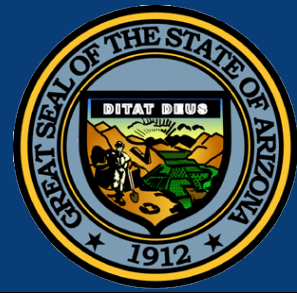


Arizona Budget Update

FY 2010 and 2011

Three Problems



➤ Current year deficit

- \$1.5 billion as of January (\$480 million left over from SFY 2009)
- Deficit was equal to:
 - 44% of the General Fund revenues anticipated for the rest of the year
 - 35% of the remaining General Fund appropriations

➤ Structural deficit

- Revenues and expenditures out of alignment
- Produced a \$3.4 billion deficit in SFY 2011
- Deficit was equal to:
 - 51% of anticipated General Fund revenues in FY 2011
 - 33% of the General Fund “continuation” budget for FY 2011

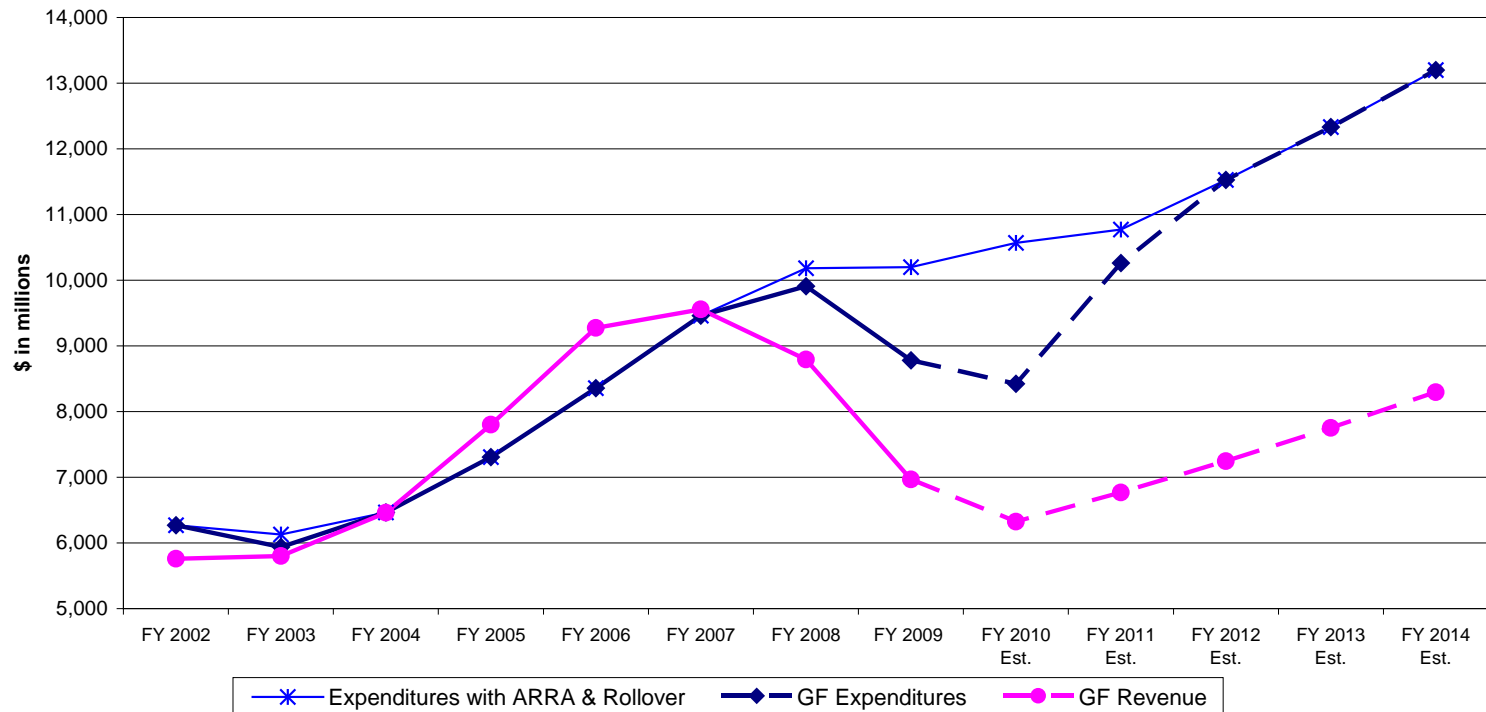
➤ Cash flow

- Every day, GF borrowing almost every dollar of uncommitted state cash in the state’s custody
- For the first time, state established external line of credit - \$700 million
- State makes daily calculations to determine if the state has sufficient cash to cover expenses.

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.

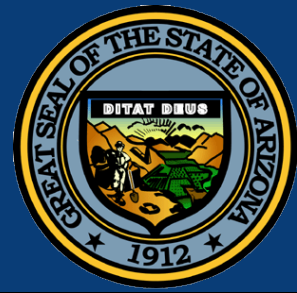
How did we get here?



Six main contributing factors:

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

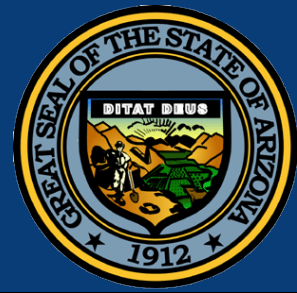
The Economy



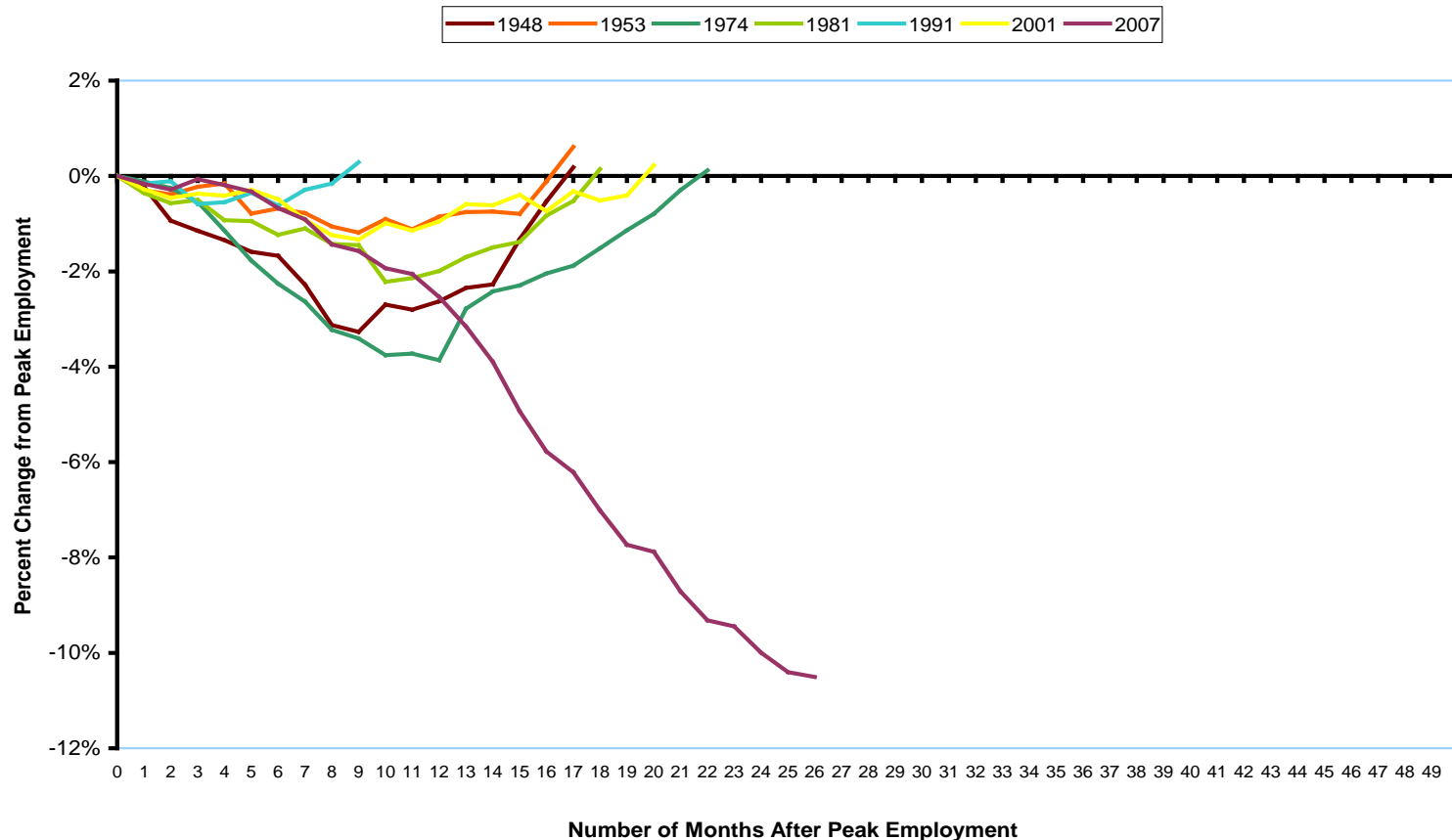
Job Losses

- Peak Employment (August 2007)
 - 2.68 million jobs
- Current Employment
 - 2.4 million jobs
- Total loss of 280,000 jobs

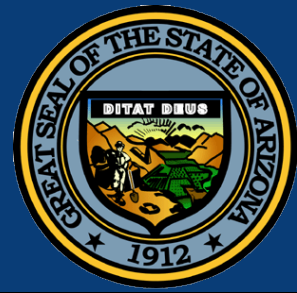
The Economy (cont.)



Arizona
Number of Months needed to surpass a peak in employment.



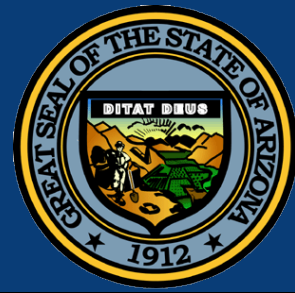
Reduced Revenues



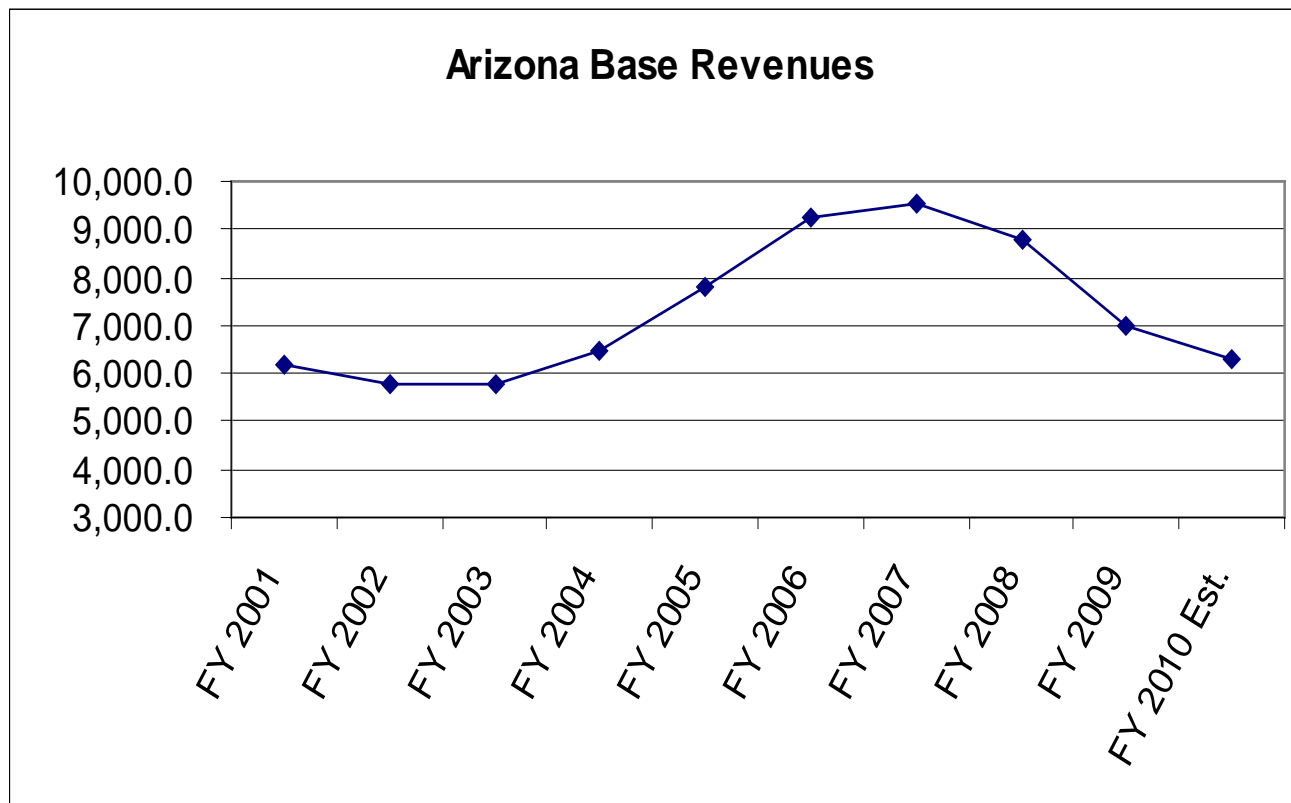
- Before the recession
 - A series of tax cuts in personal income and corporate income taxes

- When the recession hit (since FY 2007):
 - Sales (TPT) Tax down 22%
 - Personal Income Tax down 38%
 - Corporate Income Tax down 57%

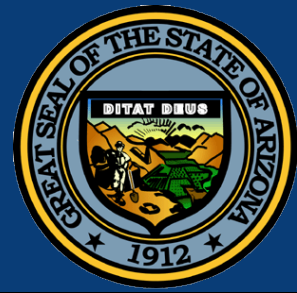
Reduced Revenues (cont.)



State tax revenues have declined 34% in three years



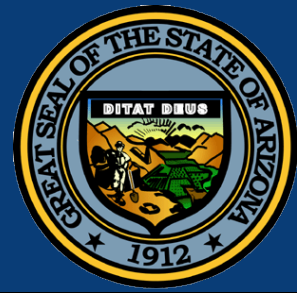
Added Spending



- Before the recession
 - Took on major expenditure programs without any adjustments to revenues. For example:
 - Property tax reform shifted support of K-12 to the General Fund (~\$700 million)
 - Courts forced responsibility for building and maintaining school facilities
 - Voter initiative expanded Medicaid (~\$1 billion)

- When the recession hit
 - Major increases in the Medicaid population

Added Spending (cont.)



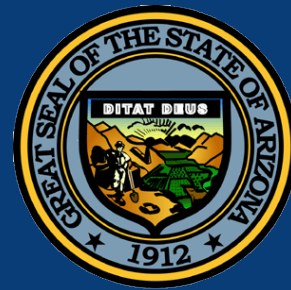
Growing Populations – Since 2004

(Including FY 2011 Estimates)

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

-- From Jan 09 to Jan 10, AHCCCS grew by 210,000 members--

Medicaid Population Growth



**AHCCCS All TXIX Capitation Member Months
Actuals Only**

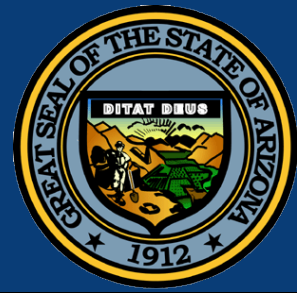


Voter Constraints



- **Proposition 108** - requires either a 2/3 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 Medicaid, K-12 programs

Federal Requirements



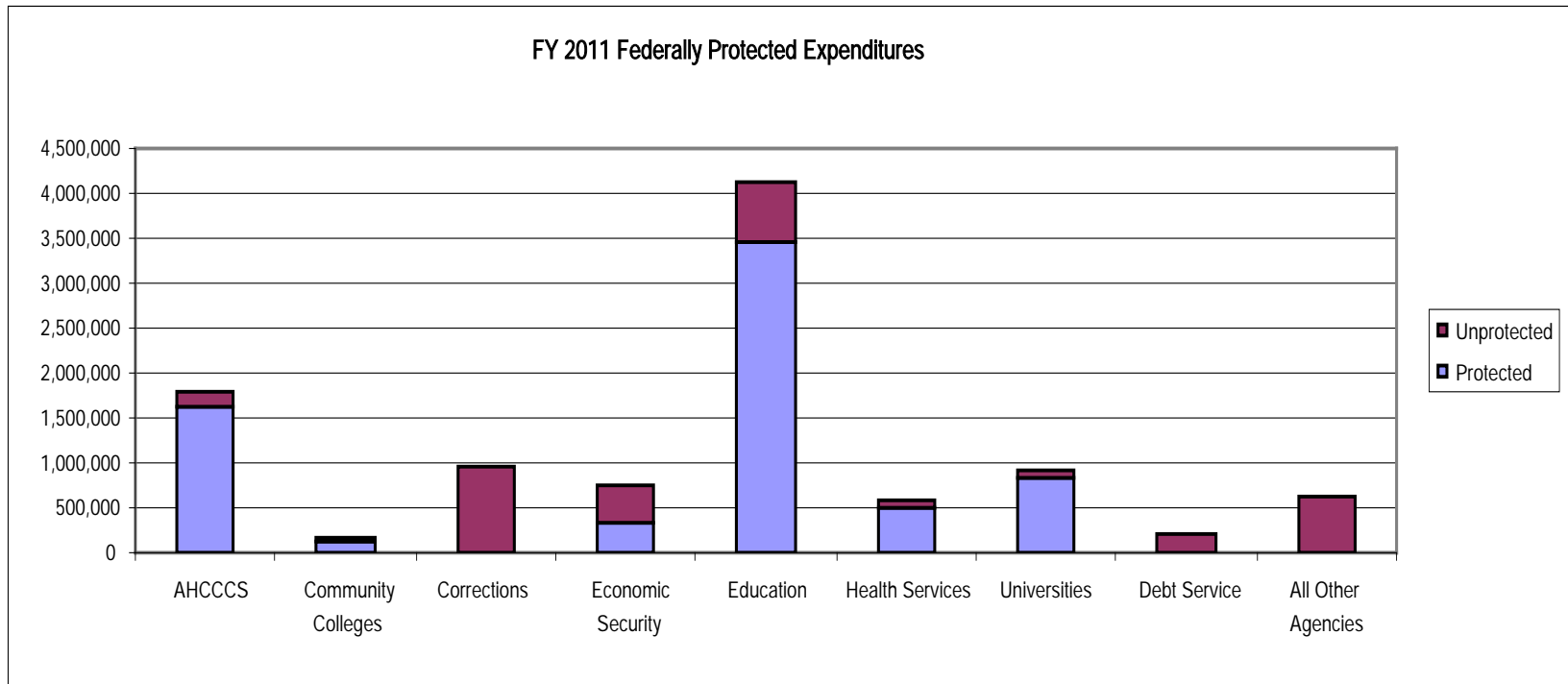
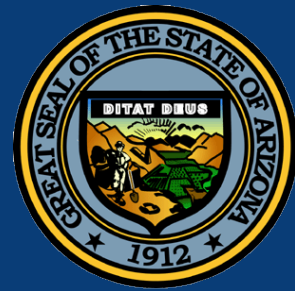
➤ ARRA MOE

- MOE for education prohibits reducing funding below SFY 2006 education funding (K-12, Community Colleges, Universities).
- Medicaid MOE prohibits eligibility reductions, increased local share

➤ Healthcare Reform MOE

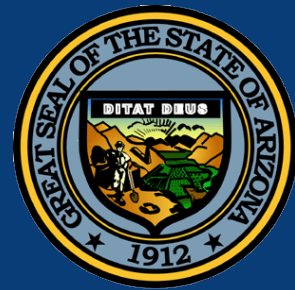
- Extends and expands ARRA eligibility standards MOE

SFY 2011 ARRA MOE Requirements



Approximately \$3.2 billion “unprotected”

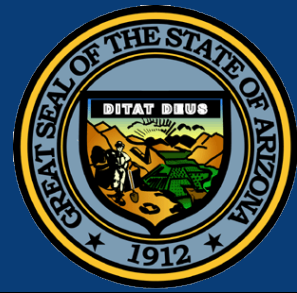
Federal Requirements *(cont.)*



The ARRA SFY 2011 Funding 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

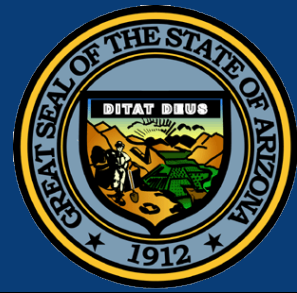
State Actions



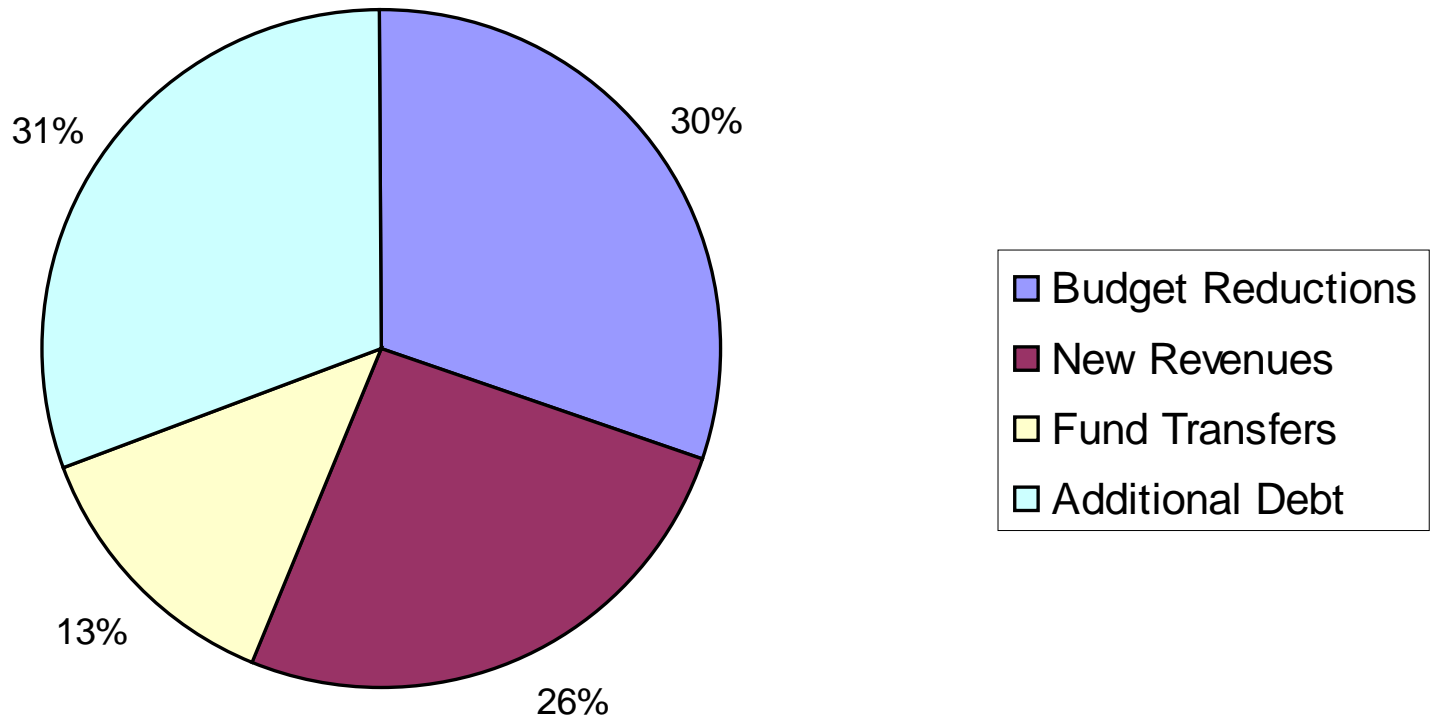
Since FY 2008, the State has aggressively used one-time options

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

Budget Solutions



FY 2010 - FY 2011 Budget Solutions



Budget Solutions – Revenue



Revenue Enhancements

Item	FY 2010	FY 2011
Lower Estimated Payment Threshold	\$48,000.0	-
1-Cent Sales Tax	-	\$918,000.0
Abandoned Vehicle Fees	-	\$12,061.2
First Things First Redirect	-	\$60,000.0
Tax Administration and Staff	-	\$18,539.9
Maricopa/Pima County Contributions	-	\$34,600.0
Total	\$48,000.0	\$1,043,201.1

Represents a 14.2 percent increase in FY 2011 base revenues

Budget Solutions - Debt



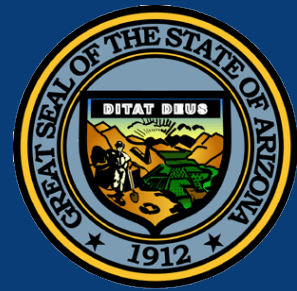
FY 2010

Additional Rollovers	\$450 million
Additional Sell/Leaseback	\$300 million
Lottery Bonds	\$450 million
➤ Total FY 2010 new debt: \$1.5 Billion	
➤ Total FY 2010 Rollover: \$1.3 billion	

FY 2011

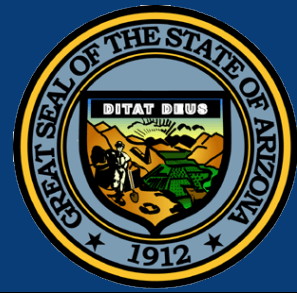
Refinance SFB Debt	\$60 million
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Budget Solutions - Reductions



	Savings	Impact
➤ Medicaid	\$380 M	310,500
➤ Mental Health	\$ 36 M	14,400
➤ TANF Cash Assistance	\$ 27 M	10,000
➤ Childcare Limits	\$ 22 M	10,000
➤ KidsCare	\$ 18 M	46,000
➤ Education (FY 06 Levels)	\$422 M	
➤ Employee Salary Reduction	\$ 45 M	
➤ Increase Prison Bed Deficit from 4,500 to 5,500	\$ 25 M	
➤ Shift Transportation Funding to Other Uses	\$ 530 M (FY 09 and 10)	

Health Care Reform



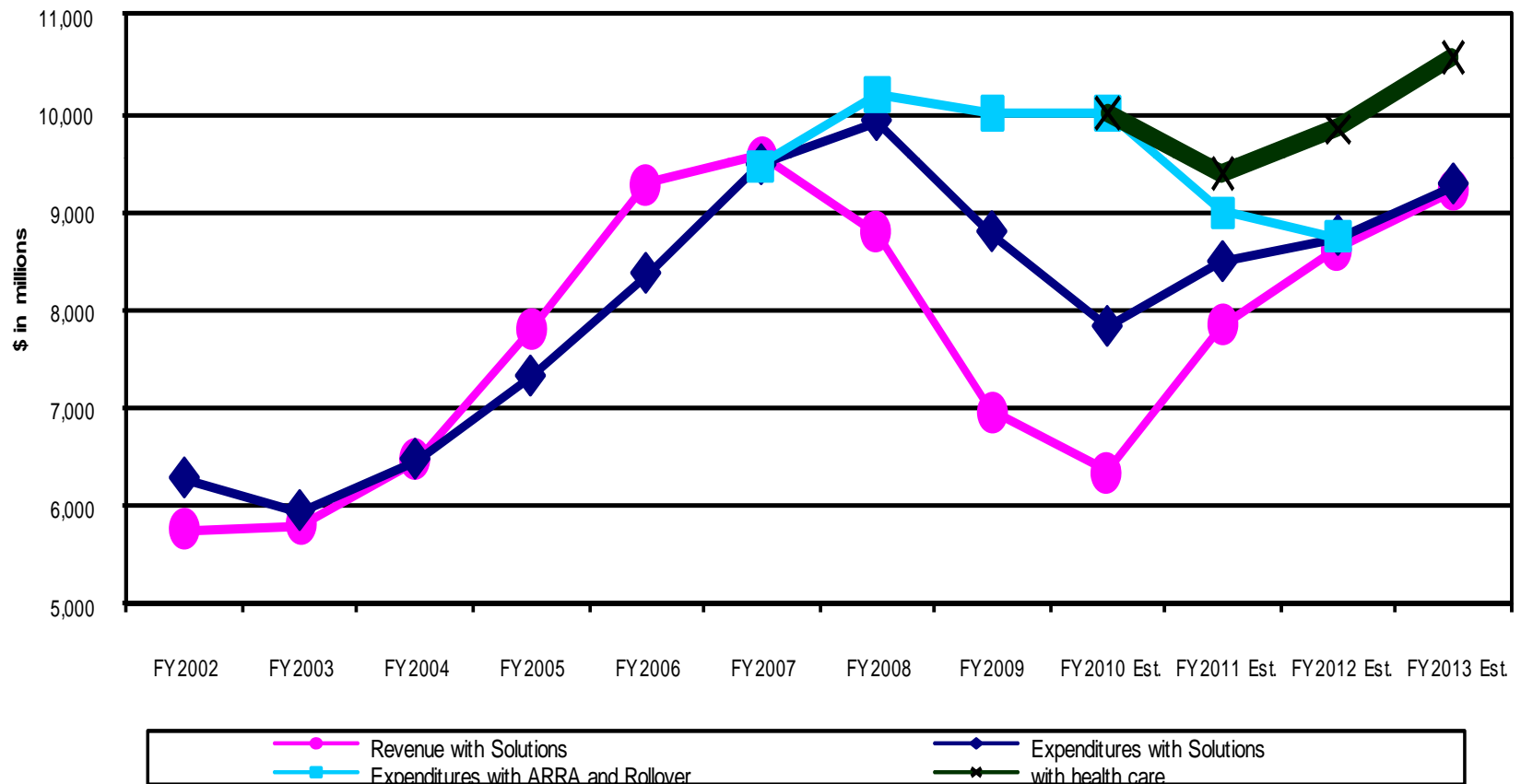
Maintenance of Effort for Previously Federally Optional Populations

- AZ had:
 - Reduced childless adults, effective Jan 2011
 - Eliminated SCHIP, effective June 15, 2010
- Restoration costs ~\$1 billion (annualized)
- Expected state costs of \$3.8 billion before federal “relief” begins in 2014

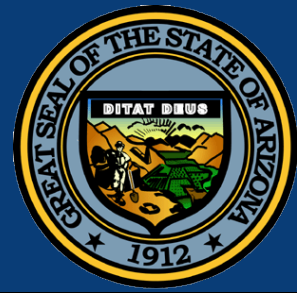
Budget Outlook



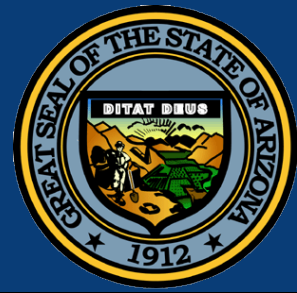
General Fund Ongoing Revenue and Expenditures Adopted Budget



Conditional Budget



- K-12 Education \$428 million
- Higher Education \$120 million
- Public Safety \$100 million
- Health Care \$175 million
- Human Services \$ 25 million



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