
FY 2026 JLBC Baseline with Executive Comparison

January 21, 2025



Key Points

- 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).

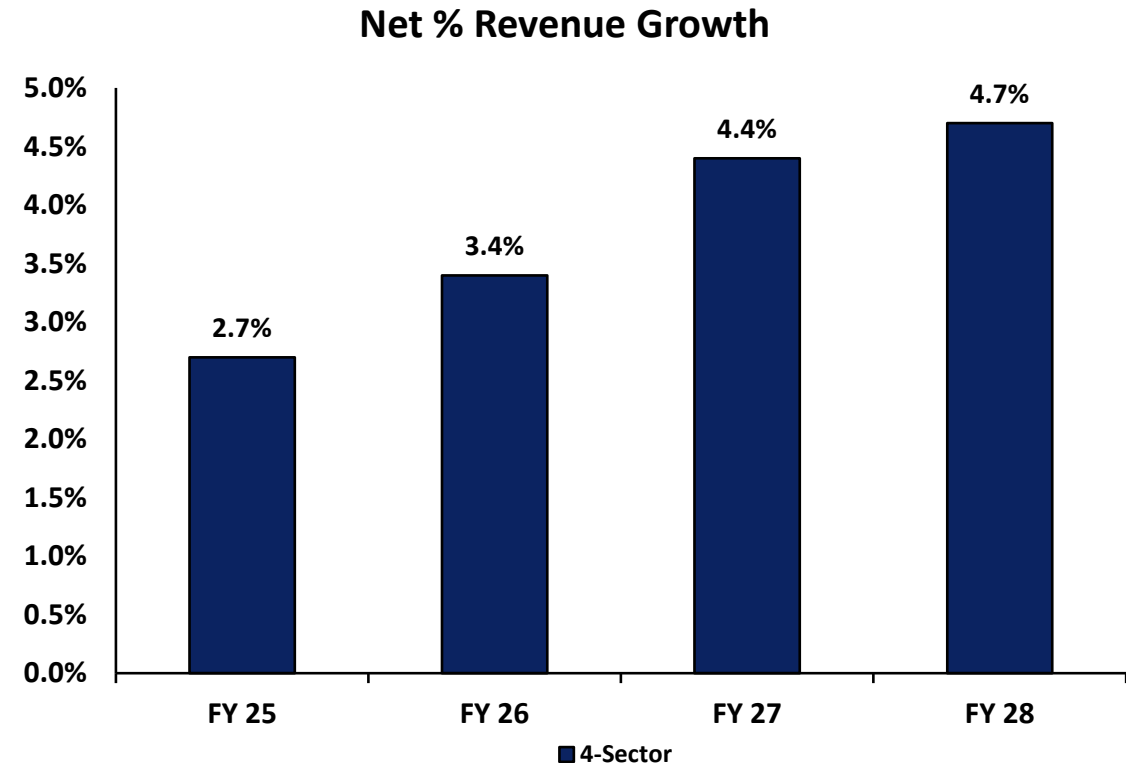
Forecasting State Revenues

4-Sector: Slow 2.7% Growth in FY 25

- With Gradual Improvement from FY 26 through FY 28

4-Sector Components

- Finance Advisory Committee
- UA model – base forecast
- UA model – more cautious
- JLBC Staff



Excludes balance forward, fund transfers and urban revenue sharing

See Appendix A and B

JLBC – Executive Revenue Differences

- Executive is \$360 M above JLBC in FY 25 - FY 28

	(\$ in M) <u>Exec > JLBC</u>
FY 25	56
FY 26	126
FY 27	92
FY 28	86

This revenue comparison excludes Executive proposed tax law/revenue changes:

- Executive extends the Low-Income Housing Tax Credit another 6 years (otherwise expires in 2025). The \$4 M annual cap would increase to \$10 M per year for 10 years. Maximum annual cap cost would eventually reach \$60 M.
- Executive creates a new Child Care Corporate Tax Credit with \$1 M cost.
- Executive transfers \$75 M from Prescription Drug Rebate Fund to the General Fund.

Spending Adjustments

Baseline Spending Projections

- Baseline reflects changes to active statutory/other funding formulas.
 - ADE, Medicaid and the Community Colleges.
- Follows guidance of the enacted budget 3-year plan in terms of \$715 M in one-time FY 25 spending:
 - Of that amount \$500 M was deleted in the FY 26 estimates.
 - \$215 M was retained in FY 26, primarily for K-12 new school construction (\$151 M) and private prison rate increases (\$54 M).

FY 26 Baseline Spending Projected To Increase By \$557 M

FY 26 Ongoing Spending Relative to FY 25	
	<u>\$ in M</u>
A. ADE – K-12 Formula	596
B. Medicaid Formula	382
C. Other	<u>(16)</u>
D. Total	962
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Total Spending Changes	\$557 M
Total Spending	\$16,647 M
% Change	3.5%

FY 26 One-Time Spending Relative to FY 25	
	<u>\$ in M</u>
E. K-12 Building Renewal Grants	(183)
F. State Employee Health Insurance	(140)
G. ADE/DES Formula Supplementals	(240)
H. Eliminate One-Time Ex-Appropriations	335
I. Other Agency Spending	<u>(177)</u>
J. Total	(405)

Executive Caseloads Are \$(153) M Below JLBC in FY 25 and FY 26

- Exec is \$(846) M Below JLBC in FY 27/FY 28 Due to No AHCCCS Formula Growth

Executive Caseload Forecasts Above (+)/Below(-) JLBC Baseline (\$ in M)

	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>
Medicaid – AHCCCS	(24)	(171)	(339)	(507)
Medicaid – DES	33	59	51	110
ADE (Includes ESAs Prior to Exec Proposal)	—	—	—	—
Exec Below JLBC	(54)	(99)	(253)	(426)

What is Causing the \$596 M FY 26 K-12 Spending Increases?

	<u>\$ in M</u>
1) Backfill Loss of Prop 123 Land Endowment distribution	286
2) 2.0% Inflation Increase	167
3) ESA Growth – 12,000 new pupils in FY 25 and 9,000 in FY 26 - Original budget cost of \$822 M in FY 25; projected FY 26 cost of \$1 B	180
4) (1.2)% District/Charter Enrollment Decline - 57% ESA switcher rate accounts for (0.6)% of the (1.2)% decline	(58)
5) Annualize growth in higher-cost students (e.g. special education)	43
6) Property Taxes from New Construction/Homeowner's Rebate	<u>(22)</u>
7) Total	596

FY 2025 Adjustments

- Exec - JLBC Comparison

FY 25 Adjustments – Supplementals (\$ in M)			
		<u>Exec</u>	<u>JLBC</u>
A.	ADE – One-Time <i>Qasimyar</i> Settlement	65	61
B.	ADE – Ongoing Formula	36	103
C.	DES – Ongoing Higher DD Rates	<u>109</u>	<u>76</u>
D.	Total – Formula	210	240
E.	DCS – Backfill Congregate Care Fed Funds	29	-
F.	DES – DD High-Cost Clients	13	-
G.	ADC – Prison Health Care Injunction and Unpaid Bills	16	-
H.	ADOA – Risk Management Fund Deposit	50	-
I.	Forestry – Fire Expenses Reimbursement	7	-
J.	Other	<u>25</u>	<u>=</u>
K.	Total – Non-Formula	140	-

FY 25 Adjustments – Ex-Appropriations (\$ in M)			
		<u>Exec</u>	<u>JLBC</u>
L.	One-Time Medicaid Enhanced Match (AHCCCS/DES/DCS)	(217)*	(259)
M.	AHCCCS – Ongoing Caseload Savings	<u>0</u>	<u>(76)</u>
N.	Total – Formula	(217)	(335)

* Executive accounts for these savings in a different manner; does not ex-appropriate this amount

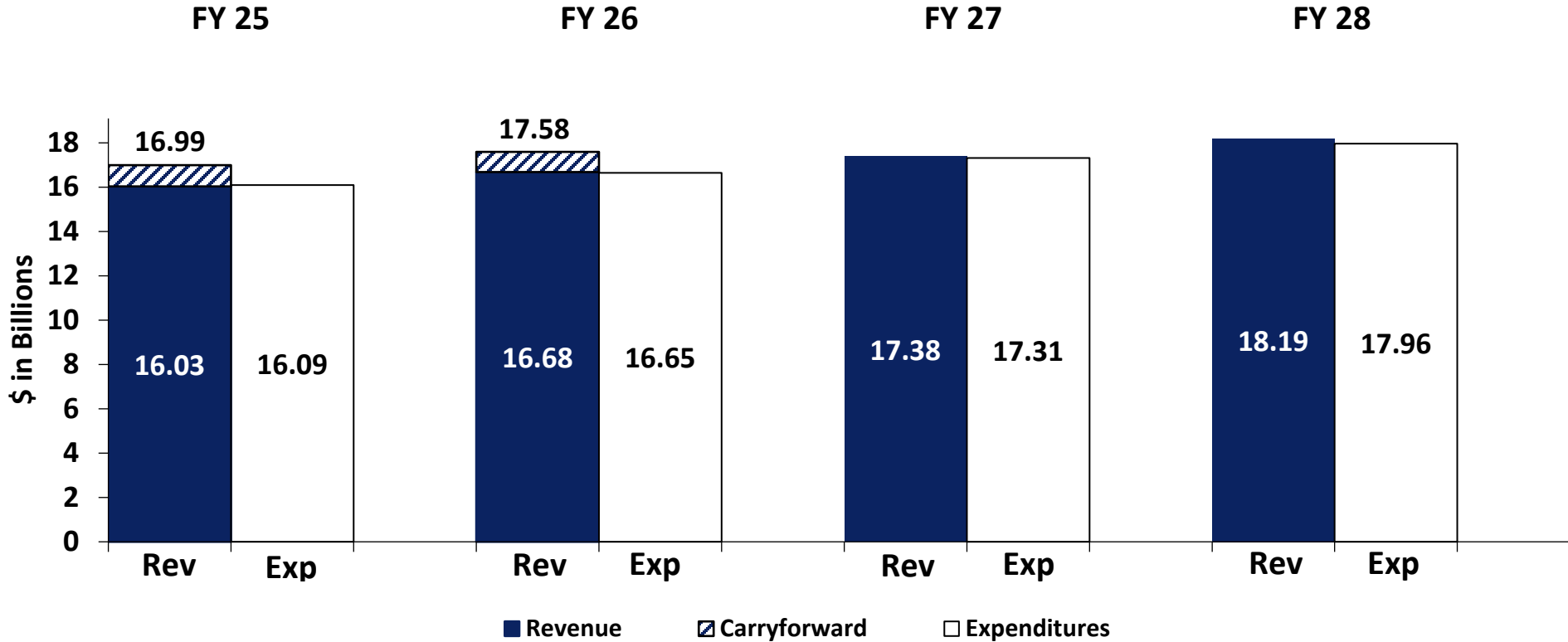
Projected Ending Balances

Excludes \$1.6 B in Budget Stabilization Fund

More Information in Appendix C

Projected FY 26 Balance is \$935 M

- Balance Would be \$560 M after Adjustments for a Reserve/Ongoing One-Times



Cash Balance

\$904 M

\$935 M

\$68 M

\$221 M



Executive Budget

Executive Adds \$437 M of Ongoing FY 26 Initiatives

- Above JLBC Baseline

(\$ in M)	
47	State Employee Salary Increase (Primarily ADC/DPS)
23	Eliminate Universities' Lump Sum Reduction from Last Session
46	Continue University FY 25 1-Time Funding As Ongoing (Exec Will Adjust to Back Out)
30	AHCCCS/DES Long-Term Care 6.0% Provider Pay 3-Yr Phase-in (\$92 M)
112	DES Child Care (Backfill 1-time Fed Funds Used to Raise Rates + Wait List Reduction)
15	DES Home and Community-Based Services for Higher Cost Members
7	DES Adult Protective Services Staffing (76 FTE)
23	DCS Backfill Loss of Federal Congregate Care Funds (Had Been Ongoing 1-Time)
42	ADC Operating Funding Increase (Food/Health/Uniforms/Telecomm/Security)
25	State Employee Health Insurance Funding – Ongoing Deposit + \$198 M 1-Time
<u>67</u>	All Other
437	Total

Executive Adds \$796 M of One-Time FY 26 Initiatives

- Above JLBC Baseline

(\$ in M)	
198	State Employee Health Insurance-Employer Contribution (Ongoing One-Time)
66	ADE – Restore Low Income Weight/Add'l Assistance in FY 26 Rather Than FY 28
183	ADOA – School Facilities Building Repairs (Ongoing One-Time)
20	Univ – Arizona Promise Program for Tuition Subsidies (+ \$20 M in Base)
15	Univ – Arizona Teachers Academy (+ \$15 M in Base)
75	AHCCCS – Reduce Hospital Assessment Shift from \$100 M to \$25 M
15	ADOH – Continue One-Time Housing Trust Fund Deposit
13	ADOT – Continue One-Time Rural Transportation Grants (SMART Fund Deposit)
30	Forestry – Fire Suppression Funding
64	Capital – \$34 M State Building Repairs/\$30 M ADC HVAC and Fire Alarms
15	Commerce Authority – \$10 M Competes Fund/\$5 M Major Events Fund
<u>102</u>	Other (Approx. 25 Different Policy Issues)
796	Total

Executive Reduces ESA Spending by \$(150) M

- Exec: Income Limits Would Reduce Enrollment by 9,000 Students

<u>Household Income</u>	<u>% of Payment</u>		<u>Exec FY 26 *</u>	<u>JLBC FY 26</u>
Below \$100K	100%	Caseload	85,000	98,000
\$100K - \$130K	75%	Total (\$ in M)	\$814	\$1,002
\$130K - \$160K	50%			
\$160K - \$200K	25%			
Above \$200K	0%			

* Exec Baseline is 94,000 Students and \$964 M

- Income limits only apply to universal program, not the traditional ESAs.
- The reduction/elimination of the ESA grant may result in some students returning to districts, charters or STO scholarships. We are reviewing that potential impact.
- The ESA program does not collect income data. As a result, Exec's projected caseload impact is derived using student's zip code and income data for that zip code.

FY 25 Budget's 3-Yr Plan Had FY 27 & 28 Funding Commitments

- Exec Moved Some of that Funding into FY 26 + Added New FY27/28 Proposals

	\$ in M	
<u>JLBC Baseline (Part of FY 25 3-Year Plan)</u>	<u>FY 27</u>	<u>FY 28</u>
Eliminate Hospital Assessment Backfill/Restore General Fund	100	100
Restore K12 Add'l Assistance/Low Income Weight (Exec Restores in FY 26)		66
Fund Deferred Road Projects (I-10 West Valley/SR 347 & Riggs/Pinal Parkway)		136
Fund Northwest Arizona Veterans Home		25
 <u>Executive (Above the JLBC Baseline)</u>		
Phase-In Long Term Care Provider Pay Increases (+\$30 M in FY 25)	61	92
Backfill Loss of Federal Victim of Crime Act Funds (DPS/DES/ACJC)	20	20
Increase University Bond Capacity by \$325 M (Debt Paid 80% by GF Lottery \$)	16	16

Final Thoughts

JLBC Baseline vs. Executive Cash Balances (\$ in M)

	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>
JLBC	904	935	68	221
Exec	832	147	101	410

- JLBC Staff analysis has only just begun – we will have further discussions with Executive to clarify aspects of their proposal.
 - For example, using JLBC AHCCCS caseload growth results in Exec negative cash balance in '27/'28.
- In developing a budget, we need to continue to monitor:
 - Litigation Issues (K12 Capital and Prison Health)
 - Federal Budget Changes
 - Overreliance on Classifying Ongoing Funding as One-Time.

STAFF OF THE JOINT LEGISLATIVE BUDGET COMMITTEE

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.....	Maggie Rocker
Senior Economist.....	Ben Newcomb
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.....	Gordon Robertson
.....	Ethan Scheider
.....	Grace Timpany
Assistant Fiscal Analyst.....	Destin Moss
Senior Administrative Assistant / JLBC Clerk.....	Kristy Paddack
Administrative Assistant / JCCR Clerk.....	Jennifer Burns

Appendix A: January 4-Sector Revenue Forecast

	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>
Sales Tax				
JLBC Forecast	3.5%	4.1%	4.2%	4.4%
UA – Low	2.2%	2.9%	3.9%	4.0%
UA – Base	3.4%	4.1%	4.2%	4.4%
FAC	3.4%	3.7%	4.4%	4.1%
Average:	3.1%	3.7%	4.2%	4.2%
Individual Income Tax				
JLBC Forecast	9.7%	5.0%	4.9%	5.0%
UA – Low	5.6%	5.9%	6.2%	6.2%
UA – Base	7.4%	6.3%	6.5%	6.5%
FAC	6.6%	4.5%	5.3%	4.9%
Average:	7.3%	5.4%	5.7%	5.6%
Corporate Income Tax				
JLBC Forecast	6.5%	3.1%	3.2%	2.9%
UA – Low	6.3%	2.5%	2.5%	2.9%
UA – Base	7.3%	3.4%	3.3%	3.7%
FAC	7.4%	5.8%	7.7%	5.8%
Average:	6.9%	3.7%	4.2%	3.9%

JLBC Weighted Average	5.9%	4.3%	4.3%	4.4%
UA Low Weighted Average	3.8%	3.9%	4.5%	4.6%
UA Base Weighted Average	5.2%	4.8%	4.9%	5.1%
FAC Consensus Weighted Average	4.9%	4.2%	5.2%	4.6%
“Big-3” Weighted Average	5.0%	4.3%	4.7%	4.7%
Consensus Weighted Average *	2.7%	3.4%	4.4%	4.7%

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: 4-Sector Forecast FY 24 - FY 26

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2024	% CHANGE PRIOR YR	FORECAST FY 2025	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	7,933,914.2	3.3%	8,181,849.0	3.1%	247,934.8	8,484,425.1	3.7%	302,576.1
Income - Individual	4,845,765.9	-7.5%	5,200,233.7	7.3%	354,467.8	5,481,787.7	5.4%	281,554.0
- Corporate	1,744,821.7	-3.4%	1,864,690.9	6.9%	119,869.2	1,933,857.0	3.7%	69,166.0
Property	25,995.0	17.1%	38,287.0	47.3%	12,292.0	37,721.3	-1.5%	(565.7)
Luxury - Tobacco	19,541.4	2.5%	18,128.5	-7.2%	(1,413.0)	17,947.2	-1.0%	(181.3)
- Liquor	44,919.1	-3.6%	46,333.2	3.1%	1,414.0	48,974.2	5.7%	2,641.0
Insurance Premium	820,435.1	7.8%	881,967.7	7.5%	61,532.6	923,420.2	4.7%	41,452.5
Other Taxes	17,196.5	-6.3%	19,721.0	14.7%	2,524.5	20,746.5	5.2%	1,025.5
Subtotal - Taxes	15,452,588.9	-0.9%	16,251,211.0	5.2%	798,622.1	16,948,879.0	4.3%	697,668.1
Other Non-Tax Revenues:								
Lottery	222,285.2	26.4%	217,294.1	-2.2%	(4,991.1)	223,203.1	2.7%	5,909.1
Gaming Revenue	36,477.3	-26.1%	40,711.5	11.6%	4,234.2	43,764.8	7.5%	3,053.4
Licenses, Fees and Permits	52,664.5	24.9%	52,240.2	-0.8%	(424.3)	54,800.0	4.9%	2,559.8
Interest	371,165.8	1.2%	250,000.0	-32.6%	(121,165.8)	135,000.0	-46.0%	(115,000.0)
Sales and Services	30,757.0	-7.2%	29,361.8	-4.5%	(1,395.2)	30,712.5	4.6%	1,350.6
Other Miscellaneous	226,979.6	27.1%	231,554.1	2.0%	4,574.4	239,890.0	3.6%	8,335.9
Transfers and Reimbursements	328,017.4	18.7%	103,389.8	-68.5%	(224,627.5)	82,294.5	-20.4%	(21,095.3)
Medicaid Hospital Revenue	90,125.0	-8.2%	89,942.8	-0.2%	(182.2)	89,569.8	-0.4%	(373.0)
Subtotal - Other Non-Tax	1,358,471.8	11.3%	1,014,494.3	-25.3%	(343,977.5)	899,234.7	-11.4%	(115,259.5)
Net Ongoing Revenue	16,811,060.7	0.0%	17,265,705.2	2.7%	454,644.5	17,848,113.8	3.4%	582,408.5
Urban Revenue Sharing (URS)	(1,564,819.8)	N/A	(1,268,255.6)	N/A	296,564.2	(1,186,305.8)	N/A	81,949.8
Net Ongoing Revenue w/ URS	15,246,240.9	-2.9%	15,997,449.6	4.9%	751,208.7	16,661,808.0	4.2%	664,358.3
One-Time Financing Sources:								
Fund Transfers	841,564.7	N/A	33,991.8	-96.0%	(807,572.9)	17,000.0	-50.0%	(16,991.8)
One-Time Income Tax Rebate	(273,550.1)	N/A	0.0	N/A	273,550.1	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	568,014.6	N/A	33,991.8	-94.0%	(534,022.8)	17,000.0	-50.0%	(16,991.8)
Subtotal - Revenues	15,814,255.5	17.2%	16,031,441.4	1.4%	217,185.9	16,678,808.0	4.0%	647,366.5
Balance Forward	2,527,233.0	-46.3%	962,823.0	-61.9%	(1,564,410.0)	903,661.3	-6.1%	(59,161.7)
Total - Resources	18,341,488.5	0.8%	16,994,264.4	-7.3%	(1,347,224.1)	17,582,469.3	3.5%	588,204.8

Appendix B: 4-Sector Forecast FY 27 - FY28

FORECAST REVENUE GROWTH						
(\$ in Thousands)						
	FORECAST FY 2027	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2028	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Sales and Use	8,839,567.6	4.2%	355,142.5	9,213,338.4	4.2%	373,770.8
Income - Individual	5,796,177.8	5.7%	314,390.2	6,123,606.2	5.6%	327,428.3
- Corporate	2,015,070.6	4.2%	81,213.6	2,092,896.0	3.9%	77,825.4
Property	37,250.0	-1.2%	(471.3)	37,713.3	1.2%	463.3
Luxury - Tobacco	17,767.7	-1.0%	(179.5)	17,590.0	-1.0%	(177.7)
- Liquor	51,765.7	5.7%	2,791.5	54,354.0	5.0%	2,588.3
Insurance Premium	967,744.4	4.8%	44,324.2	1,015,163.8	4.9%	47,419.5
Other Taxes	21,866.8	5.4%	1,120.3	22,741.4	4.0%	874.7
Subtotal - Taxes	17,747,210.7	4.7%	798,331.6	18,577,403.1	4.7%	830,192.5
Other Non-Tax Revenues:						
Lottery	238,382.7	6.8%	15,179.6	256,214.1	7.5%	17,831.4
Gaming Revenue	58,106.2	32.8%	14,341.4	73,772.4	27.0%	15,666.1
Licenses, Fees and Permits	57,266.0	4.5%	2,466.0	59,556.6	4.0%	2,290.6
Interest	87,000.0	-35.6%	(48,000.0)	87,000.0	0.0%	0.0
Sales and Services	32,094.5	4.5%	1,382.1	33,378.3	4.0%	1,283.8
Other Miscellaneous	249,725.5	4.1%	9,835.5	259,714.5	4.0%	9,989.0
Transfers and Reimbursements	82,853.0	0.7%	558.5	83,431.1	0.7%	578.1
Medicaid Hospital Revenue	89,481.5	-0.1%	(88.3)	89,481.5	0.0%	0.0
Subtotal - Other Non-Tax	894,909.4	-0.5%	(4,325.3)	942,548.4	5.3%	47,639.0
Net Ongoing Revenue	18,642,120.1	4.4%	794,006.3	19,519,951.6	4.7%	877,831.5
Urban Revenue Sharing (URS)	(1,271,686.4)	N/A	(85,380.7)	(1,334,816.0)	N/A	(63,129.6)
Net Ongoing Revenue w/ URS	17,370,433.7	4.3%	708,625.6	18,185,135.6	4.7%	814,701.9
One-Time Financing Sources:						
Fund Transfers	12,000.0	-29.4%	(5,000.0)	0.0	-100.0%	(12,000.0)
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	12,000.0	-29.4%	(5,000.0)	0.0	-100.0%	(12,000.0)
Subtotal - Revenues	17,382,433.7	4.2%	703,625.6	18,185,135.6	4.6%	802,701.9
Balance Forward	0.0	-100.0%	(903,661.3)	0.0	N/A	0.0
Total - Resources	17,382,433.7	-1.1%	(200,035.7)	18,185,135.6	4.6%	802,701.9

Appendix C: General Fund Balance Sheet

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES WITH ONE-TIME FINANCING SOURCES

	FY 2025 Baseline	FY 2026 Baseline	FY 2027 Baseline	FY 2028 Baseline
REVENUES				
Ongoing Revenues	\$17,265,705,200	\$17,848,113,800	\$18,642,120,100	\$19,519,951,600
Urban Revenue Sharing	(1,268,255,600)	(1,186,305,800)	(1,271,686,400)	(1,334,816,000)
Net Ongoing Revenues	\$15,997,449,600	\$16,661,808,000	\$17,370,433,700	\$18,185,135,600
One-Time Revenues				
Balance Forward	962,823,000	903,661,300		
Fund Transfers	33,991,800	17,000,000	12,000,000	
Subtotal One-Time Revenues	\$996,814,800	\$920,661,300	\$12,000,000	\$0
Total Revenues	\$16,994,264,400	\$17,582,469,300	\$17,382,433,700	\$18,185,135,600
EXPENDITURES				
Ongoing Operating Appropriations	\$15,610,223,500	\$16,582,579,400	\$17,075,913,000	\$17,682,019,000
Administrative Adjustments	130,000,000	140,000,000	145,000,000	145,000,000
Reversions	(170,000,000)	(190,000,000)	(200,000,000)	(200,000,000)
Subtotal Ongoing Expenditures	\$15,570,223,500	\$16,532,579,400	\$17,020,913,000	\$17,627,019,000
One-Time Expenditures				
Capital Outlay				25,000,000
Transportation Funding			30,000,000	136,240,000
FY 25 One-Time Supplementals	240,429,200			
FY 25 One-Time Ex-Appropriations	(335,351,600)			
Operating One-Time Spending	715,302,000	214,829,500	263,889,400	175,936,800
Hospital Assessment Savings	(100,000,000)	(100,000,000)		
Subtotal One-Time Expenditures	\$520,379,600	\$114,829,500	\$293,889,400	\$337,176,800
Total Expenditures	\$16,090,603,100	\$16,647,408,900	\$17,314,802,400	\$17,964,195,800
Ending Balance ^{1/}	\$903,661,300	\$935,060,400	\$67,631,300	\$220,939,800

^{1/} The FY 2026 cash balance is presumed to be allocated as part of the FY 2026 budget process. The displayed cash balance amounts exclude the Budget Stabilization Fund.