

## HIGHLIGHTS OF THE FY 2016 BUDGET

The FY 2016 budget is based primarily upon the actions of the 52<sup>nd</sup> Legislature's 1<sup>st</sup> Regular Session. On March 12, 2015, the Governor signed into law the FY 2016 budget for the year beginning July 1, 2015. The Legislature subsequently adjourned on April 3, 2015, the shortest Regular Session since 1968.

The state's FY 2016 General Fund budget is \$9.13 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$32.6 billion. (*See the Summary of Appropriated Funds and Summary of Total Spending Authority for more details.*)

**Revised FY 2015 Budget** – At the time of publication of the *FY 2015 Appropriations Report* in June 2014 after the 51<sup>st</sup> Legislature's 2<sup>nd</sup> Regular Session and 2<sup>nd</sup> Special Session, the FY 2015 ending balance was forecasted to be \$130 million. By January 2015, however, the projected FY 2015 balance had become an estimated \$(148) million shortfall. The primary adjustments included:

- Decreased balance forward from FY 2014 of \$577 million, or \$(18) million below the original forecast.
- Decreased FY 2015 revenue of \$(175) million, the result of lower-than-budgeted FY 2014 revenues and a decrease in the FY 2015 growth rate from 5.3% to 4.3%.
- Increased one-time FY 2015 costs of \$85 million, primarily due to the timing of prior year expenditures and lower revertments of FY 2015 spending.

As part of the FY 2016 budget, the Legislature approved additional FY 2015 spending changes. In addition to those changes, the Legislature approved \$(20) million in net revenue reductions. This amount included an \$11 million increase in Disproportionate Share revenue and a \$15 million transfer from the state's share of the 2012 National Mortgage Settlement, as well as a \$(31) million revenue decrease from a continuation of a \$500,000 business expensing allowance. In April 2014, the Governor had vetoed a permanent continuation of a \$500,000 allowance.

The revised FY 2015 budget included a requirement that the ending balance be at least \$12 million; if the ending balance would otherwise be less, the difference was to be transferred from the Budget Stabilization Fund. This provision was assumed to require a \$144 million transfer. (*See FY 2015 General Fund Adjustments at the end of this Appropriations Report for more details.*)

**Comparison to the JLBC Baseline** – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2016 spending based on existing statutory

funding formulas and other technical requirements. The projected spending level was \$9.45 billion.

In comparison, the January Baseline Revenues were based on the 4-sector consensus projections. Excluding enacted statutory changes and one-time adjustments, base revenues were forecast to grow 4.3% in FY 2015 and 3.3% in FY 2016. After adjusting for previously enacted tax law changes, additional Urban Revenue Sharing distributions, and other factors, total General Fund revenues were anticipated to be \$8.77 billion in FY 2016.

The Legislature adjusted the January revenue growth rate for FY 2016 upward as part of the final budget. The increase from 3.3% to 3.8% generated an additional \$52 million in revenue. In addition, the budget assumed \$75 million in a fund transfer from the Arizona Competes Fund, \$145 million in fund transfers from 26 other funds, \$42 million from additional fraud detection efforts, \$15 million in one-time tax amnesty revenues, and \$17 million in disproportionate share revenue. The approval of the \$500,000 business expensing allowance reduced revenues by \$(31) million. After further adjusting the estimates for the enacted FY 2015 carry-forward balance of \$12 million, the FY 2016 General Fund budget was based on a revenue level of \$9.10 billion.

The Legislature also made subsequent revisions to the Baseline spending level of \$9.45 billion, which resulted in a final FY 2016 expenditure level of \$9.13 billion. The \$(312) million in changes to the Baseline included the following:

### *Major Increases to the Baseline*

- \$74 million for additional K-12 education formula spending outside the statutorily-mandated amount.
- \$24 million for a School Facilities Board fund.
- \$18 million for retirement formula increases in the Department of Corrections (ADC) and Department of Public Safety (DPS).
- \$17 million in additional ADC health care and population growth spending.
- \$8 million in additional DCS services spending.
- \$5 million for capital outlay emergency projects.

### *Major Decreases from the Baseline*

- \$(148) million in K-12 reductions, including \$(117) million from Additional Assistance, \$(7) million from beginning a phase-out of multi-site charter small school weight, and \$(22) million from eliminating a FY 2015 performance funding program.

- \$(20) million from limiting the state's liability in those larger districts whose total property tax bill for all jurisdictions exceeds the state's 1% cap.
- \$(99) million for a University lump sum reduction.
- \$(16) million for eliminating Maricopa and Pima community college funding and a Pinal District reduction.
- \$(40) million from re-estimates of Medicaid enrollment in both AHCCCS and the Department of Health Services (DHS).
- \$(37) million from a provider rate reduction of 5% in selected AHCCCS and DHS service areas.
- \$(40) million in total reductions to local jurisdictions, including \$(21) million for shifting Department of Revenue (DOR) costs to counties and cities, \$(17) million for shifting Department of Juvenile Corrections (DJC) costs to counties, and \$(2) million from eliminating pass-through aid to 3 counties.
- \$(16) million from reducing employer health contributions to reflect lower costs.

Under the JLBC Baseline, the FY 2016 budget was projected to have a \$(678) million ending shortfall, assuming the FY 2015 budget shortfall was resolved. The revenue changes and net spending reductions results in a FY 2016 projected ending balance shortfall of \$(35) million. *(Please see the General Fund Balance discussion below.)*

*(See FY 2016 State General Fund Budget - A Narrative Summary and the General Provisions section for further details on FY 2016 changes.)*

**Comparison to the FY 2015 Budget** – Besides the comparison with the JLBC Baseline, the FY 2016 budget can also be viewed relative to the FY 2015 budget. General Fund revenues, including one-time monies, are projected to decrease from \$9.35 billion in FY 2015 to \$9.10 billion in FY 2016. After technical adjustments, the projected base growth is 3.8%, which will be further modified by the following revenue changes *(see the General Fund Revenue section)*:

- \$(112) million net loss from previously-enacted budget legislation.
- \$52 million net gain from budget legislation enacted in the 2015 Legislative Session, including \$42 million from DOR fraud detection programs, \$6 million from additional disproportionate share revenues, and \$6 million from Judiciary fund transfers.
- \$3 million gain due to decreased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.

The FY 2016 budget also has a net \$247 million in one-time revenues (in comparison, FY 2015 one-time revenues were \$791 million due to a \$577 million beginning

balance). The \$247 million amount reflects \$75 million in a fund transfer from the Arizona Competes Fund, \$145 million in fund transfers from 26 other funds, and \$15 million in one-time tax amnesty revenues. The net one-time revenues also include a \$12 million projected carry-forward balance from FY 2015.

General Fund spending is projected to decrease from \$9.34 billion in FY 2015 to \$9.13 billion in FY 2016, which is a decrease of \$(201) million, or (2.2)%.

The FY 2016 budget includes the following changes compared to the FY 2015 budget, as adjusted for supplementals:

- \$54 million for K-12 education, including \$149 million in formula changes (which includes statutorily-mandated inflation increase of 1.6%) and \$74 million for additional spending outside the mandated inflation increase. These adjustments were offset by \$(116) million from additional assistance reductions, \$(22) million from eliminating new performance funding program, and \$(20) million from reducing the state's liabilities for districts exceeding the 1% property tax cap.
- \$(108) million in decreased University funding, including \$(99) million for a lump sum reduction by campus.
- \$(17) million for reduced community college funding, including elimination of aid for Maricopa and Pima Counties.
- \$37 million in increased SFB spending, including \$24 million for a new school capital assistance program.
- \$(21) million in decreased AHCCCS spending, including \$11 million in new formula spending and a total of \$(26) million in provider reductions.
- \$(17) million in decreased DHS spending, including \$(4) million for Medicaid formula spending and \$(11) million in provider reductions.
- \$(5) million in decreased DCS spending, including \$(11) million to remove one-time increases and \$4 million for preventive services as specified in the FY 2015 budget, along with a \$(3) million decrease for eliminating a one-time reduction in the rollover. This amount was offset by \$8 million in services to address new caseload growth.
- \$33 million in ADC spending, including \$12 million for prison health costs, \$5 million for FY 2016 population growth, \$8 million to annualize the cost of medium and maximum security bed expansions, and \$14 million for retirement formula increases.
- \$(40) million in reductions to local jurisdictions, including \$(21) million for shifting DOR costs to counties and cities, \$(17) million for shifting DJC costs to

counties, and \$(2) million from eliminating pass-through aid to 3 counties.

- \$(41) million in technical estimates of net administrative adjustment spending and revertsments.

These agency estimates incorporate \$(16) million of savings from reducing employer health contributions to reflect lower costs.

*(See FY 2016 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)*

**General Fund Balance** – Based on \$9.10 billion in revenue and \$9.13 billion in spending, the FY 2016 General Fund cash balance is projected to be a \$(35) million shortfall. Since adjournment of the 1<sup>st</sup> Regular Session on April 3, General Fund revenue collections have been stronger than forecast. These gains have the potential to at least offset the \$(35) million shortfall.

Beyond its cash balance, a budget is also evaluated by the difference between ongoing revenues and expenditures. The state can have a cash balance but a shortfall in ongoing funds through the use of one-time revenue and/or expenditure savings. Ongoing spending is projected to exceed ongoing revenues by \$(276) million in FY 2016.

The state also faces uncertainty in terms of its spending level as a result of litigation. The primary example is the K-12 inflation lawsuit. In July 2014, the Maricopa Superior Court ruled that the state must “reset” the K-12 per pupil formula amount to adjust for inflation funding that was not provided during FY 2009-FY 2013. This “reset” would translate into increased K-12 spending of \$336 million in FY 2016. The FY 2016 budget did provide \$74 million in “extra” per pupil funding over and above normal inflation. If this \$74 million is counted toward the reset, the revised cost would be \$262 million. The plaintiffs and the state have been in discussions to resolve the litigation.

The ending balance estimates do not reflect the Budget Stabilization Fund (BSF) reserve. After an expected \$144 million FY 2015 transfer, the BSF is expected to have a balance of \$319 million at the end of FY 2016. The BSF transfer and resulting balance will be revised depending on the actual FY 2015 outcome.

**Long-Term Projections** – A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are based on existing statutory funding requirements, but also incorporate future-year changes, such as statutory changes with effective dates beyond the budget year.

Discussions on the FY 2016 budget included analyzing the impact of budget decisions on estimated FY 2017 and FY 2018 spending. The *Statement of General Fund Revenues and Expenditures* on page BH-6 incorporates the FY 2017 and FY 2018 estimates, which were initially based upon Baseline revenue projections and existing statutory funding requirements. Based on legislative guidance, the FY 2017 and FY 2018 estimates also include a) the continuation of FY 2016 initiatives which were considered to be ongoing, and b) new policy savings.

The figures reflected in the multi-year analysis on page BH-6 differ from the figures listed in the FY 2016 General Appropriation Act due to technical reasons such as the incorporation of bills with a fiscal impact signed into law after the passage of the budget bills. The General Appropriation Act gives JLBC Staff the authority to make such technical adjustments.

The General Appropriation Act forecasted total FY 2017 revenues to be \$9.27 billion and expenditures to be \$9.29 billion, with a \$(23) million shortfall. After accounting for legislation enacted separately from the budget and technical adjustments, FY 2017 revenues are projected to be \$9.24 billion compared to the same spending of \$9.29 billion. The FY 2017 shortfall is estimated to be \$(50) million, assuming the \$(35) million FY 2016 shortfall is separately resolved. The structural shortfall for FY 2017 is estimated to be \$(150) million.

The FY 2017 spending includes statutory formula caseload growth and annualization of new policy changes. FY 2017 ongoing revenues are primarily based on a 4-sector consensus growth rate of 4.4%, but also incorporate separately enacted tax law changes.

There are several changes approved as part of the FY 2016 budget which will affect spending starting in FY 2017. Changes affecting General Fund spending include:

- \$(40) million for eliminating the declining enrollment hold harmless provision for K-12 schools.
- \$(30) million for reducing overlapping K-12 regular district/Joint Technological Education District (JTED) spending.
- \$24 million for 1,000 new prison beds at ADC.
- \$(9) million for reducing the lifetime limit for DES welfare cases from 24 to 12 months.
- \$(21) million for hiring freeze and consolidation savings.

In addition, the FY 2017 projection includes the following changes that reflect savings from increases presumed in the JLBC Baseline:

- \$(18) million for reducing the maximum capitation rate increase for AHCCCS and DHS to 1.5%
- \$(30) million for not further increasing the amount of Highway User Revenue Fund (HURF) monies shared with local governments as passed in the FY 2014 budget. The FY 2015 budget originally increased local HURF funding by \$30 million in FY 2015 and FY 2016 and by \$60 million in FY 2017.

The General Appropriation Act forecasted FY 2018 revenues to be \$9.55 billion and expenditures to be \$9.52 billion, with a \$27 million surplus. After accounting for separately enacted legislation and technical adjustments, FY 2018 revenues are projected to be \$9.51 billion compared to the same spending of \$9.52 billion. The FY 2018 budget is estimated to have a \$(8) million shortfall, assuming the \$(50) million FY 2017 shortfall is separately resolved. The structural shortfall for FY 2018 is also estimated to be \$(8) million.

The FY 2018 spending includes statutory formula caseload growth. There are no new policy issues with incremental FY 2018 costs or savings. FY 2018 ongoing revenues reflect the 4-sector consensus base growth rate of 5.1%, further adjusted for previously enacted tax law changes.

Given the multiple years involved in these calculations, long-run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2016 through FY 2018 would change the ending balance calculations by \$575 million in the third year. As a result, these projections are subject to considerable change.

**Statement of General Fund Revenues and Expenditures 1/  
with One-Time Financing Sources**

	<u>FY 2015 Enacted</u>	<u>FY 2016 Enacted</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate</u>
<b>REVENUES</b>				
Ongoing Revenues	\$9,185,619,500	\$9,516,769,400	\$9,871,034,000	\$10,252,671,600
Previously Enacted Changes		(111,800,000)	(87,600,000)	(86,200,000)
Newly Enacted Changes	(19,800,000)	52,433,200	(24,116,600)	(21,800,000)
Urban Revenue Sharing	(608,935,700)	(605,634,300)	(616,849,700)	(631,335,300)
Net On-going Revenues	\$8,556,883,800	\$8,851,768,300	\$9,142,467,700	\$9,513,336,300
One-time Financing Sources				
Balance Forward	577,399,200	12,000,000		
Budget Stabilization Fund Transfer	144,281,200			
Tax Amnesty		15,000,000		
Fund Transfers	68,900,000	220,194,500	100,000,000	
Subtotal One-time Revenues	\$790,580,400	\$247,194,500	\$100,000,000	\$0
<b>Total Revenues</b>	\$9,347,464,200	\$9,098,962,800	\$9,242,467,700	\$9,513,336,300
<b>EXPENDITURES</b>				
Operating Budget Appropriations	\$9,321,780,500	\$9,169,439,300	\$9,331,723,100	\$9,567,694,500
Supplementals	(27,947,400)			
Administrative Adjustments	80,000,000	70,000,000	70,000,000	70,000,000
Revertments	(80,000,000)	(111,380,700)	(109,128,200)	(116,014,500)
Subtotal Ongoing Expenditures	\$9,293,833,100	\$9,128,058,600	\$9,292,594,900	\$9,521,680,000
One-time Expenditures				
Capital Outlay	\$41,631,100	\$6,200,000		
Subtotal One-time Expenditures	\$41,631,100	\$6,200,000	\$0	\$0
<b>Total Expenditures</b>	\$9,335,464,200	\$9,134,258,600	\$9,292,594,900	\$9,521,680,000
<b>Ending Balance <u>2/</u></b>	\$12,000,000	(\$35,295,800)	(\$50,127,200)	(\$8,343,700)
<b>Structural Balance <u>3/</u></b>	(\$736,949,300)	(\$276,290,300)	(\$150,127,200)	(\$8,343,700)
<b>Ending Balance (w/ K-12 Litigation) <u>4/</u></b>	N/A	(\$297,582,200)	(\$317,127,100)	(\$280,123,100)
<b>Structural Balance (w/ K-12 Litigation) <u>3/</u></b>	N/A	(\$538,576,700)	(\$417,127,100)	(\$280,123,100)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

2/ This calculation reflects the difference between total revenues and total expenditures. Excludes any Budget Stabilization Fund balance.

3/ This calculation reflects the difference between ongoing revenues and expenditures and excludes one-time adjustments. Excludes any Budget Stabilization Fund balance.

4/ Expenditures include the impact of the Maricopa County Superior Court ruling in the K-12 litigation which would require the state to "reset" the per pupil amount prospectively to adjust for foregone inflation in prior years. Estimate assumes \$74.4 million in "extra" base support in the FY 2016 budget is applied to the reset cost. Expenditures do not include "back payments" for K-12 inflation payments which did not occur in prior years, as the Superior Court has not issued a ruling on this matter. Ending balance estimates do not include any Budget Stabilization Fund balance.

**ENACTED GENERAL FUND SPENDING BY MAJOR BUDGET UNITS**

	<u>FY 2015 Enacted</u>	<u>FY 2016 Enacted</u>	<u>FY 2017 Estimate</u>	<u>FY 2018 Estimate</u>
<b>EXPENDITURES</b>				
Operating Budget				
-- Department of Administration	\$11,193,000	\$10,377,300	\$10,330,700	\$10,330,700
-- ADOA - Automation Projects Fund	35,500,000	7,783,000	5,000,000	5,000,000
-- ADOA - Dept. of Child Safety	25,000,000			
-- AHCCCS	1,274,403,200	1,205,162,300	1,239,080,000	1,285,084,400
-- Attorney General	23,465,100	23,623,700	23,495,800	23,495,800
-- Department of Child Safety	361,005,400	356,448,200	347,355,600	347,355,600
-- Commerce Authority	31,800,000	26,800,000	21,800,000	21,800,000
-- Community Colleges	71,906,400	55,045,300	55,580,500	56,449,900
-- Department of Corrections	996,845,600	1,029,900,600	1,050,559,200	1,050,559,200
-- County Funding	7,650,500	6,000,500	6,000,500	6,000,500
-- Department of Economic Security	479,290,300	496,181,900	513,764,400	544,386,800
-- Department of Education	3,808,392,700	3,889,519,500	4,014,290,300	4,170,895,500
-- Department of Environmental Quality	7,000,000	7,000,000	7,000,000	7,000,000
-- Department of Health Services	613,362,100	602,738,300	606,536,700	622,466,300
-- Judiciary	110,495,600	106,178,000	105,910,200	105,910,200
-- Department of Juvenile Corrections	44,165,900	26,984,600	26,574,000	26,574,000
-- State Land Department	12,509,800	12,520,500	12,456,800	
-- Department of Public Safety	89,324,900	93,374,800	93,170,700	93,170,700
-- Public Safety Personnel Retirement System	6,000,000	6,000,000	6,000,000	6,000,000
-- Department of Revenue	48,139,400	30,338,600	29,951,600	29,951,600
-- School Facilities Board	189,358,400	216,878,100	211,568,500	210,148,900
-- Office of Tourism	9,103,700	7,110,400	7,110,400	7,110,400
-- Universities	768,421,900	660,845,100	666,844,000	670,542,800
-- Department of Water Resources	13,330,300	12,803,100	12,758,300	12,758,300
-- All Other Budgets	169,543,600	165,245,100	164,702,300	158,889,800
-- Civic Center Payment	20,449,000	20,449,000	20,449,000	22,499,000
-- Rio Nuevo Payment	10,000,000	10,000,000	10,000,000	10,000,000
-- Asset Sale/Lease-Back Debt Service	84,123,700	84,114,600	84,117,400	84,115,100
-- Hiring Freeze/Consolidations			(20,700,000)	(20,700,000)
-- Unallocated Adjustments		16,800	16,200	(101,000)
Total - Operating Budget	<u>\$9,321,780,500</u>	<u>\$9,169,439,300</u>	<u>\$9,331,723,100</u>	<u>\$9,567,694,500</u>
-- FY 2015 Supplementals	(27,947,400)			
-- Capital Outlay	41,631,100	6,200,000		
-- Administrative Adjustments	80,000,000	70,000,000	70,000,000	70,000,000
-- Revertments	(80,000,000)	(111,380,700)	(109,128,200)	(116,014,500)
Total Spending	<u>\$9,335,464,200</u>	<u>\$9,134,258,600</u>	<u>\$9,292,594,900</u>	<u>\$9,521,680,000</u>

# ENACTED BUDGET 4-YEAR ANALYSIS <sup>1/</sup>

\$ in Millions

	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
1 <b>Beginning Balance</b>	\$ 577.4	\$ 12.0	\$ -	\$ -
2 <b>Revenues - January Baseline</b>	\$ 8,630.6	\$ 8,768.2	\$ 9,093.5	\$ 9,505.7
3 Base Revenue Adjustment		52.0	52.0	52.0
4 Fraud Detection		41.9	28.3	15.3
5 Insurance Fraud Assessment		0.5	0.5	0.5
6 Income Tax Inflation Indexing		<sup>2/</sup>	(15.4)	(24.7)
7 Increase Disproportionate Share Cap	11.0	16.5	8.6	
8 Insurance Premium Tax - Rate Reduction			(1.3)	(1.5)
9 Insurance Premium Tax - Retalitory Exemption		(1.5)	(1.5)	(1.5)
10 International Operations Center - TPT Exemption			(1.3)	(1.3)
11 IRS Conformity	(30.8)	(30.8)	(30.8)	(30.8)
12 Judiciary Transfers		6.0	6.0	6.0
13 Other Revenue Adjustments		(1.2)	3.9	(6.4)
14 <b>One-Time Revenues</b>				
15 Tax Amnesty		15.0		
16 <b>Fund Transfers</b>				
17 Budget Stabilization Fund Transfer	144.3			
18 ADOA - Health Insurance Trust Fund			100.0	
19 AHCCCS - Healthcare Group Fund		7.3		
20 Attorney General - Consumer Restitution Fund		5.4		
21 Attorney General - Mortgage Settlement	15.0			
22 Attorney General - S&P Settlement		16.0		
23 ACA - Competes Fund		75.0		
24 ACA - Job Training Fund		25.0		
25 Corp Comm. - Utility Regulation Fund		2.0		
26 Corrections - Special Services Fund		2.0		
27 Corrections - Inmate Store Proceeds Fund		2.5		
28 Corrections - Corrections Fund		1.3		
29 Corrections - Alcohol Abuse Treatment Fund		0.3		
30 Corrections - Building Renewal Fund		1.5		
31 Corrections - Correctional Industries Fund		0.5		
32 Corrections - Corrections Fund		1.1		
33 DES - Special Administration Fund		4.0		
34 ADE - State Facilities Fund		4.0		
35 ADE - Student Success Fund		2.4		

# ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

		FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
36	DEQ - Voluntary Vehicle Repair Fund		2.0		
37	DEQ - Air Quality Fund		5.5		
38	DEQ - Recycling Fund		2.5		
39	Housing - Housing Program Fund		5.0		
40	Parks - Off-Highway Vehicle Fund		4.0		
41	DPS - Highway Patrol Fund		5.2		
42	DPS - Fingerprint Clearance Fund		4.3		
43	ADOT - Economic Strength Fund		4.6		
44	ADOT - HELP Fund		20.0		
45	ADOT - State Aviation Fund		15.0		
46	ADOT - Motor Vehicle Liability Fund		2.0		
47	<b>Total Revenues</b>	\$ 9,347.5	\$ 9,099.0	\$ 9,242.5	\$ 9,513.3
48	<b>Base FY 15 Spending</b>	\$ 9,356.4	\$ 9,356.4	\$ 9,356.4	\$ 9,356.4
49	January Baseline Increase		90.2	427.5	730.8
50	<b>Total JLBC Baseline</b>	\$ 9,356.4	\$ 9,446.6	\$ 9,783.9	\$ 10,087.2
	<b>Changes to JLBC Baseline</b>				
51	ADOA - GAO Cost Shift		(0.6)	(0.6)	(0.6)
52	ADOA - Automation - AFIS Cost Shift		(6.9)	0.0	0.0
53	ADOA - Automation - ADE Funding		0.0	(5.4)	(5.4)
54	ADOA - Automation - DOR Projects		(1.7)	(1.7)	(1.7)
55	ADOA - Government Transformation Office		1.0	1.0	1.0
56	ADOA - Immigration Enforcement		(1.2)	(1.2)	(1.2)
57	ADOA - Named Claimants	0.2			
58	Agriculture - Nuclear Emergency Management Fund		0.2	0.2	
59	AHCCCS - Formula Changes to Baseline	(15.3)	(31.5)	(42.7)	(55.2)
60	AHCCCS - 1.5% Cap Rate (FY 17/FY 18)			(12.8)	(29.7)
61	AHCCCS - 5% Provider Rate Reduction		(25.7)	(34.2)	(34.2)
62	AHCCCS - Shift Dispro Share Pool 1 Match		(2.7)	(2.7)	(2.7)
63	AHCCCS - Ambulance Rate Reduction		(6.0)	(6.0)	(6.0)
64	AHCCCS - Inspector General Fraud Prevention		(1.3)	(1.3)	(1.3)
65	AHCCCS - Indiana Waiver 2% Premium/\$25 ER			(0.3)	(0.3)
66	Attorney General - Southern AZ Unit		1.2	1.2	1.2



# ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
67	Charter School Board - Remove One-Time Equipment	(0.1)	(0.1)	(0.1)
68	Charter School Board - Charter Renewal Funding	0.2	0.2	0.2
69	DCS - Permanency Caseload Growth	8.0	8.0	8.0
70	DCS - Increase Foster Care Rates	(2.0)	(2.0)	(2.0)
71	DCS - Revert Unused Transition Funding (5.5)			
72	ACA - Retain Mexico City Trade Office	0.3	0.3	0.3
73	ACA - Reduce Competes Fund Deposit	(5.0)	(10.0)	(10.0)
74	Comm Colleges - State Aid Reduction	(15.6)	(15.6)	(15.6)
75	ADC - 1,000 New Beds	0.0	24.2	24.2
76	ADC - Health Care Litigation	6.6	8.1	8.1
77	ADC - Health Care Changes	5.0	5.0	5.0
78	ADC - Non-Health Care Population Growth	1.6	1.6	1.6
79	ADC - Health-Care Population Growth	3.7	3.7	3.7
80	ADC - Expand Transition Program 300 Inmates	(0.3)	(0.3)	(0.3)
81	ADC - Retirement Adjustment	13.5	15.4	15.4
82	ADC - Leap Year	0.9		
83	Counties - Eliminate Pinal/Yavapai/Mohave Funds	(1.7)	(1.7)	(1.7)
84	Counties - Restore Graham \$	0.5	0.5	0.5
85	DES - Formula Adjustments 7.9		(1.4)	(1.5)
86	DES - TANF Reduce Cash Benefits From 2 Yrs to 1 Yr		(9.0)	(9.0)
87	DES - DD Room and Board	0.0	0.0	0.0
88	DES - Eliminate Rural Autism Parenting (0.3)	(0.3)	(0.3)	(0.3)
89	DES - Eliminate LTC Assisted Living (0.3)	(0.3)	(0.3)	(0.3)
90	DES - Shift Child Care to CCDF (4.0)	(4.0)	(4.0)	(4.0)
91	DES - Adult Protective Services Staff (11 FTE)	1.2	1.2	1.2
92	DES - Lump Sum	(2.0)	(2.0)	(2.0)
93	ADE - Formula Changes to Baseline	(5.0)	(12.0)	(12.0)
94	ADE - Base Level Increase	74.4	74.4	74.4
95	ADE - District Non-Classroom Reduction	(113.5)	(113.5)	(113.5)
96	ADE - Charter Additional Assistance Reduction	(3.0)	(3.0)	(3.0)
97	ADE - 3-Yr Multi-Site Charter Phase Out	(6.5)	(13.0)	(20.0)
98	ADE - 2-Yr District Sponsored Charter Phase-Out	(1.2)	(2.4)	(2.4)
99	ADE - Reduce IT Certification Funding	(1.0)	(1.0)	(1.0)
100	ADE - JTED Soft Capital	1.0	1.0	1.0
101	ADE - Shift Funding to Board of Education	(1.3)	(1.3)	(1.3)

# ENACTED BUDGET 4-YEAR ANALYSIS 1/

\$ in Millions

	FY 2015 Enacted	FY 2016 Enacted	FY 2017 Estimate	FY 2018 Estimate
102 ADE - Repeal Student Success Funding		(22.4)	(22.4)	(22.4)
103 ADE - 1% Property Tax Cap Limitations		(20.2)	(20.2)	(20.2)
104 ADE - Eliminate Declining Enrollment Hold Harmless			(40.0)	(40.0)
105 ADE - Reduce JTED/District Overlap			(30.0)	(30.0)
106 ADE - Alternative Teacher Development		0.5	0.5	0.5
107 ADE - Test Savings		(1.8)	(1.8)	(1.8)
108 Board of Education - Separate Budget Unit		1.3	1.3	1.3
109 DEMA - Nuclear Emergency Management Fund		1.4	1.4	
110 DEMA - Emergency Management Federal Match		1.5	1.5	1.5
111 DEMA - Navajo Camp Fund Shift		(1.0)	(1.0)	(1.0)
112 Forester - Environmental County Grants		0.1	0.1	0.1
113 DHS - Formula Changes to Baseline	(2.6)	(8.4)	(14.9)	(22.5)
114 DHS - 1.5% Cap Rate (FY 17/FY 18)			(5.1)	(12.2)
115 DHS - 5% Provider Rate Reduction		(11.4)	(15.2)	(15.2)
116 DHS - Indiana Waiver 2% Premium			(1.1)	(1.5)
117 DHS - State Hospital Increase		1.2	1.2	1.2
118 DHS - Eliminate School-Based Prevention Education		(0.3)	(0.3)	(0.3)
119 DHS - Eliminate Mental Health First Aid		(0.3)	(0.3)	(0.3)
120 DHS - Third Party Liability			(5.2)	(5.2)
121 Insurance - Fraud Investigations		0.5	0.5	0.5
122 Judiciary - Reduction (Ch. 276)		(3.6)	(3.6)	(3.6)
123 DJC - Local Cost Sharing		(12.0)	(12.0)	(12.0)
124 DJC - One-Time Shift from State Charitable Fund		(0.9)		
125 DJC - Admission Changes		(4.0)	(5.0)	(5.0)
126 Land - Self Fund Agency (Ballot Proposition)			0.0	(12.6)
127 Pioneers' Home - Fund Shift to Land Trust		(1.6)	(1.6)	(1.6)
128 DPS - Continue ACTIC Funding		0.8	0.8	0.8
129 DPS - Freeze HURF Shift			(30.0)	(30.0)
130 DPS - Retirement Adjustment		4.2	4.2	4.2
131 Racing - Eliminate Breeder Award		(0.3)	(0.3)	(0.3)
132 Rad Reg - Nuclear Emergency Management Fund		0.8	0.8	
133 DOR - Fraudulent Returns		3.2	3.2	3.2
134 DOR - Local Cost Sharing		(20.8)	(20.8)	(20.8)
135 SFB - New School Construction		1.5	0.7	
136 SFB - Access Our Best Public Schools		23.9	21.5	21.5

## ENACTED BUDGET 4-YEAR ANALYSIS <sup>1/</sup>

\$ in Millions

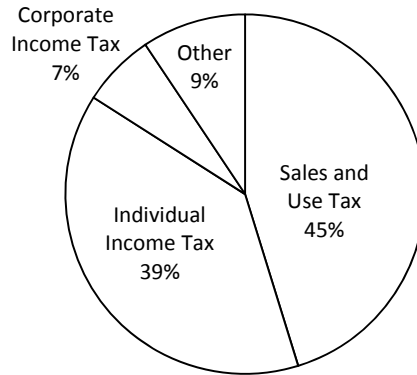
		FY 2015 Enacted		FY 2016 Enacted		FY 2017 Estimate		FY 2018 Estimate
137	SFB - Refinance					(1.7)		(1.7)
138	Universities - Funding Reduction			(99.0)		(90.8)		(90.8)
139	Veterans Services - Operating Costs			0.4		0.5		0.5
140	WIFA - Eliminate FY 15 Funding	(1.0)						
141	Water Resources - Water Banking Shift			(0.5)		(0.5)		(0.5)
142	Capital - Navajo Nation Highway Construction			1.2				
143	Capital - ADOA Building Renewal			5.0		0.0		0.0
144	Other - Hiring Freeze/Consolidations					(20.7)		(20.7)
145	Other - Administrative Adjustments			10.0		10.0		10.0
146	Other - Revertments			(26.4)		(9.1)		(16.0)
147	Other - Statewide AFIS Charge			1.9		1.9		1.9
148	Other - HITF Contribution Reduction			(16.2)		(32.4)		(32.4)
149	Other Spending Adjustments			0.5		0.4		0.4
150	<b>Net Spending Issues Below JLBC Baseline</b>	\$ (20.9)		\$ (312.3)		\$ (491.3)		\$ (565.5)
151	<b>Total Spending</b>	\$ 9,335.5		\$ 9,134.3		\$ 9,292.6		\$ 9,521.7
152	<b>Ending Cash Balance</b>	\$ 12.0		\$ (35.3)		\$ (50.1)		\$ (8.4)
153	<b>Structural Balance (Ongoing)</b>	\$ (737.0)		\$ (276.5)		\$ (150.1)		\$ (8.4)

<sup>1/</sup> A.R.S. § 35-125 requires the Legislature to delineate revenue and expenditure projections for 3 years (the budget year and 2 succeeding years) in each General Appropriation Act. This chart presents revenues and expenditures during that time period using the January JLBC Baseline as a starting point. All changes are stated relative to the JLBC Baseline.

<sup>2/</sup> FY 2016 impact of \$(6.1) M was part of the JLBC Baseline, as it was enacted by Laws 2014, Chapter 10.

### FY 2016 General Fund Revenue - Where It Comes From

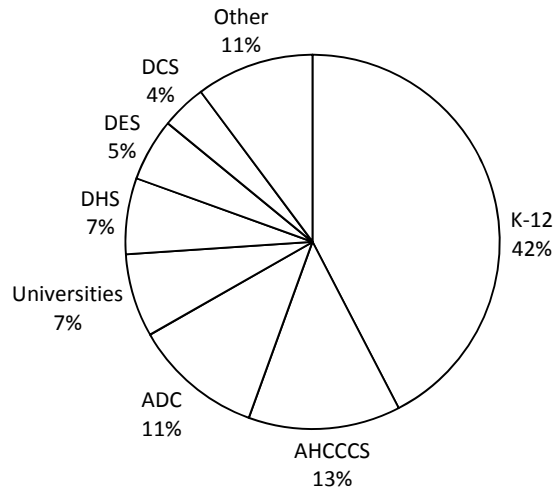
Source	Revenue (Millions)
Sales and Use Tax	\$ 4,276.3
Individual Income Tax	3,671.3
Corporate Income Tax	622.9
Other	886.9
<b>TOTAL REVENUE</b>	<b>\$ 9,457.4 <sup>1/</sup></b>



<sup>1/</sup> Includes all legislative revenue changes, but does not include beginning balance of \$12 million, urban revenue sharing, or other one-time revenue adjustments.

### FY 2016 General Fund Appropriations - Where It Goes

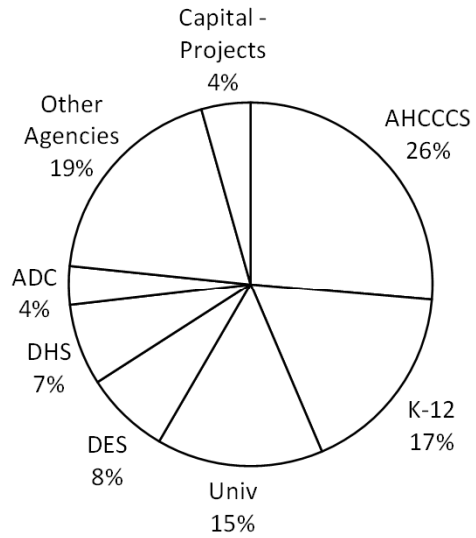
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 3,889.5
AHCCCS	1,205.2
Corrections	1,029.9
Universities	660.8
Health Services	602.7
Economic Security	496.2
Child Safety	356.4
Other Agencies	934.9
<b>TOTAL BUDGET</b>	<b>\$ 9,175.6 <sup>1/</sup></b>



<sup>1/</sup> Does not include administrative adjustments and revertments.

### FY 2016 Total Spending - All Sources 1/

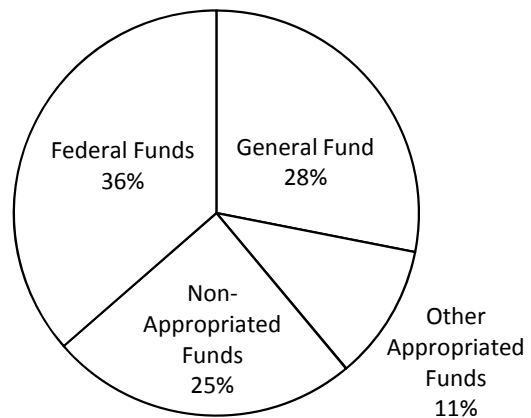
Budget Unit	Spending (Millions)
AHCCCS	\$ 8,610.6
Education (K-12)	5,623.7
Universities	4,833.7
Economic Security	2,463.6
Health Services	2,361.5
Corrections	1,136.7
Other Agencies	6,201.4
Capital - Projects	1,426.4
<b>TOTAL</b>	<b>\$ 32,657.6 <u>2/</u></b>



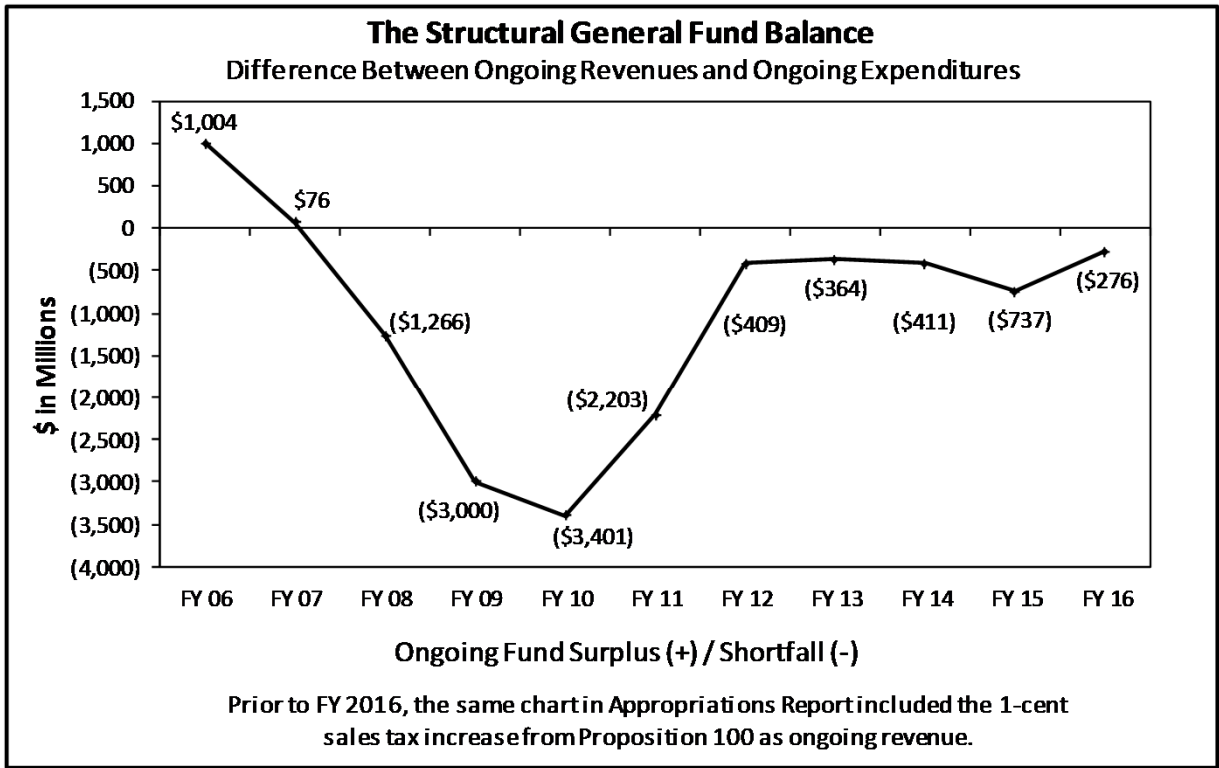
1/ Does not include administrative adjustments and revertsments.  
2/ Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

### FY 2016 Total Spending by Fund Source 1/

Fund Source	Spending (Millions)
General Fund	\$ 9,175.6
Other Appropriated Funds	3,537.2
Non-Appropriated Funds	8,056.2
Federal Funds	11,888.6
<b>TOTAL</b>	<b>\$ 32,657.6 <u>2/</u></b>



1/ Does not include administrative adjustments and revertsments.  
2/ Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

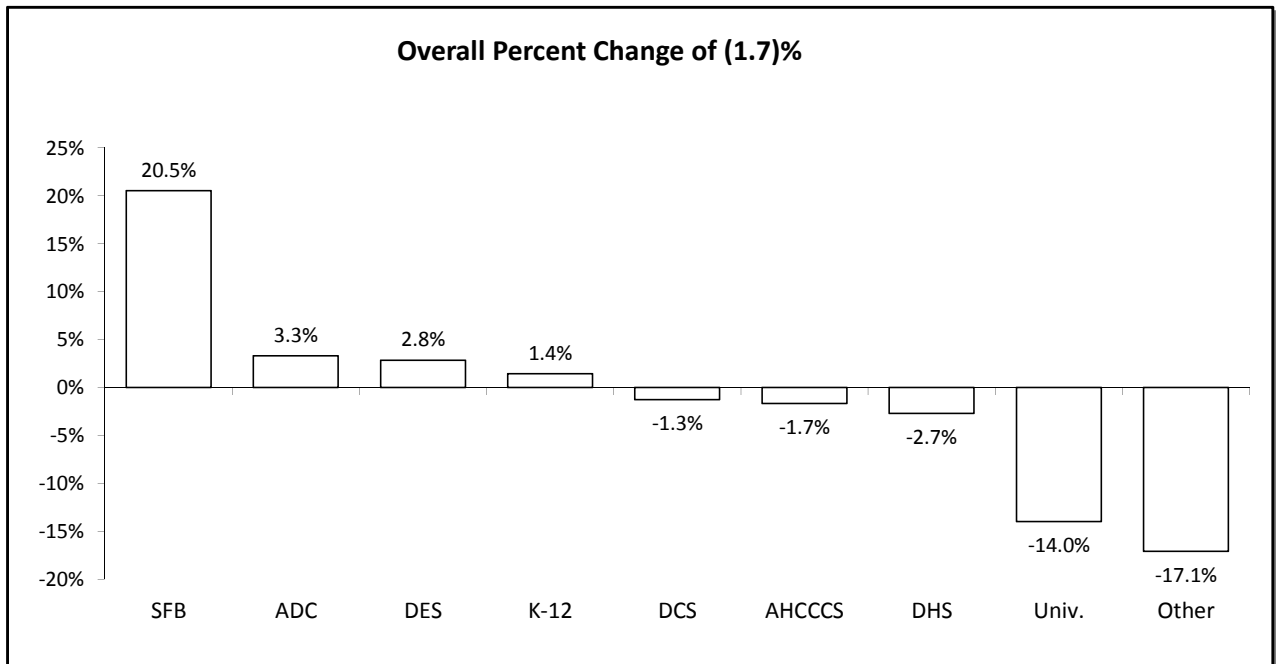
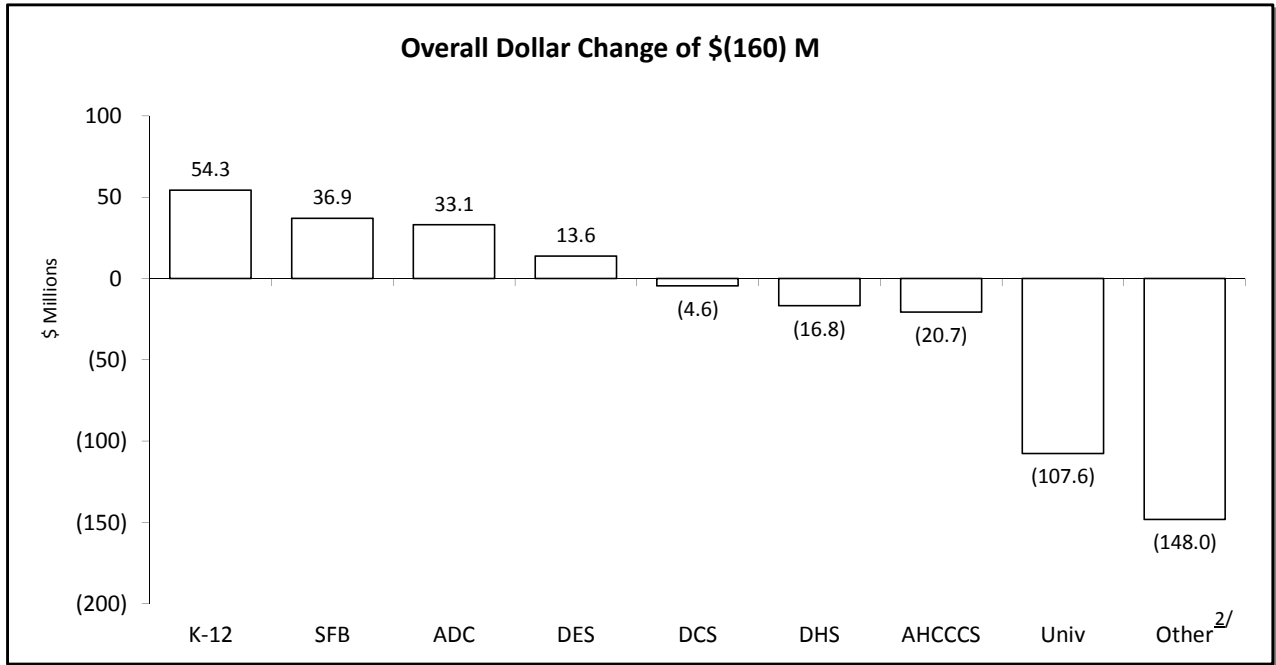


**Recent History of Appropriated Ongoing  
General Fund Structural Balance <sup>1/</sup>  
(\$ in Millions)**

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
2006	9,259	8,255	1,004
2007	9,624	9,548	76
2008	8,765	10,031	(1,266)
2009	6,967	9,967	(3,000)
2010	6,297	9,698	(3,401)
2011	7,191	9,394	(2,203)
2012	7,789	8,198	(409)
2013	8,144	8,508	(364)
2014	8,361	8,772	(411)
2015	8,557	9,294	(737)
2016	8,852	9,128	(276)

<sup>1/</sup> Excludes one-time revenues and expenditures.  
<sup>2/</sup> Prior to FY 2016, the same chart in Appropriations Reports included the 1-cent sales tax increase from Proposition 100 as ongoing revenue.

## Changes to Major Agencies' General Fund Budget 1/ FY 2015 to FY 2016



1/ Represents change in total General Fund spending from FY 2015 (including supplementals and ex-appropriations) to FY 2016. See page BD-5.

2/ Includes net revertsments \$(41.4) M, Capital \$(35.4) M, Automation Projects Fund \$(27.7) M, DCS start-up \$(19.5) M, DOR \$(17.8) M, DJC \$(17.2) M, and Community Colleges \$(16.9) M.

# FY 2016 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

## General Fund Balances

- Given forecasted FY 2016 General Fund revenues of \$9.13 billion and spending of \$9.13 billion, the budget had a projected FY 2016 balance of \$450,000 at the time of enactment. Given adjustments from subsequent legislation, the FY 2016 ending balance is projected to be \$(35) million.
- Under the 3-year budget plan, there was a projected ending shortfall of \$(23) million in FY 2017 and a balance of \$27 million in FY 2018. After subsequent legislation, the FY 2017 and FY 2018 ending balances are projected to be \$(50) million and \$(8) million, respectively.
- The budget transfers \$144 million from the state's Budget Stabilization Fund (BSF) to the General Fund, decreasing the BSF reserve to \$319 million. The ending balance projections exclude this reserve amount.

## General Fund Revenues

- Projected FY 2016 revenues are \$9.10 billion. While base revenues are forecast to grow in FY 2016, overall net revenues would decline by \$(249) million compared to FY 2015.
  - ⇒ Base revenues are projected to grow by \$351 million, or 3.8%. The JLBC 4-sector January Baseline presumed 3.3% growth.
  - ⇒ The beginning balance would decrease by \$(565) million, from \$577 million at the beginning of FY 2015 to \$12 million at the start of FY 2016.
  - ⇒ The state set-aside for urban revenue sharing formula distributions would decline from \$609 million to \$606 million, thereby increasing state revenue by \$3 million.
  - ⇒ Previously enacted tax and revenue legislative changes would reduce state revenue by \$(112) million, primarily from a reduction in corporate income taxes.
  - ⇒ Newly enacted changes would increase state revenue by \$69 million, including gains of \$42 million from enhanced tax fraud detection at the Department of Revenue, \$15 million from tax amnesty, \$6 million from an increased disproportionate share hospital cap, and \$6 million from ongoing Judiciary transfers.
  - ⇒ State revenue would be lowered by \$(2) million due to a change in insurance premium tax retaliatory exemptions.
  - ⇒ Fund transfers increased by a net amount of \$7 million. The budget shifts \$220 million from other funds to the General Fund in FY 2016, compared to \$213 million in FY 2015. The FY 2015 transfers included \$144 million from the BSF and \$69 million from various other funds.

## General Fund Spending

- FY 2016 General Fund spending is projected to be \$9.13 billion, a decrease of \$(201) million, or (2.2)% below FY 2015.
- The entire FY 2016 state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$32.6 billion.

## Education

### **Department of Education**

- ADE General Fund spending increases by \$54.3 million, or 1.4%, including:
  - ⇒ \$82.2 million for 1.4% student growth, for a total student count of 1,097,260.
  - ⇒ \$22.5 million for higher average cost per pupil due to special education and charter growth.
  - ⇒ \$87.0 million for a 1.59% inflation adjustment of per pupil base level, transportation and charter additional assistance.
  - ⇒ \$74.4 million for additional inflation funding.
  - ⇒ \$(38.3) million for an increase in property tax collections due to new construction.
  - ⇒ \$22.5 million for higher Homeowner's Rebate due to enacted property tax reductions.
  - ⇒ \$(24.5) million for eliminating funding of post-FY 2013 district sponsored charter school conversions (enacted in 2014).
  - ⇒ \$(1.2) million to fund "incremental monies" for pre-FY 2014 district sponsored charter schools at 50% for FY 2016, with the intent to eliminate all district charters in FY 2017.
  - ⇒ \$3.2 million for new voter-approved Yuma County JTED.
  - ⇒ \$(116.5) million for Additional Assistance reductions with the intent to increase total percentage spent on instruction, student support and instructional support.
  - ⇒ \$(1.0) million to eliminate funding of Information Technology certifications.
  - ⇒ \$1.0 million to increase JTED Soft Capital.



- ⇒ \$(1.3) million to shift funding to separate State Board of Education budget unit.
- ⇒ \$(22.4) million to repeal Student Success Funding.
- ⇒ \$(20.2) million to limit state responsibility when local property taxes exceed the constitutional 1% cap of a home's value.
- ⇒ \$0.5 million for Alternative Teacher Development.
- ⇒ \$(1.8) million for Achievement Testing costs.
- ⇒ \$(6.5) million for 3-year small school weight multi-site charter phase-out.
- ⇒ \$(3.0) million to eliminate one-time supplemental property tax settlement.
- ⇒ \$(2.3) million for miscellaneous.
- In FY 2017, ADE statutory changes include:
  - ⇒ \$(6.5) million for additional small school weight multi-site charter phase-out.
  - ⇒ \$(40.0) million to eliminate declining district hold harmless.
  - ⇒ \$(30.0) million to reduce JTED/District overlap.
- If the Superior Court ruling on the K-12 inflation litigation is upheld, ADE's budget would increase by another \$262 million in FY 2016 (if the \$74 million in additional inflation funding is applied to the cost). The Superior Court has held that the K-12 formula is to be adjusted for any foregone inflation payments between FY 2009 and FY 2013.

### **School Facilities Board**

- SFB General Fund spending increases by \$36.9 million, or 20.5%, including:
  - ⇒ \$23.9 million for new Access Our Best Public Schools Fund to facilitate capital financing for schools with waiting lists.
  - ⇒ \$11.6 million for increased debt service associated with past lease-purchase agreements.
  - ⇒ \$1.4 million for construction of a school in Benson, which qualifies under the state's funding formula.

### **Universities**

- The Universities' General Fund spending decreases by \$(107.6) million, or (14.0)%, including:
  - ⇒ \$(99.0) million for operating budget reductions.
  - ⇒ \$(2.5) million for previously appropriated adjustments from the refinancing of the lease-purchase payments for research infrastructure.
  - ⇒ \$(6.1) million for statewide adjustments (lower employer health insurance).
- Total university enrollment was 147,000 full-time equivalent students in the past year.

### **Community Colleges**

- Community College General Fund spending decreases by \$(16.9) million, or (23.5)%, including:
  - ⇒ \$(15.6) million to eliminate state aid for the Maricopa and Pima Districts, and partially suspend STEM and Workforce Programs State Aid for the Pinal District.
  - ⇒ \$(1.3) million for state aid formula adjustments.
- FY 2014 enrollment decreased by (5,832) full-time equivalent students, or (4.4)%, for a total enrollment of 128,085.

## **Health and Welfare**

### **Medicaid Agencies**

- All 3 Medicaid agencies are adjusted for the following funding formula factors: enrollment changes, an increase in the federal match rate, and a 3% capitation rate increase.

### **AHCCCS**

- AHCCCS' General Fund spending decreases by \$(20.7) million, or (1.7)%, including:
  - ⇒ \$11.3 million for Medicaid physical health formula adjustments, including a 0.4% enrollment increase.
  - ⇒ \$(25.7) million to reduce provider rates by (5)% in aggregate.
  - ⇒ \$(2.4) million to reduce ambulance reimbursements to 68.6% of DHS established rates.
  - ⇒ \$(1.3) million in net savings from increased fraud recovery.
  - ⇒ \$(2.6) million to reduce payments to private disproportionate share hospitals.
- The hospital assessment continues to fund the state AHCCCS costs of the Proposition 204 population and Adult Expansion.
- In FY 2017, AHCCCS capitation growth is limited to 1.5%, thereby saving \$12.8 million relative to a projected Baseline increase of 3%.

- The 3-year budget plan also includes anticipated savings from CMS approval of cost sharing changes recently adopted by Indiana that would require certain AHCCCS enrollees to pay a premium of up to 2% of their income and a \$25 co-pay to use the emergency room for non-emergency purposes. This policy change is estimated to generate savings of \$300,000 in FY 2017.
- AHCCCS enrollment is projected to grow to 1.61 million by June 2016. This level represents a caseload increase of 5,641, or 0.4%, above June 2015.

#### **Department of Health Services**

- DHS General Fund spending decreases by \$(16.8) million, or (2.7)%, including:
  - ⇒ \$(4.4) million for Medicaid behavioral health formula adjustments, including a 0.4% enrollment increase.
  - ⇒ \$(11.4) million to reduce provider rates by (5)% in aggregate.
  - ⇒ \$1.2 million to increase the Arizona State Hospital operating budget.
  - ⇒ \$(1.8) million to eliminate funding from Alzheimer’s Research, Mental Health First-Aid, and School-Based Prevention Education.
  - ⇒ \$(315,200) for statewide adjustments.
- In FY 2017, DHS capitation growth is limited to 1.5%, thereby saving \$5.1 million.
- The 3-year budget plan also includes anticipated savings from CMS approval of cost sharing changes recently adopted by Indiana that would require certain DHS enrollees to pay a premium of up to 2% of their income and a \$25 co-pay to use the emergency room for non-emergency purposes. This policy change is estimated to generate savings of \$1.1 million in FY 2017.

#### **Department of Child Safety**

- DCS General Fund spending decreases by \$(4.6) million, or (1.3)%, including:
  - ⇒ \$8.0 million for permanency caseload growth for adoption and permanent guardianship.
  - ⇒ \$4.0 million for preventive services funding.
  - ⇒ \$1.0 million to shift DCS-related funding from the Attorney General’s budget to DCS.
  - ⇒ \$270,800 to provide full-year funding for the Office of Child Welfare Investigation (OCWI) staff added in FY 2015.
  - ⇒ \$(1.5) million to eliminate one-time equipment funding for staff added in FY 2015.
  - ⇒ \$(2.0) million to increase teenage foster care rates, thereby facilitating the shift of these children out of more expensive group home placements.
  - ⇒ \$(3.0) million to eliminate one-time funding used to pay off a portion of the deferral.
  - ⇒ \$(10.7) million to eliminate one-time FY 2015 funding related to the backlog of 60-day non-active cases.
  - ⇒ \$(684,400) for statewide adjustments.
- The budget also removes \$(25.0) million in one-time funding to the Arizona Department of Administration (ADOA) for costs associated with the establishment of DCS and \$(5.0) million for the child welfare automated system.

#### **Department of Economic Security**

- DES General Fund spending increases by \$13.6 million, or 2.8%, including:
  - ⇒ \$14.9 million for Medicaid Developmental Disability formula adjustments, including a 4.5% enrollment and 3% capitation rate increase in FY 2016.
  - ⇒ \$1.2 million for Adult Protective Services caseload growth.
  - ⇒ \$(500,000) for removal of one-time Homeless Capital Grant funding.
  - ⇒ \$(2.0) million for a lump sum reduction to the DES operating budget.

### **Criminal Justice/Public Safety**

#### **Department of Corrections**

- ADC General Fund spending increases by \$33.1 million, or 3.3%, including:
  - ⇒ \$13.5 million for an employer retirement rate increase.
  - ⇒ \$11.6 million for prison health care.
  - ⇒ \$7.6 million for annualizing the costs of the 500 private medium-security beds and 500 maximum-security beds that opened this past winter.
  - ⇒ \$5.3 million for population growth.
  - ⇒ \$929,000 for leap year costs.
  - ⇒ \$(300,000) in savings from increased participation in the prisoner transition program.
  - ⇒ \$(5.5) million for statewide adjustments (lower employer health insurance).

- The total public and private population is projected to be 43,478, or a growth of 953 inmates above FY 2015. ADC would have a permanent bed shortfall of (5,297) in June 2016. The shortfall would be offset with the availability of 5,478 temporary beds.

#### **Department of Juvenile Corrections**

- DJC General Fund spending decreases by \$(17.2) million, or (38.9)%, including:
  - ⇒ \$(12.0) million for county cost sharing.
  - ⇒ \$(4.0) million for lower staffing costs associated with a declining committed population, including new limits on individuals who are younger than 14 years of age and have no felony convictions.
  - ⇒ \$(901,400) for a one-time cost shift to the State Charitable, Penal and Reformatory Institutions Land Fund.
  - ⇒ \$(279,900) for statewide adjustments.

#### **Judiciary**

- Judiciary General Fund spending decreases by \$(4.3) million, or (3.9)%, including:
  - ⇒ \$(500,000) for the elimination of one-time funding.
  - ⇒ \$(3.6) million for general reductions in agency operating budgets and probation funding.
  - ⇒ \$(227,100) for statewide adjustments.

#### **Department of Public Safety**

- DPS General Fund spending increases by \$4.0 million, or 4.5%, mostly due to an employer retirement rate increase.

### Local Issues

#### **Department of Revenue**

- DOR General Fund spending decreases by \$(17.8) million, or (37.0)%, mostly due to shifting tax collection costs to participating counties, cities, and regional governments.

#### **Counties and Cities**

- The budget includes a decrease of \$(1.7) million, or (21.6)%, in reduced cash payments from the General Fund to county governments. Mohave, Pinal, and Yavapai Counties would no longer receive \$550,000 (Maricopa and Pima Counties are already excluded). Each county receives \$550,000 except Maricopa, Pima, Pinal, Yavapai, and Mohave. The budget also continues the extra allocation of \$500,000 to Graham County.
- The budget includes a decrease of \$(12.0) million for the county cost share of DJC operating costs.
- The budget includes a decrease of \$(20.8) million to participating counties, cities, and regional governments for DOR cost sharing.
- The budget includes a decrease of \$(3.3) million, or (0.5)%, for lower urban revenue sharing payments to city governments. Total funding is \$605.6 million.

### General Government

#### **Automation**

- The budget includes \$24.8 million for large-scale automation projects. Of this amount, \$7.8 million is financed from the General Fund and \$17.0 million is financed from Other Funds. The \$24.8 million FY 2016 amount includes the following:
  - ⇒ \$9.5 million for technology projects at ADOA.
  - ⇒ \$7.0 million for ADE's IT project, the Education Learning and Accountability System (ELAS).
  - ⇒ \$5.0 million for projects to enhance e-licensing at ADEQ.
  - ⇒ \$2.4 million for the final year of a 4-year project to replace the state's financial and accounting system.
  - ⇒ \$936,000 for projects to enhance IT security at DES.

#### **Arizona Commerce Authority**

- ACA General Fund spending decreases by \$(5.0) million, or (15.7)%, due to a reduction in the Arizona Competes Fund deposit.

#### **Payment Deferral**

- The budget continues to defer \$1.2 billion in General Fund spending from FY 2015 to FY 2016, including:
  - ⇒ \$931 million of school district payments.
  - ⇒ \$200 million of payments to the University system.

- ⇒ \$21 million of DES payments.
- ⇒ \$11 million of DCS payments.

#### **Revertments**

- The budget sets the projected revertment level at \$(111.4) million, compared to \$(80.0) million in FY 2015. (Revertments are unspent appropriations.)
- FY 2016 Administrative Adjustments are forecast to be \$70.0 million, compared to \$80.0 million in FY 2015.

#### **State Employee Issues**

#### **FTE Positions**

- The budget increases the Full-Time Equivalent (FTE) ceiling by 128.1 Positions in FY 2016. The Department of Economic Security is adding 58.1 FTE Positions due to caseload growth. The DES base has been adjusted for 207 existing positions that were previously covered by vacant Department of Child Safety positions.
- These adjustments bring the total appropriated FTE Position ceiling to 50,815.8

#### **Employee Pay and Salary Issues**

- In the Arizona State Retirement System, both employer and employee contribution rates will decrease from 11.60% to 11.47%.
- Employer and employee retirement contribution rates will increase in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP).
  - ⇒ The employer contribution rate increases in PSPRS and CORP are primarily due to the *Fields v. Elected Officials' Retirement Plan* litigation, which restored the prior formula for permanent benefit increases.
  - ⇒ In PSPRS, the FY 2016 increase in the aggregate employer contribution rate will be 8.8%; the employee contribution rates will increase by up to 0.6% as part of prior-year retirement legislation.
  - ⇒ In CORP, the FY 2016 increase in the aggregate employer contribution rate will be 3.8%; the employee contribution rates will remain same.
- In the Elected Officials' Retirement Plan, both employer and employee contribution rates will remain the same as the rates are fixed in statute.
- The FY 2016 budget includes \$17.7 million from the General Fund and \$9.6 million in Other Appropriated Funds to fund the increased PSPRS and CORP employer contribution rates in ADC and DPS, respectively. The increases for employer contributions for PSPRS and CORP are detailed in their respective agencies above.

#### **Capital**

- The budget includes \$5.0 million from the General Fund for ADOA building renewal projects, compared to \$9.0 million in General Fund support in FY 2015. The \$5.0 million will be supplemented with \$9.0 million in non-General Fund monies.
- The budget includes \$1.2 million from the General Fund to fund road construction within the Navajo Nation.
- The budget removes funding that was used to complete 500 maximum-security prison beds operated by the Department of Corrections. The Department of Corrections opened these beds in December 2014.
- The budget includes no funded adjustment for lease-purchase and privatized lease-to-own payments changes, and also includes no adjustment for rent charges. All changes will be funded from existing agency appropriations and will have no corresponding change in agency funding levels.

Table 4

**FY 2016 FUNDING FORMULA SUSPENSIONS 1/**

	<u>FY 2016 Formula Requirement</u>
<b><u>Statutory</u></b>	
Community Colleges - STEM and Workforce Programs State Aid Suspension	\$ 813,000 <u>2/</u>
Department of Education - District Additional Assistance	352,442,700 <u>3/</u>
Department of Education - Charter School Additional Assistance	18,656,000
Department of Education - Large JTEDs at 95.5%	1,747,400 <u>4/</u>
Department of Environmental Quality - WQARF	8,000,000
Department of Health Services - Restoration to Competency (RTC)	900,000 <u>5/</u>
Department of Health Services - Sexually Violent Persons (SVP)	3,021,400 <u>6/</u>
Department of Public Safety - Highway User Revenue Fund (HURF)	86,812,300 <u>7/</u>
Universities - Financial Aid Trust	<u>14,669,600</u>
 Total - FY 2016 Statutory Funding Formula Suspensions	 \$ 487,062,400
 <b><u>Non-Statutory</u></b>	
Department of Administration - Building Renewal	\$ 22,080,400
Department of Corrections - Building Renewal	12,121,000
Universities - Building Renewal	<u>115,892,800</u>
 Total - FY 2016 Non-Statutory Funding Formula Suspensions	 \$ 150,094,200

1/ Represents the cost of funding formulas that are currently suspended on an annual basis.

2/ Represents partial suspension of Pinal formula.

3/ Excludes approximately \$29 million suspended in non-state aid districts, which are not funded through the state budget.

4/ Estimate based on FY 2015 data. Affects only Maricopa and Pima County Joint Technical Education Districts (JTEDs).

5/ Excludes costs that counties incur to treat RTC patients in alternative facilities.

6/ Reflects estimate of remaining costs to counties for SVP care.

7/ This amount is in addition to the \$10 million allocated to DPS from the HURF pursuant to A.R.S. § 28-6993.