
FY 2021 JLBC Baseline

with Preliminary Executive Comparison

January 21, 2020

JLBC

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Three Aspects of Creating a Budget

- Manage risk in developing the Baseline revenue and spending forecast
- Maintain ongoing and cash balances through the 3-year planning period ('21 – '23)
- Set revenue and spending priorities

Available Funding

- ❑ After formula spending, we expect \$300 M in available ongoing monies in '21
- ❑ The level of available one-time funds is \$685 M
- ❑ The Baseline backs out over \$100 M in “recurring” one-time '20 spending

The Revenue Forecast

Main Assumptions

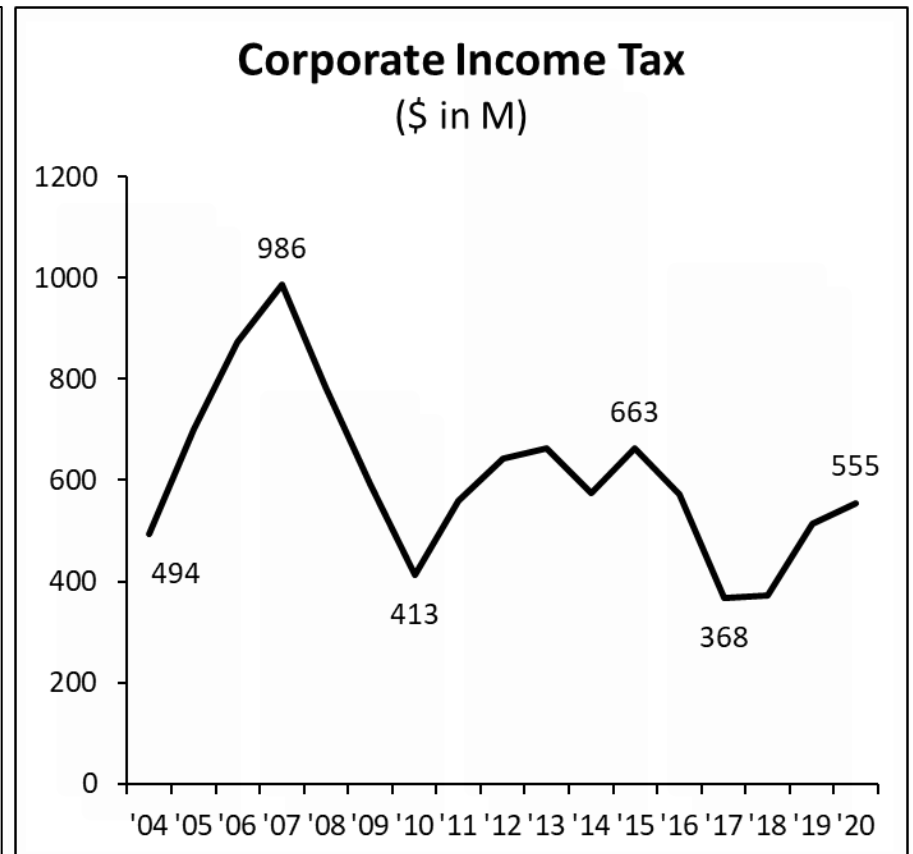
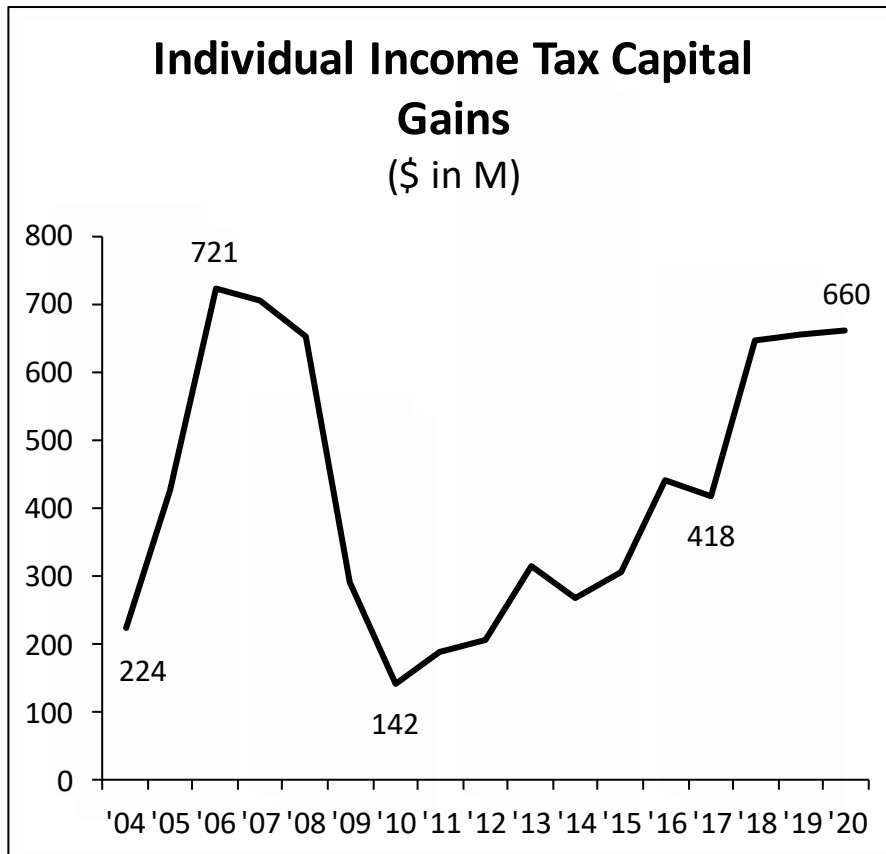
- ❑ Arizona economy still performing well
 - 10.2% in '19 revenue growth; 9.6% in '20 year to date

- ❑ The forecast has no recession through '23
 - Recessions hard to predict; usually occur due to “shock”

- ❑ “Ongoing” revenues likely include 1-time corporate income tax collections and capital gains
 - Since difficult to quantify, use caution in outyear forecast

Ongoing Revenues May Include 1-Time Monies

- Over 3 Years, a 1% Error Changes Available Funds by \$725 M

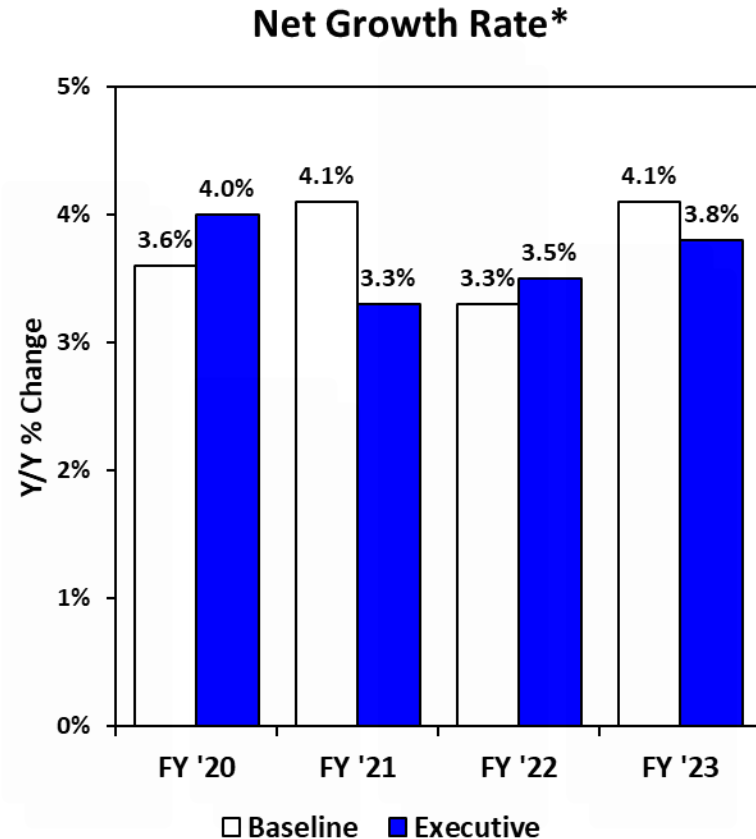


AZ Has 8th Most Volatile Revenue System

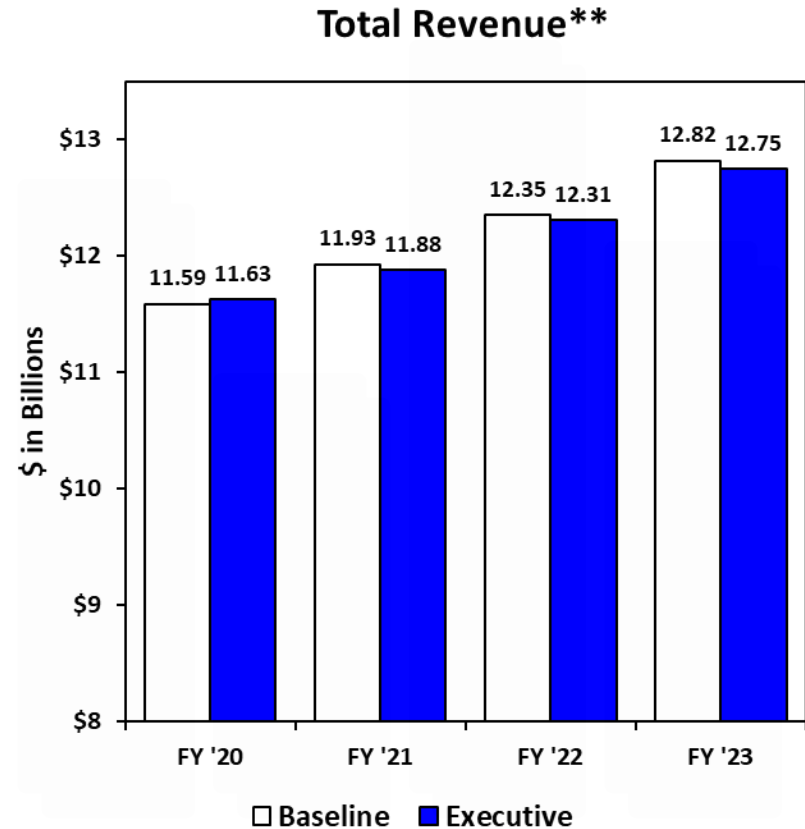
Based on Pew Foundation Report on the 50 States

JLBC: \$111 M More Base Revenue Over 4 Yrs

- Excludes Executive's Veteran Pension Exemption/Other Policy



*Excludes one-time revenue and URS



**Excludes Balance Forward

The Baseline Spending Forecast

Baseline Spending Projected To Decrease by \$(368) M

'21 Ongoing Spending Changes

	<u>\$ in M</u>
ADE – K12 Formula	453
AHCCCS – Medicaid Formula	137
DES – Medicaid Formula	60
SFB – Debt Service Savings	(65)
2010B Payoff – Debt Service Savings	(24)
Other	<u>9</u>
Total	570

Total Spending Changes	\$(368) M
Total Spending	\$11,534 M
% Change	(3.1)%

'21 One-Time Spending Additions/Deletions

	<u>\$ in M</u>
Fund 27th Pay Period In '21	43
Rainy Day Fund Deposit	(271)
2010B Sale/Leaseback Payoff	(190)
Transportation Funding	(77)
ADE – Shift DAA/CAA to Ongoing	(68)
ADE – Prop 301 Bridge Savings	(50)
DWR – DCP Funding/Other	(53)
SFB – Fewer New Buildings	(54)
Recurring One-Time Spending	(172)
Other Agency Spending	(41)
Capital Projects	<u>(5)</u>
Total	(938)

JLBC/Executive Baseline Differences

- K12 is Primary Difference

- ❑ Over '21-'23, Executive K12 formula spending is \$(442) M less than JLBC
 - \$(80) M in '21
 - \$(164) M in '22
 - \$(198) M in '23

- ❑ Primary difference relates to caseload growth assumption

Available Ongoing and Cash Balances

Available Ongoing and One-Time Balances

- Excludes \$1 B Rainy Day Fund

	(\$ in M)
	<u>Baseline</u>
Ongoing Balance	300
One-Time Balance	685

Prior to planning targets, projected '21 ending balance is \$1.0 B. Of that amount:

- Up to \$300 M is available for ongoing objectives
 - Higher \$ level would create '22 shortfall
- \$685 M is available for one time purposes
- \$50 M is set aside as an uncommitted cash balance

\$335 M in Ongoing Executive Policy Issues

- Outside Standard Baseline Adjustments

\$ in M

45	Veterans Income Tax Exemption
78	ADE – New Initiatives
35	Universities – Workforce Development
10	Governor – Directed University Research
37	ADC – Salary Increase
33	ADC – Florence Closure
11	ADC – Retention/Other
24	DCS – Pay/Adoption/Kinship Stipend
11	DPS – Equipment and Staff
9	Judiciary Pay Raise and Staff Costs
8	Maricopa/Pima – Eliminate DJC Offset
6	Commerce – Restore Grant Capacity
28	All Other
335	Total

K-12	<u>\$ in M</u>
School Safety	38
Results Based Funding	35
Other	5

\$587 M in One-Time Exec '20/'21 Policy Issues - Plus \$111 M in '22

\$ in M

136	K-12 – Accelerate Additional Assistance (plus \$67 M in '22)
44	K-12 – Low Achievement Funding (plus \$44 M in '22 and '23)
35	SFB – '20 Building Renewal Supplemental
91	SFB – '21 Building Renewal Grants
35	Universities – Operating/Capital
18	Community Colleges
78	ADOT – Capital
53	ADC/DJC – Locks/Buildings Renewal
15	DEQ – Aquifer Remediation (WQARF)
10	Commerce – Rural Broadband
26	State Employee Health Insurance
17	Retirement Rate Adjustment
(31)	DPS – Highway Safety Fee Shift
25	BSF Deposit
35	All Other (including '20 supplementals)
587	Total

Preliminary Analysis

Ongoing One-Time Usage Continues to Grow

- \$229 M in Executive Budget

	\$ in M	
<u>Multi-Year One-Times</u> *	<u>'20</u>	<u>Exec '21</u>
<input type="checkbox"/> SFB Building Repair Grants (5)	63	91
<input type="checkbox"/> University Spending (4)	35	35
<input type="checkbox"/> DJC/Maricopa & Pima Contributions (4)	8	Ongoing
<input type="checkbox"/> State Employee Health Insurance (3)	11	26
Total	117	152
 <u>New One-Times in '21 – Potentially Ongoing</u>		
<input type="checkbox"/> K12 – Low Achievement Funding		44 **
<input type="checkbox"/> Community College Funding		18
<input type="checkbox"/> DEQ WQARF		15
Total		77

*# of consecutive years through '20 in parentheses

**Displayed as one-time in each of '21-'23

Challenges of the Executive Recommendations

- ❑ Florence Prison – numerous issues to resolve
 - Difficult to generate detailed plan by Sine Die
- ❑ \$44 M Low Achievement School Funding
 - Beyond “one-time” label, difficult to replicate small scale success across 280,000 students in a few years
- ❑ \$35 M University Workforce Development
 - Needs benchmarks for evaluating success

Exec. Spends \$95 M Highway Safety Fee Surplus

- \$32 Fee Generating More Revenue than Anticipated

- ❑ By time of fee's 6/21 repeal, there will be a surplus of \$95 M
- ❑ The Executive has 2 primary uses of these funds:
 - \$31 M to offset DPS General Fund costs one-time
 - \$48 M for radio communications replacement over 3 years
- ❑ Executive proposal precludes the following 2 options for the surplus:
 - Transportation infrastructure such as local road assistance
 - Early repeal of the fee

State Needs Plan for Addressing Other Long Term Needs

– Not Addressed in Executive Budget Recommendation

- ❑ ADC has identified the need for \$380 M of building repairs over the next 10 years – Executive funds \$75 M for 1 year
- ❑ 15 dams in the state have been labeled as unsafe. In-depth assessments and design plans along with some initial repairs could cost \$20 M.
- ❑ Auditor General found delays of up to 2.5 years in DHS investigation of nursing home complaints. To resolve this backlog, DHS would need \$3.3 M.