FY 2009 JLBC Baseline

January 15, 2008

JLBC
JLBC Baseline Spending Guidelines

- Revenues based on 4-sector consensus estimates.
- Spending based on projected growth in funding formulas.
- Eliminates funding labeled as one-time in the FY ’08 budget process.
- Baseline does not include FY ’08 or FY ’09 solutions to shortfall.
With Current 4-Sector Revenue Estimates, Budget Shortfall is Projected for Both FY ’08 and FY ‘09

• FY ’08 budget shortfall is projected to be $970 million.

• If none of FY ’08 solutions are on-going, FY ’09 budget shortfall is $1.7 billion.
# General Fund Cash Shortfall

$(973) \text{ M in FY 2008 and } $(1.7) \text{ B in FY 2009}$

<table>
<thead>
<tr>
<th></th>
<th>$\text{ in Billions}$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY ‘08</td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>$0.4</td>
</tr>
<tr>
<td>Revenues</td>
<td>9.3</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>9.7</td>
</tr>
<tr>
<td>Spending</td>
<td>10.7</td>
</tr>
<tr>
<td>Shortfall</td>
<td>$(1.0)$</td>
</tr>
</tbody>
</table>
General Fund Shortfalls

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ongoing Revenues</td>
<td>9.38</td>
<td>9.41</td>
</tr>
<tr>
<td>One-time Revenues</td>
<td>0.38</td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>10.73</td>
<td>11.14</td>
</tr>
</tbody>
</table>
FY 2009 Spending Issues
By Agency
FY 2008 General Fund Appropriations
Where it Goes

<table>
<thead>
<tr>
<th>Category</th>
<th>$ in M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (K-12)</td>
<td>$ 4,363.5</td>
</tr>
<tr>
<td>AHCCCS</td>
<td>1,269.1</td>
</tr>
<tr>
<td>Universities</td>
<td>1,121.1</td>
</tr>
<tr>
<td>Corrections</td>
<td>910.3</td>
</tr>
<tr>
<td>Economic Security</td>
<td>794.3</td>
</tr>
<tr>
<td>Health Services</td>
<td>583.4</td>
</tr>
<tr>
<td>School Facilities Board</td>
<td>532.7</td>
</tr>
<tr>
<td>Other Agencies</td>
<td>1,045.1</td>
</tr>
<tr>
<td>TOTAL OPERATING BUDGET</td>
<td>$ 10,619.5</td>
</tr>
</tbody>
</table>
Formula Spending is Projected to Grow by $414 M in FY 2009

- Title 19 Health and Welfare Formula: $287 M
- K-12 Formula: $174 M
- SFB: $5 M
- DOC: $57 M
- Higher Ed: $16 M
- Other: -$21 M
- Admin Adj/Revertments: -$40 M
- '08 Supplemental: -$64 M

Net New Spending: $414 M
Total Spending: $11.14 B
Title 19 and Health & Welfare Programs
FY 2009 Statutory Spending Above FY 2008

FY 2009 Title 19 Growth Rates

<table>
<thead>
<tr>
<th>Population June/June</th>
<th>Medical Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AHCCCS</td>
<td>4.2% *</td>
</tr>
<tr>
<td>DHS</td>
<td>4.2%</td>
</tr>
<tr>
<td>DES</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

* 4.2% includes traditional and Prop 204 only; all populations are 5.8%.
**AHCCCS Caseloads Higher Than Projected**

-- Was Budgeted at 2.6%, FY ’08 Now Projected at 5.9%

-- During Last Downturn, AHCCCS Caseloads Grew 11% Annually

’09 Based on 3 factors:
- JLBC Staff – 6.5%
- AHCCCS – 5.5%
- UA Model – 5.3%
AHCCCS Issues

• FY ’08 shortfall is projected at $57 M
  – Beyond higher caseloads, shortfall is also due to $26 M decline in tobacco taxes.

• FY ’09 estimate assumes tobacco tax decline levels off.

• If caseload grows as quickly as during 2002-2004, FY ’09 AHCCCS could increase another $95 M.

• One-time $8 M GF subsidy for Healthcare Group backed out in FY ’09.

• Baseline includes no funding for KidsCare Parents
  – Costs $11.3 M GF to continue services.
### K12 Operating

FY 2009 Formula Growth is $174 M

<table>
<thead>
<tr>
<th>$ (Millions)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (68)</td>
<td>Base adjustment for prior year savings</td>
</tr>
</tbody>
</table>
| 182          | 3.0% enrollment growth –  
(JLBC: 2.7% and UA model: 3.3% growth) |
| 108          | 2% inflation |
| (188)        | 13.3% net assessed value (NAV) growth |
| 143          | TNT – 8.5% existing property growth |
| (3)          | Delete one-time funding |
| $ 174        | Total |

Continues ’07 level of English Learner appropriations
NAV Growth of 13% is Due to Deferred Impact of Past Housing Price Increases

- Primary NAV growth for homes restricted in the Constitution.
- Maximum = 10% of prior year primary or 25% primary/secondary difference.
- ’09 NAV based on Jan ’07 value.
- Property value growth increases local share of formula.
K12 Capital
Baseline Assumes $4.8 M Net Increase for FY 2009

• Baseline maintains new construction cash cost of $370 M
  – SFB is requesting $460 M.
  – $370 M represents a placeholder as JLBC is awaiting better information on housing slowdown impact.
• $4.8 M increase represents debt service and one-time adjustments.
• SFB paid $35 M in FY ’07 obligations in FY ’08
  – Assume this practice continues.
Higher Education
FY 2009 Formula Growth is $16 M

• University enrollment formula growth of 2.4% costs $20.7 M.

• Baseline deletes $10.5 M in one-time Phoenix medical school design funding.

• Community College formulas cost an added $6.2 M.
  – Operating and capital – essentially flat due to enrollment decrease of (0.2)% in FY ’07.
  – $5.5 M for 23% equalization growth.
Department of Corrections
FY 2009 Growth is $56.7 M

• Public/Private Beds - $48.0 M
  – $11.5 M to annualize 2,060 provisional beds.
  – $18.0 M for 2,000 private beds starting 12/08.
  – $18.5 M for 4,000 state beds starting 5/09.
    • Includes $10.4 M lease purchase payment.
  – FY 2010 annualization cost is $66.1 M.

• Population and Health Care costs will add $9.3 M in FY ’09.
Projected Prison Bed Shortfall is 288 in FY ‘10
Assumes Annual Inmate Growth of 6.4%

Assumes opening 2,000 private beds and 4,000 public beds in FY ’09 and FY 10.
JLBC Baseline Assumptions Do Not Include Funding for Increased Employee Benefit Costs

• The net cost of employer retirement rate changes is $5.1 M.
  – ASRS rates would decrease by (0.15)% and save $(1.6) M.
  – Non-ASRS rate increases would cost $6.7 M
    • If no employer funding, the agencies would absorb.

• A 9.5% health insurance increase would cost $33 M.

• A statewide salary increase would cost $25 M for every 1%.
Budget Stabilization Fund Has A Balance of $685 M

- With interest, BSF expected to grow to $700 M by end of FY ’08.

- BSF is capped at 7% of General Fund revenues. In FY ’08, projected cap would be $656 M.

- Formula would result in $257 M withdrawal in FY ’09, but requires legislative appropriation.
### Urban Revenue Sharing Increases by $43 M

- Legislature Has Already Enacted 1-Time FY ’09 Revision

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY ’08 distribution</td>
<td>$684</td>
</tr>
<tr>
<td>FY ’09 regular 15% formula</td>
<td>709</td>
</tr>
<tr>
<td>FY ’09 enacted distribution</td>
<td>717</td>
</tr>
<tr>
<td>FY ’09 enacted distribution + one-time backfill</td>
<td>727</td>
</tr>
</tbody>
</table>
## JLBC Baseline Spending Grows by 4%

<table>
<thead>
<tr>
<th></th>
<th>FY ’08</th>
<th>FY ’09</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Going Spending</td>
<td>$10,640</td>
<td>$11,105</td>
<td>4.4%</td>
</tr>
<tr>
<td>One-Time Spending</td>
<td>89</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$10,729</td>
<td>$11,142</td>
<td>3.8%</td>
</tr>
</tbody>
</table>
Long-Term Forecast
Through FY 2011, General Fund Shortfall Remains Near $(1.7) B

- Revenue growth is based on consensus estimates:
  - 3.7% in FY ’10 and 7.5% in FY ‘11.
- Spending growth is based on statutory formulas.
- Calculation can be made either using current policy or current statutory requirement.
- Long term numbers are very sensitive to small % changes:
  - A 1% change in revenues in ’09 -’11 would change the shortfall calculation by almost $600 million.
Structural Shortfall Remains Near $(1.7) B if Maintain Current Policy
- Assumes Equalization Assistance Tax Rate Remains at $0
Basing Structural Balance on Expiring Legislation Would Reduce FY 2010 Shortfall By $98 M
- Equalization Assistance Tax Would Be Re-Instated
  and BRB Savings Would Be Discontinued

On-Going Revenues Compared to On-Going Expenditures
Surplus (+) / Shortfall (-)
Chairmen’s Question: What Spending is Voter Protected?

- Prop 105 prohibits changes to ballot propositions without a 75% vote to “further the purpose”
- This “voter protection” limits, but does not eliminate, Legislature’s ability to modify K12 and AHCCCS spending
- There has been no litigation to clarify the scope of Prop 105
Dollar Impacts of Ballot Propositions

- Prop 301 guarantees a K12 base level and inflation indexing – but does not protect discretionary programs and formula add-ons
  - Of $6 B total formula, cost of base level is $3.2 B to $3.8 B.

- Prop 204 requires AHCCCS coverage up to 100% of Federal Poverty Level
  - Of $1.3 B, non-voter protected services cost $400 M to $450 M.
  - Prop 204 does not protect benefit package – but feds require actuarially sound program.
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