



Arizona Budget Status

FY 2010 and 2011



Topics

- What's the Problem?
- How did we get here?
- What action has the State taken?



What's the Problem?

There are three interconnected problems

- Current year deficit
- Structural deficit
- Cash flow

What's the Problem?



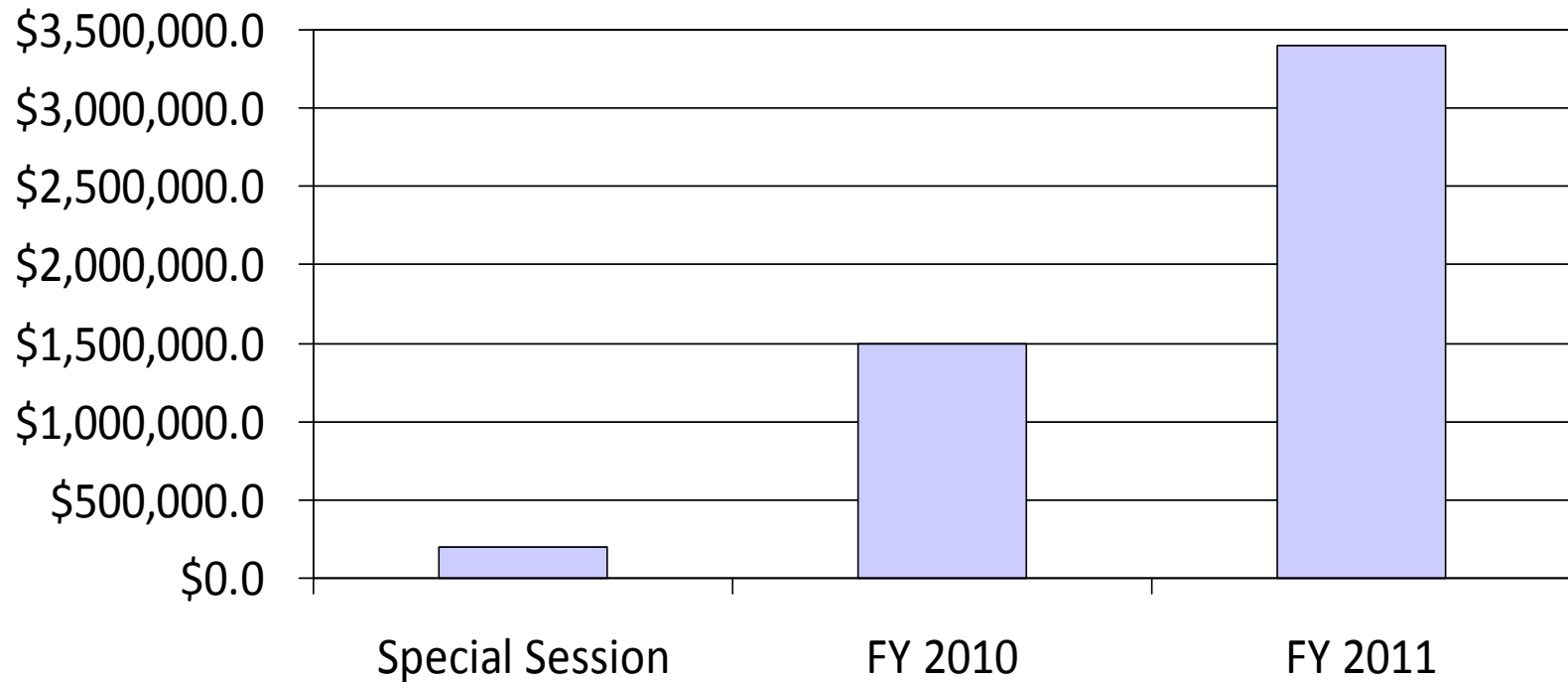
The 5th Special Session Reduced the budget by about \$193 million

- \$75.2 million GF Reduction
- \$45.5 million Other Fund Reduction
- \$53.6 million fund sweeps
- \$19 million other

What's the Problem?



Remaining Deficit





What's the Problem?

Current Year Deficit

- Current year deficit is anticipated to be \$1.5 billion
- \$480 million left over from SFY 2009

The \$1.5 billion deficit is approximately:

- 44% of the General Fund revenues anticipated for the rest of the year
- 35% of the remaining General Fund appropriations for the fiscal year



What's the Problem?

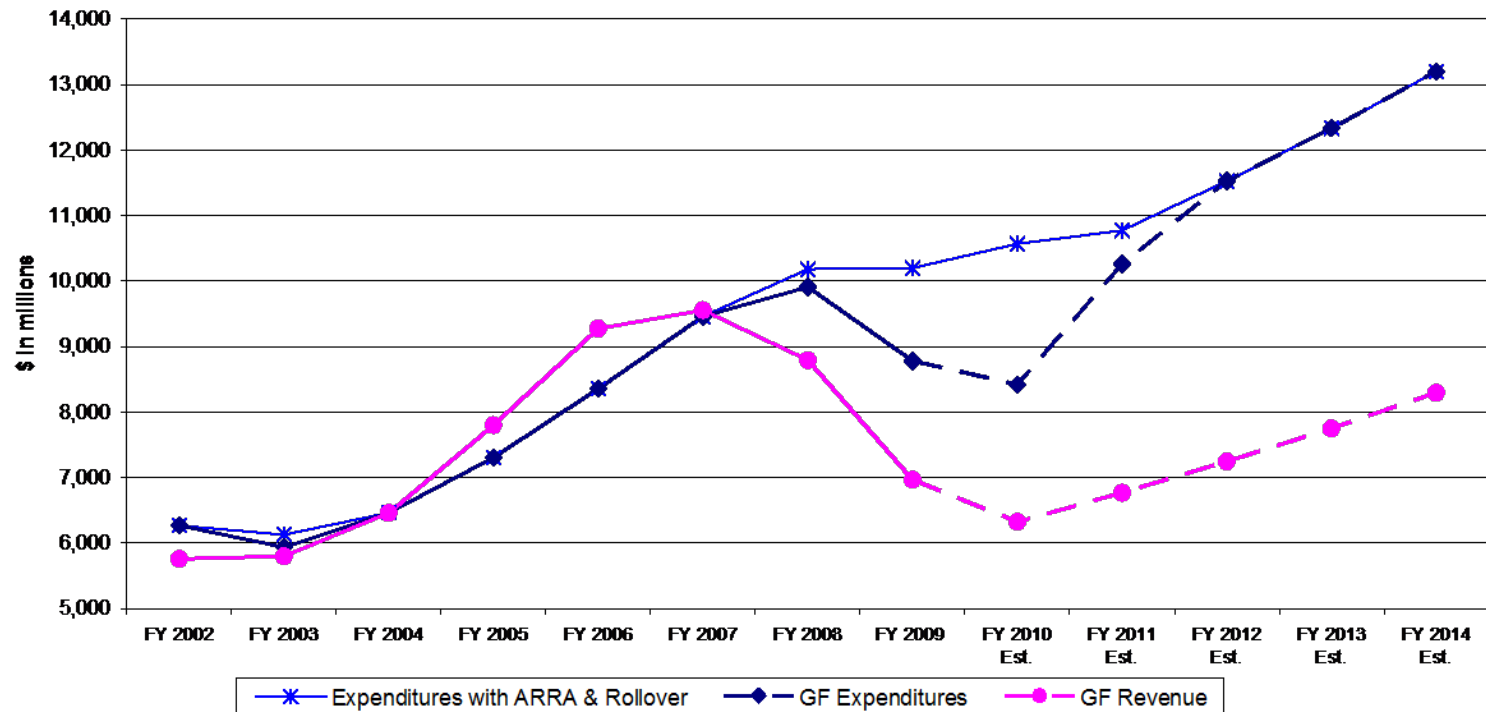
Structural Deficit

- Arizona has a structural deficit – our revenues and expenditures are out of alignment.
- This misalignment will produce a \$3.4 billion deficit in SFY 2011.
- A \$3.4 billion deficit in SFY 2011 amounts to:
 - 51% of anticipated General Fund revenues in FY 2011.
 - 33% of the General Fund “continuation” budget for FY 2011.

What's the Problem? -Structural Deficit



General Fund Ongoing Revenue and Expenditures before Solutions



Assumptions: Revenue: Ongoing revenue does not include one time items such as fund transfer, asset sales, etc. Growth rates assumptions: FY10: -9.2%, FY11:7%, FY12 and 7%. **Expenditure:** Ongoing expenditure does not include rollover or ARRA. FY10 and FY11 estimated Expenditure from most current S&U, FY12 and beyond assuming 7% growth.

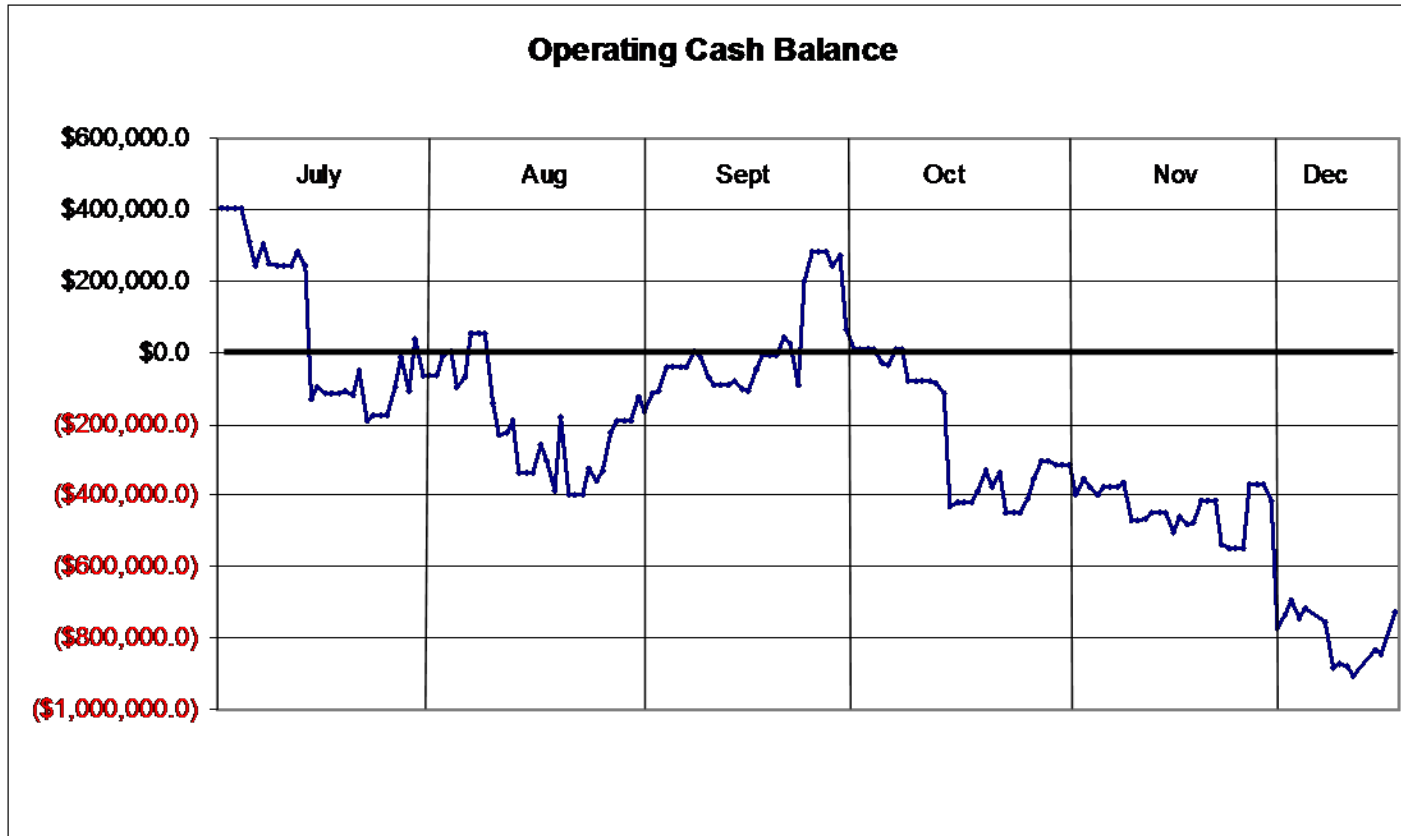


What's the Problem?

Cash Flow

- Every day the General Fund is borrowing every dollar of uncommitted state cash in the state's custody approximately \$1.5 billion. The General Fund plus these uncommitted dollars are known as the Operating Fund.
- In addition, the State has created two facilities to borrow non state funds, an internal line of credit worth approximately \$500 million and an external line of credit with Bank of America worth \$700 million.
- Total available daily credit of \$2.7billion.
- Currently the State makes daily calculations to determine if the state has sufficient cash to cover expenses.

Cash Flows





Topics

- What's the Problem?
- **How did we get here?**
- What steps has the State taken?



How did we get here?

There are at least six reasons that led us to this point:

- The Economy
- Reduced Revenues
- Added Spending
- State Actions
- Constraints Imposed by the Voters
- The Federal Government

How did we get here?



The Economy

Job Losses

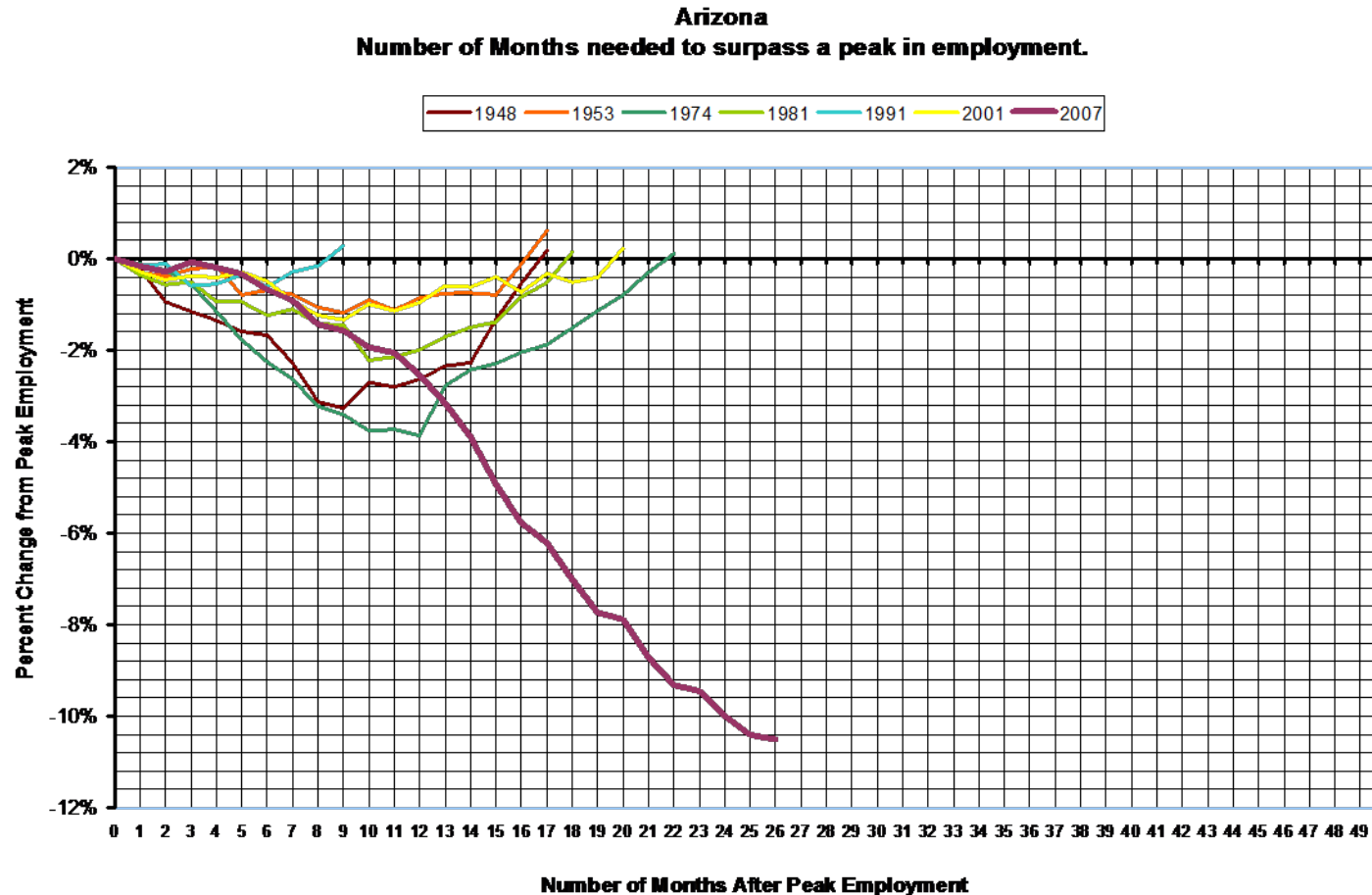
Peak Employment – 2.68 million jobs

– August 2007

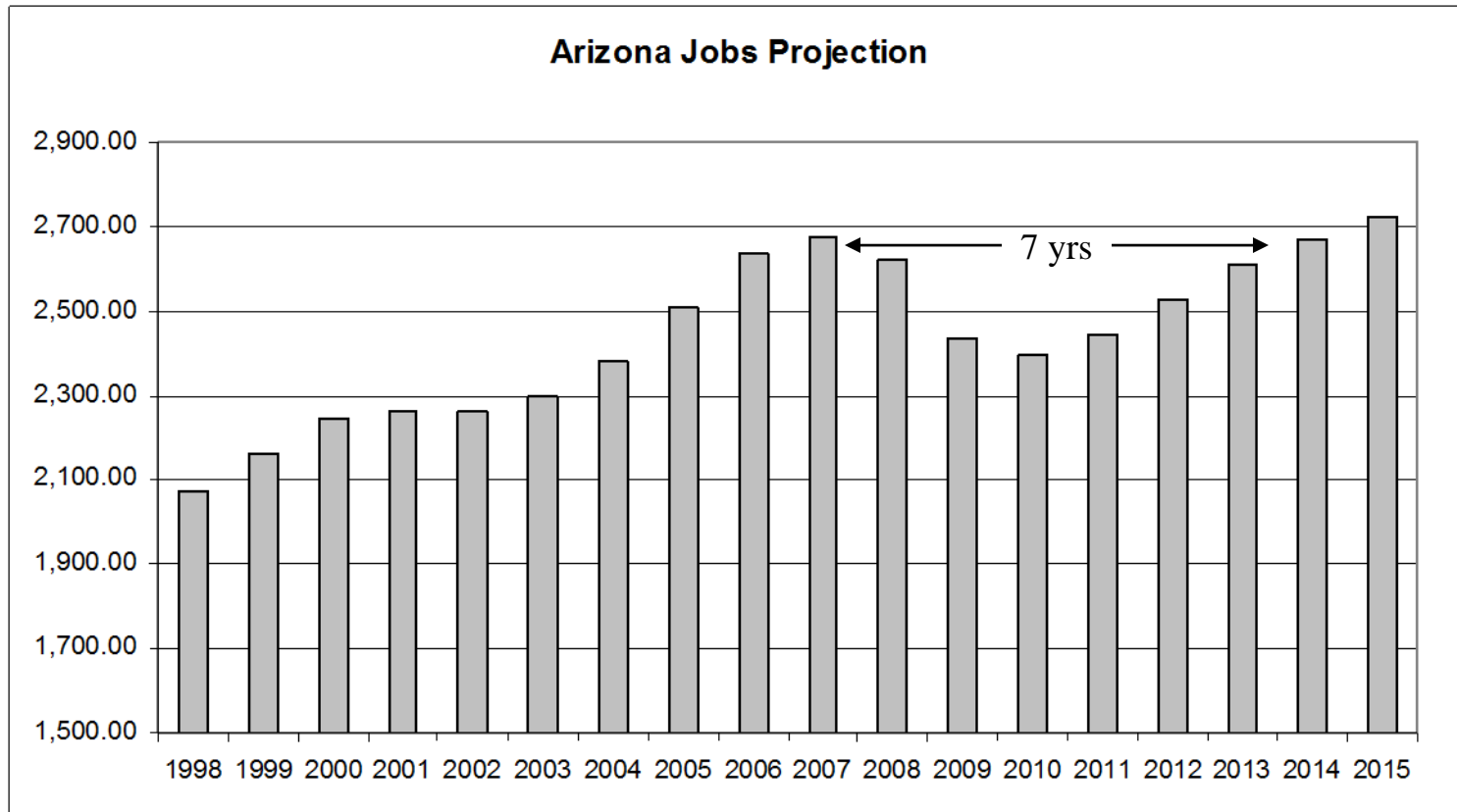
Current Employment – 2.4 million jobs

– Total loss of 280,000 jobs

How did we get here?



How did we get here?



Developed by the AZ Department of Commerce



How did we get here?

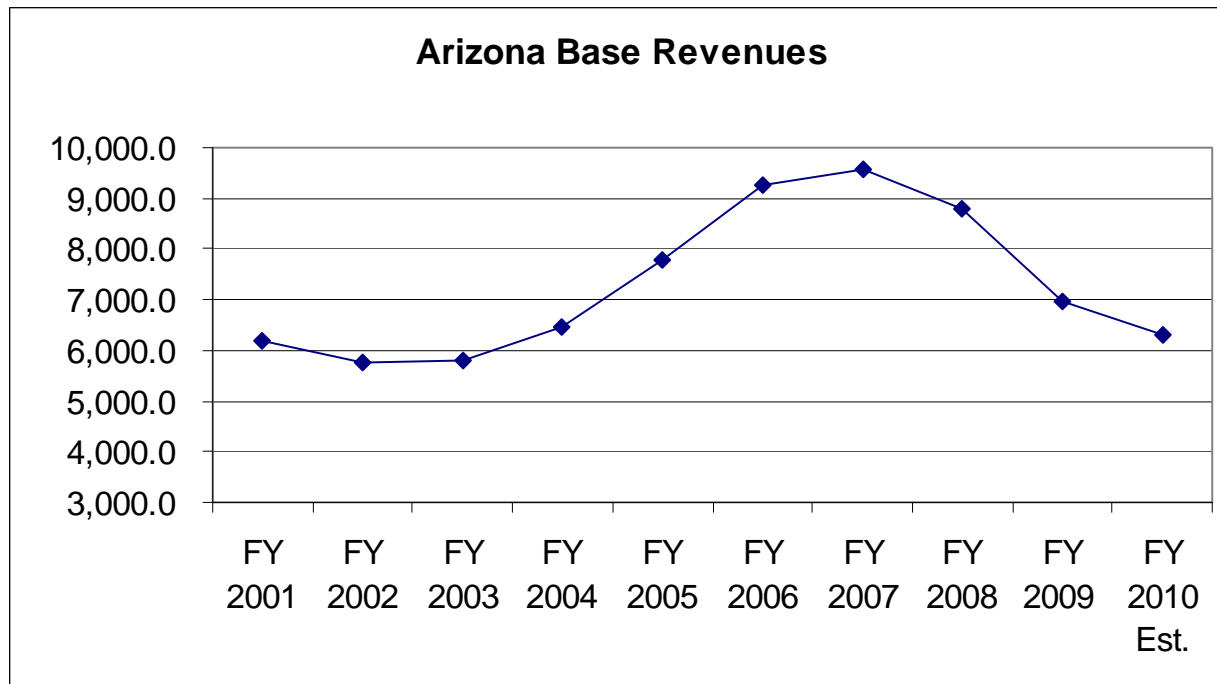
Reduced Revenues

- Before the recession
 - A series of tax cuts in personal income and corporate income taxes.
- When the recession hit
 - Since FY 2007 Sales (TPT) Tax down 22%
 - Since FY 2007 Personal Income Tax down 38%
 - Since FY 2007 Corporate Income Tax down 57%



How did we get here?

State tax revenues have declined 34 percent in three years.





How did we get here?

Added Spending

- Before the recession
 - The State took on major expenditure programs without any adjustments to revenues, e.g. property tax reform shifted the support of the cost of K-12 to the General Fund; courts forced responsibility for building and maintaining school facilities; voter initiative expanded AHCCCS
- When the recession hit
 - Major increases in the AHCCCS population



How did we get here?

K-12 Spending Shift

Qualified Tax Rate

- *FY 1998 Rate: \$4.40*
- *FY 2010 Rate: \$2.74*

Approximate Value: \$700 million



How did we get here?

Growing Populations – Including FY 2011 Estimates

Current revenues = FY 2004

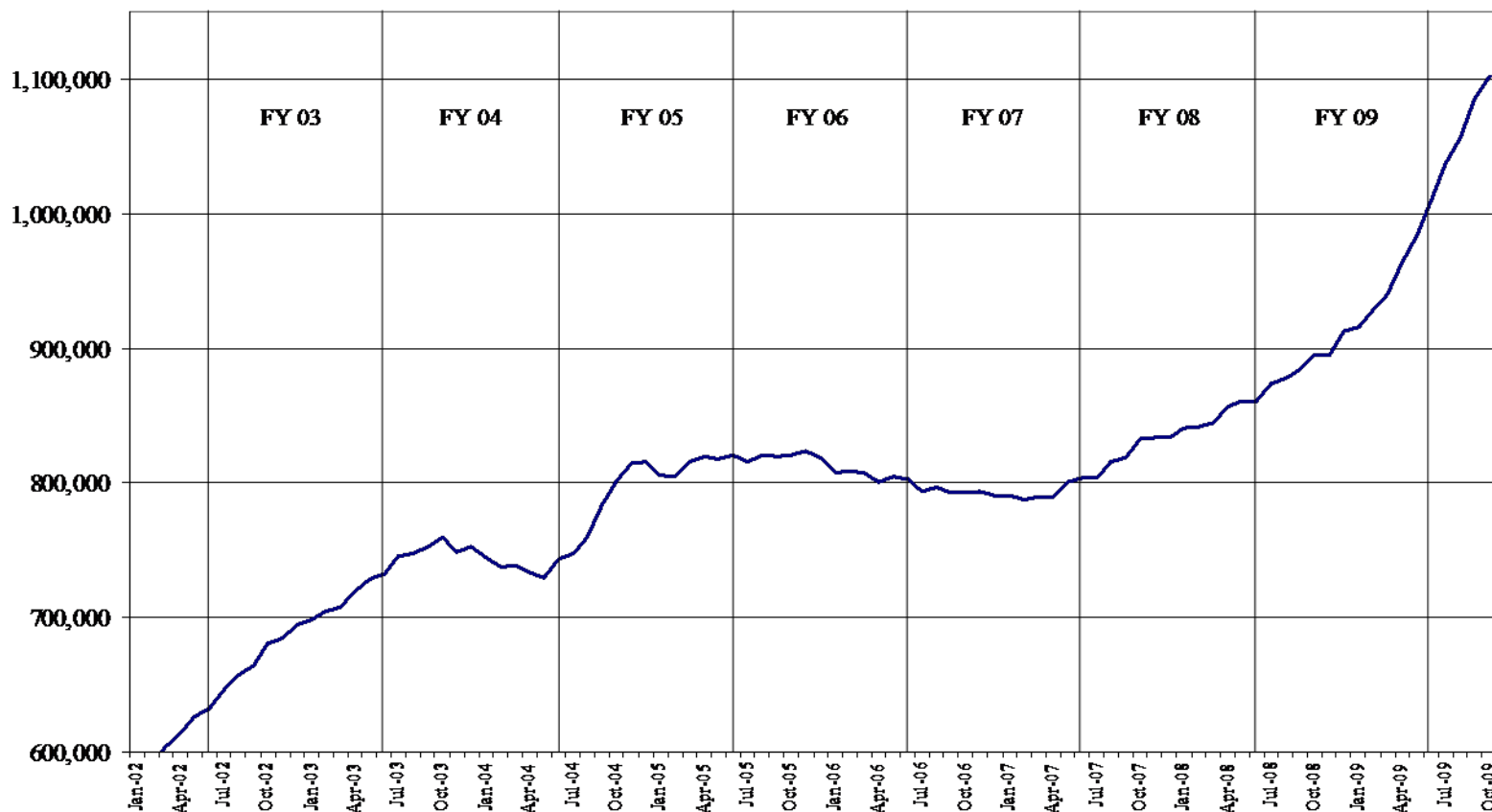
- Since FY 2004, Arizona has added 144,700 K-12 students and more than \$1.0 billion in annual costs to the K-12 system.
- Since FY 2004, enrollment in State universities has increased enrollment by 18,100 students and annual General Fund costs of \$393.5 million.
- Since FY 2004, Corrections has added 11,600 prisoners and annual General Fund costs of \$405.4 million.
- Since FY 2004, AHCCCS has added 475,000 new members and annual costs of nearly \$1.5 billion (General Fund).

-- In just the past 12 months, AHCCCS has grown by 207,800 members--



How did we get here?

AHCCCS All TXIX Capitation Member Months





How did we get here?

Constraints Imposed by the Voters

Two primary areas

- “Proposition 108” - requires either a two thirds vote of the Legislature or a vote of the people to increase “State revenues”
- “Proposition 105” - effectively prohibits the legislature from modifying programs or revenues approved by the voters, e.g. portions of the AHCCCS, K-12 programs, and First Things First (preschool)



How did we get here?

The Federal Government

- Through ARRA, Arizona is scheduled to receive, over all, \$4.8 billion in formula grants from SFY 2009 through SFY 2011.
- A good portion of the ARRA formula grant money will be received by the State and concentrated in education and AHCCCS.
- When the State accepted the money, it agreed to a maintenance of effort (MOE) requirement – through the end of SFY 2011 for education, through December 2010 for AHCCCS.

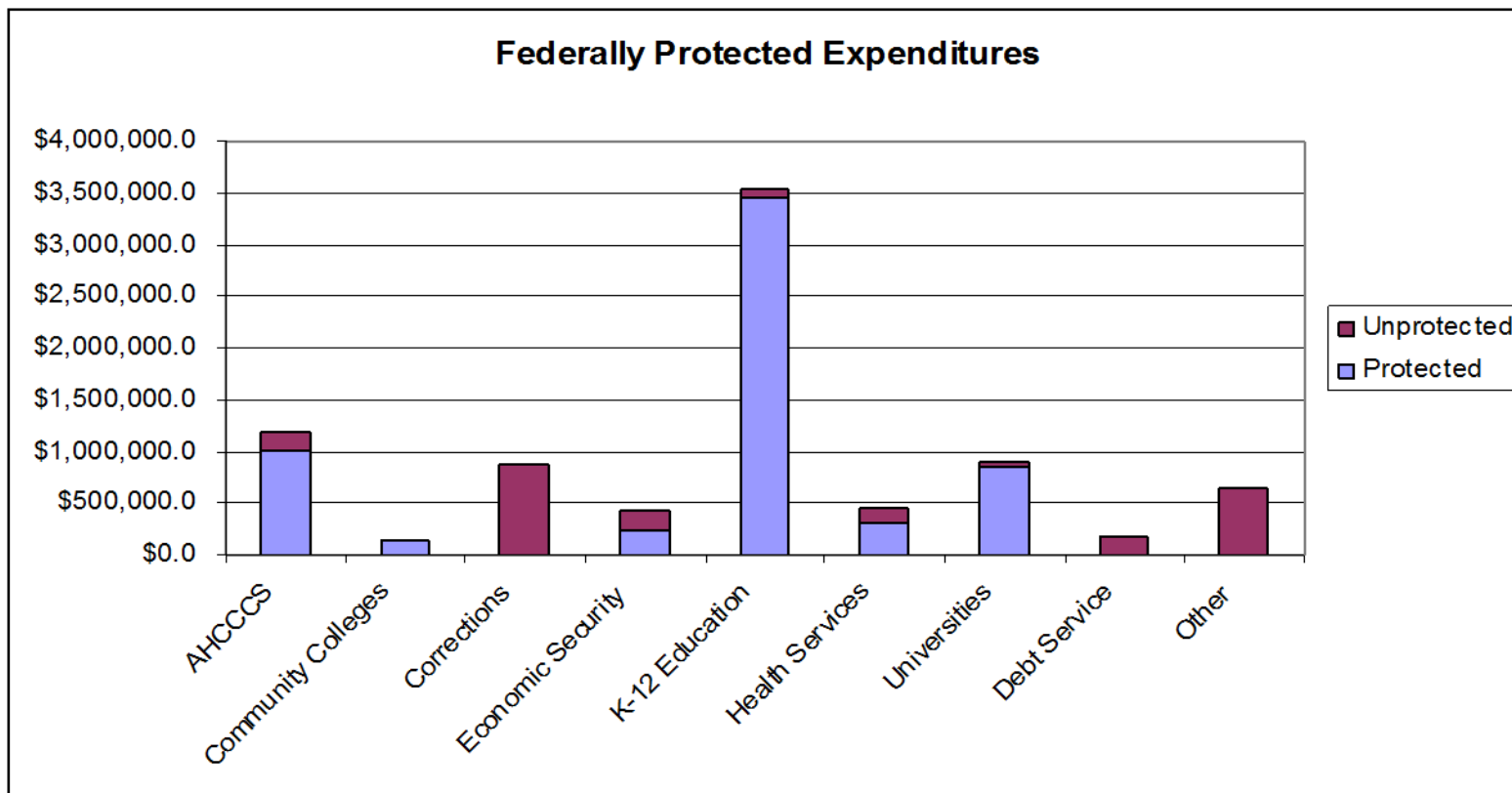


How did we get here?

The Federal Government (cont'd)

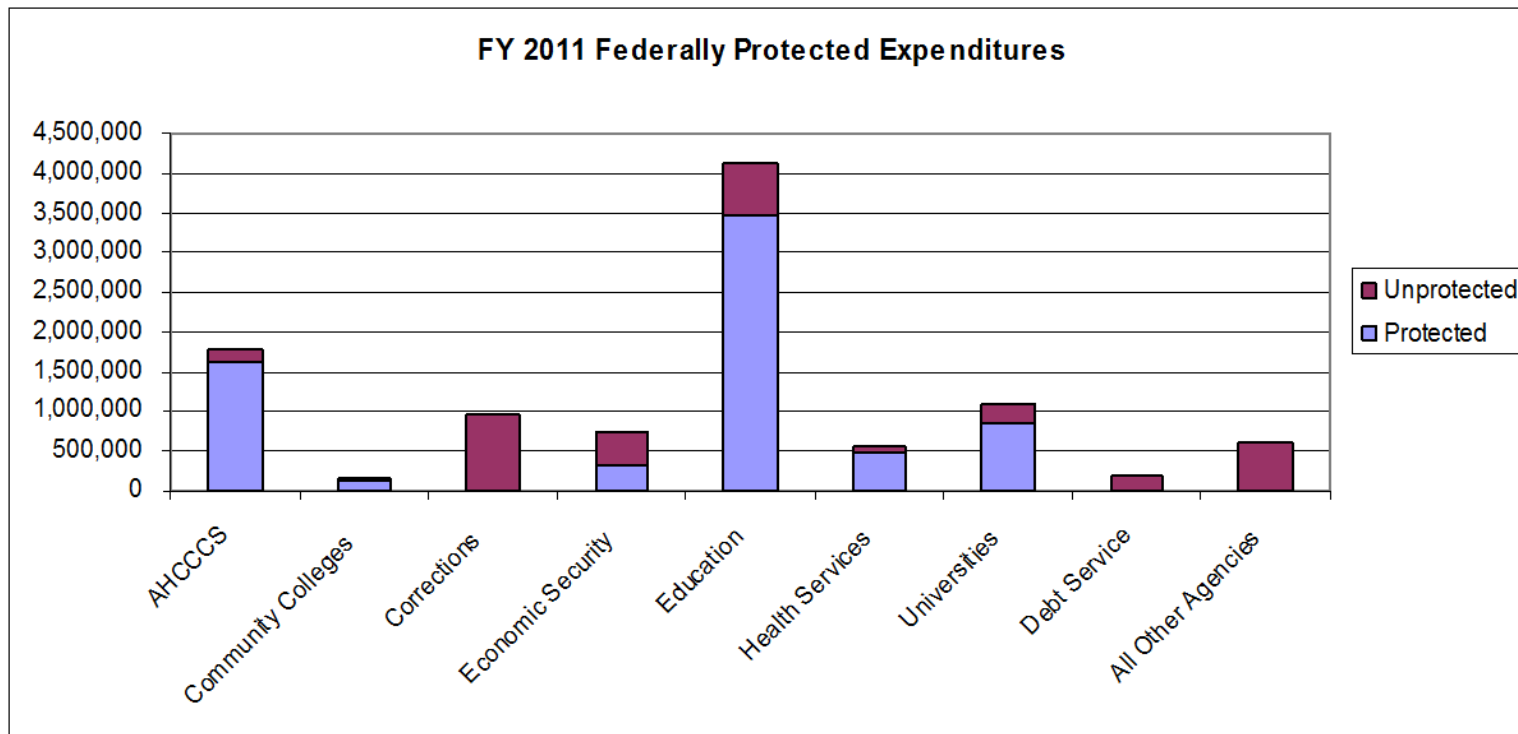
- The MOE for education prohibits reducing funding below the SFY 2006 funding the state provided to education (K-12, Community Colleges, Universities).
- The MOE for AHCCCS provides that as long as we accept the ARRA funds for the program, we cannot reduce eligibility. ARRA funds for AHCCCS are currently scheduled to end on December 31, 2010.

SFY 2010 ARRA MOE Requirements



Approximately \$2.4 billion unprotected

SFY 2011 ARRA MOE Requirements

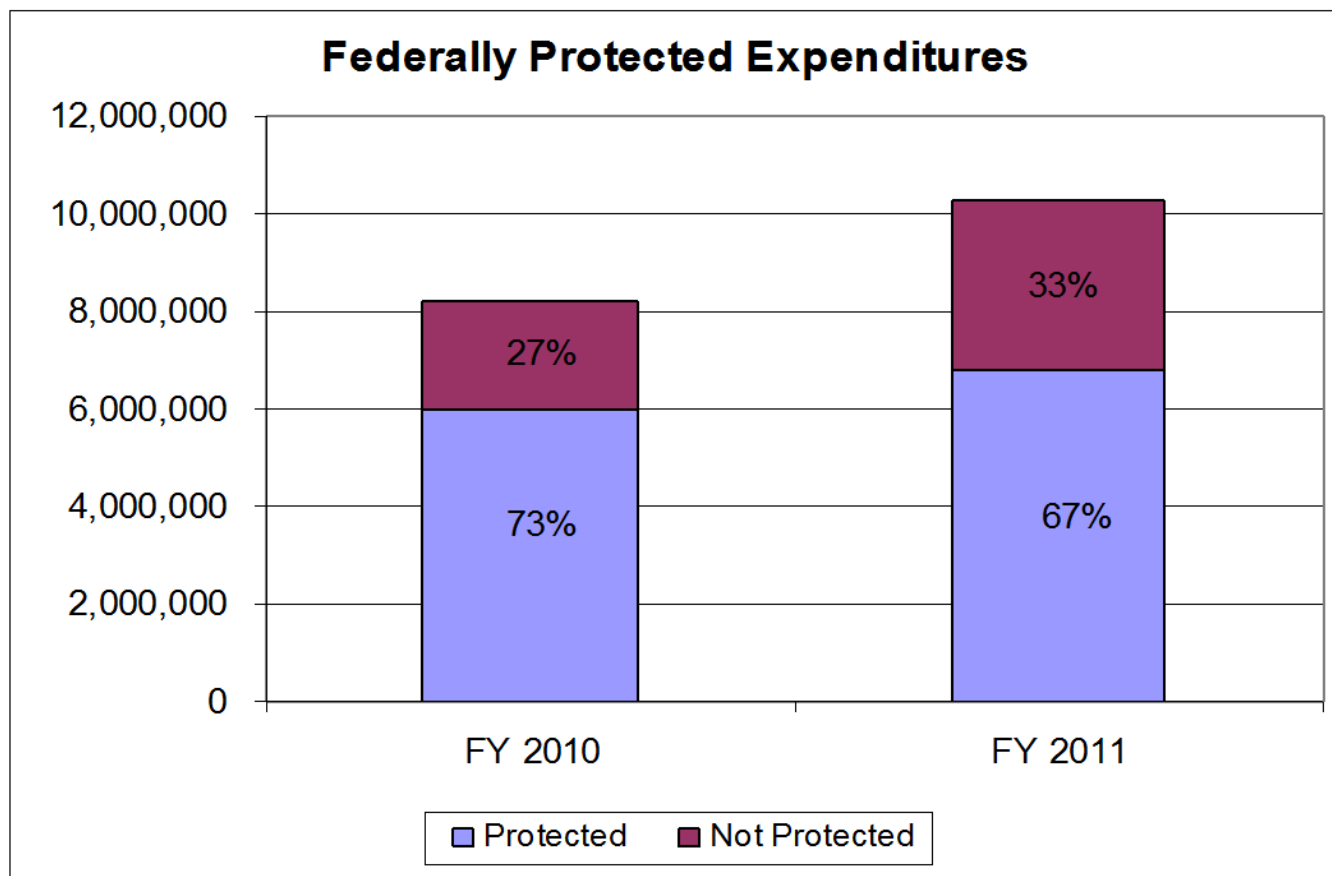


Approximately \$3.4 billion unprotected

(note: Federal MOE for Medicaid currently ends on December 31, 2010)



How did we get here?



How did we get here?



Unprotected Funds

➤ Judiciary	\$120 m
➤ Juvenile Corrections	\$68 m
➤ Legislature	\$55 m
➤ Public Safety	\$44 m
➤ Revenue	\$41 m
➤ Kids Care (AHCCCS)	\$30 m
➤ State Only DD (DES)	\$57 m
➤ State Hospital (DHS)	\$65 m
➤ State Only SMI (DHS)	\$79 m



How did we get here?

The Federal Government (cont'd)

- In SFY 11, the majority of the ARRA funds will discontinue and the State will have to replace the funding that the federal government has provided in SFYs 2009, 2010 and continuing into 2011.
- The Table on the following page illustrates that in SFY 2011 General Fund monies are to replace over \$1 billion of ARRA funds.



How did we get here?

The ARRA SFY 2011 Cliff

AHCCCS	201,806.9
DHS	90,343.5
DES	105,151.6
K-12 Education	472,114.0
Universities	150,000.0
Community Colleges	27,000.0
Corrections	50,000.0
TOTAL	1,096,416.0



How did we get here?

Time

There is not a lot of time to correct the problem.

- Half of SFY 2010 will be gone by the time the Legislature returns for its Regular Session.
- SFY 2011 will begin in six months.



Topics

- What's the Problem?
- How did we get here?
- **What action has the State taken?**

What Actions Has the State Taken?



Since FY 2008, the State has aggressively used one-time options.

BSF Sweep	\$710,000
K-12 Rollover	\$602,000
Fund Transfers	\$1,264,000
DPS to HURF	\$248,000
Midnight Reversion	\$50,000
K-12 Local Fund Balances	\$184,000
Sale Leaseback	\$735,000
Prison Concession	\$100,000
SFB NC Recapture	\$344,000
SFB New Construction	\$237,000
AHCCCS Rollover	\$118,000
Federal Funds	\$1,867,000
Total	\$6,459,000

What Actions Has the State Taken?



Additionally, the State has made significant budget reductions that total 31 percent of unprotected funds:

Budget Reductions	FY 2009	FY 2010	Total	Reductions as a Percent of Unprotected Base
AHCCCS	\$19,000.0	\$12,800.0	\$31,800.0	15%
K-12	\$123,000.0	\$144,000.0	\$267,000.0	78%
Universities	\$90,000.0	\$0.0	\$90,000.0	65%
Human Services	\$203,000.0	\$117,250.0	\$320,250.0	60%
Health Services	\$28,000.0	\$31,910.0	\$59,910.0	28%
Corrections	\$18,000.0	\$97,625.0	\$115,625.0	12%
Other	\$69,000.0	\$63,840.0	\$132,840.0	17%
	\$550,000.0	\$454,625.0	\$1,004,625.0	31%

As part of these reductions, the State has reduced its workforce by 10% since January 2008 (figure does not include universities or reductions made in the 5th SS).

Summary



FY 2010

- FY 2010 remaining deficit - \$1.5 billion
- FY 2010 remaining unprotected fund - \$1.2 billion

FY 2011

- FY 2011 deficit - \$3.4 billion
- FY 2011 unprotected funds - \$3.4 billion

Cash

- Borrowing nearly \$1 billion each day to cover cash needs