

Joint Legislative Budget Committee Staff Memorandum

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DATE: October 22, 2009
TO: Members, Joint Legislative Budget Committee
FROM: Richard Stavneak, Director
SUBJECT: FY 2010 REVENUE AND ENDING BALANCE PROJECTION

Pursuant to Laws 2009, 1st Regular Session, Chapters 11 and 12, the JLBC Staff is required to report to the Committee by October 15, 2009 as to whether the estimated FY 2010 General Fund revenues and ending balance are expected to change by more than \$50 million from budgeted projections. We postponed our response pending today's Finance Advisory Committee (FAC) meeting.

The JLBC Staff projects that the FY 2010 ending balance will fall short of the budget by \$(2.0) billion due to an FY 2009 ending balance shortfall, the impacts of the FY 2010 budget vetoes, lower than anticipated revenue collections in FY 2010, and changes in other FY 2010 budget projections as noted in the table below:

Components of FY 2010 Estimated Shortfall	
<u>Impact</u>	<u>\$ in millions</u>
FY 2009 Shortfall	\$ 478
FY 2010 Veto Impact	483
FY 2010 Revenues	698
Other FY 2010 Projections	<u>300</u>
Total	<u>\$1,959</u>

FY 2009 Shortfall

In May 2009, the Legislature approved budget legislation designed to address an estimated \$(650) million shortfall and leave a projected FY 2009 ending balance of \$0. Subsequent to the passage of that bill, revenue collections fell short of projections and Federal stimulus funding was not available in time to offset General Fund spending. As a result, FY 2009 had a negative ending balance. The preliminary estimate of the FY 2009 ending balance from the Executive Branch is \$(478) million. The FY 2009 ending balance will not be finalized until the Department of Administration publishes the state's *Annual Financial Report*.

FY 2010 Veto Impact

The FY 2010 budget as transmitted to the Governor was balanced. The Governor's veto of SB 1025 and line-item vetoes of the Department of Economic Security and Arizona Department of Education budgets (returning them to higher, previously-signed levels) created an additional shortfall of \$(483) million.

FY 2010 Revenues

The enacted FY 2010 budget forecast would require a base revenue growth rate of 0.9%. FY 2010 revenues are likely to fall substantially short of that target. Based on preliminary data, year-to-date revenues through September are (16.1)% below last year and \$(233) million below forecast.

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JLBC

With today's FAC meeting, a new 4-sector consensus revenue forecast is available. The 4-sector results are based on 2 models from the University of Arizona, the Finance Advisory Committee panel survey, and the JLBC Staff forecast. The 4-sector consensus forecasts a revenue decline of (7.2)% in FY 2010. Given the year-to-date declines, however, for this projection, the JLBC Staff is using its own FY 2010 forecast of a (8.7)% decline. At this rate, revenues would fall short of the budgeted forecast by \$(698) million.

Other FY 2010 Projections

The need to adjust other FY 2010 budgeted projections would add \$300 million to the shortfall. The \$300 million shortfall estimate includes \$135 million for supplemental spending in AHCCCS and DHS due to higher than budgeted caseloads. The shortfall estimate also includes \$165 million for potential unrealized budget savings assumed in the FY 2010 budget; these potential lost savings include AHCCCS fraud savings and the prison concession agreement, as well as other smaller items.

The enacted FY 2010 budget assumed that AHCCCS could save \$50 million by reducing fraudulent expenditures. While several statutory changes to revise AHCCCS fraud procedures were discussed during the legislative session, none were enacted. In addition, AHCCCS has solicited ideas for additional administrative proposals but has not adopted any significantly revised policies. Regardless of the actual level of fraud, substantial new fraud reduction savings seems unlikely without some change in statutory or administrative procedures.

The budget also assumed that \$100 million would be generated in an upfront payment from a private vendor in exchange for a long term contract to operate an existing state prison facility. The procurement process for this contract will commence shortly, but will likely take most of the fiscal year as the Executive is statutorily required to issue a Request for Information (RFI) initially and then the actual Request for Proposals (RFP). Based on preliminary feedback, we may find it difficult to generate an upfront payment of this magnitude. As a result, it may be better to move forward with the procurement process so as to determine the state's possible gain, but not score any FY 2010 revenue until we have more information.

The budget also includes \$735 million in revenue from a lease-back transaction on state buildings. Based on input from the state's financial advisors, there appears to be a sufficient market to generate this level of proceeds. We will know more in the next several months as the offering is made.

Based on the JLBC Staff forecast and the added expenditure/savings changes noted above, the FY 2010 shortfall would be \$(2.0) billion.

Please let us know if you have any questions.

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