

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 2019, as shown in *Table 2*. Based on the assumptions described below, the Baseline ending balance is estimated to be \$148 million in FY 2018 and \$325 million in FY 2019. These estimates assume that Proposition 123 is enacted by vote of the people at the May Special Election. Proposition 123 is estimated to require \$47 million and \$38 million in additional General Fund spending in those years, respectively.

These estimates exclude the Budget Stabilization Fund (BSF) monies. The BSF is estimated to have a fund balance of about \$460 million by the end of FY 2017.

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 2017 through FY 2019 would change the ending balance calculations by \$625 million in the third year.

Baseline Revenues

The Baseline revenue estimates are based on a consensus forecasting process. As with FY 2017 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 4.0% in FY 2017 and 4.6% in both FY 2018 and FY 2019. *Table 1* includes the individual forecast components in FY 2018 and FY 2019. 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 2018, these adjustments are projected to reduce revenue by \$(90) million relative to FY 2017. There would be a further reduction of \$(73) million in FY 2019 relative to FY 2018. The details of the tax reductions are in *Table 4* of the *General Fund Revenue* section.

General Fund revenues are projected to increase from FY 2016 to FY 2017. While base revenues will grow modestly through FY 2019, the loss of one-time revenues (primarily the beginning balance) will produce a decrease of overall revenues in FY 2018. The projected level of General Fund

revenue would increase from \$9.74 billion in FY 2016 to \$10.0 billion in FY 2017, decrease to \$9.75 billion in FY 2018, then increase to \$10.15 billion in FY 2019. The Baseline presumes that the projected FY 2017 ending balance of \$625 million is allocated as part of the FY 2017 budget process. The *General Fund Revenue* section also details the potential risks to the forecast.

Table 1					
4-Sector Consensus Forecast Percentages					
	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<u>FY 2018</u>					
Sales Tax	4.8%	4.7%	6.0%	4.5%	5.0%
Individual					
Income Tax	5.2%	4.6%	5.5%	4.5%	5.0%
Corporate					
Income Tax	4.8%	(5.5)%	(1.7)%	4.2%	<u>0.8%</u>
Wgt Avg					4.6%
<u>FY 2019</u>					
Sales Tax	4.3%	4.9%	6.0%	4.3%	4.9%
Individual					
Income Tax	4.4%	5.2%	5.7%	4.5%	4.9%
Corporate					
Income Tax	3.9%	(4.1)%	(5.5)%	4.0%	<u>0.1%</u>
Wgt Avg					4.6%

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 \$236 million in FY 2018 (2.5%) above FY 2017 and \$219 million in FY 2019 (2.3%) above FY 2018.

These spending adjustments include normal caseload growth in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

Overall spending would be \$9.61 billion in FY 2018 and \$9.83 billion in FY 2019. (*See Table 3 for the projected spending levels of major agencies under this scenario.*)

These estimates assume that Proposition 123 is enacted by vote of the people at the May Special Election. Proposition 123 is estimated to require \$47 million and \$38 million in additional General Fund spending.

In addition, the long term estimates assume the continued annual suspension of over \$490 million of funding formula requirements permanently authorized in law and the continued non-funding of \$176 million in non-statutory funding formulas for building renewal. (*See Table 4.*)

Table 2

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ^{1/}
WITH ONE-TIME FINANCING SOURCES

	FY 2016 Adjusted	FY 2017 Baseline	FY 2018 Baseline	FY 2019 Baseline
REVENUES				
Ongoing Revenues	\$9,769,648,500	\$10,158,379,200	\$10,521,214,000	\$10,905,740,800
Previously Enacted Changes		(97,800,000)	(90,400,000)	(73,300,000)
Urban Revenue Sharing	(605,634,300)	(663,652,100)	(676,193,800)	(682,236,800)
Net On-going Revenues	\$9,164,014,200	\$9,396,927,100	\$9,754,620,200	\$10,150,204,000
One-time Financing Sources				
Balance Forward	\$312,276,000	\$499,325,500		
Tax Amnesty	47,048,500			
Fund Transfers	217,017,700	100,000,000		
Subtotal One-time Revenues	\$576,342,200	\$599,325,500	\$0	\$0
Total Revenues	\$9,740,356,400	\$9,996,252,600	\$9,754,620,200	\$10,150,204,000
EXPENDITURES				
Operating Budget Appropriations	\$9,230,421,600	\$9,410,928,500	\$9,646,908,000	\$9,865,437,300
Supplementals	29,409,300			
Administrative Adjustments	85,000,000	70,000,000	70,000,000	70,000,000
Revertments	(110,000,000)	(110,000,000)	(110,000,000)	(110,000,000)
Subtotal Ongoing Expenditures	\$9,234,830,900	\$9,370,928,500	\$9,606,908,000	\$9,825,437,300
One-time Expenditures				
Capital Outlay	\$6,200,000			
Subtotal One-time Expenditures	\$6,200,000	\$0	\$0	\$0
Total Expenditures	\$9,241,030,900	\$9,370,928,500	\$9,606,908,000	\$9,825,437,300
Ending Balance ^{2/}	\$499,325,500	\$625,324,100 ^{3/}	\$147,712,200	\$324,766,700
Structural Balance ^{4/}	(\$70,816,700)	\$25,998,600	\$147,712,200	\$324,766,700

^{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/} The projected FY 2017 ending balance is presumed to be allocated as part of the FY 2017 budget process.

^{4/} This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

Table 3

BASELINE GENERAL FUND SPENDING ESTIMATES BY MAJOR BUDGET UNITS

	FY 2016 Adjusted	FY 2017 \$ Above FY 16	FY 2017 Baseline	FY 2018 \$ Above FY 17	FY 2018 Baseline	FY 2019 \$ Above FY 18	FY 2019 Baseline
EXPENDITURES							
Operating Budget							
-- Department of Administration	\$10,377,300		\$10,377,300		\$10,377,300		\$10,377,300
-- ADOA - Automation Projects Fund	7,783,000	(2,783,000)	5,000,000		5,000,000		5,000,000
-- ADOA - Dept. of Child Safety							
-- AHCCCS	1,205,162,300	595,969,300	1,801,131,600	77,193,500	1,878,325,100	97,513,900	1,975,839,000
-- Attorney General	23,623,700	350,000	23,973,700		23,973,700		23,973,700
-- Department of Child Safety	356,448,200	(8,758,200)	347,690,000		347,690,000		347,690,000
-- Commerce Authority	26,800,000	(5,000,000)	21,800,000		21,800,000		21,800,000
-- Community Colleges	54,373,200	(267,700)	54,105,500	256,600	54,362,100	388,600	54,750,700
-- Department of Corrections	1,029,900,600	22,554,100	1,052,454,700	7,090,800	1,059,545,500		1,059,545,500
-- County Funding	6,000,500		6,000,500		6,000,500		6,000,500
-- Department of Economic Security	496,181,900	23,858,200	520,040,100	25,462,900	545,503,000	28,690,800	574,193,800
-- Department of Education	3,941,873,900	84,157,800	4,026,031,700	137,569,200	4,163,600,900	123,564,300	4,287,165,200
-- Department of Environmental Quality	7,000,000		7,000,000		7,000,000		7,000,000
-- Department of Health Services	602,738,300	(517,304,700)	85,433,600		85,433,600		85,433,600
-- Judiciary	106,178,000		106,178,000		106,178,000		106,178,000
-- Department of Juvenile Corrections	26,984,600	(1,000,000)	25,984,600		25,984,600		25,984,600
-- State Land Department	12,520,500		12,520,500	(12,520,500)			
-- Department of Public Safety	93,374,800	136,200	93,511,000		93,511,000		93,511,000
-- Public Safety Personnel Retirement System	6,000,000		6,000,000		6,000,000		6,000,000
-- Department of Revenue	30,338,600		30,338,600		30,338,600		30,338,600
-- School Facilities Board	216,878,100	(5,856,500)	211,021,600	(1,419,500)	209,602,100	(35,474,500)	174,127,600
-- Office of Tourism	7,110,400		7,110,400		7,110,400		7,110,400
-- Universities	660,845,100	12,054,500	672,899,600	3,698,800	676,598,400	(58,000)	676,540,400
-- Department of Water Resources	12,803,100		12,803,100		12,803,100		12,803,100
-- All Other Budgets ^{1/}	174,545,100	(9,789,100)	164,756,000	(3,400,000)	161,356,000	3,400,000	164,756,000
-- Civic Center Payment	20,449,000		20,449,000	2,050,000	22,499,000	497,300	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	2,800	84,117,400	(2,300)	84,115,100	6,900	84,122,000
-- Hiring Freeze/Consolidations ^{2/}							
-- HITF Employer Rate Reduction		(7,800,000)	(7,800,000)		(7,800,000)		(7,800,000)
-- Unallocated Adjustments	16,800	(16,800)					
Total - Operating Budget	<u>\$9,230,421,600</u>	<u>\$180,506,900</u>	<u>\$9,410,928,500</u>	<u>\$235,979,500</u>	<u>\$9,646,908,000</u>	<u>\$218,529,300</u>	<u>\$9,865,437,300</u>
-- FY 2016 Supplementals	29,409,300	(29,409,300)					
-- Capital Outlay	6,200,000	(6,200,000)					
-- Administrative Adjustments	85,000,000	(15,000,000)	70,000,000		70,000,000		70,000,000
-- Revertments	(110,000,000)		(110,000,000)		(110,000,000)		(110,000,000)
Total Spending	<u>\$9,241,030,900</u>	<u>\$129,897,600</u>	<u>\$9,370,928,500</u>	<u>\$235,979,500</u>	<u>\$9,606,908,000</u>	<u>\$218,529,300</u>	<u>\$9,825,437,300</u>

^{1/} See page 552 for more detail.

^{2/} In FY 2016, these savings were originally estimated at \$(20.7) million. Of that amount \$(1.0) million has been identified in specific consolidation savings which is reflected in individual agency budgets. The remaining \$(19.7) million is no longer displayed as savings.

All Other Budgets

	FY 2016 Adjusted	FY 2017 \$ Above FY 16	FY 2017 Baseline	FY 2018 \$ Above FY 17	FY 2018 Baseline	FY 2019 \$ Above FY 18	FY 2019 Baseline
Administrative Hearings, Office of	\$861,700		\$861,700		\$861,700		\$861,700
African-American Affairs Commission	125,000		125,000		125,000		125,000
Agriculture, Arizona Department of	8,287,400	932,200	9,219,600		9,219,600		9,219,600
Charter Schools, State Board for	1,200,900	(6,800)	1,194,100		1,194,100		1,194,100
Corporation Commission	614,200		614,200		614,200		614,200
Deaf and the Blind, Schools for the	21,596,400		21,596,400		21,596,400		21,596,400
State Board of Education	1,325,200		1,325,200		1,325,200		1,325,200
Emergency & Military Affairs, Dept of	11,102,700	38,500	11,141,200		11,141,200		11,141,200
Equal Opportunity, Governor's Office of	189,000		189,000		189,000		189,000
Equalization, State Board of	642,800		642,800		642,800		642,800
Executive Clemency, Board of	956,000		956,000		956,000		956,000
Financial Institutions, Department of	3,008,000		3,008,000		3,008,000		3,008,000
Fire, Building and Life Safety, Department of	2,202,000	(12,600)	2,189,400		2,189,400		2,189,400
Forester, State	9,012,300		9,012,300		9,012,300		9,012,300
Gaming, Department of	1,779,500		1,779,500		1,779,500		1,779,500
Geological Survey, Arizona	941,000		941,000		941,000		941,000
Governor, Office of the	6,889,000		6,889,000		6,889,000		6,889,000
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		3,157,200		3,157,200		3,157,200
Historical Society, Prescott	825,800		825,800		825,800		825,800
Independent Redistricting Commission	1,115,300		1,115,300		1,115,300		1,115,300
Indian Affairs, Arizona Commission of	57,400		57,400		57,400		57,400
Insurance, Department of	5,867,400	(11,400)	5,856,000		5,856,000		5,856,000
Legislature							
Auditor General	17,933,300		17,933,300		17,933,300		17,933,300
House of Representatives	13,289,500		13,289,500		13,289,500		13,289,500
Joint Legislative Budget Committee	2,490,900		2,490,900		2,490,900		2,490,900
Legislative Council	8,233,300		8,233,300		8,233,300		8,233,300
Senate	8,223,900		8,223,900		8,223,900		8,223,900
SUBTOTAL - Legislature	\$50,170,900	\$0	\$50,170,900	\$0	\$50,170,900	\$0	\$50,170,900
Mine Inspector, State	1,215,200		1,215,200		1,215,200		1,215,200
Navigable Stream Adjudication Commission	126,600		126,600		126,600		126,600
Postsecondary Education, Commission for	1,396,800		1,396,800		1,396,800		1,396,800
Radiation Regulatory Agency	1,595,000	(30,000)	1,565,000		1,565,000		1,565,000
Real Estate Department, State	2,985,200		2,985,200		2,985,200		2,985,200
Secretary of State	24,306,500	(9,300,000)	15,006,500	(3,400,000)	11,606,500	3,400,000	15,006,500
Tax Appeals, State Board of	266,400		266,400		266,400		266,400
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
Veterans' Services, Department of	6,077,800		6,077,800		6,077,800		6,077,800
Weights and Measures, Department of	1,399,000	(1,399,000)	-		-		-
Total Spending	\$174,545,100	(\$9,789,100)	\$164,756,000	(\$3,400,000)	\$161,356,000	\$3,400,000	\$164,756,000

Table 4

FY 2017 FUNDING FORMULA SUSPENSIONS 1/

	<u>FY 2017 Formula Requirement</u>
<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%	1,747,400 <u>4/</u>
Department of Environmental Quality - WQARF	8,000,000
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>5/</u>
Department of Health Services - Sexually Violent Persons (SVP)	3,022,200 <u>6/</u>
Department of Public Safety (DPS) - Highway User Revenue Fund (HURF)	86,409,200 <u>7/</u>
Universities - Financial Aid Trust	<u>17,640,800</u>
 Total - FY 2017 Statutory Funding Formula Suspensions	 \$ 489,569,300
 <u>Non-Statutory</u>	
Department of Administration - Building Renewal	\$ 31,716,400
Department of Corrections - Building Renewal	14,652,600
Universities - Building Renewal	<u>129,900,000</u>
 Total - FY 2017 Non-Statutory Funding Formula Suspensions	 \$ 176,269,000

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/ 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.