

ATRA Presentation: State Budget Outlook

November 16, 2012

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Summary of the Current Budget Status

- Two major factors will influence long term estimates:
 - The rate of recovery of the economy
 - The future of federal health care legislation, including AHCCCS childless adult coverage
- JLBC has developed 2 scenarios

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Two Budget Scenarios

- **Baseline:** average 6% revenue growth and no optional Medicaid expansion
 - FY '14 balance of \$368 M declines to a \$(67) M FY '16 shortfall
- **Alternate:** lower revenue growth and higher spending
 - \$(411) M shortfall in '15 and \$(583) M in '16

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The Caveats

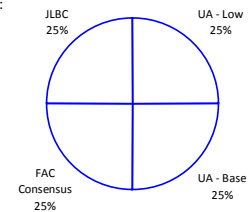
- 1) We have limited ability to predict the future
- 2) A 3 year forecast comes with risks – a 1% change would affect balance by \$500 M in the third year
- 3) Through FY '16, ongoing spending exceeds ongoing revenue
- 4) The FY '14 balance may result in demands for new tax cuts and spending, which would increase '16 shortfall
- 5) Budget continues \$632 M of temporary formula suspensions and \$1.2 B of “rollovers”

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

4-sector forecast equally weights:

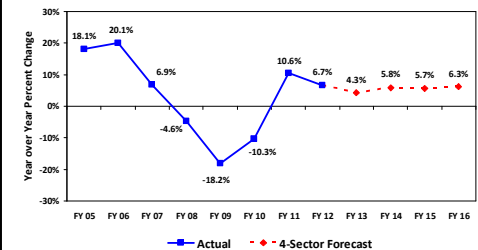
- FAC average
- UofA model – base
- UofA model – low
- JLBC Staff forecast
- Remaining revenues (10% of total) are staff forecast



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

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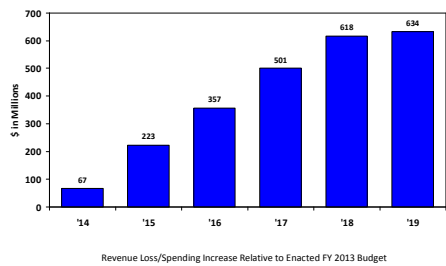
Consensus Forecasts Continuing Moderate Growth Rates Through FY '16



Percent Change in Base revenues excluding balance forward, tax law changes, one-time revenues, and urban revenue sharing

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Fiscal Impacts of Enacted Tax Laws - Includes Property Tax Change Impact on K-12 Budget



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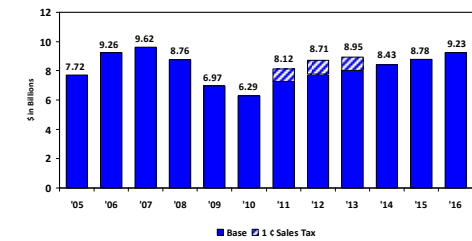
FY '14 – FY '16 Baseline Revenue Changes

\$ in Millions

	FY '14 Above FY '13	FY '15 Above FY '14	FY '16 Above FY '15
Base Revenue Growth (5.8%/5.7%/6.3%)	493	516	593
TPT 1 c Expires	(922)	--	--
Elimination of Fund Transfers	(90)	(6)	--
Elimination of One-Time Revenue Loss	52	--	--
Previously Enacted Tax Legislation	(47)	(134)	(108)
Urban Revenue Sharing	(45)	(28)	(37)
Change In Beginning Balance	279	(308)	(303)
Total	(280)	40	145

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Consensus Forecasts Still Below FY '07 Level



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A Risk to the Forecast – The Federal Fiscal Cliff - Plus Federal debt ceiling is expected to be reached in February 2013

January 2013 Provisions	Deficit Reduction (\$ in Billions)
Federal Tax Increases (Expiration of Bush Tax Cuts)	
- Tax Bracket Range Increases from 10%-35% to 15%-39.6%	281
- Capital gains tax rate increases from 15% to 20%	
No Alternative Minimum Tax (AMT) Patch	120
Payroll Tax Holiday Expires	115
Other Tax Provisions (Bonus Depreciation/Tax "Extenders")	32
Automatic Spending Reductions ("Sequestration")	100
Unemployment Insurance Expiration	40
No Medicare Reimbursement Rate Fix	20
Total	708

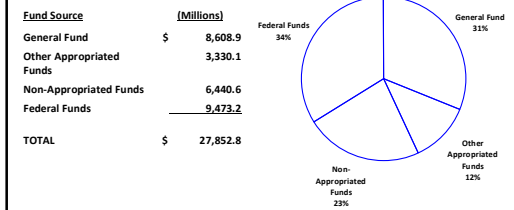
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Beyond the "Cliff", Other Risks to the Economic Forecast

- Unforeseen natural disasters and political events have economic consequences
- International events have domestic repercussions – Euro debt crisis and slowing Chinese boom
- 4-sector Baseline has accelerating revenue growth in FY '16 – long term forecasts usually get more cautious
- To address these concerns, JLBC's alternate scenario caps base revenue growth at 5% through FY '16

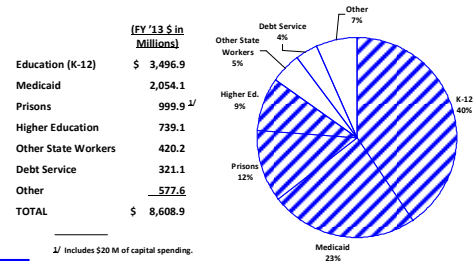
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The \$8.6 B General Fund Share is 31% of Total Funds - GF Share Down from 43% in FY '02



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The 3 Main Drivers of General Fund Spending Are Education, Health, and Prisons
 - Represents 84% of On-Going General Fund Budget



*/ Includes \$20 M of capital spending.

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FY '14 – FY '16 Baseline Spending Estimates

	\$ in M		
	FY '14 Above FY '13	FY '15 Above FY '14	FY '16 Above FY '15
K-12 Formula	71	68	94
Medicaid Regular Formula (prior to expansion)	(4)	119	129
ADC Operating – phase-in of approved beds	9	19	7
Technical Reversionment Change	59	--	--
Debt Service	20	--	--
Other	(6)	(4)	3
Total (excludes Capital and Rainy Day Fund)	149	202	233

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14

Mandatory Federal Medicaid Expansion Costs

- Children covered to 133% of poverty } FY '14 \$69 M
- Higher enrollment by current eligibles } FY '15 \$170 M

* Baseline assumes childless adult coverage remains frozen

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Childless Adult Coverage is Optional

	'15 Above Baseline
Option 1: 133% FPL adult coverage (the fed maximum)	
- Feds pay 85% below FPL and 100% above FPL	\$135 M
- Long term match rate will be 90%	
Option 2: 100% FPL adult coverage	
- If 85% federal match	\$135 M
- If 66% federal match	\$478 M

FPL = Federal Poverty Level (\$11,200 for a single person at 100%)

Alternate Scenario assumes Option 2 at 85% match

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FY '14 – '16 Budget Projections
 - \$450 M Rainy Day Fund Available to Offset Shortfalls

Baseline	'14	'15	'16
Balance Forward	\$676 M	\$368 M	\$66 M
Revenues	\$8.4 B	\$8.8 B	\$9.2 B
Spending	\$8.7 B	\$9.1 B	\$9.4 B
Ending Balance	\$368 M	\$66 M	\$(67) M

Alternate	'14	'15	'16
Balance Forward	\$676 M	\$227 M	\$0 M
Revenues	\$8.4 B	\$8.6 B	\$9.0 B
Spending	\$8.8 B	\$9.3 B	\$9.5 B
Ending Balance	\$227 M	\$(411) M	\$(583) M

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