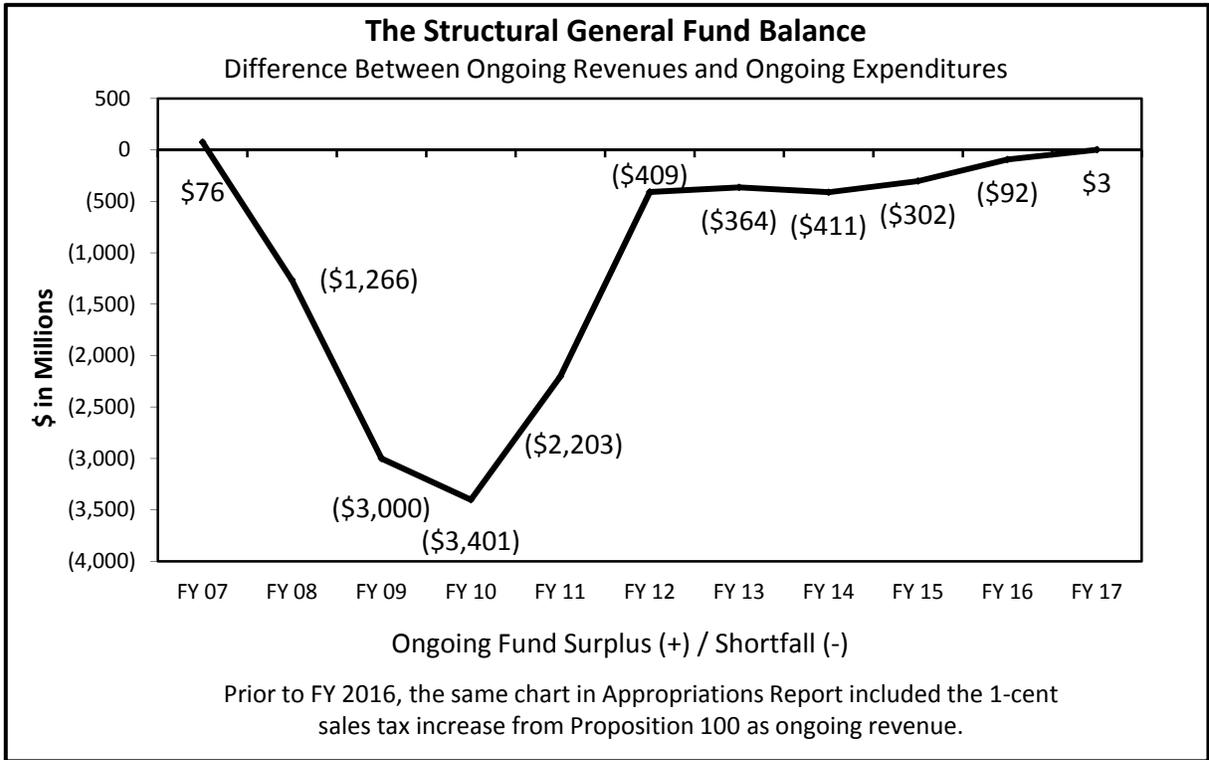
^{1/} Does not include administrative adjustments and revertments.
^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

FY 2017 Total Spending by Fund Source ^{1/}

Fund Source	Spending (Millions)
General Fund	\$ 9,649.0
Other Appropriated Funds	3,953.2
Non-Appropriated Funds	8,547.8
Federal Funds	14,487.7
TOTAL	\$ 36,637.6 ^{2/}



^{1/} Does not include administrative adjustments and revertments.
^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

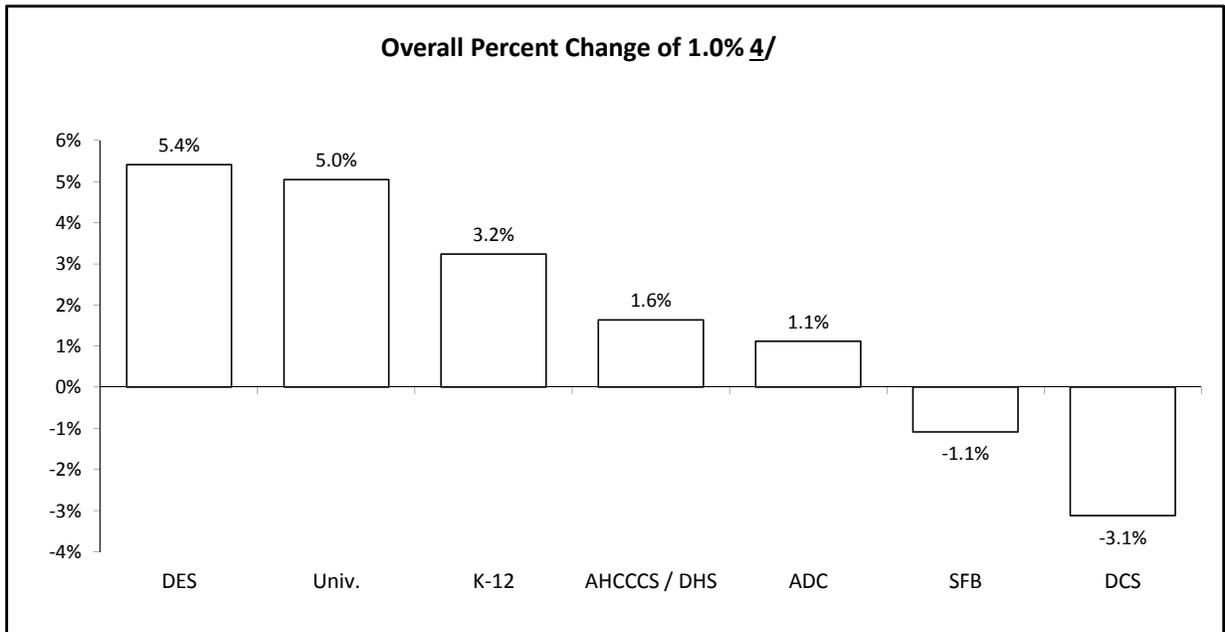
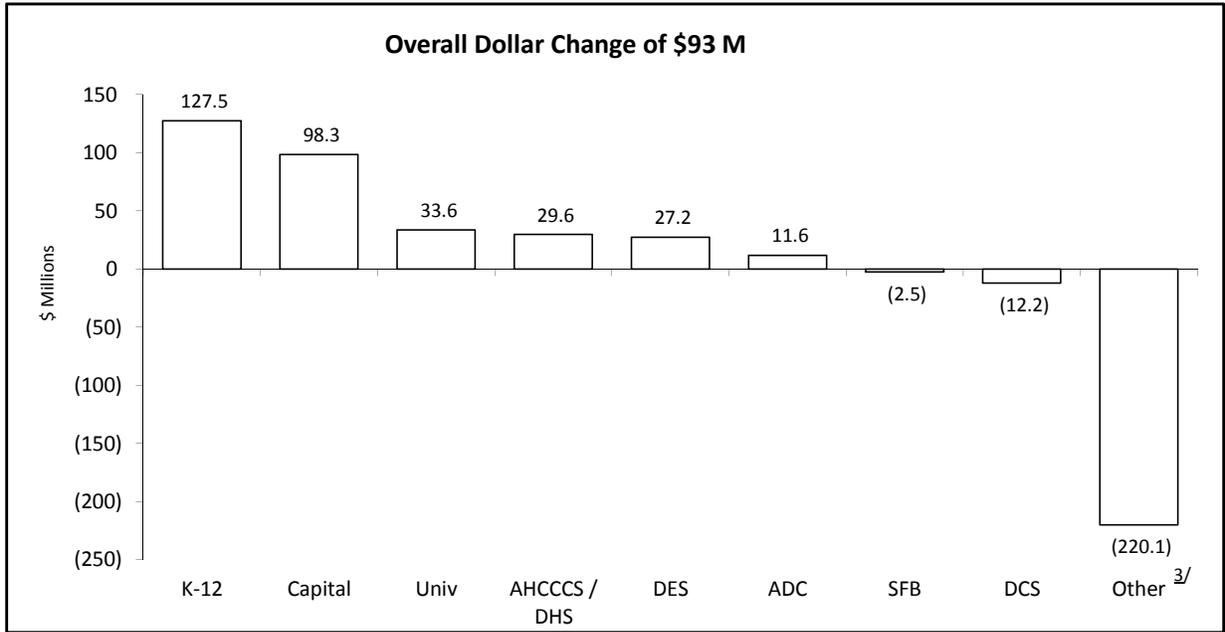


**Recent History of Appropriated Ongoing
General Fund Structural Balance ^{1/2/}
(\$ in Millions)**

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
2007	9,624	9,548	76
2008	8,765	10,031	(1,266)
2009	6,967	9,967	(3,000)
2010	6,297	9,698	(3,401)
2011	7,191	9,394	(2,203)
2012	7,789	8,198	(409)
2013	8,144	8,508	(364)
2014	8,361	8,772	(411)
2015	8,926	9,228	(302)
2016	9,164	9,256	(92)
2017	9,370	9,367	3

^{1/} Excludes one-time revenues and expenditures.
^{2/} Prior to FY 2016, the same chart in Appropriations Reports included the 1-cent sales tax increase from Proposition 100 as ongoing revenue.

Changes to Major Agencies' General Fund Budget 1/2/ FY 2016 to FY 2017



^{1/} Represents change in total General Fund spending from FY 2016 (including supplementals and ex-appropriations) to FY 2017. See page BD-5.

^{2/} Elimination of one-time FY 2016 deferral repayments are included in "Other" rather than in individual agency budget amounts displayed.

^{3/} Includes elimination of one-time FY 2016 deferral repayments of \$(232.0) M, net revertments of \$(15.7) M, and Automation Projects Fund expenditures of \$7.1 M.

^{4/} Individual agencies exclude one-time deferral repayments. Without overall one-time deferral repayments, overall percentage growth is 3.5%.

FY 2017 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

General Fund Balances

- Given forecasted FY 2016 General Fund revenues of \$9.74 billion and spending of \$9.52 billion, the budget has a projected FY 2016 balance of \$225 million. Given forecasted FY 2017 General Fund revenues of \$9.67 billion and spending of \$9.61 billion, the budget has a projected FY 2017 balance of \$65.9 million.
- Under the 3-year budget projections, there would be a balance of \$144.8 million in FY 2018 and \$417.5 million in FY 2019.
- The ending balance projections exclude the state's Budget Stabilization Fund reserve of \$460 million.

General Fund Revenues

- Projected FY 2017 revenues are \$9.67 billion, including:
 - ⇒ Based on JLBC's 4-sector consensus, base revenues are projected to grow by \$389 million, or 4.0%.
 - ⇒ The beginning balance would decrease by \$(87) million, from \$312 million at the beginning of FY 2016 to \$225 million at the start of FY 2017.
 - ⇒ The state set-aside for urban revenue sharing formula distributions would increase from \$606 million to \$664 million, thereby decreasing state revenue by \$(58) million.
 - ⇒ Previously enacted tax and revenue legislative changes reduce state revenue by \$(98) million, primarily from a reduction in corporate income taxes.
 - ⇒ The expiration of a FY 2016 tax amnesty program decreases state revenue by \$(47) million.
 - ⇒ Fund transfers would decrease by \$(138) million. The budget transfers \$79 million from the Health Insurance Trust Fund to the General Fund in FY 2017, compared to \$217 million from a variety of funds in FY 2016.
 - ⇒ Overall net revenues are forecast to decline in FY 2017 by \$(66) million, or 0.7%, from \$9.74 billion in FY 2016 to \$9.67 billion in FY 2017.

General Fund Spending

- FY 2017 General Fund spending is projected to be \$9.61 billion, an increase of \$93 million, or 1.0%, above the revised FY 2016 level. Compared to the original FY 2016 budget of \$9.13 billion, the FY 2017 budget increases spending by \$474 million, or 5.2%.
- The entire FY 2017 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$36.6 billion.

Education

Department of Education

- ADE General Fund spending increases by \$127.5 million, or 3.2%, including:
 - ⇒ \$73.6 million for 1.25% student growth, for a total student count of 1,105,172.
 - ⇒ \$19.5 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$56.0 million for a 0.99% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(44.1) million for an increase in property tax collections due to new construction.
 - ⇒ \$26.1 million for higher Homeowner's Rebate due to enacted property tax reductions.
 - ⇒ \$(1.0) million to eliminate high school graduates from JTED ADM counts (partially exempted for FY 2017).
 - ⇒ \$700,000 for Empowerment Scholarship Accounts (ESAs).
 - ⇒ \$(363,700) to offset higher available endowment earnings under Proposition 123.
 - ⇒ \$(2.4) million for prior year base adjustment.
 - ⇒ \$(0.5) million for miscellaneous changes.
- The budget reflects passage of Proposition 123 at the May 2016 Special Election, which will have a total estimated fiscal impact of \$299 million in FY 2016. The funding will be generated from increasing the State Land Trust distribution rate from 2.5% to 6.9% per year (\$172.1 million), adding \$52.4 million in new General Fund monies, and incorporating \$74.4 million of formerly separate "Additional Inflation" monies into Basic State Aid. The Proposition's 10-year impact is estimated at \$3.5 billion.
- The budget continues to defer \$931 million in General Fund spending from FY 2017 to FY 2018 for school district payments.

School Facilities Board

- SFB General Fund spending would decrease by \$(2.5) million or (1.1)%, including:
 - ⇒ \$(23.9) million for the elimination of the Access Our Best Public Schools Fund Deposit.
 - ⇒ \$22.0 million for the first year of new school construction in the Agua Fria Union High School District and the Chandler Unified School District.
 - ⇒ \$(1.1) million for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$500,000 for one-time Credit Enhancement Program transaction costs.
- The FY 2017 Credit Enhancement Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 129) creates the Arizona Public Schools Credit Enhancement Program. The program is established to assist achievement district schools in obtaining financing by guaranteeing the payment of principal and interest. The sum of \$23,900,000 from the Access Our Best Public Schools Fund is transferred to the Arizona Public School Credit Enhancement Fund during FY 2017.

Universities

- The Universities' General Fund spending increases by \$33.6 million, or 5.0%, excluding the FY 2016 elimination of the payment deferral. The \$33.6 million includes:
 - ⇒ \$8.2 million for additional systemwide ongoing operating resources based on resident student enrollment.
 - ⇒ \$3.0 million to establish the School of Civic and Economic Thought and Leadership at Arizona State University.
 - ⇒ \$2.0 million in additional funding for the Center for the Philosophy of Freedom at the University of Arizona.
 - ⇒ \$19.0 million in one-time funds for operating expenditures or capital improvement projects.
 - ⇒ \$2.9 million to restore one-time savings associated with refinancing lease-purchase payments for research infrastructure.
 - ⇒ \$(2.0) million for statewide adjustments.
 - ⇒ \$0.4 million for the transfer of the Mines and Minerals Museum from the Arizona Historical Society to the University of Arizona.
- Total university enrollment is expected to be 166,143 full-time equivalent students in FY 2017, or 5.3% above FY 2016.
- In addition, the FY 2016 revisions included \$200 million to eliminate the university payment deferral.

Community Colleges

- Community College General Fund spending decreases by \$(267,700), or (0.5)%, due to student enrollment declines and equalization formula growth.
- FY 2015 rural district enrollment decreased by (1,614) full-time equivalent students, or (5.1)%, for a total enrollment of 30,054.

Health and Welfare

AHCCCS

- AHCCCS' General Fund spending increases by \$545.8 million, or 45.3%, including:
 - ⇒ \$534.3 million for the transfer of behavioral health services from DHS to AHCCCS.
 - ⇒ \$29.0 million for Medicaid formula adjustments, including 2.5% enrollment growth and a 1.5% capitation rate increase.
 - ⇒ \$1.4 million to restore coverage for dental services for ALTCS adult enrollees.
 - ⇒ \$(18.9) million for other adjustments, including offsets for higher prescription drug rebate funds, increased third-party liability recoveries, and increased cost-sharing for childless adults.
 - ⇒ The hospital assessment continues to fund the state's acute care costs of the Proposition 204 and Adult Expansion populations.
- AHCCCS enrollment is projected to grow to 1.83 million by June 2017. This level represents a caseload increase of 44,400, or 2.5%, above June 2016.
- Laws 2016, Chapter 112 restores KidsCare, increasing the maximum income eligibility for children to 200% of the Federal Poverty Level (FPL). The federal government is expected to pay 100% of the costs of the program.

Department of Health Services

- DHS General Fund spending decreases by \$(516.2) million, or (85.6)%, including:
 - ⇒ \$(517.3) million to transfer behavioral health services from DHS to AHCCCS. The Arizona State Hospital (ASH) will remain in DHS.
 - ⇒ \$1.5 million for 14 additional nurses and 15 campus security officers at ASH.

Department of Child Safety

- DCS General Fund spending increases by \$(12.2) million, or (3.1)%, excluding the FY 2016 elimination of the payment deferral. The \$(12.2) million includes:
 - ⇒ \$(0.3) million to consolidate Internet Crimes Against Children funding in the Attorney General budget.
 - ⇒ \$(11.2) million to remove one-time FY 2016 supplemental funding.
- The FY 2017 budget also continues \$34.9 million in FY 2016 supplemental funding for added services and staffing.
- In addition, the FY 2016 revisions included \$11 million to eliminate the DCS payment deferral.

Department of Economic Security

- DES General Fund spending increases by \$27.2 million, or 5.4%, excluding the FY 2016 elimination of the payment deferral. The \$27.2 million includes:
 - ⇒ \$21.1 million for Medicaid formula adjustments in the Division of Developmental Disabilities (DD), including a 4.5% enrollment increase and 2.5% capitation rate increase in FY 2017.
 - ⇒ \$3.0 million for a 1% increase for DD Home and Community Based Services provider rates.
 - ⇒ \$1.2 million for DD preventive dental services.
 - ⇒ \$2.0 million for Vocational Rehabilitation services.
- DD caseloads are projected to grow to 31,035 by June 2017. This level represents a caseload increase of 1,336, or 4.5%, above June 2016.
- TANF Cash Benefits caseloads are projected to decline to 19,064 by June 2017. This level represents a caseload decrease of (3,291), or (14.8)%, below June 2016.
- In addition, the FY 2016 revisions included \$21 million to eliminate the DES rollover.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending increases by \$11.6 million, or 1.1%, including:
 - ⇒ \$17.6 million for the costs of 1,000 private medium-security beds to open in September 2016.
 - ⇒ \$723,500 for an employer retirement rate increase.
 - ⇒ \$(5.9) million for statewide adjustments.
- The system wide prison population is projected to be 43,961, or a growth of 900 inmates above FY 2016. In June 2017, ADC would have a permanent bed shortfall of (4,876). Taking into account 5,754 temporary beds, the shortfall becomes a surplus of 878 beds.
- If ADC/ADOA execute a refinance of an existing private prison lease, the Legislature intends that the department use General Fund savings from the Private Prison Per Diem line item as follows: \$1.6 million for the Maricopa Community Corrections Center and \$2.7 million for the inflation health care contracted services increase.

Judiciary

- Judiciary General Fund spending increases by \$6.8 million, or 6.4%, including:
 - ⇒ \$500,000 for 2 new Supreme Court Justices.
 - ⇒ \$100,000 for the first year of a 3% judicial pay raise.
 - ⇒ \$948,700 for Information Technology (IT) upgrades.
 - ⇒ \$3.0 million for a surge in dependency case filings in the Superior Court.
 - ⇒ \$2.5 million for probation adjustments.
- The budget includes \$5.0 million in FY 2017 and \$3.0 million in FY 2018 Judiciary Fund transfers to the General Fund.

Department of Juvenile Corrections

- DJC General Fund spending decreases by \$(2.8) million, or (10.4)%, including:
 - ⇒ \$(2.5) million for reductions in the housed population at DJC's Adobe Mountain School.

Department of Public Safety

- DPS General Fund spending increases by \$27.8 million, or 29.8%, including:
 - ⇒ \$8.1 million for the ongoing cost of the new Border Strike Task Force (BSTF) within DPS, and \$14.6 million in one-time equipment and other costs.
 - ⇒ \$4.6 million for a 3% pay raise for sworn officer and civilian staff of the Highway Patrol Division within DPS.
 - ⇒ \$500,000 for testing sexual assault kits currently in backlog.

Local Issues

Counties and Cities

- The General Fund budget includes \$8.0 million for a one-time distribution to counties to mitigate the impact of DJC cost sharing.

General Government

Automation

- The budget includes \$47.8 million from all funds for large-scale automation projects. Of this amount, \$14.9 million is financed from the General Fund and \$32.9 million is financed from Other Funds. The \$47.8 million FY 2017 amount includes the following:
 - ⇒ \$13.6 million for technology projects and project management at ADOA.
 - ⇒ \$12.0 million to replace the state's E-Procurement system.
 - ⇒ \$8.0 million for the final year of a 3-year project to replace ADC's Adult Inmate Management System (AIMS).
 - ⇒ \$7.3 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$4.6 million as the second installment to replace the DCS Children's Informational Library and Data Source (CHILDS).
 - ⇒ \$1.3 million for projects to enhance IT security at DES.
 - ⇒ \$1.0 million for an assessment of the state's Enterprise Tax System at the Department of Revenue (DOR).

Arizona Commerce Authority

- The budget includes a \$(5.0) million decrease in the General Fund deposit to the Arizona Competes Fund pursuant to the FY 2016 Government BRB (Laws 2015, Chapter 12).

Department of Environmental Quality

- The budget includes a \$(4.2) million decrease from the General Fund to reduce the General Fund allocation to the Water Quality Assurance Revolving Fund (WQARF), and backfills this decrease with \$2.9 million from the Air Quality Fund and \$4.2 million from the Emissions Inspection Fund.

Department of Revenue

- The budget includes a one-time increase of \$2 million from the General Fund for DOR to reimburse Native American veterans who erroneously had income taxes withheld in previous tax years.

Corporation Commission

- The budget includes a one-time increase of \$2 million from the General Fund to replace the database software in the Corporations Division.

Agency Consolidations

- The budget includes the following General Fund spending changes associated with agency consolidations:
 - ⇒ A net savings of \$(448,400) to transfer the Department of Fire, Building and Life Safety's operations to the Department of Forestry and Fire Management, the Department of Housing, and the State Real Estate Department.
 - ⇒ A decrease of \$(568,700) for the Department of Administration and a corresponding \$568,700 increase for the new Office of Economic Opportunity (OEO) to transfer the Office of Employment and Population Statistics and the Governor's Regulatory Review Council to OEO.
 - ⇒ A decrease of \$(428,300) from the Arizona Historical Society and a corresponding \$428,300 increase for the University of Arizona to transfer the Mines and Minerals Museum to the University of Arizona.
 - ⇒ A decrease of \$(941,000) from the Arizona Geological Survey to transfer the agency to the University of Arizona. The budget does not include a corresponding increase for the University of Arizona.
 - ⇒ \$(1.4) million of consolidation savings, including \$(1.1) million for the transfer of DHS behavioral health programs to AHCCCS, \$(330,600) for the elimination of the Department of Weights and Measures, and \$(12,600) for the transfer of the Board of Appraisal to the Department of Financial Institutions.

Revertments

- The budget sets the projected revertment level at \$(110.7) million, compared to \$(110.0) million in FY 2016. (Revertments are unspent appropriations.)
- FY 2017 Administrative Adjustments are forecast to be \$70.0 million, compared to \$85.0 million in FY 2016.

FY 2016 General Fund Supplementals

- The budget includes a net increase of \$303.7 million for FY 2016 adjustments, including:
 - ⇒ \$34.9 million for additional services and staffing at DCS.
 - ⇒ \$5.2 million for additional ADC health care vendor payments.
 - ⇒ \$6.8 million for DES for excess caseload growth in the Developmentally Disabled population.
 - ⇒ \$746,700 for DEMA service contracts.
 - ⇒ \$15.0 million for a one-time Building Renewal Grants increase in SFB.
 - ⇒ \$(1.3) million in refinancing savings at SFB.
 - ⇒ \$6.1 million for the Secretary of State for county reimbursements for the 2016 Presidential Preference Election.
 - ⇒ \$4.1 million to restore General Fund monies to the university system for lower-than-estimated savings of health insurance contribution rates.
 - ⇒ \$232 million to eliminate payment deferrals (rollovers) for the universities, DES, and DCS.

State Employee Issues

FTE Positions

- The budget increases the Full-Time Equivalent (FTE) ceiling by 175.3 FTE Positions in FY 2017, including:
 - ⇒ An increase of 136 FTE Positions in DCS for additional administrative staff, attorney general staff, and case aids.
 - ⇒ An increase of 48 FTE Positions in the Department of Public Safety for the creation of the Border Strike Task Force.
 - ⇒ An increase of 2 FTE Positions in the Judiciary to expand the Supreme Court from 5 Justices to 7 Justices.
 - ⇒ An increase of 29 FTE Positions in the Department of Health Services for additional staffing at the Arizona State Hospital.
 - ⇒ A net decrease of (28.2) FTE Positions across DHS and AHCCCS to reflect administrative savings resulting from the transfer of behavioral health services from DHS to AHCCCS.
 - ⇒ An increase of 70.3 FTE Positions in DES for additional case management workers within the Division of Developmental Disabilities.
 - ⇒ A decrease of (60) FTE Positions in ADOA to reflect the completion of a 4-year project to replace the Arizona Financial Information System (AFIS).
 - ⇒ A net decrease of (21.8) FTE Positions for other adjustments.
 - ⇒ These adjustments bring the total appropriated FTE Position ceiling to 52,091 in FY 2017.

Employee Retirement Issues

- In the Arizona State Retirement System, both employer and employee contribution rates will increase from 11.47% to 11.48%.
- Employer retirement contribution rates will increase in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP). The employee contribution rates in both systems will remain the same.
 - ⇒ In PSPRS, the FY 2017 increase in the aggregate employer contribution rate will be 1.24%.
 - ⇒ In CORP, the FY 2017 increase in the aggregate employer contribution rate will be 0.50%.
- In the Elected Officials' Retirement Plan (EORP), 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 15 years.
- The budget increases appropriated funding for state agency retirement costs by \$5.0 million, including \$2.2 million for FY 2017 rate increases and \$2.8 million for FY 2016 rate increases. These amounts consist of:
 - ⇒ \$723,500 from the General Fund for the FY 2017 CORP rate increase at the Department of Corrections.
 - ⇒ \$1.53 million in Other Appropriated Funds for the FY 2017 PSPRS rate increase at the Department of Public Safety.
 - ⇒ The budget also includes funding for FY 2016 rate increase, including \$947,700 from the General Fund for FY 2016 CORP rate increase for probation officers in the Judiciary.
 - ⇒ \$1.75 million from Other Appropriated Funds for FY 2016 PSPRS rate increase for the Game and Fish Department.
 - ⇒ \$62,300 from Other Appropriated Funds for FY 2016 PSPRS rate increases at the Department of Liquor Licenses and Control.
- If the Arizona Supreme Court rules against EORP in *Hall vs. the Elected Officials' Retirement Plan*, then the case would likely apply to all PSPRS systems (PSPRS/CORP/EORP) as the *Fields* ruling did.

- ⇒ PSPRS staff estimated in early 2015 that an adverse ruling in the *Hall* case would increase unfunded liabilities for all systems by \$1.3 billion. A significant portion of the liability would be funded by local governments. The annual General Fund impact has yet to be determined.
- Laws 2016, Chapter 2 and Proposition 124 reform PSPRS pension benefits for current and future members of PSPRS. These changes include:
 - ⇒ Replacement of permanent benefit increases (PBI) with an annual cost-of-living adjustment linked to inflation.
 - ⇒ Modifications to the base defined benefit pension for future members.
 - ⇒ An optional 401(K)-style defined contribution plan for future members and some current members.
 - ⇒ The PBI replacement for current members was approved by voters in Proposition 124. Most of the potential savings from Chapter 2 and Proposition 124 will accrue to local governments as opposed to the state.

Employee Health Insurance

- The FY 2016 budget reduced state agency health insurance contribution rates for 6 months in FY 2016, thereby saving the General Fund \$(16.2) million. Due to a revision of university General Fund savings, that amount is only going to be \$(12.1) million. The FY 2017 budget annualizes these revised savings to \$(24.2) million in FY 2017.
- The budget includes a one-time transfer of \$78.9 million from the Health Insurance Trust Fund (HITF) to the General Fund in FY 2017.

Capital

- \$86.5 million in one-time funding from the General Fund for highway construction, including \$1.5 million for Route H60, \$25.0 million for State Route 189 near the Mariposa Port of Entry, \$30.0 million for Interstate 10 widening projects near Picacho Peak and \$30.0 million for a deposit to the local component of the Highway User Revenue Fund.
- \$8.0 million from the General Fund for ADOA building renewal projects. The \$8.0 million will be supplemented with \$19.0 million in non-General Fund monies.
- \$7.2 million in Other Appropriated Funds for building renewal at state agencies including ADC, Juvenile Corrections, Game and Fish, and the State Lottery.
- 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.

Table 4

FY 2017 FUNDING FORMULA SUSPENSIONS 1/

	FY 2017 Formula Requirement
<u>Statutory</u>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 751,000 <u>2/</u>
Department of Education - District Additional Assistance	352,442,700 <u>3/</u>
Department of Education - Charter School Additional Assistance	18,656,000
Department of Education - Large JTEDs at 95.5%	1,602,400 <u>4/</u>
Department of Environmental Quality - WQARF	12,176,400 <u>5/</u>
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>6/</u>
Department of Health Services - Sexually Violent Persons (SVP)	2,988,100 <u>7/</u>
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	86,006,100 <u>8/</u>
Universities - Financial Aid Trust	<u>17,640,800</u>
Total - FY 2017 Statutory Funding Formula Suspensions	\$ 493,163,500
<u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 12,848,500
Department of Corrections - Building Renewal	14,652,600
Universities - Building Renewal	<u>129,900,000</u>
Total - FY 2017 Non-Statutory Funding Formula Suspensions	\$ 157,401,100

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

2/ Represents partial suspension of Pinal formula.

3/ Excludes approximately \$29 million suspended in non-state aid districts, which are not funded through the state budget.

4/ Estimate based on FY 2016 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).

5/ In addition to the the \$2,823,600 General Fund allocation, the FY 2017 budget also includes \$2,875,000 from the Air Quality Fund and \$4,250,000 from the Emissions Inspection Fund for WQARF. As a result, WQARF is receiving \$9,948,600 in total funds in FY 2017, compared to the statutory allocation of \$15,000,000.

6/ Excludes costs that counties incur to treat RTC patients in alternative (non-Arizona State Hospital) facilities.

7/ Reflects estimate of remaining costs to counties for SVP care.

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