The FY 2014 Baseline provides an estimate of the state’s annual General Fund balances through FY 2016. Beyond adopting the annual FY 2014 budget, the Legislature is required to provide 3-year revenue and spending projections in the budget bill. The JLBC Baseline revenue projections reflect a consensus economic forecast while the spending estimates represent active funding formula requirements. The Baseline is not a budget proposal, but an estimate of available resources after statutory requirements.

### The 3-Year Baseline Budget Outlook

- In the FY 2014 Baseline, ongoing General Fund revenues are projected to be $8.32 billion. In contrast, projected FY 2014 Baseline formula spending is $8.67 billion - well above the ongoing revenue level.
- The FY 2014 Baseline, however, is balanced by using $651 million of one-time monies remaining from the end of FY 2013. After adjusting for these funds, FY 2014’s projected ending balance is $310 million.
- During FY 2015 and FY 2016, the structural shortfall between ongoing revenues and spending remains. The projected FY 2015 cash balance is $25 million, followed by a $(70) million shortfall in FY 2016.
- The large projected FY 2014 ending balance may create an incentive for new initiatives above the Baseline. Any such proposals would effectively result in turning the $25 million FY 2015 balance into a shortfall and increasing the FY 2016 shortfall.
- The Baseline does not include the impact of the Court of Appeals’ K-12 inflation ruling. If upheld, the ruling would result in a FY 2015 shortfall of $(223) million and a FY 2016 shortfall of $(346) million.

### General Fund Revenues

Total FY 2014 General Fund revenues are projected to be $8.98 billion, including both ongoing revenues and the beginning balance. This amount is $(385) million less than FY 2013.
- Based on the 4-sector consensus, FY 2014 base revenues are projected to grow by $416 million, or 4.9%. This gain, however, would be more than offset by the loss of the temporary 1 cent sales tax.
- Given that 3-year projections are uncertain, a forecast’s probability establishes the potential risk level. The likelihood of meeting or exceeding the Baseline forecast is 65%.
- Base revenue growth will be offset by transferring an additional $(46) million to cities as part of the urban revenue sharing formula and by $(47) million for previously authorized tax reductions.

### General Fund Spending

At $8.67 billion, the FY 2014 Baseline would increase spending by $157 million, or 1.8%:
- K-12 spending would grow $55 million due to the statutory funding formula. If the state concurs with the K-12 inflation court ruling, the cost would further increase by $82 million in FY 2014.
- Prior to mandatory federal health care changes, Medicaid spending is projected to decline by $(97) million due to overfunded FY 2013 caseloads and a higher federal match rate.
- Mandatory federal health care requirements are forecast to increase Medicaid costs by $74 million, primarily due to greater participation by currently eligible non-participants. The Baseline does not include the optional expansion to 133% of poverty.
- Corrections’ costs would increase $9 million as 1,500 public and private prison beds begin to open.
- Debt service payments increase by $20 million, primarily for the Phoenix Convention Center.

### Budget Concerns and Risks

- Arizona continues to have the third lowest credit among the states, in part due to its structural shortfall.
- The state suspends $678 million in annual formula spending - if funded, the structural gap would grow.
- As a remnant of the recession, the state continues to “rollover” $1.2 billion in annual payments.
- Several factors create economic uncertainty: 1) the current slow growth/0% interest rate environment, 2) the outcome of “federal fiscal cliff 2” and 3) unforeseen natural disasters and political events.
- As a result, 3-year budget forecasts come with risks. A 1% change in revenue or spending growth rates could affect the balance by more than $500 million in the third year.

### Alternate Budget Scenario

- Given the budgetary risks, JLBC Staff has developed an Alternate budget scenario to allow the Legislature to evaluate the impact of a different set of assumptions.
- The Alternate reduces the long term revenue growth by 1% and adds $500 million in spending above statutory formulas over 3 years, or an annual average increase of $167 million.
- In this Alternate scenario, the state has a shortfall of $(411) million in FY 2015 and $(572) million in FY 2016. These shortfall estimates have not accounted for the state’s $450 million Rainy Day reserve.