FY 2013 JLBC Baseline
- Summary Version -
January 13, 2012
The 3-Year Budget Outlook

- Given the consensus revenue forecast and active funding formulas, the General Fund is expected to generate a $583 M balance in ’12 and $431 M in ’13.

- The projected ’14 budget, however, would have a small shortfall of $(172) M with the expiration of the 1-cent sales tax.

- Slightly lower economic growth and plaintiff verdicts in budget lawsuits could turn these estimates into shortfalls of $(360) M in ’13 and $(1) B in ’14.
The Caveats

- New permanent initiatives would reduce the ‘13 balance and increase the ’14 shortfall

- A 3-Year budget forecast is inherently unreliable
  - A 2% error could change revenues by $500 M in the 3\textsuperscript{rd} year

- Serious federal deficit reduction could increase state costs

- Pending “budget” lawsuits could cost over $475 M if plaintiffs are successful
Legislative Considerations

- Given the loss of the 1¢ sales tax in FY ’14, Staff recommends that we track the impact of ’13 decisions on ’14 bottom line throughout the budget process.
- The lack of budget reserves leaves no margin for error and hampers our credit rating.
  - Pre-recession Rainy Day Fund exceeded $600 M
  - Arizona has one of the worst state credit ratings.
- The state annually suspends $700 M in formula spending.
  - If funded, the state would no longer have any balances.
- Legislative budget oversight continues to decline.
  - The General Fund represents only 31% of the budget, down from 44% in 2000.
Consensus Predicts Base Growth Rate of 5.3% in FY ’12 and 5.1% in FY ’13*

* Weighted Big 3 average growth prior to 1-Cent sales tax is 6.3% in FY ’12 and 5.5% in FY ’13. After adjusting for small tax categories, the base growth rate is 5.3% in FY ’12 and 5.1% in FY ’13.
### Detail of FY ’13 and ’14 Revenue Changes

<table>
<thead>
<tr>
<th>Description</th>
<th>FY ’13 Above FY ’12</th>
<th>FY ’14 Above FY ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Revenue Growth (5.1%/6.9%)</td>
<td>415</td>
<td>541</td>
</tr>
<tr>
<td>Previously Enacted Legislation</td>
<td>(91)</td>
<td>75</td>
</tr>
<tr>
<td>Elimination of One-Time Revenues</td>
<td>(357)</td>
<td>--</td>
</tr>
<tr>
<td>- Fund Sweeps/County Cash Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban Revenue Sharing</td>
<td>(89)</td>
<td>(38)</td>
</tr>
<tr>
<td>1¢ Sales Tax Expires</td>
<td>--</td>
<td>(913)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(121)</strong></td>
<td><strong>(335)</strong></td>
</tr>
</tbody>
</table>
### Detail of the FY ’13 and ’14 General Fund Baseline Spending Adjustments

<table>
<thead>
<tr>
<th>Description</th>
<th>FY ’13 Above FY ’12</th>
<th>FY ’14 Above FY ’13</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Formula – Enrollment decline in ’13, followed by gain in ’14</td>
<td>(28)</td>
<td>39</td>
</tr>
<tr>
<td>Medicaid caseload, no inflation, $40 M in ’14 for Federal health care requirement</td>
<td>99</td>
<td>206</td>
</tr>
<tr>
<td>Debt Service</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Extra Pay Period – One time savings</td>
<td>(79)</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>(12)</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>268</strong></td>
</tr>
</tbody>
</table>

* Baseline supports an FTE ceiling of 52,100 positions. Recommend ceiling reduction since 8,600 of those positions are vacant.
The projected General Fund balance is $583 M in FY ‘12 and $431 M in FY ’13.

With the expiration of the 1-cent sales tax in FY ’14, State is forecasted to have relatively small shortfall of $(172) M.

<table>
<thead>
<tr>
<th></th>
<th>12</th>
<th>13</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$8.9 B</td>
<td>$8.8 B</td>
<td>$8.5 B</td>
</tr>
<tr>
<td>Spending</td>
<td>$8.3 B</td>
<td>$8.4 B</td>
<td>$8.6 B</td>
</tr>
<tr>
<td>Balance</td>
<td>$583 M</td>
<td>$431 M*</td>
<td>$(172) M*</td>
</tr>
</tbody>
</table>

*Excludes estimated prior year balance
What if Projections Are Not Accurate?
- Short Term Balances Disappear & $(1) B FY ’14 Shortfall

Alternative Assumptions:
- 2% Slower Revenue Growth
- Plaintiffs Prevail in Budget Lawsuits

<table>
<thead>
<tr>
<th></th>
<th>’12</th>
<th>’13</th>
<th>’14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>583</td>
<td>431</td>
<td>(172)</td>
</tr>
<tr>
<td>Alternative</td>
<td>325</td>
<td>(367)</td>
<td>(1,072)</td>
</tr>
</tbody>
</table>
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