Review Of Fund Transfers and Future Year Budget Issues

House Appropriations Subcommittee on Multi-Year Budgeting

November 29, 2011

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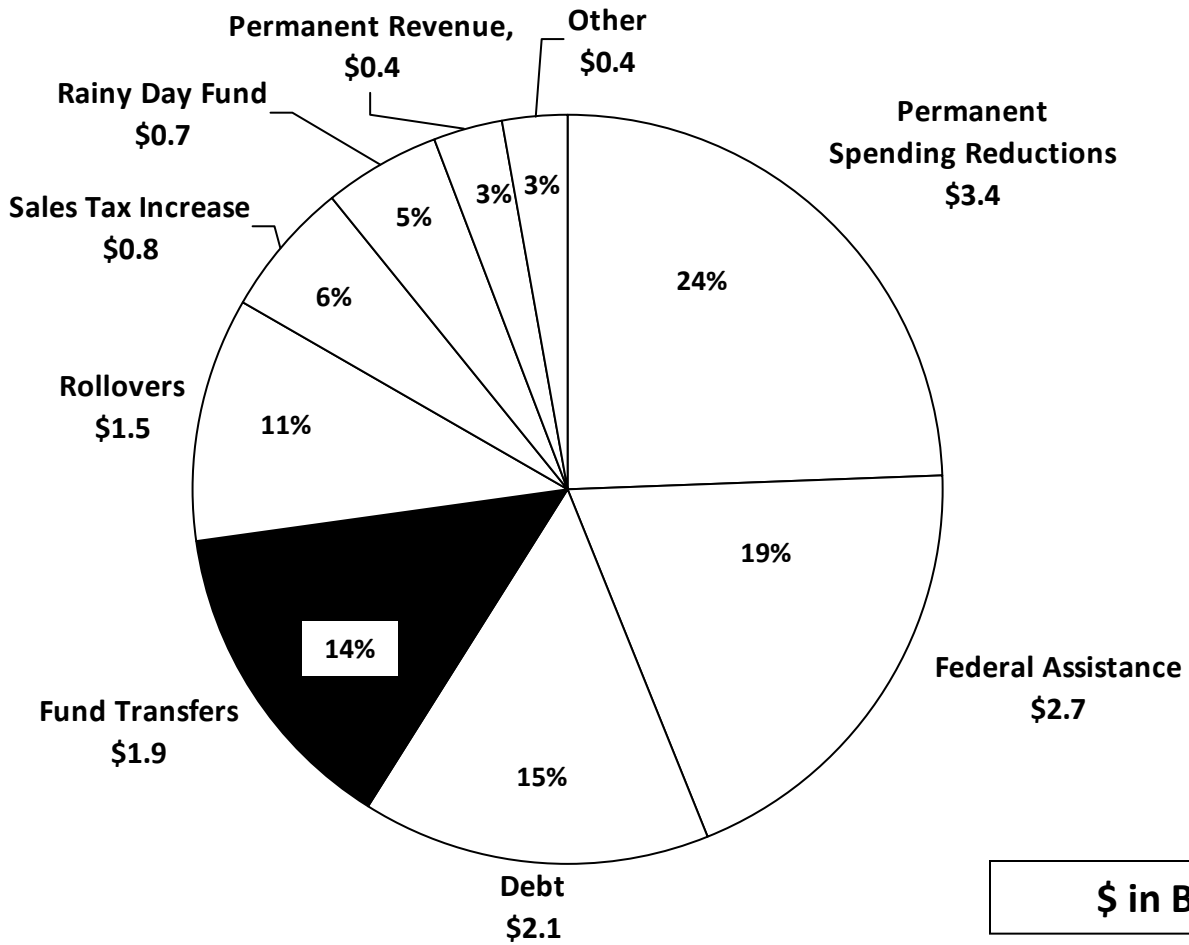
Since FY 08, the Total Budget Shortfall has been $13.9B

- $1.9 B in Fund Transfers Were 14% of the Solution



$ in Billions

Budget solutions as share of shortfall

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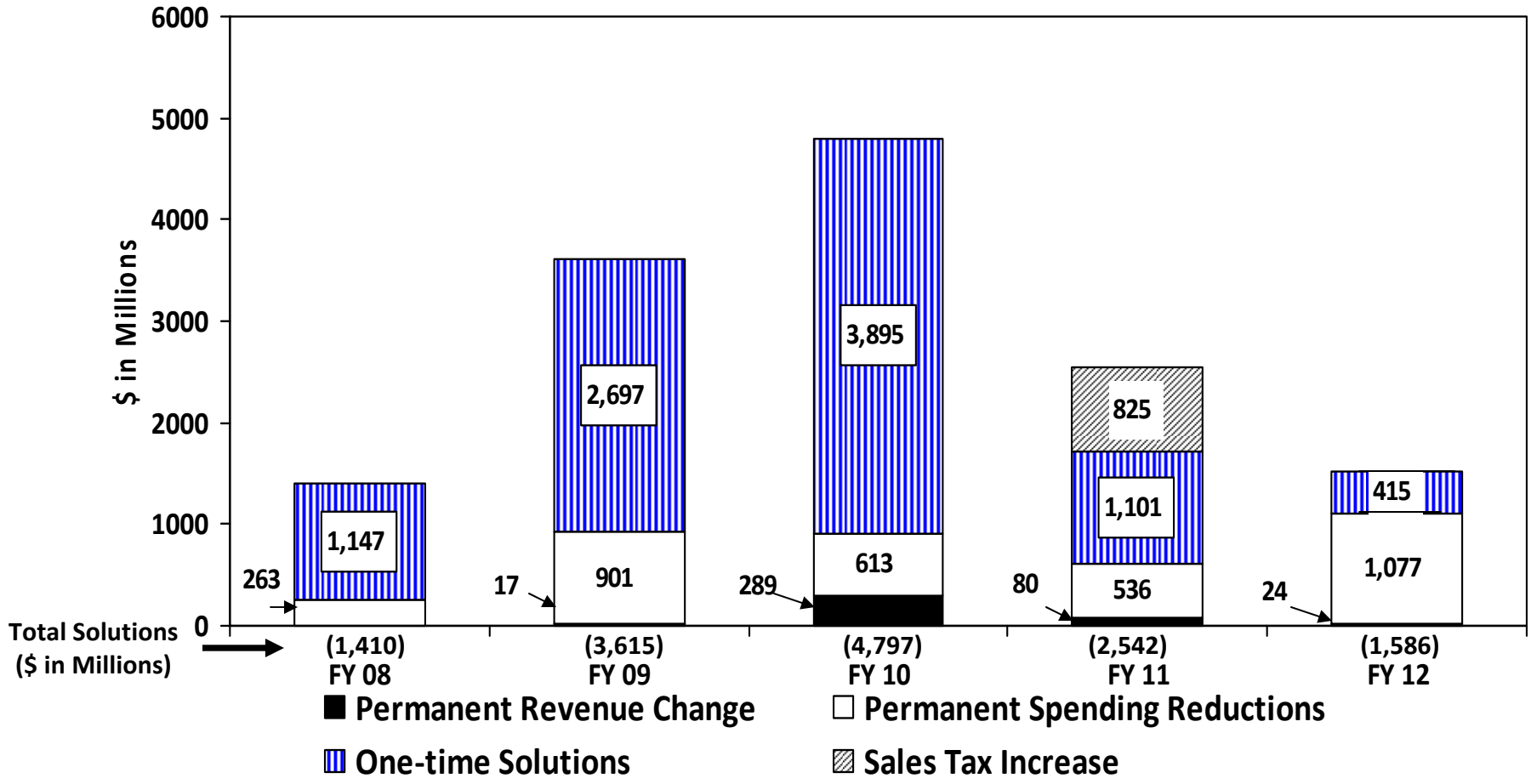
Budget Solutions From FY 2008 – FY 2012



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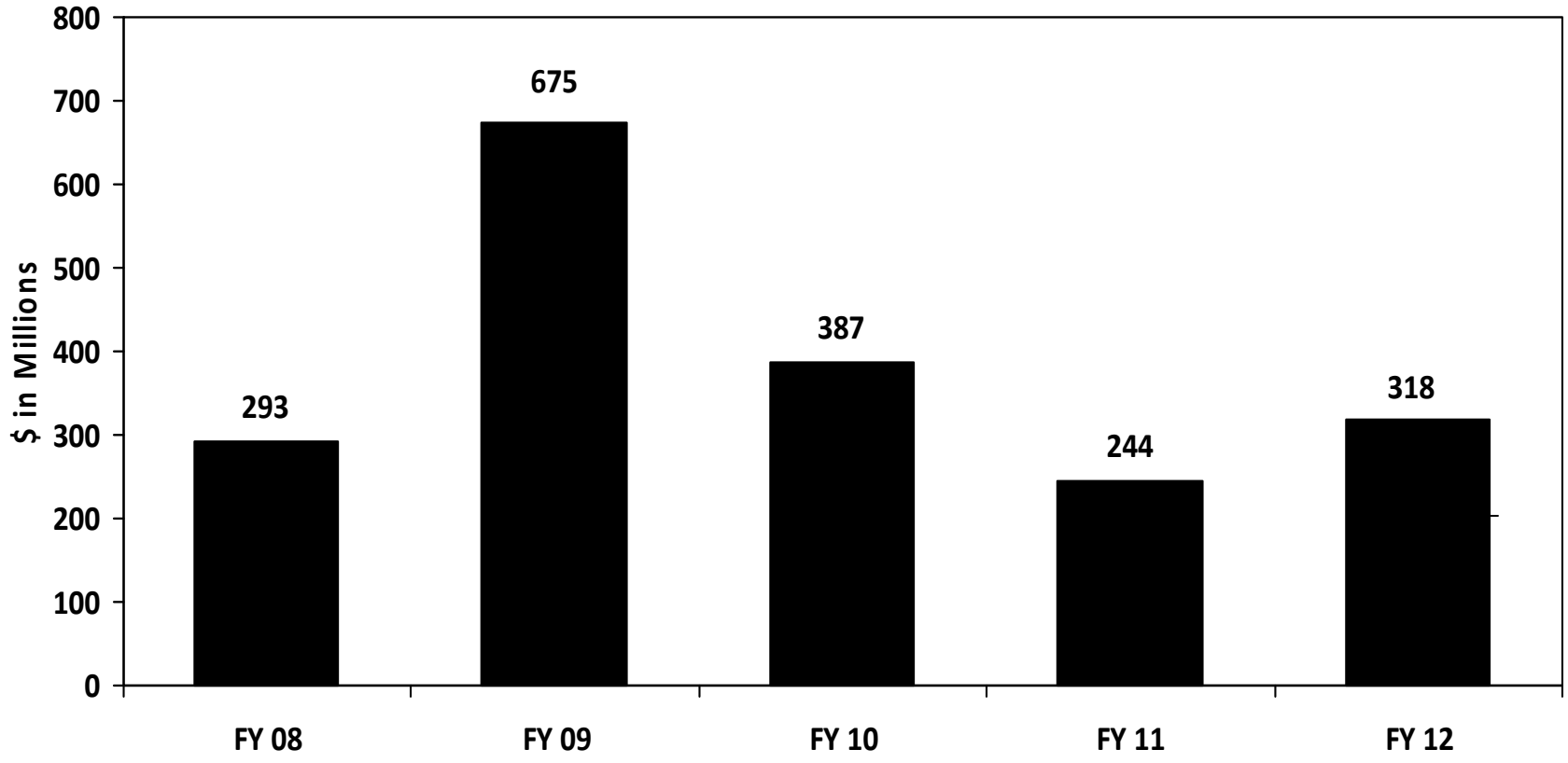
Fund Transfers From FY 2008 – FY 2012



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Three Types of Fund Transfers

- Fund Reduction & Transfer (FRAT)
  - Lower agency ability to expend dedicated funds and sweep difference to General Fund. Used mostly in FY ’09 & ’10.
- Salary Lump Sum
  - Reduce employee salaries and sweep savings into General Fund. $18-$27 million annually in last 3 years.
- Excess Balance Transfers
  - Agency has fund balance due to revenues greater than spending.

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What Types Of Funds Are Being Swept

- Internal State Funds
- Broad-based Taxes & Fees
- Criminal Fines
- “Formula” Sweeps
- Industry-specific Fees

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What are the Main Sources of $318 M in FY '12 Transfer

-Transfers of $2M or More Account for $259 M

Internal State Funds	$ in M
Health Insurance Trust	$40.0
Risk Management	16.2
State Web Portal	6.5
DEQ Indirect Cost	2.7
ADOT Equipment	2.5
ADC Revolving	2.0
House Balance	2.0
Dept. of Revenue Admin.	2.0
	73.9

Formula Sweeps	
DES Long Term Care Profits	30.0
Clean Elections Reversion	20.0
	50.0

Redirected Taxes & Fees	$ in M
ADOT/DPS HURF Shifts - VLT	$62.2
ADOT/DPS Reductions - VLT	43.1
DEQ - Emission Inspection Fees	8.1
DEQ - Underground Storage Tax	6.2
ADOA - Emergency Telecomm. Tax	2.2
Park Fees	2.1
	123.9

Criminal Fines	
DNA Fund	4.3
Crime Lab Operations	3.6
DPS Anti-Racketeering	3.6
	11.5

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Industry-Specific Fees Totaled $14 M in FY '12
- Represents 5% of $318 M in Total Transfers

	$ in M
DEQ Industry Fees	$3.8
Housing Program Fees	2.2
Utilities Assessments	1.7
Financial Institutions	1.0
90/10 Self Regulatory Boards (Salary Sweeps)	0.7
Other Corporation Commission Fees	0.6
Agriculture Funds—$49 K	-

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Fund Transfer Considerations

- Runs contrary to purpose of fund
- Can disincentivize agencies from spending expeditiously—balances are swept
- Raises issue of whether fee levels should be adjusted if large balances are accumulating
- Allows a broader sector of state government to address downturn in state's economy
  - Non-General Fund monies represent a growing share of state budget

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Review of FY 2014 Budget

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Given Revenue and Spending Risks, There Are 2 Baseline Budget Scenarios

- Scenario 1
  - Consensus revenue estimates
  - Active formula Baseline spending estimates
- Scenario 2
  - Substitutes “slow economy” revenue estimates
  - Same active formula spending, but adds $200 M if plaintiffs successful in budget lawsuits
- The 2 scenarios do not represent a lower and upper bound. Outside factors like the federal government could influence future budget projections.

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FY ’12 – ’14 Budget Projections

Scenario 1	12	13	14
Revenues	$8.8 B	$8.7 B	$8.3 B
Spending	$8.4 B	$8.5 B	$8.9 B
Balance	**$416 M**	**$143 M**	**$(610) M**

Scenario 2	12	13	14
Revenues	$8.7 B	$8.3 B	$7.8 B
Spending	$8.5 B	$8.7 B	$9.1 B
Balance	**$133 M**	**$(375) M**	**$(1.2) B**

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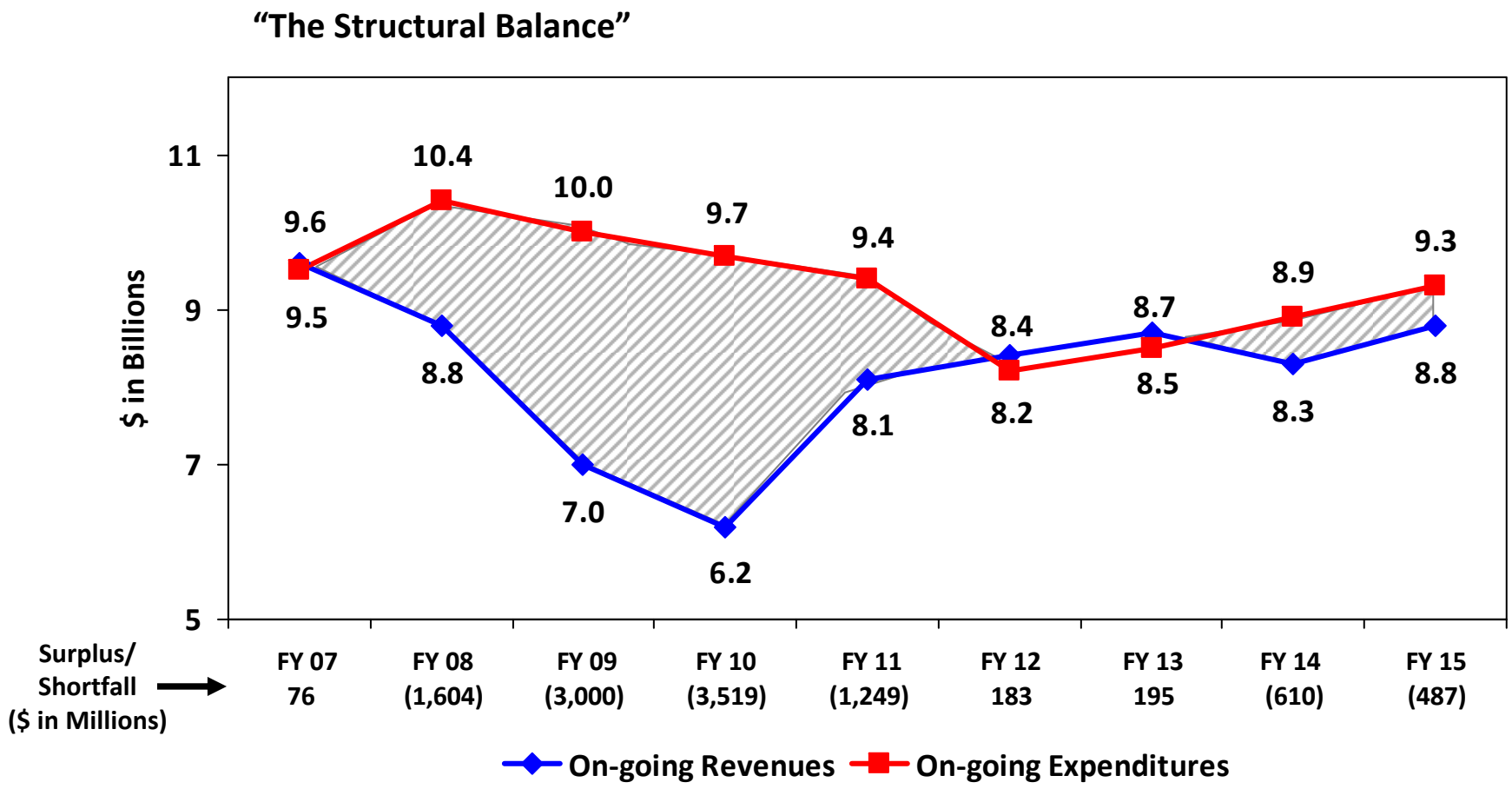
Under Scenario 1, Shortfall Re-emerges With Expiration of 1-Cent Sales Tax

- Consensus Revenues and Baseline Spending



Counts 1 ¢ TPT as on-going in FY '11 – FY '13

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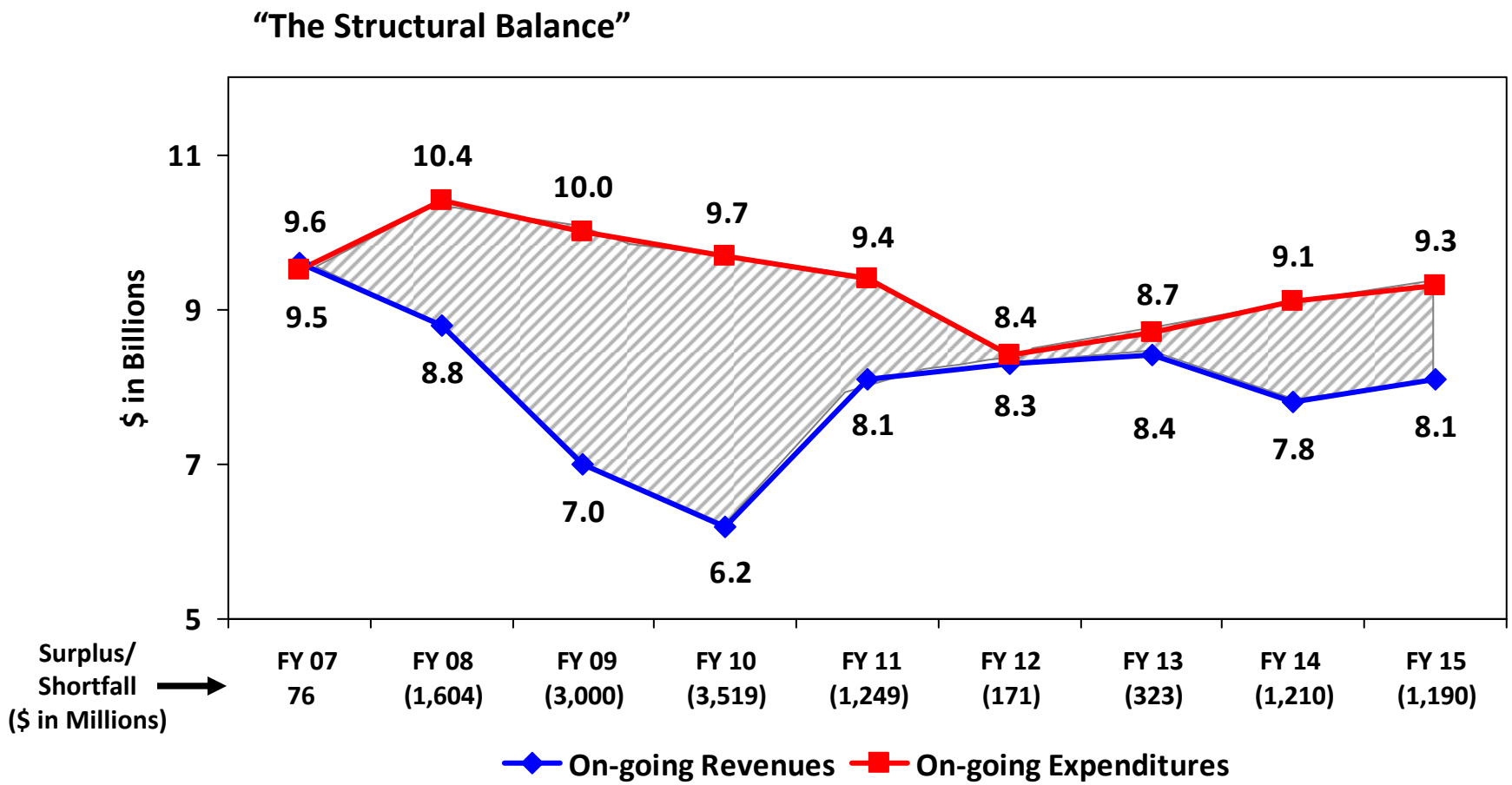
Under Scenario 2, FY ’14 Shortfall Grows to $(1.2) B
- Slow Economy and Plaintiff Litigation Verdicts



Counts 1 ¢ TPT as on-going in FY ’11 – FY ’13

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Possible Multi-Year Budget Structures

- Biennial budget for FY 2013 and FY 2014
- Regular budget for FY 2013 and enact FY 2014 spending limit in FY 2013 legislation
- Regular budget for FY 2013. Track FY 2014 impacts on budget summaries, but not in legislation.

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