

Fiscal Note

BILL # HB 2919

TITLE: state budget; structural balance; estimates

SPONSOR: Olson

STATUS: House Engrossed

PREPARED BY: Gordon Robertson

Description

The bill would require the General Fund estimates under the state's 3-year budgeting projections to be balanced. In addition, the bill would require the 3-year budgeting projections to use expenditure estimates that recognize any spending as ongoing "for the purposes of calculating the structural balance" if that spending was also authorized in the prior fiscal year.

The bill would also prohibit the deferral of Basic State Aid and Additional State Aid payments to school districts by the Arizona Department of Education (known as the "K-12 rollover") starting in FY 2027, and would reduce a district's FY 2026 rollover repayment by an amount equal to the district's FY 2024 inaccessible cash balances. The state's current K-12 rollover balance is \$800.7 million.

Estimated Impact

The bill's provisions relating to the state's 3-year budgeting projections may have an indirect fiscal impact – any indirect impact would depend on the extent to which the new requirements affect the state's long-term budget projections, which in turn may influence policy changes made in the enactment of the state budget each year.

We estimate the bill would generate one-time FY 2026 savings to the General Fund by up to \$308.2 million through the reduction of the FY 2026 K-12 rollover repayment, which is related to school district payments deferred from FY 2025. The bill would further prohibit the K-12 rollover in its entirety beginning in FY 2027, meaning any remaining K-12 rollover amount that would otherwise be deferred until FY 2028 would be paid in full in FY 2027. We estimate this would generate a one-time General Fund cost of \$492.5 million in FY 2027.

Analysis

3-Year Budget Projection Provisions

Current law requires the annual General Appropriations Act to include revenue and expenditure estimates for 3 fiscal years – the fiscal year budget being enacted and the 2 subsequent fiscal years. The revenue estimates include the base revenue forecast determined in the budget process along with any revenue policy changes enacted in the budget. The spending estimates reflect existing statutory funding requirements and any spending policy changes made in the budget.

Statute does not currently impose any "balanced budget" requirements on these 3-year projections – however, existing practice since the 3-year budget process was adopted is to have all 3 years be balanced (with projected revenues exceeding projected spending). Given that existing practice, we do not anticipate that the balanced budget provision of the bill will have a fiscal impact.

The bill's provision relating to the recognition of certain spending items as ongoing obligations may have an indirect fiscal impact, depending on how it is interpreted. Under the state's current budgeting practices, there are certain spending items ("ongoing one-times") which are typically enacted year-after-year, but are labeled as one-time spending. This means these items are only reflected in the current budget year estimates and are not included in the 2 subsequent fiscal



year projections. The bill's provisions on this issue may require the 2 subsequent fiscal year projections to also include this "ongoing one-time" spending. To the extent that including this spending reduces the available resources in the state's long-term budget projections, it may have an indirect fiscal impact of influencing policy changes made in the budget.

K-12 Rollover Provisions

The bill reduces the amount districts are owed from the \$800.7 million FY 2025 state aid rollover — whose repayment is advance appropriated in FY 2026 and due to be paid to districts by July 12, 2025 — by an amount equal to each district's FY 2024 inaccessible cash balances in their Maintenance and Operations Fund and Unrestricted Capital Outlay Fund. Inaccessible cash arises when a district receives more revenue into a fund than it has budget authority to spend. The bill would provide districts budget authority to spend these inaccessible cash balances to make up for revenue lost from the decrease in the state aid rollover repayment.

We estimate that final FY 2024 inaccessible cash balances for districts that have an active rollover total \$421.6 million. However, because some districts' inaccessible cash balances exceed their rollover, we estimate the actual reduction in the rollover would be approximately \$(308.2) million.

An individual district's actual inaccessible cash balance at the time of the FY 2026 rollover repayment in July 2025 may be higher or lower than the amount as of June 30, 2024, depending on the district's general financial situation and FY 2025 budgeting practices. To the extent that some districts' inaccessible cash balances may have decreased relative to their June 30, 2024 balances, the bill's required reduction in a district's FY 2026 rollover repayment amount may exceed the inaccessible cash available to that district to backfill the loss. As a result, our estimate of the bill's impact should be considered highly speculative.

Separately, the bill's prohibition on the rollover in its entirety would first be in effect for the FY 2027 budget. Assuming that the rollover is reduced by \$(308.2) million as described above, the Legislature would need to appropriate an additional \$492.5 million on a one-time basis in FY 2027 to pay off the remaining portion of the FY 2027 state aid formula that would otherwise be deferred to FY 2028.

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