

SUMMARY OF FY 2017 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 2016 General Fund revenues of \$9.74 billion and spending of \$9.24 billion, the Baseline has a projected FY 2016 balance of \$499 million. Given forecasted FY 2017 General Fund revenues of \$10.0 billion and spending of \$9.37 billion, the Baseline has a projected FY 2017 balance of \$625 million.
- Under the 3-year budget projections, there would be a balance of \$148 million in FY 2018 and \$325 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 \$10.0 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 increase by \$187 million, from \$312 million at the beginning of FY 2016 to \$499 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 would reduce state revenue by \$(98) million, primarily from a reduction in corporate income taxes.
 - ⇒ The expiration of a FY 2016 tax amnesty program would decrease state revenue by \$(47) million.
 - ⇒ Fund transfers would decrease by \$(117) million. The Baseline would transfer \$100 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 grow in FY 2017 by \$256 million, or 2.6%, from \$9.74 billion in FY 2016 to \$10.0 billion in FY 2017.

General Fund Spending

- FY 2017 General Fund spending is projected to be \$9.37 billion, an increase of \$130 million, or 1.4%, above FY 2016.
- The entire FY 2017 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$36.3 billion.

Education

Department of Education

- ADE General Fund spending would increase by \$84.2 million, or 2.1%, including:
 - ⇒ \$83.6 million for 1.4% student growth, for a total student count of 1,106,457.
 - ⇒ \$19.5 million for higher average cost per pupil due to special education and charter growth.
 - ⇒ \$64.7 million for a 1.15% inflation adjustment of per pupil base level, transportation and charter additional assistance.
 - ⇒ \$(38.3) 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.
 - ⇒ \$(1.9) million to eliminate remaining district-sponsored charter school conversions.
 - ⇒ \$(8.9) million for second year of multisite charter small school weight phase out.
 - ⇒ \$(31.0) million for elimination of 1-year hold harmless for school district student count declines.
 - ⇒ \$(30.0) million for previously-enacted Joint Technical Education District (JTED) Base Support Level reductions.
 - ⇒ \$700,000 for Empowerment Scholarship Accounts (ESAs).
 - ⇒ \$(363,700) to offset higher available endowment earnings under Proposition 123.
- The Baseline assumes passage of Proposition 123 at the May 2016 Special Election, which would have a total fiscal impact of \$299 million in FY 2016. The funding would be generated from increasing the State Land Trust distribution rate from 2.5% to 6.9% per year (\$172 million), adding \$52 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 would be \$3.5 billion.

School Facilities Board

- SFB General Fund spending would decrease by \$(5.9) million, or (2.7)%, including:
 - ⇒ \$(2.4) million for the Access Our Best Public Schools Fund Deposit.
 - ⇒ \$(2.4) million for decreased debt service associated with past lease-purchase agreements.
 - ⇒ \$(1.1) million for lower costs of new school construction.

Universities

- The Universities' General Fund spending would increase by \$12.1 million, or 1.8%, including:
 - ⇒ \$8.2 million for additional system-wide ongoing operating resources for the university system included in the enacted FY 2016 budget's 3-year spending plan.
 - ⇒ \$3.9 million to restore one-time savings associated with refinancing lease-purchase payments for research infrastructure.
- In addition to the \$12.1 million listed above, the Baseline also includes a FY 2016 supplemental of \$4.1 million to restore General Fund monies to the university system for lower-than-estimated savings of health insurance contribution rates.
- Total university enrollment is expected to be 166,143 full-time equivalent students in FY 2017, or 5.3% above FY 2016.

Community Colleges

- Community College General Fund spending would decrease 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

Medicaid Agencies

- Medicaid programs in AHCCCS, Department of Child Safety and Department of Economic Security are adjusted for the following funding formula factors: enrollment changes, an increase in the federal match rate, and a capitation rate increase.

AHCCCS

- AHCCCS' General Fund spending would increase by \$596.0 million, or 49.5%, including:
 - ⇒ \$516.7 million for the transfer of behavioral health services from DHS to AHCCCS.
 - ⇒ \$98.2 million for formula adjustments, including 2.5% enrollment growth and a 1.5% capitation rate increase.
 - ⇒ \$(18.9) million in other adjustments, including offsets for higher prescription drug rebate funding.
 - ⇒ 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 1.90 million by June 2017. This level represents a caseload increase of 46,700, or 2.5%, above June 2016.

Department of Child Safety

- DCS General Fund spending would decrease by \$(8.8) million, or (2.5)%, including:
 - ⇒ \$4.0 million for preventive services.
 - ⇒ \$(12.4) million to remove one-time FY 2015 funding related to the backlog of 60-day non-active cases.
 - ⇒ \$(350,000) to consolidate Internet Crimes Against Children funding in the Attorney General budget.
- Baseline changes were based on the Executive's May 2014 Special Session proposal and the Legislature's 3-year spending plan. The Baseline also adds \$5.0 million to the Arizona Department of Administration (ADOA) for costs associated with the replacement of DCS' automated case management system.

Department of Health Services

- DHS General Fund spending would decrease by \$(517.3) million, or (85.8)%, including:
 - ⇒ \$(517.3) million to transfer behavioral health services from DHS to AHCCCS. The Arizona State Hospital (ASH) will remain in DHS.
 - ⇒ No General Fund spending changes for ASH or DHS public health/family health programs.

Department of Economic Security

- DES General Fund spending would increase by \$23.9 million, or 4.8%, including:
 - ⇒ \$27.8 million for formula adjustments, including a 4.5% enrollment and 2.5% capitation rate increase in FY 2017.
 - ⇒ \$(3.9) million for savings associated with the previously-enacted 1-year cap on TANF Cash Benefits, which begins in FY 2017.
- Developmental disability 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.

Criminal Justice/Public Safety

Department of Corrections

- ADC General Fund spending would increase by \$22.5 million, or 2.2%, including:
 - ⇒ \$17.6 million for the costs of 1,000 private medium-security beds to open in September 2016.
 - ⇒ \$5.1 million for an inflation increase to the inmate health care per diem.
 - ⇒ \$723,500 for an employer retirement rate increase.
 - ⇒ \$(929,100) for the elimination of one-time leap year funding for FY 2016.
- The system-wide prison population is projected to be 44,411, or a growth of 900 inmates above FY 2016. In June 2017, ADC would have a permanent bed shortfall of (5,326). Taking into account 5,754 temporary beds, the shortfall becomes a surplus of 428 beds.

Judiciary

- Judiciary General Fund spending would be unchanged.
- The Baseline includes \$6.0 million in FY 2017 Judiciary Fund transfers to the General Fund, consistent with the FY 2016 budget's 3-year spending plan.

Department of Public Safety

- DPS General Fund spending would increase by \$136,200 for the transfer of the Moving Truck Violation Enforcement program from the Department of Weights and Measures to DPS.

Local Issues

- The Baseline continues a \$5.5 million cash payment from the General Fund for county governments. Each county receives \$550,100 except Maricopa, Mohave, Pima, Pinal, and Yavapai. The Baseline continues an extra allocation of \$500,000 to Graham County.
- The Baseline includes an increase of \$58.0 million, or 9.6%, for higher urban revenue sharing payments to city governments. Total funding would be \$663.7 million.

General Government

Automation

- The Baseline includes \$16.1 million for large-scale automation projects. Of this amount, \$5.0 million is financed from the General Fund and \$11.1 million is financed from Other Funds. The \$16.1 million FY 2017 amount includes the following:
 - ⇒ \$1.5 million for technology projects and project management at ADOA.
 - ⇒ \$8.0 million for the final year of a 3-year project to replace ADC's Adult Inmate Management System (AIMS).
 - ⇒ \$1.6 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
 - ⇒ \$5.0 million as the second installment to replace the DCS Children's Informational Library and Data Source (CHILDS).

Arizona Commerce Authority

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

Payment Deferral

- The Baseline continues to defer \$1.2 billion in General Fund spending from FY 2017 to FY 2018, 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.

Revertments

- The Baseline assumes projected revertments at \$(110) million, which is unchanged from FY 2016. (Revertments are unspent appropriations.)
- FY 2017 Administrative Adjustments are forecast to be \$70 million, compared to \$85 million in FY 2016.

FY 2016 General Fund Supplementals

- The Baseline includes a net increase of \$29.4 million for FY 2016 adjustments, including:
 - ⇒ \$21.4 million for additional funding associated with a Medicaid shortfall in DHS.
 - ⇒ \$(1.3) million as a one-time ex-appropriation associated with a School Facilities Board refinancing agreement.
 - ⇒ \$4.1 million to restore General Fund monies to the university system for lower-than-estimated savings of health insurance contribution rates.
 - ⇒ \$5.2 million for additional ADC health care vendor payments.

Hiring Freeze/Consolidations

- The Baseline includes \$(1.0) million of consolidation savings associated with a) the transfer of DHS behavioral health programs to AHCCCS, b) the elimination of the Department of Weights and Measures, and c) the transfer of the Board of Appraisal to the Department of Financial Institutions.
- The Baseline removes the remaining \$(19.7) million of the \$(20.7) million in hiring freeze and consolidation savings originally assumed for FY 2017 as part of the FY 2016 budget's 3-year spending plan, pending release of further information from the Executive.

State Employee Issues

FTE Positions

- The Baseline decreases the Full-Time Equivalent (FTE) ceiling by (11.9) FTE Positions in FY 2017, including:
 - ⇒ 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 decrease of (28) 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 6 FTE Positions for other adjustments.
- These adjustments would bring the total appropriated FTE Position ceiling to 51,898 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 would be 1.24%.
 - ⇒ In CORP, the FY 2017 increase in the aggregate employer contribution rate would 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 20 years.
- If the Legislature chooses to fund the FY 2017 employer contribution rate changes, the General Fund cost would be \$1.4 million (\$3.1 million Total State Funds) in FY 2017. As part of FY 2016 budget's 3-year spending plan, only the rate increase for the Arizona Department of Corrections (ADC) is funded. The Baseline does not include funding for the employer share of these rate adjustments in any other agency budget.
- 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. This additional liability would result in increased employer contribution rates in the fiscal year following the court decision. A significant portion of the liability would be funded by local governments. The annual General Fund impact has yet to be determined.

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 Baseline would annualize these revised savings to \$(24.2) million in FY 2017.

Capital

- The Baseline removes \$(5.0) million from the General Fund for ADOA building renewal and \$(1.2) million for Navajo Nation transportation projects.
- 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.
- The Baseline includes \$9.0 million from Other Appropriated Funds for ADOA building renewal and \$5.5 million for ADC building renewal.