
Preview of Session Revenue and Budget Issues

January 14, 2025



The Starting Point for FY 26 Budget Discussions

- The details on the JLBC Baseline will be released on Friday, January 17th.
 - Includes updated revenue forecast as well as statutory spending projections.
 - The Baseline is also consistent with the guidance in the FY 25 budget's 3-year spending plan.
- The Executive budget details will also be released on the 17th.
- The Chairman asked that we provide a perspective on several issues prior to the release of the JLBC Baseline and the Executive budget.

Presentation Topics

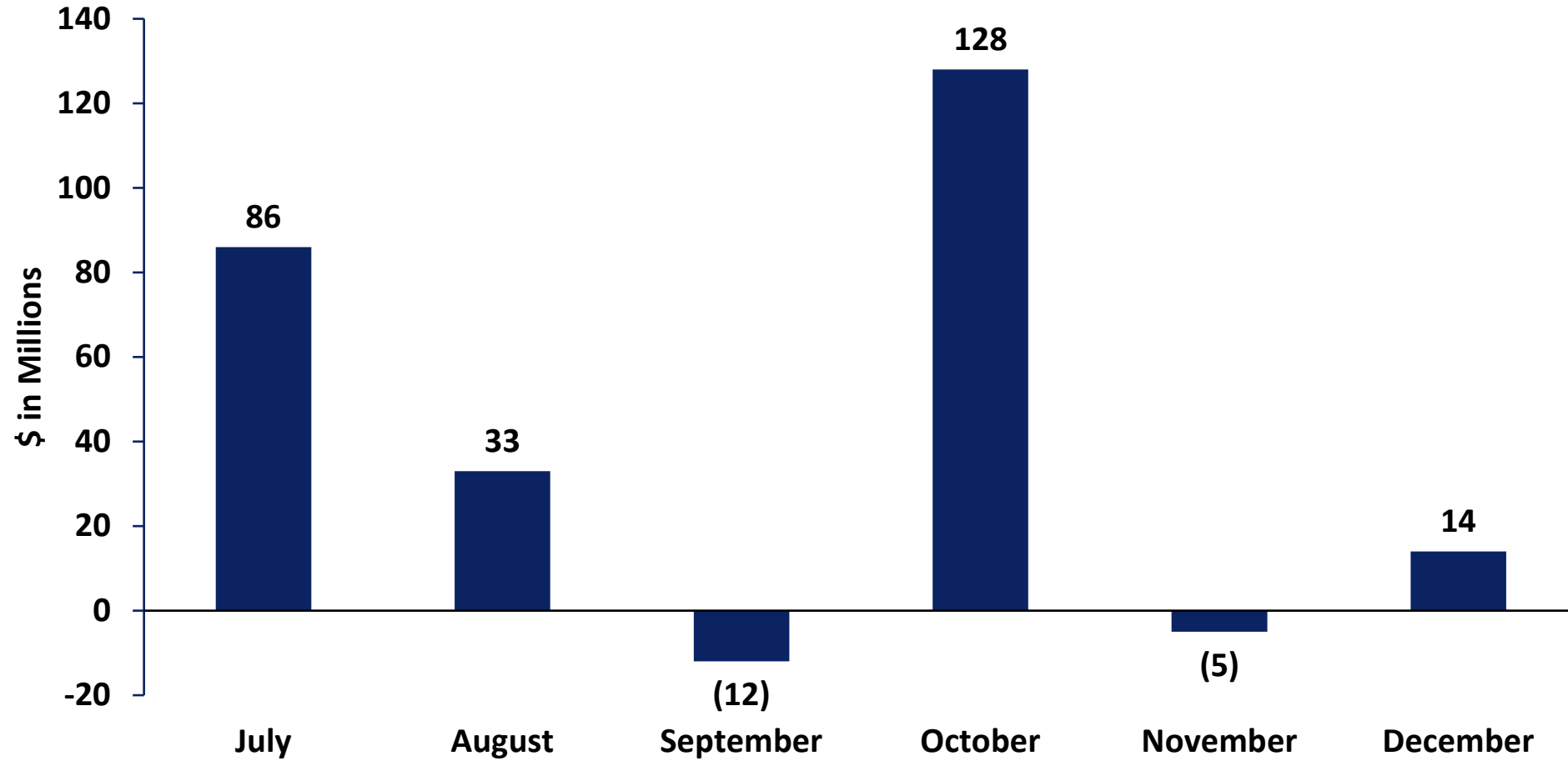
- Status of Year-to-Date Revenues
- Available Resources for the FY 26 Budget
- Other Potential FY 26 Budget Considerations
- One-time Funding in the FY 2025 Budget

Since Sine Die – FY 24 Revenues Were \$425 M Above Forecast

- 1st Half of FY 25 – 6.3% Growth and \$244 M Above Enacted Budget Forecast

- Of the \$425 M FY 24 forecast gain, \$259 M (60%) was generated from non-tax revenues.
 - Primary contributor was a one-time \$145 M gain in Medicaid “reconciliation payments” for operating the program at levels below the capitation rates.
- Of the \$244 M 1st half gain:
 - \$126 M from Individual Income Tax, including a 7.4% withholding increase.
 - \$97 M from 11.2% Corporate Income Tax growth.
 - \$(4) M from lower-than-expected 3.4% Sales Tax growth.

Monthly Revenue Forecast Gain/Loss Compared to Enacted Budget



Potential Level of Available Resources

- Based on our January estimates, we anticipate that the Baseline FY 26 General Fund balance will be \$935 M.
- We suggest setting aside at least \$50 M of that amount for an ending balance.
- The \$935 M excludes two traditional “ongoing one-time” funding items
 - \$183 M for School Facilities repairs (AKA building renewal)
 - \$140 M for the additional subsidy of the State Employee Health Insurance Trust Fund (beyond the regular employer contribution).
- If we adjust for these 2 factors, available resources are near \$560 M.

Further Comments on Available Resources

- There are multiple options for allocating the \$560 M in FY 26 such as:
 - All \$560 M for one-time initiatives
 - \$125 M for ongoing and \$435 M for one-time initiatives
- Depending on the desired level of risk, “allocating resources” can also mean leaving more than \$50 M in the ending balance.
- The available resources exclude the \$1.6 B in the state’s Budget Stabilization Fund (AKA the Rainy Day Fund).

Other Potential FY 26 Budget Considerations

- Litigation Requirements
 - Funding of School Capital Issues
 - Prison Health Care
- Federal Budget Changes
- New Legislature/New Issues/Executive Proposals
- Interest in Continuation of One-time FY 25 Funding Issues

SUMMARY OF FY 2025 ONE-TIME GENERAL FUND ADJUSTMENTS

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1	"Traditional" Ongoing One-Time Expenditures	
2	ADOA/SFD - Building Renewal Grants	183,300,000
3	ADOA - State Employee Health Care Employer Premium Subsidy	140,000,000
4	Subtotal - Ongoing One-Time Spending	323,300,000
5	All Other FY 2025 One-Time Funding	
6	ADOA - Navajo Nation Household Electrical Connections	1,000,000
7	ADOA/APF - AHCCCS Mainframe Replacement Initiative	3,396,000
8	AHCCCS - Critical Access Hospitals Supplemental Pool	4,200,000
9	AHCCCS - Case Management Provider Wage Increases	1,000,000
10	Arts Commission - Arts Trust Fund Deposit	2,000,000
11	DCS - Children and Family Supports Contract	5,500,000
12	DCS - Healthy Families	12,500,000
13	Commerce - Small Business Center Grants	500,000
14	DES - Area Agency on Aging	2,000,000
15	DES - Low-Income Food Services for Tribal Reservations	250,000
16	DES - Navajo Nation Women's Shelter and Social Services	500,000
17	DES - Navajo Nation Tribal Youth Programs	500,000
18	DES - Nutrition, Housing and Rental Assistance Programs (Pinal County)	500,000
19	DES - Pascua Yaqui Tribe Social Services Program	1,000,000
20	DES - Food Distribution for Low-Income Individuals (Cochise County)	1,000,000
21	DES - DD Job Training and Life Skills Services (Rural Counties)	1,000,000
22	DES - DD Group Home Monitoring Pilot	1,200,000
23	DES - Child Care Network Funding	12,000,000
24	ADE - Live Remote Instruction (Within College Credit Program)	100,000

SUMMARY OF FY 2025 ONE-TIME GENERAL FUND ADJUSTMENTS

25	ADE - Center for High School Success	1,000,000
26	ADE - Remove Co-Pays for School Meals	3,800,000
27	ADE - Fund Continuing High School Workforce One-Time	4,000,000
28	ADE - Fund Comm College Adult Education One-Time	4,000,000
29	ADE - Fund Adult Workforce Diploma One-Time	4,000,000
30	ADE - English Language Learner Achievement Testing Funding	5,000,000
31	ADE - Arizona Holocaust Education Center	7,000,000
32	ADE - 3rd Year of Incremental Low Income Weight	37,000,000 <u>1/</u>
33	ADE - 3rd Year of Incremental Additional Assistance	29,000,000 <u>1/</u>
34	ADE - K-12 Mental Health Telehealth Pilot	2,000,000
35	ADE - Low Income After School Program Grants	2,000,000
36	DEMA - Hazard Mitigation Assistance	462,900
37	DEQ - Zero Emissions Heavy-Duty 8-Ton Pilot Program	1,000,000
38	Forestry - Fire Suppression	5,000,000
39	Gaming - Racing Purse Enhancement	4,000,000
40	Gaming - Racetrack Capital Projects and Maintenance/Operations	1,500,000
41	DHS - Preceptor Grant Program for Graduate Students	500,000
42	DHS - Licensing Compliance Funding	1,202,400
43	DHS - Low Income/Underserved Women Preventative Health Services	500,000
44	DHS - Counseling Services for Parents of Deceased Children	500,000
45	DHS - Heat Mitigation in Southern Arizona	500,000
46	DHS - Southern Arizona Counseling and Community Service Grants	1,000,000
47	DHS - Senior Health Promotion and Coordination (Santa Cruz County)	1,000,000
48	AZ Dept. of Homeland Security - Cybersecurity Programs	200,000
49	Housing - Housing Trust Fund Deposit	15,000,000
50	Judiciary - Supreme Court - Digital Evidence Software	280,000

SUMMARY OF FY 2025 ONE-TIME GENERAL FUND ADJUSTMENTS

51	Parks - Arizona Trail Fund Deposit	100,000
52	DPS - Local Border Support	4,000,000
53	SOS - One-Time Operating Funding	1,000,000
54	SOS - Primary/General Election Funding	3,900,000
55	Treasurer - Election Security Funding	6,000,000
56	Universities - ABOR - Teachers Academy Funding	1,000,000
57	Universities - ASU - Operating Funding	21,200,000
58	Universities - NAU - Operating Funding	10,100,000
59	Universities - UA - Operating Funding	14,700,000
60	Veterans' Services - Veterans Center Funding	500,000
61	Other - Statewide Fleet Adjustments	3,299,000
62	Subtotal - All Other FY 2025 One-Time Funding	\$ 247,390,300
63	Total - FY 2025 One-Time Funding	\$ 570,690,300

1/ Based on the FY 2025 budget, ongoing funding for these items is restored beginning in FY 2028.