

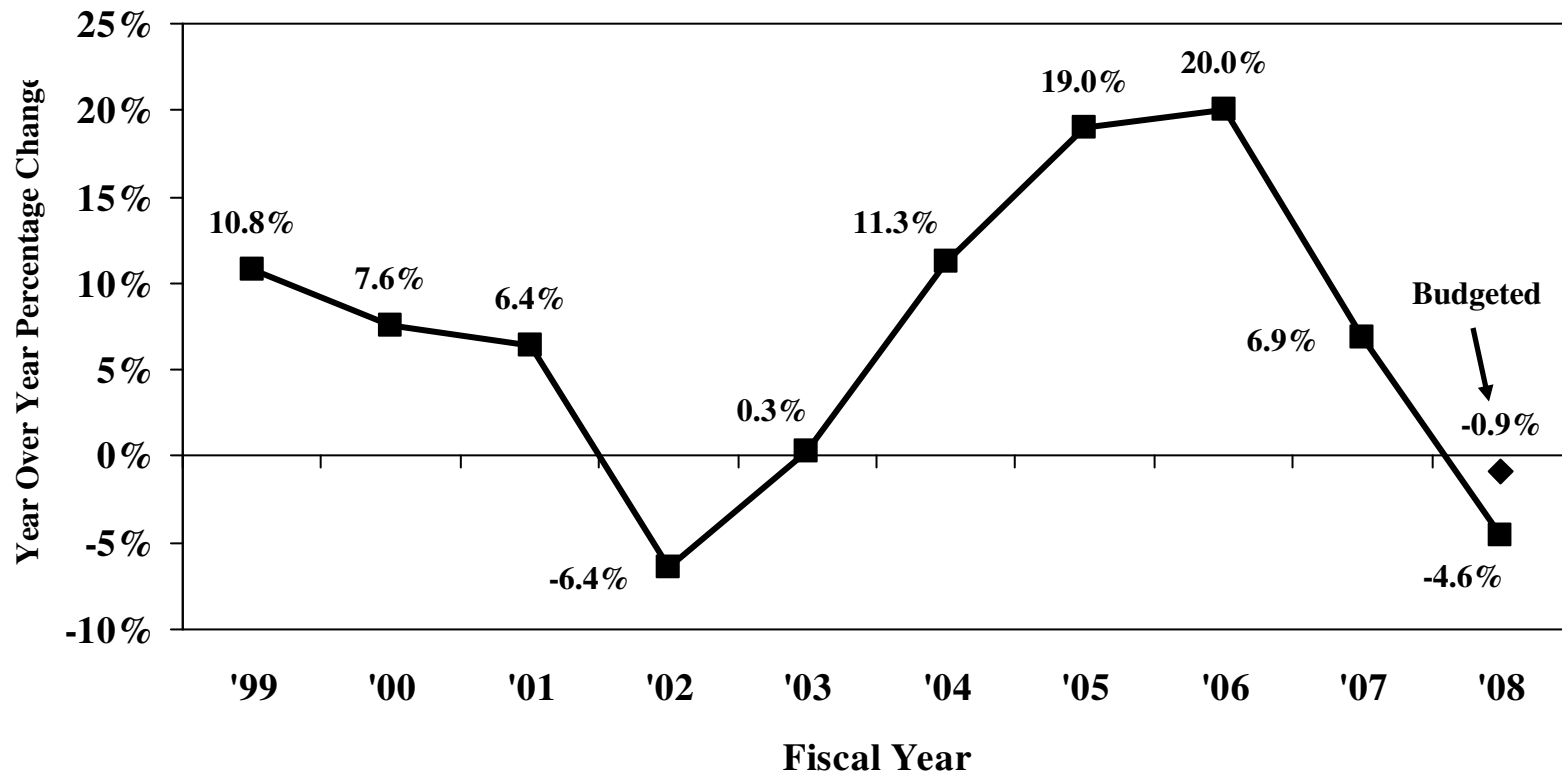


# ATRA Presentation: State Budget Outlook

**November 21, 2008**

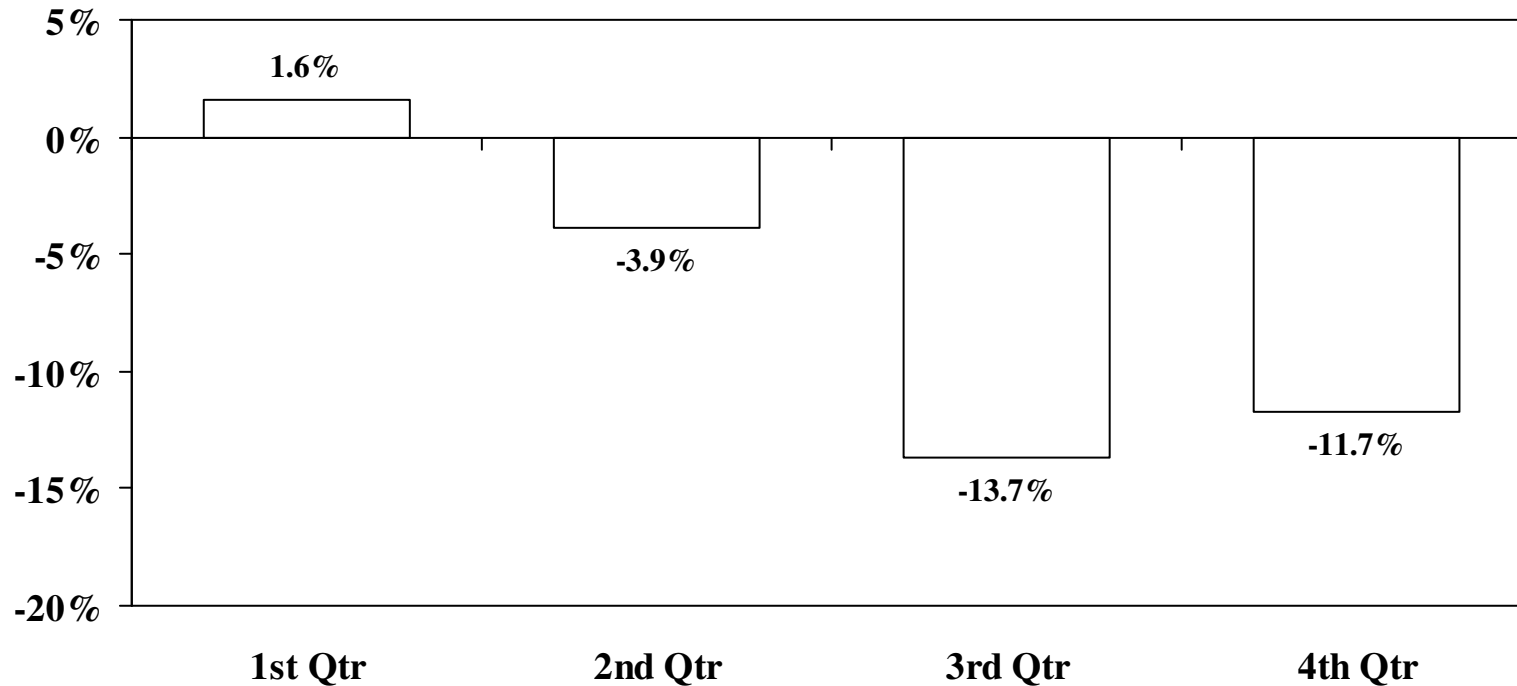
**JLBC**

## '08 General Fund Base Revenue Decline of (4.6)% Was Greater Than Budgeted



Excludes statutory and one-time changes.

## Decline Accelerated in Second Half of FY '08



**Percent Change From FY 2007**

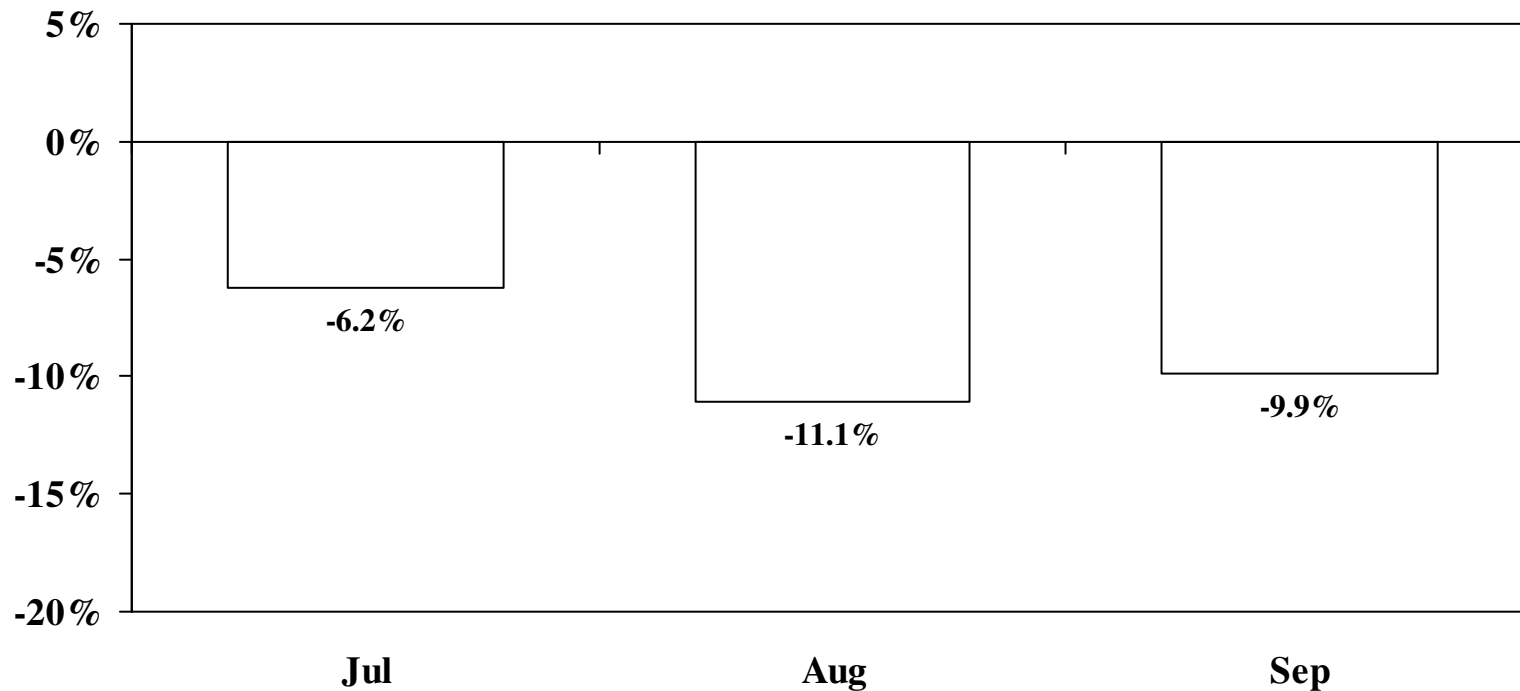


## **FY '09 Revenues Will Need to Grow By 6.1% to Meet \$10.0 B Budgeted Level**

- Original budgeted FY '09 growth compared to enacted '08 Budget 1.9%
- Growth adjusted for lower '08 Base 6.1%

# '09 Revenue Collections Continuing to Decline

- First Quarter Decline = (8.9)%

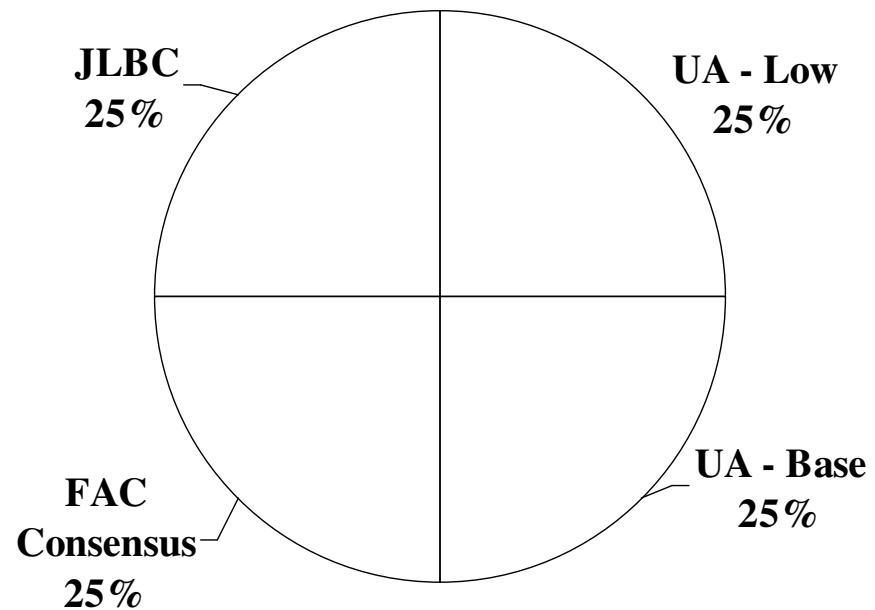


Percent Change Below FY 2008

## Where Are We Headed Over the Next Few Years? - Four-Sector Consensus Forecast Incorporates Different Economic Views

4-sector forecast equally weights:

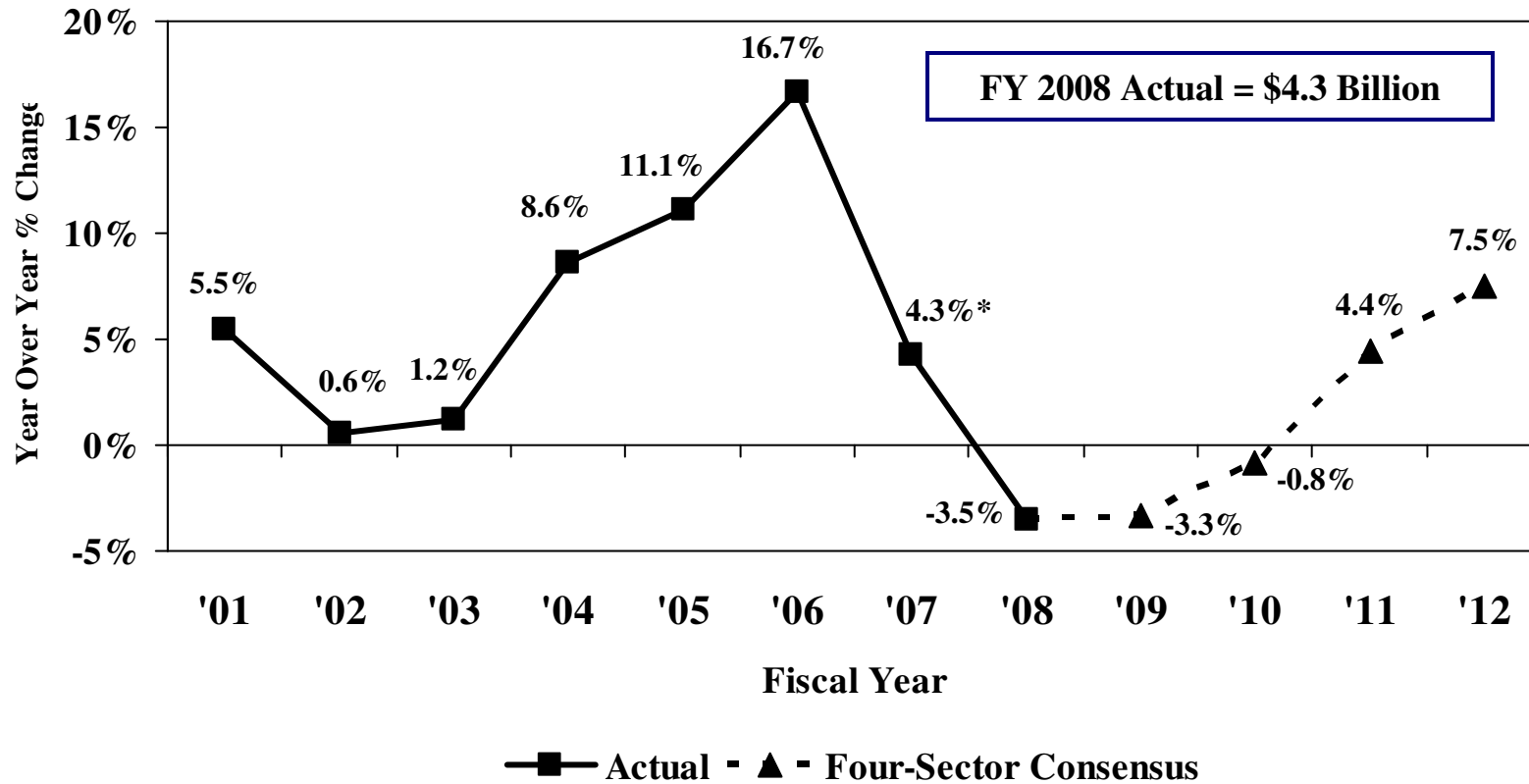
- FAC average
- UofA model - base
- UofA model - low
- JLBC Staff forecast
- Remaining revenues (2% of total) are staff forecast



\* Includes Big 3 categories of sales tax, individual income and corporate income taxes.

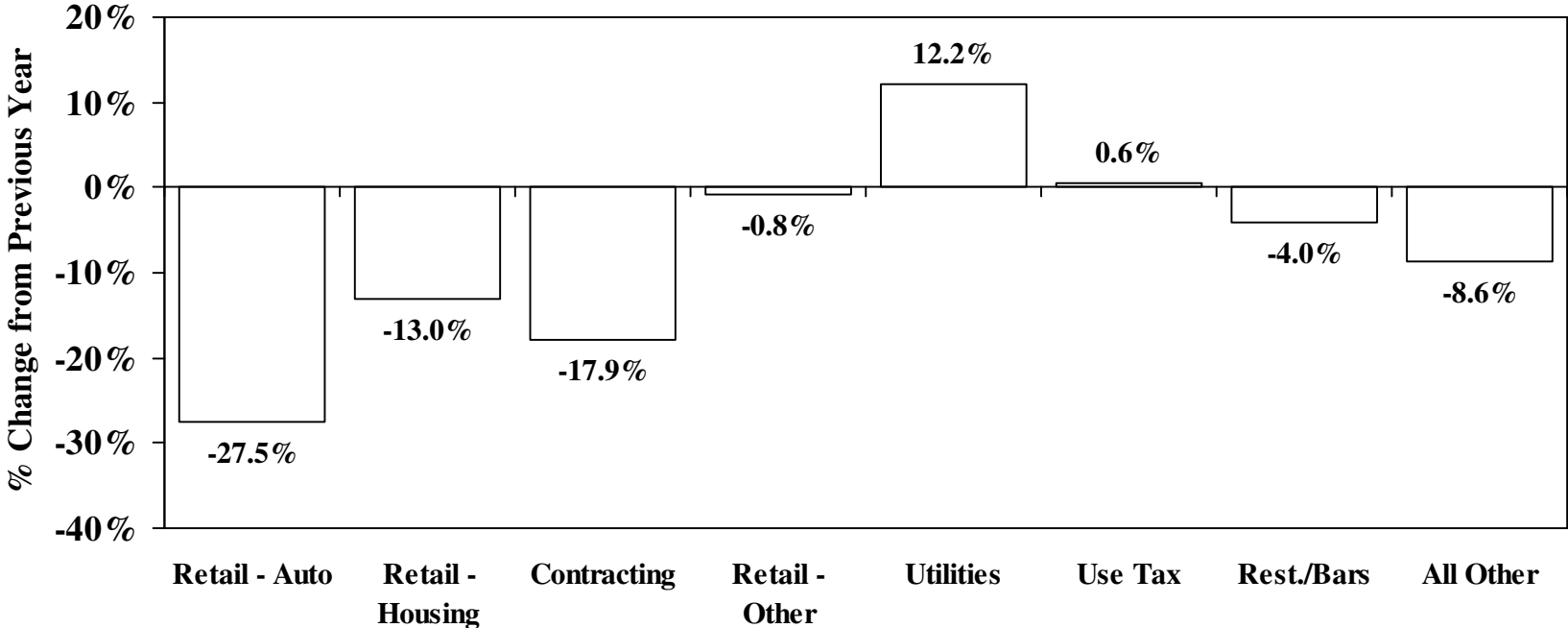
# Sales Tax

- The Consensus Forecasts Declines of (3.3)% in '09 and Another (0.8)% in '10



\* 5.6% without the \$(55.2) million estimated payment threshold change.

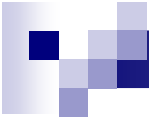
# Construction and Vehicle Spending Have Declined Significantly



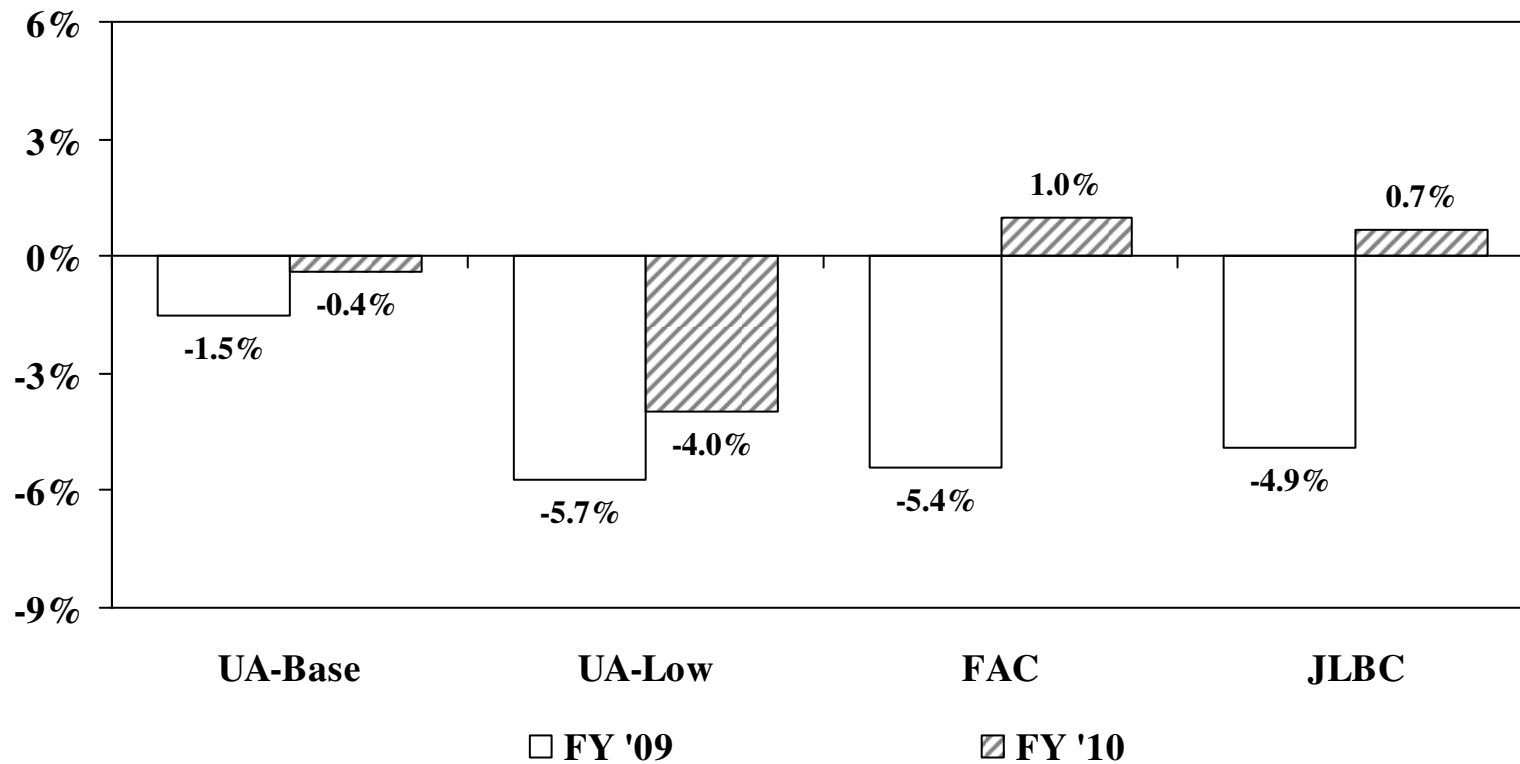
**FY 2009 Year to Date – (Through September)**







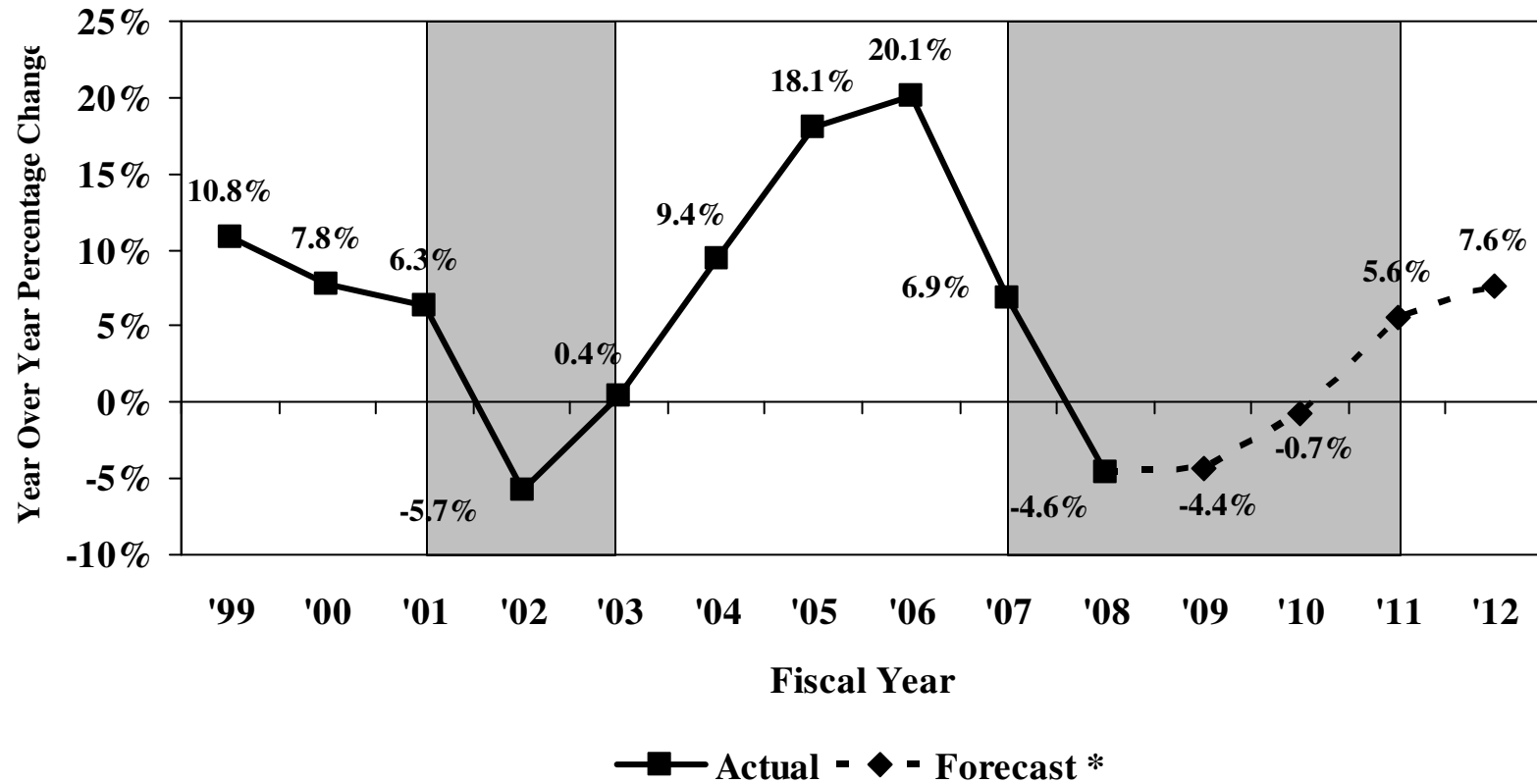
## October 4-Sector General Fund Revenue Forecast - Decline of (4.4)% in FY '09 and (0.7)% in FY '10



Weighted Big 3 Average  
Prior to Tax Law Changes



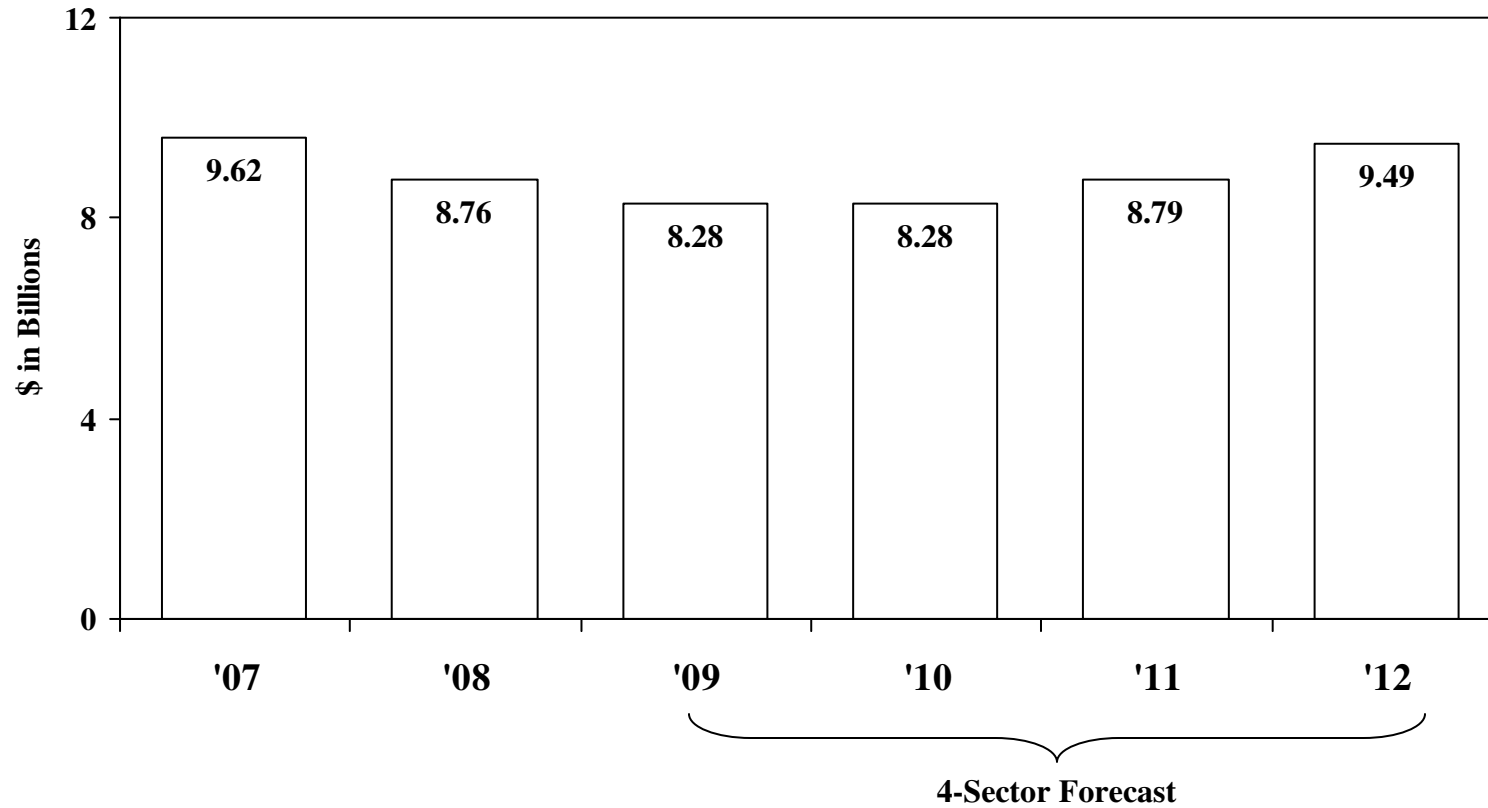
## Growth Remains Slow Until FY 2011



\* 4-sector forecast weighted average growth.

# On-Going General Fund Revenue

- Collections Below FY '07 Level Until After FY '12



**Includes Urban Revenue Sharing and enacted tax law changes  
- excludes balance forward and other one-time revenues.**



## What Is the General Fund Shortfall?

- \$1.2 B in FY '09, based on updated forecast.
- \$2.2 B to \$3.0 B in FY '10, depending on '09 resolution and other factors.



## '09 Revenue and Expenditure Comparison (\$ in Billions)

### Revenues

On-going	\$ 8.1
One-time	<u>0.7</u>
Total	8.8

### Spending

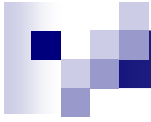
On-going	10.7
One-time	<u>(0.7)</u>
Total	10.0

**Balance** \$(1.2)



## What Are the Possible Solutions?

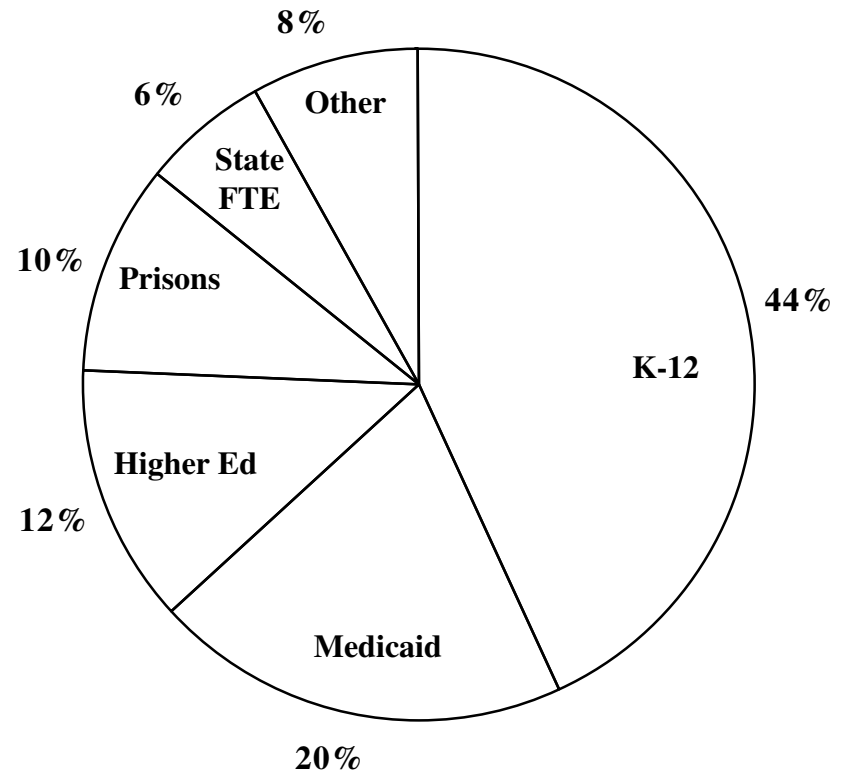
- Revenue
- Spending
- Fund Transfers
- Borrowing
- Accounting



# **Another Perspective on the State Budget: State Spending Priorities and Voter Protection**

## 5 Major Activities Account for 92% of State Spending

	<u>\$ in M</u>
K-12	\$ 4,253
Medicaid	2,002
Higher Ed	1,228
Prisons	1,022
State Workers	604 <u>797</u>
Other	\$ 9,906
Total	





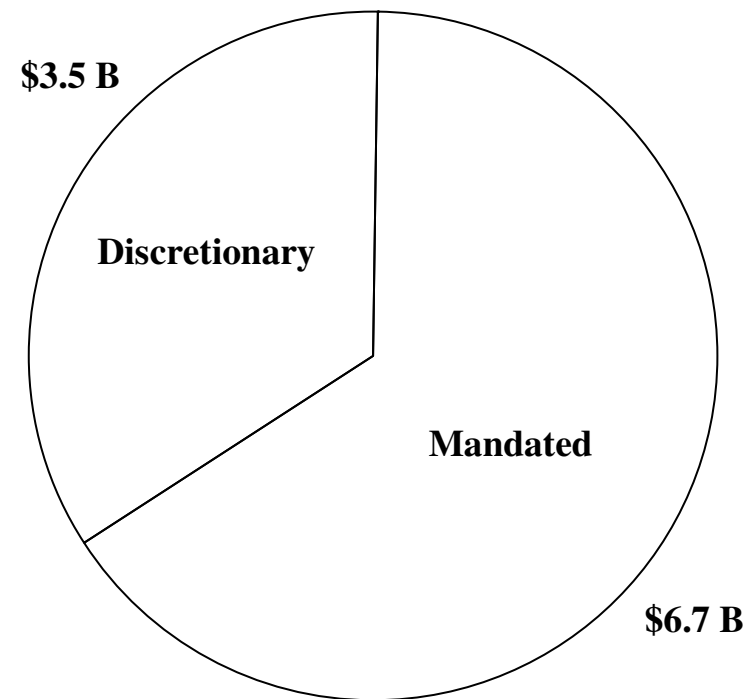


## What Spending is Voter Protected?

- Prop 105 prohibits legislative changes to propositions without a 75% vote to “further the purpose”.
- Prop 301 Education and Prop 204 AHCCCS have greatest impact on state budget.
- This “voter protection” limits, but does not eliminate, our ability to modify ADE and AHCCCS.
- There has been no litigation to clarify the scope of Prop 105.

# What is the Difference Between Voter Protected and Mandated Spending?

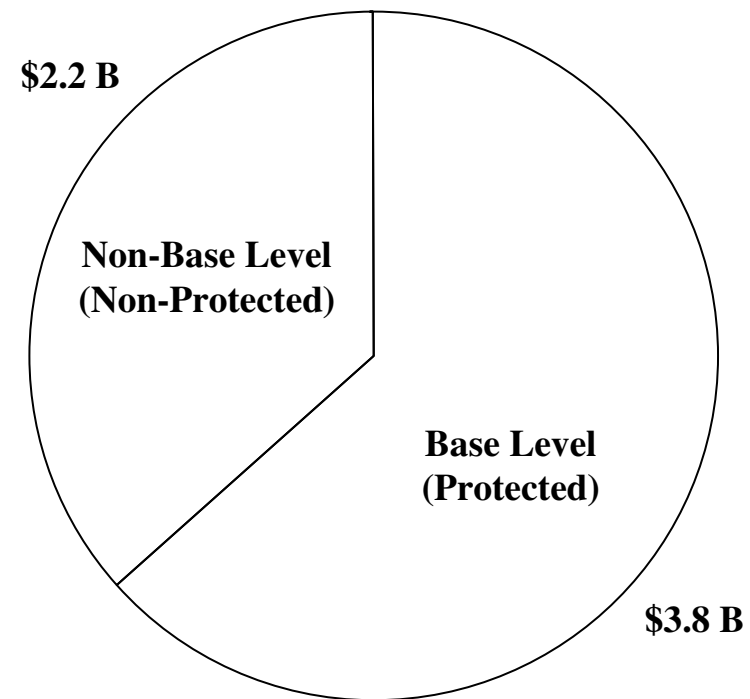
- Mandated spending is based on statutory formulas.
- Legislature can revise certain mandates.
- Voter-protected spending is a subset of mandates.



**\$10.2 B GF Budget  
Rollover-Adjusted**

## At Least \$2.2 B of K-12 Spending is Not Subject to Prop 105

- State and local K-12 budget = \$6 B.
- As funding expands or contracts, marginal impact is on the state.
- Non-base level spending is \$2.2 B.

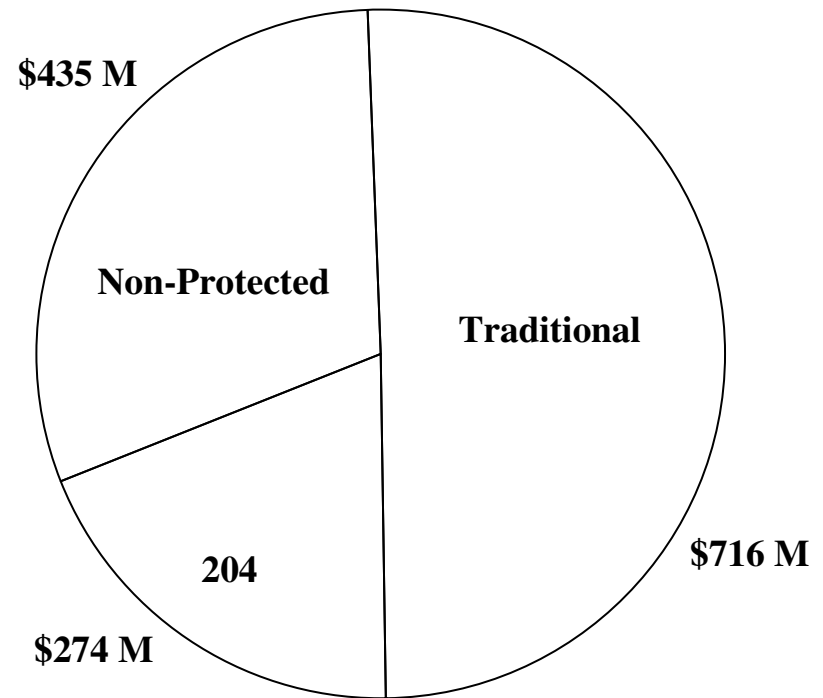


**State and Local K-12 \$**  
**State = \$4.4 B   Local = \$1.6 B**

# AHCCCS Non-Protected Share is at Least \$435 M

- Feds May Permit Limited Adjustments to Rates

- Non-protected includes \$237 M in drugs/ALTCS costs.
- California injunction against 10% rate cut.



**\$1.425 B GF '09 Total**

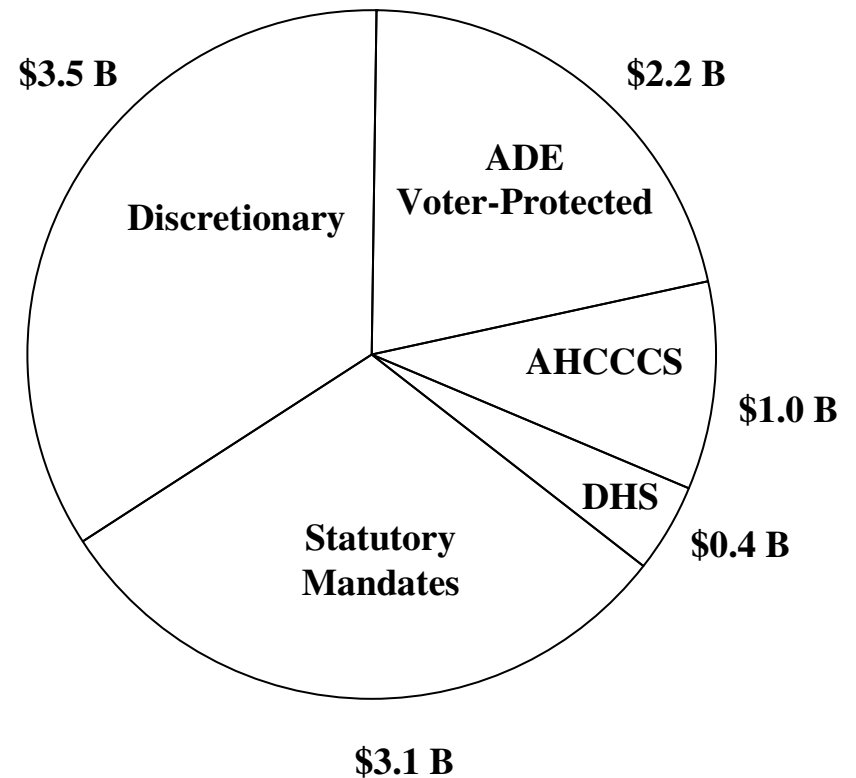
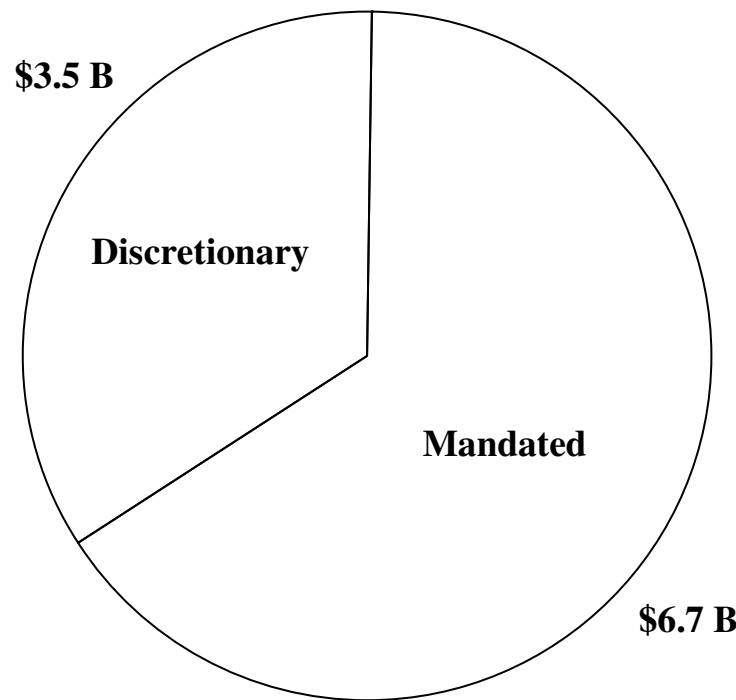


## Summarizing the General Fund Impact of Voter Protection

- K-12: At least \$2.2 B of \$4.4 B General Fund budget is not protected.
- AHCCCS: \$435 M of \$1.4 B is not protected
  - Limited ability to reduce remaining \$1 B.
- Parks Board: \$20 M Growing Smarter payments
  - Ends in FY 2011.
- Clean Election Tax Credits: \$7 M
  - Offset by periodic reversions.

# What Is Voter Protected Share of GF Spending?

- No Definitive Answer, But Near \$3.5 B



\$10.2 B GF Budget  
Rollover-Adjusted