

Executive Budget Recommendation Fiscal Year 2017

January 15, 2016

Current Financial Position

Budget Goals

Spending Priorities

Summary

Last Year's General Fund Outcome

<i>\$ in millions</i>	<i>FY 2015 Forecast (from last enacted budget)</i>	<i>FY 2015 Actual (preliminary)</i>
Beginning Balance	577	577
One-time Revenues	69	71
Adjusted Base Revenues	8,557	8,933
Transfer from Rainy Day Fund	144	--
Total Resources	\$ 9,347M	\$ 9,581M
Total Spending	9,336	9,269
Ending Balance	\$ 12M	\$ 312M
Structural Deficit	(\$ 737M)	(\$ 336M)

Economic Indicators

Executive Forecast: Moderate growth

Arizona's Economic Indicators

	2015*	2016 Forecast	Last 25 Years		
			20 th Percentile	Median year	80 th Percentile
Personal Income	↑ 4.7%	↑ 4.5%	4.3%	5.5%	9.0%
Wages & Salaries	↑ 4.3%	↑ 4.5%	2.6%	6.7%	9.4%
Employment	↑ 2.4%	↑ 2.5%	0.9%	2.1%	4.9%

*Estimates based on available data

Economic Outlook

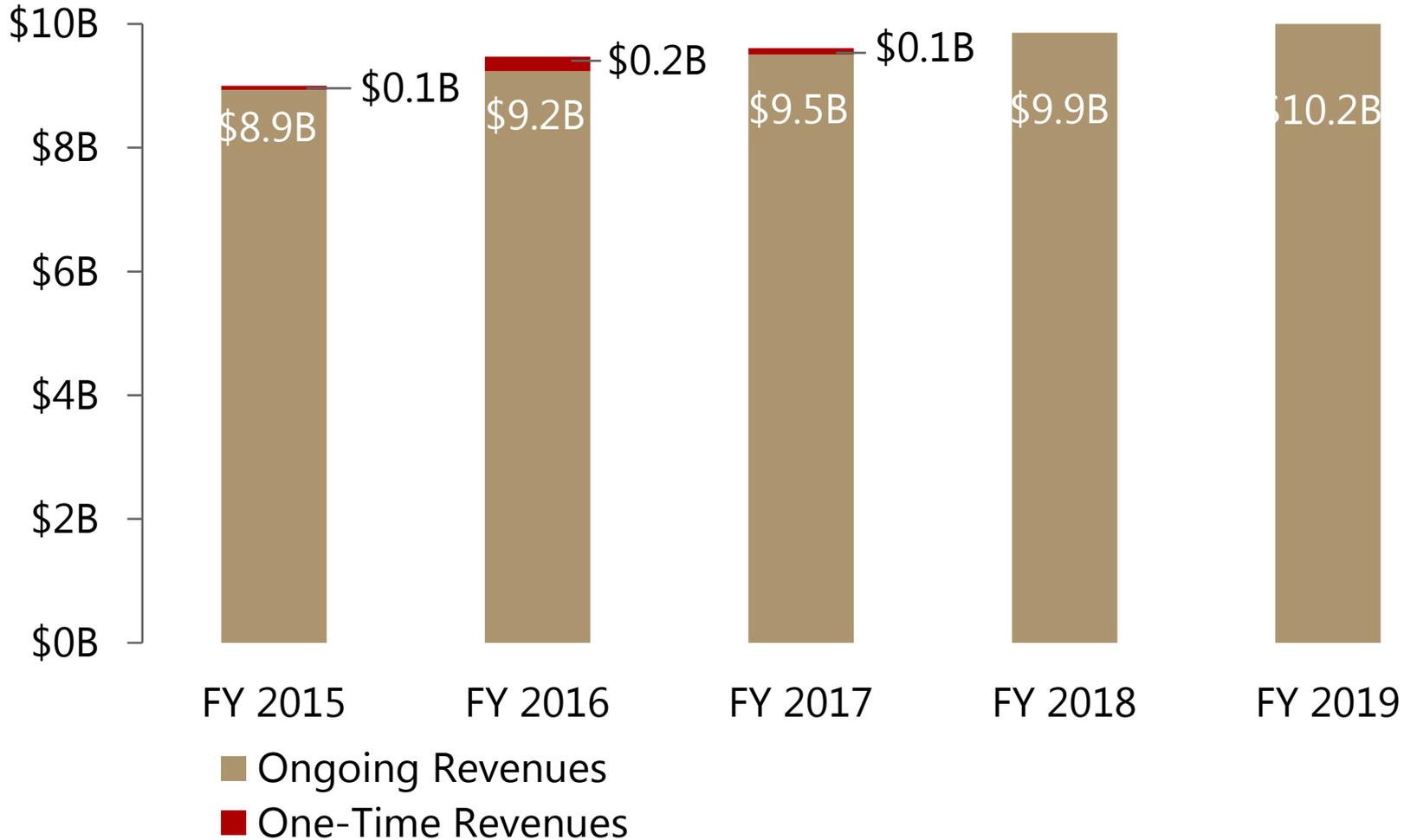
Moderate growth

- Strengthening labor markets should offset projected slowdown in capital markets
- Post recession, job growth has averaged <2% per year, but rates are improving
 - Full replacement of all jobs lost in the Great Recession expected to occur by FY 2017
- Executive expects average revenue growth of about 3.3% through FY 2019

Growth is projected to modestly accelerate, but not back to historical norms.

Total General Fund Revenues

Ongoing Revenue Growth: 3.4% 3.0% 3.7% 3.1%



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✓ **Balance budget**

- Structural balance in FY 2017 – first time since FY 2007
- Maintain the long-term health of the General Fund

✓ **Manage risk**

- Maintain reserve – keep for a rainy day
- Allow for mid-year adjustments
- K-12 settlement – Proposition 123 (May 17, 2016)

✓ **Spend responsibly**

- Strengthen our schools
- Opportunity for all
- Protect our communities
- Small and efficient government

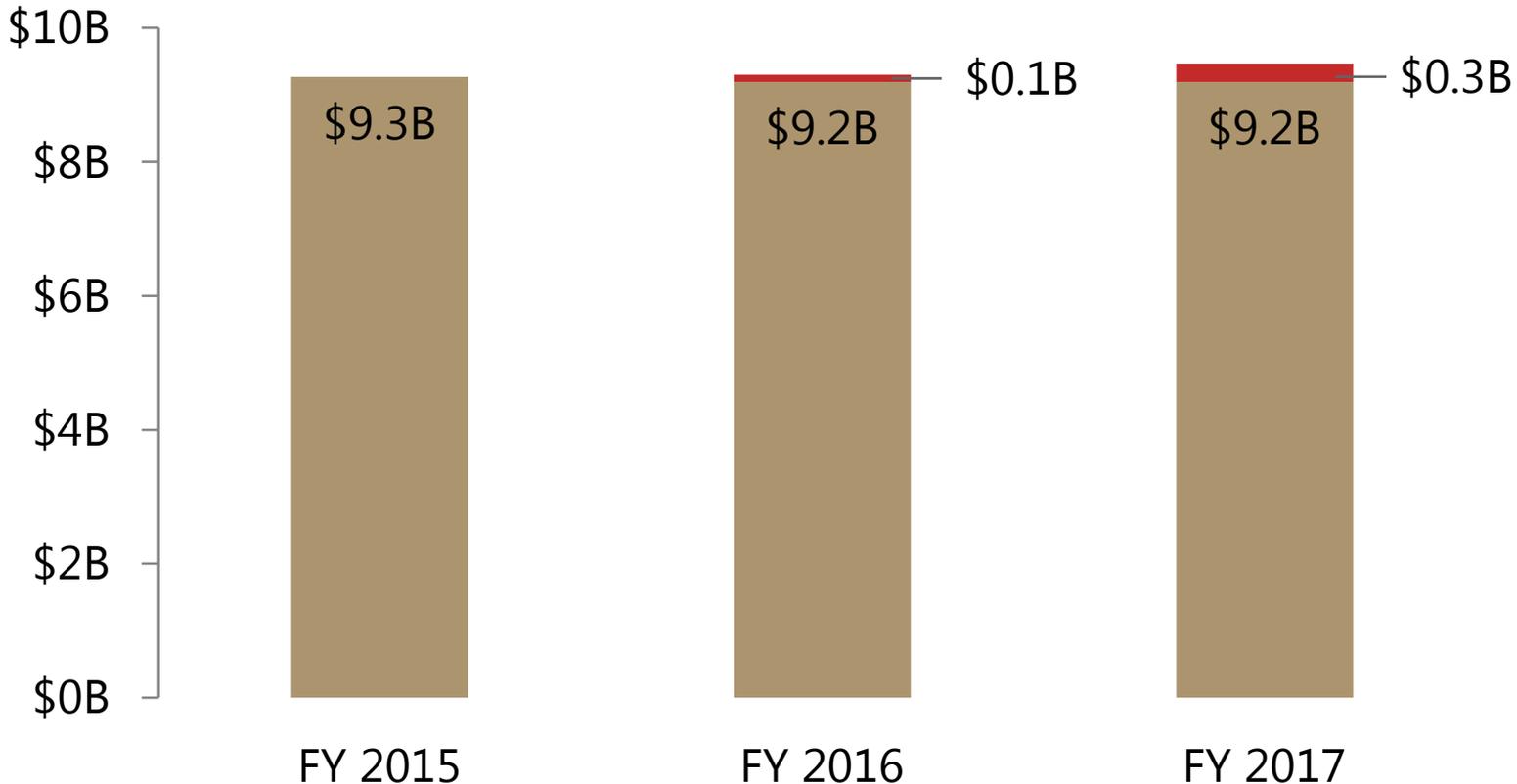
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Total General Fund Spending



- Base Spending (enacted budget)
- New Spending

Spending in FY 2017 grows by less than 2%, which is less than the 3.2% population growth and inflation forecasted in 2017

Spending Adjustments

<i>\$ in millions</i>	FY 2016	FY 2017
K-12 Education*	0	90
School Facilities Board	14	(12)
Universities	4	14
Child Safety	48	39
Economic Security	8	47
AHCCCS	0	550
Health Services	23	(510)
Corrections	5	32
Other	3	34
Total spending adjustments	\$ 105M	\$ 284M

**Figures here are in addition to appropriations made during the 2015 Special Session, which are already included in the base. The impact of Proposition 123 is not reflected here. K-12 Education does include Governor's Office of Education initiatives.*

Support Building Renewal & School Construction

\$15M for K-12 school building renewal

- Appropriation will start in FY 2016
- Funds are for the purpose of maintaining existing school facilities.

Launch a credit enhancement program to support new school construction

- Transfers \$23.9 million in previously appropriated funds to create the Public School Credit Enhancement Program.
- The Program is expected to increase the credit rating on school construction projects, saving schools and tax payers millions over the life of the projects.
 - Does not add debt to the State's existing obligations.

K-12 Funding

The 2015 Special Legislative Session added an additional component to base K-12 funding

Settlement Terms

- \$3.5B additional funding over 10 years
 - \$2.1B from increased state land trust distributions
 - \$1.4B from General Fund
- Increases per pupil funding from \$3,481 to \$3,600, in FY 2016

FY 2016 Supplemental for Settlement

- \$52.4M for additional base funding

Dollars attached to the Special Session settlement are finalized upon voter approval of Proposition 123 in the May Special Election.

Invest in K-12 Education

- \$46.5M for statutorily mandated formula funding
- \$43.9M for education initiatives
 - \$30M for JTED grant program
 - \$6M for college prep program incentive funding
 - \$4.6M for tests and test security
 - \$3.2M for data system support (*and \$7.3M at ADOA to finish six-year design and build of data system*)
 - \$100,000 for executive leadership academies

\$90M education funding increase in FY 2017

Launch Technical Education Grant Program

\$30M to improve technical training opportunities for high demand industries

- Joint Technical Education Districts (JTEDs) will partner with local industry to provide programs that focus on skills and certifications that meet the needs of their local region
- \$30M appropriation to be used over three years, awarded on competitive basis and administered through the Governor's Office of Education
- Grants will require matching funds from businesses seeking to train their workforce

K-12 Education Funding Increases

2015 Special Session	FY 2016 Supplemental	FY 2017
\$224 Million	\$15.2 Million	\$106 Million
<ul style="list-style-type: none"> • \$172M from the State Land Trust • \$52.4M from the General Fund 	<ul style="list-style-type: none"> • \$15M in Building Renewal for SFB • \$200,000 for standard setting for the State Board of Education 	<ul style="list-style-type: none"> • \$46.5M from caseload, inflation and past policy adjustments • \$43.9M in new initiatives • \$15M for new school construction and building renewal

Invest in Higher Education

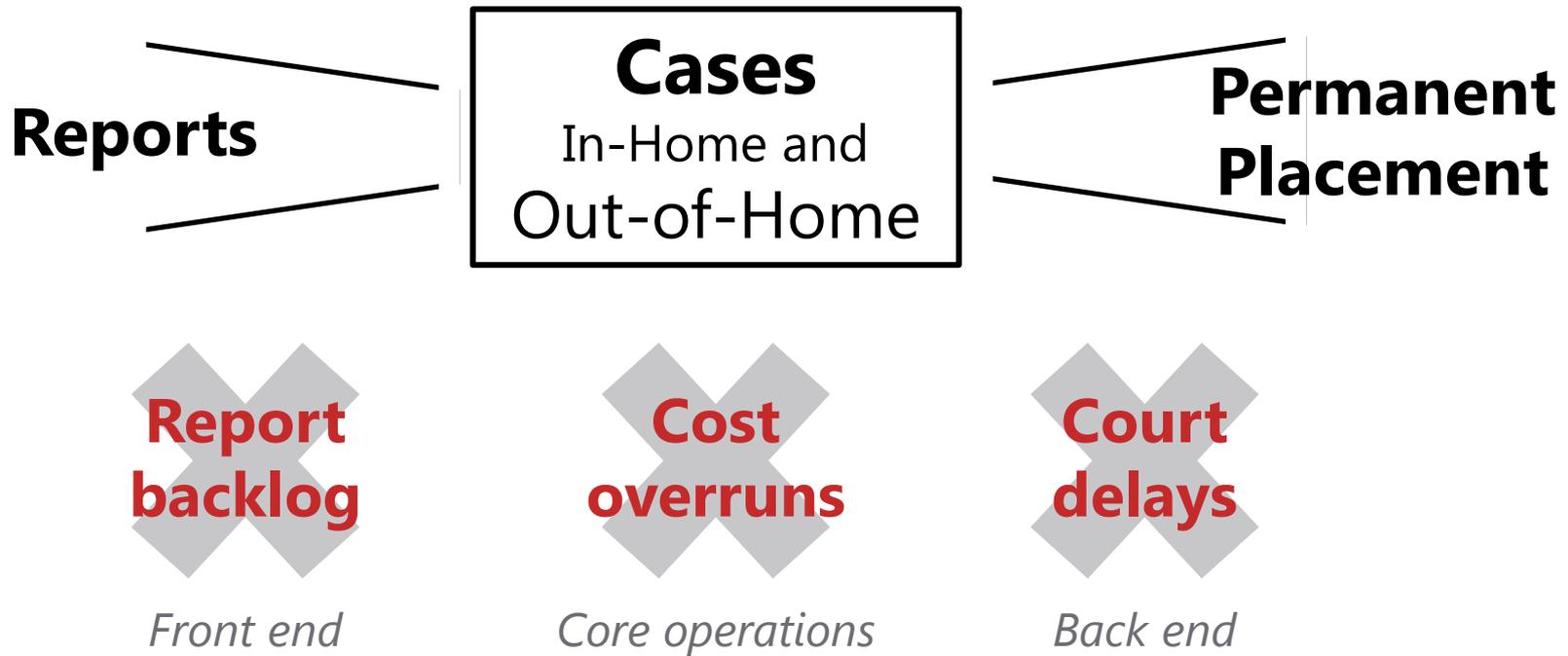
\$8M in additional funding to support the education of in-state students

The budget requires ABOR to commission an independent cost study that will be used to evaluate cost containment and shape future funding

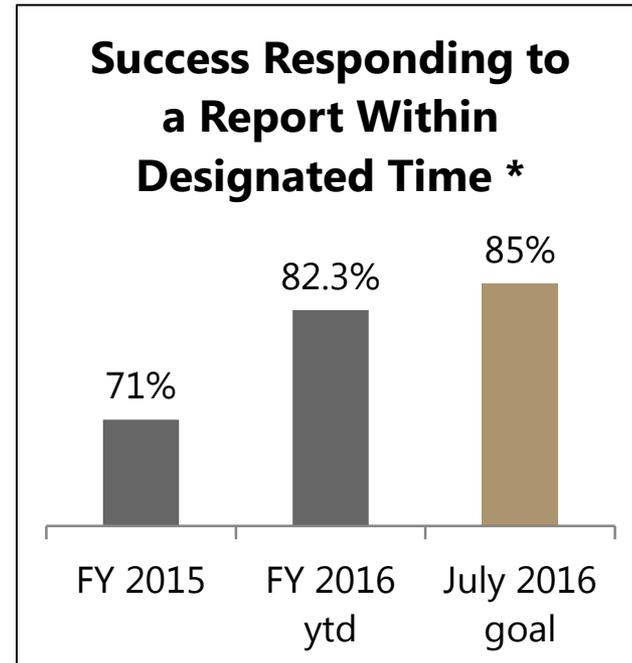
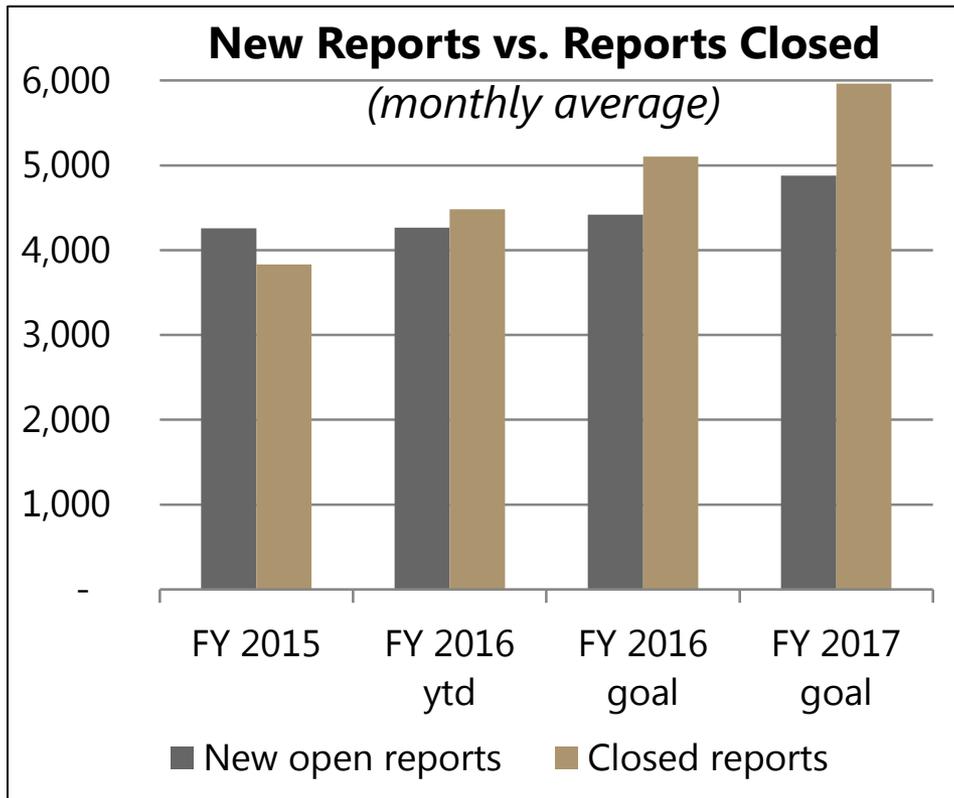
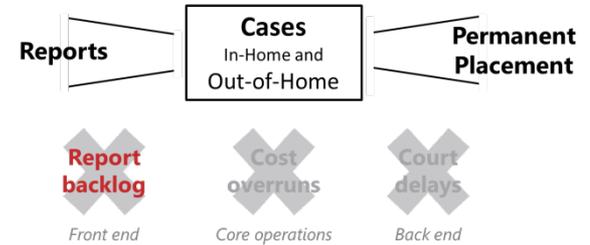
\$6M in ongoing adjustments and savings to universities

- \$2.1M from correcting HITF contribution rates (\$4.1M in FY 2016)
- \$3.9M from adjusted debt service level

Child Safety – Current State



Reduce Backlog and Improve Response Time

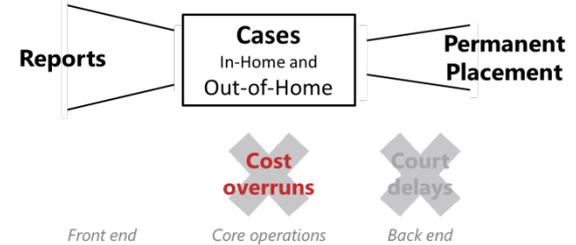


* With highest risk reports responded to within 2 hours

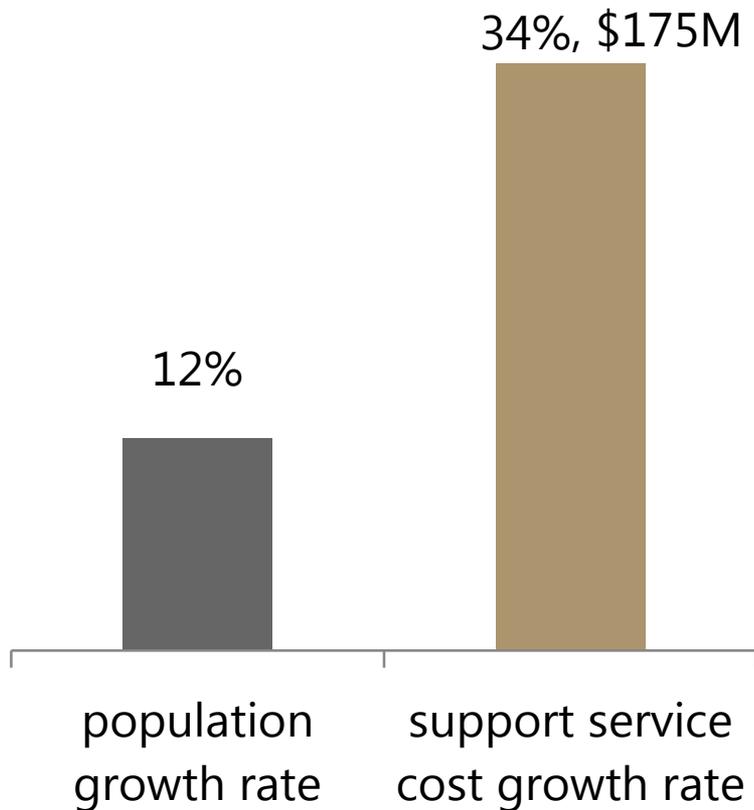
\$4M investment in field staff capacity

- Support case aides and overtime
- Repurpose existing Overtime and Retention Pay general funds of \$4.3M for flexible use (case aides, overtime, strategic pay package)

Reduce Cost Overruns by Improving Operations



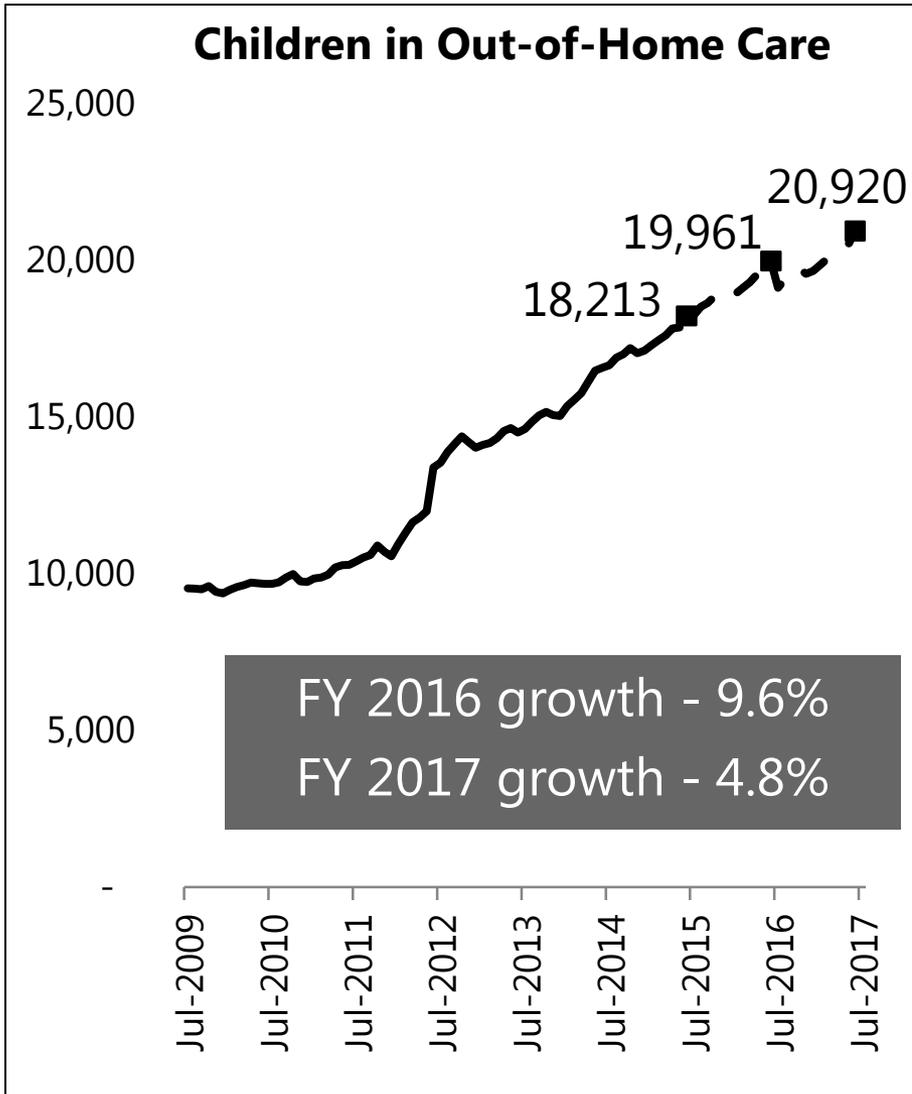
Out-of-Home Care FY 2015



\$11M investment in central operations

- Staffing study to be completed for each administrative unit
- Government Transformation Office (GTO) task force for support and review
- Funds disbursed as division staffing structures are approved by OSPB and Governor's Executive staff

Fully Fund Children in State Care



\$39M in FY 2016 and \$48M in FY 2017 to fully fund children in State care

- Out-of-home beds
- In-home and out-of-home support services
- Permanent placements

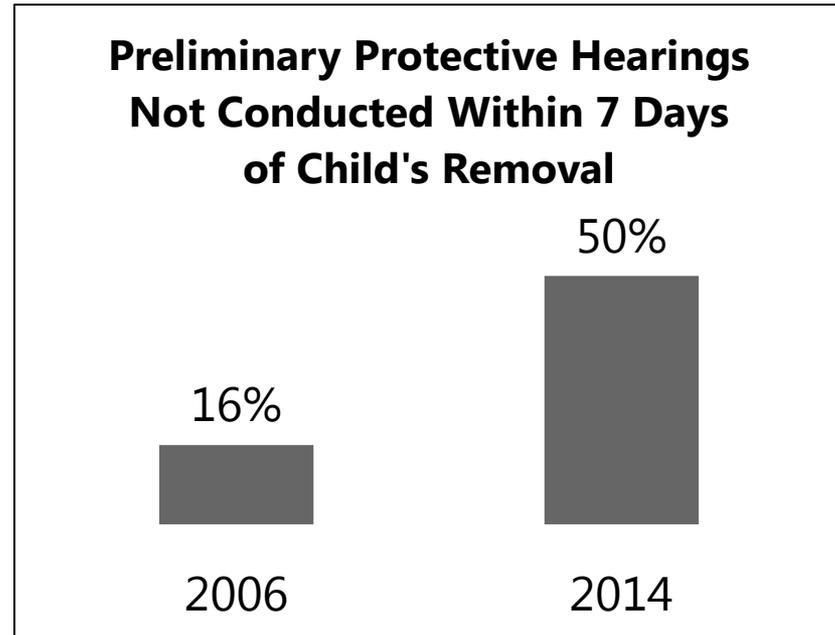
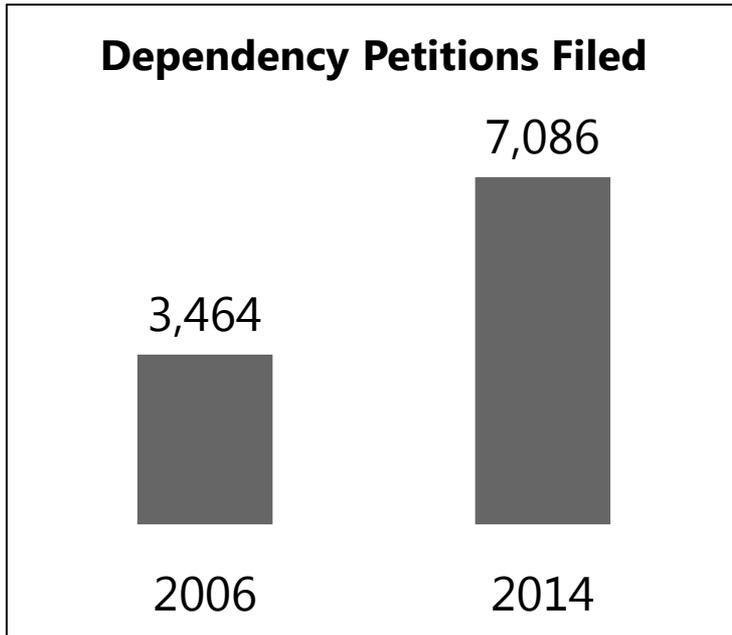
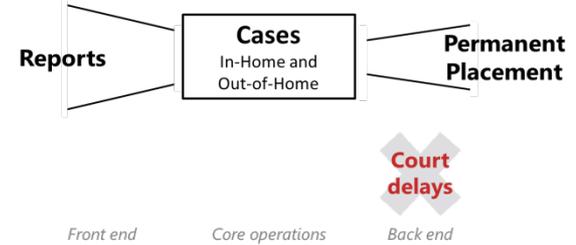
Address Other Child Safety Budget Issues



- **Cash Flow:** Resolve other structural deficits
 - \$11M one-time to eliminate the deferral
 - \$1.9M to resolve attorney general funding shortfall
- **IT System:** Begin design and build on new data system
 - \$4.6M to start Phase II of replacing 20-year system
- **Lawsuits:** Cover litigation costs of two class action suits
 - \$2.9M one-time for attorney general support, expert witness fees and case file collection and review – covers litigation costs over two years
- **General Fund Solutions:** Reduce General Fund by (\$25M)
 - Improve federal fund draw-down, pursue grants, apply other funds

Between General Fund and General Fund solutions, the total two-year State investment in child safety is \$134M

Reduce Caseload by Addressing Court Delays



\$9.3M to reduce caseload by increasing judicial and attorney capacity to process court backlog

- \$3.0M to the Superior Courts for dependency case processing
- \$6.3M for the Attorney General Office's Protective Services Section

Better Align Child Care Rates to Market

\$6.4M to increase child care support for low-income working parents and foster parents

- Providing affordable child care makes it financially possible for many low-income parents to obtain work or continue working rather than having to potentially stay home to care for their children and receive welfare assistance
 - Since 2006, child care costs at licensed child care centers have increased by about 24%
 - The State has not increased the level of child care support provided to these families since FY 2007
 - The Executive recommendation for FY 2017 will increase child care support by 5.8%

Increase Support for Vocational Rehabilitation

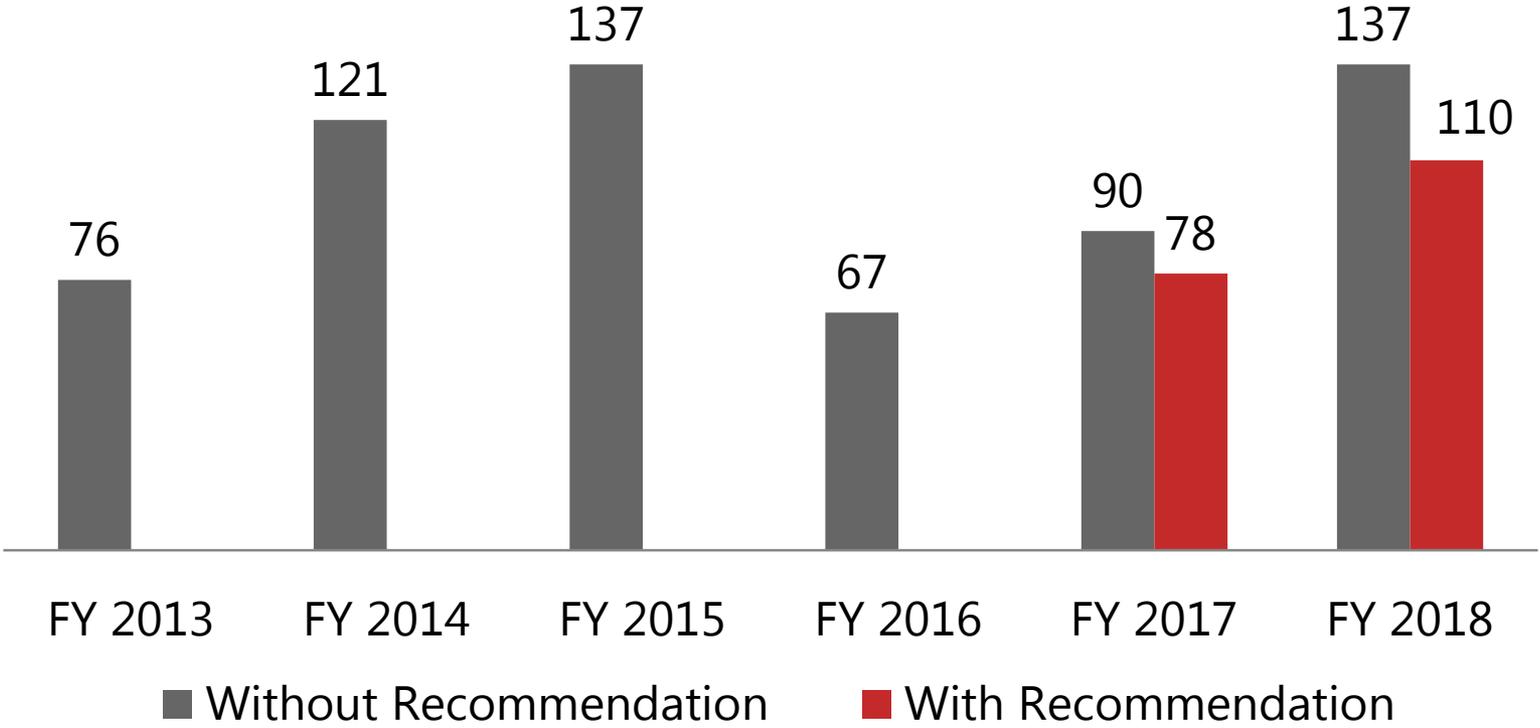
\$4.7M towards providing vocation rehabilitation services to help get people to work

- Vocational Rehabilitation delivers services to the physically and mentally disabled to help them achieve employment and independence
- Funding will decrease the waiting list and provide the following services:
 - Job training and placement
 - Tuition reimbursement
 - Rehabilitative technology services and devices that allows the disabled to perform their duties in the workplace
- Will be matched by \$19M in federal funds

Strengthen Adult Protective Services

\$3M to improve protection of aging and disabled adults by reducing caseloads for caseworkers

Average Cases/Worker



Health Care System Improvements

- \$2.6M to provide preventive dental benefits for members of Arizona's Long-Term Care System, including members with developmental disabilities
- \$107,300 to increase health provider audits and create collections unit within the Arizona Health Care Cost Containment System (AHCCCS)
- \$1.5M to hire 29 additional security officers and nurses at the Arizona State Hospital

Expand Border Strike Task Force

\$31.5M to combat illegal drug and human trafficking at the border

Increase in Seizures 2010-2014 (in Arizona)

Heroin: 223%

Meth: 225%

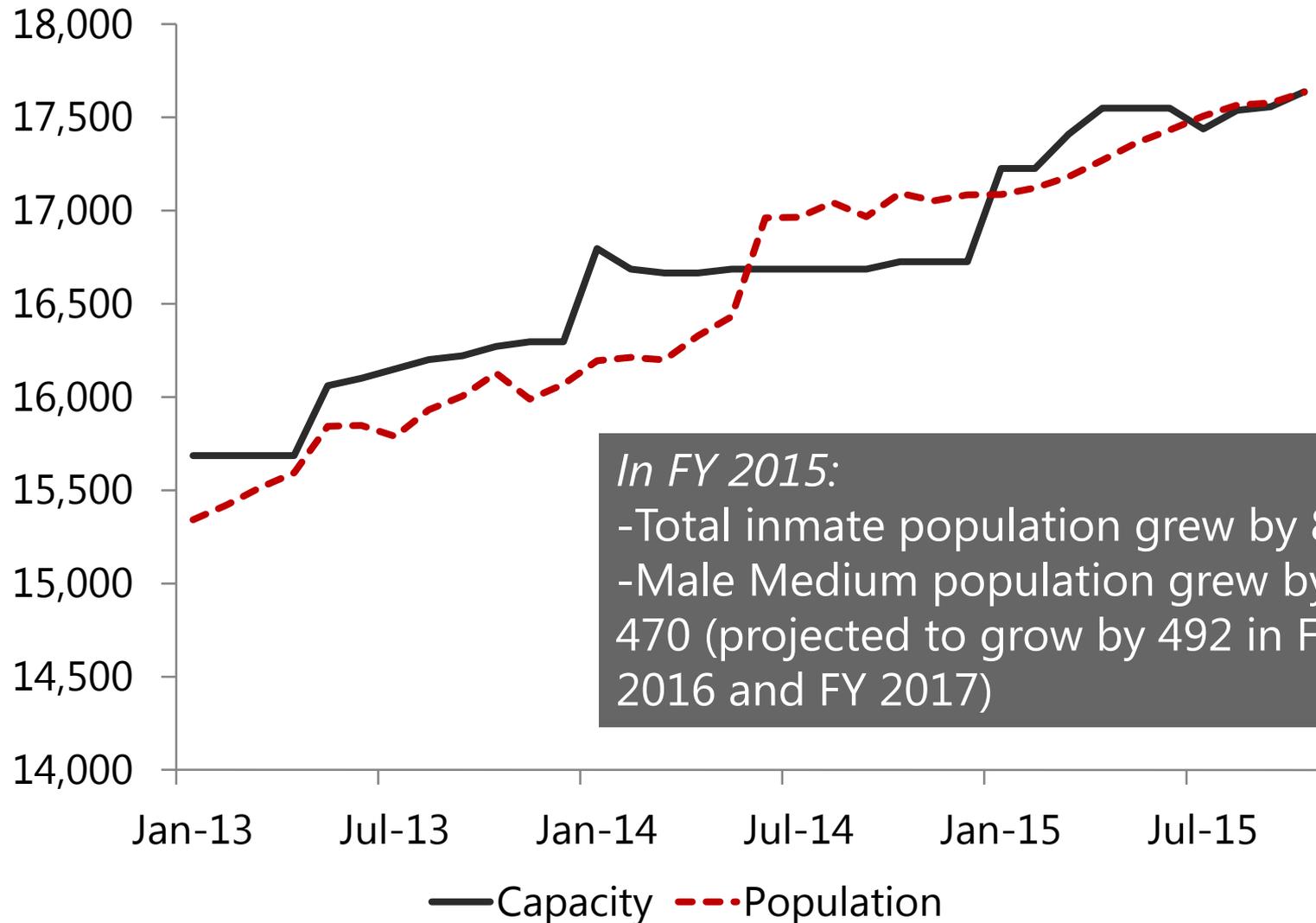
Response: Expand Border Strike Task Force

- The monies will be used to hire troopers, purchase capital equipment and provide for maintenance and operations for ongoing border operations.

The Task Force requires partnerships with federal, county, and local law enforcement agencies to succeed

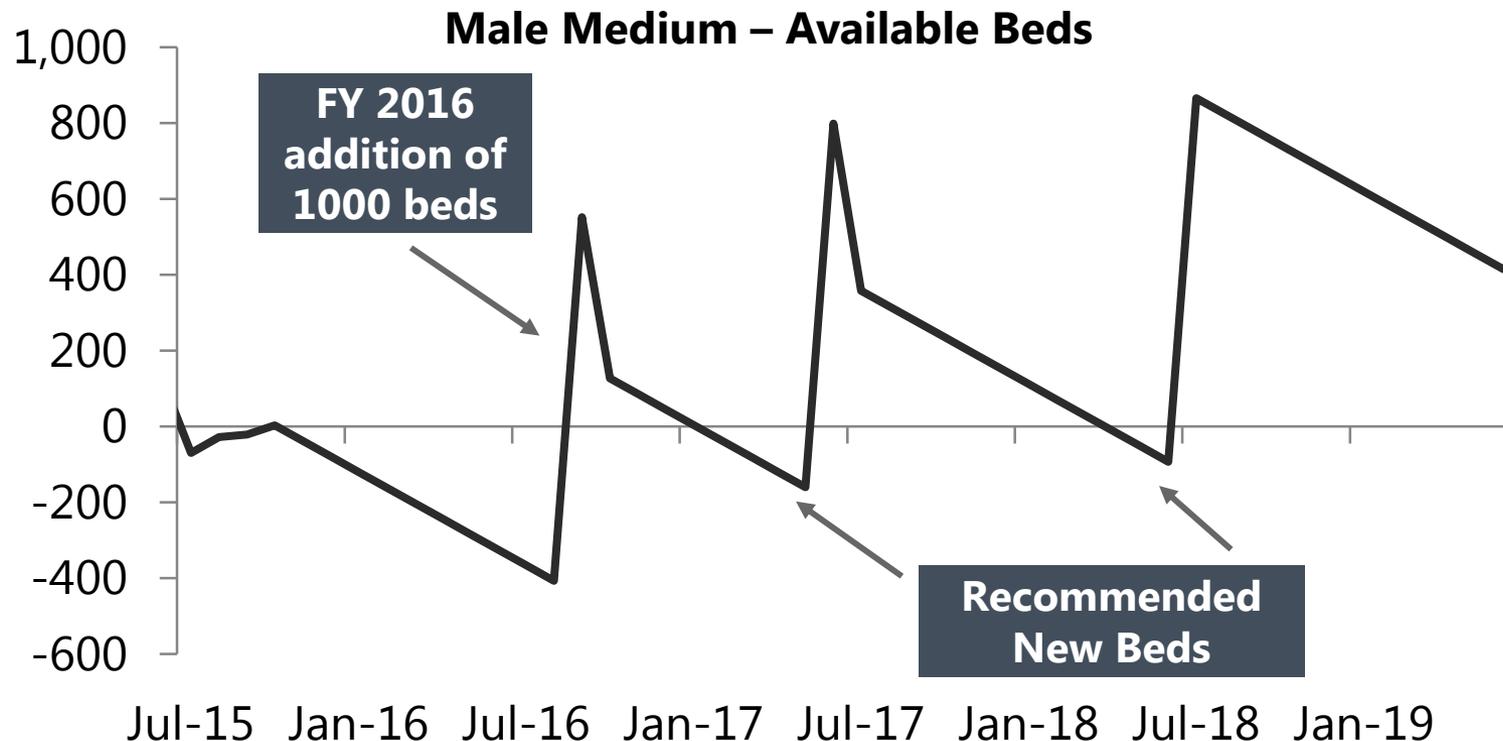
- Offset costs to counties and local governments
- Acquired 3 airplanes at zero state cost for operations from federal surplus

Prison Population – Medium Security Inmates



Prison Population – Medium Custody Inmates

To maintain a safe prison environment, contract for an additional 2,000 beds (1,000 in July 2017 and 1,000 in July 2018)



Northern Community Corrections Center

\$1.6M to open a 100-bed community-based correction center in Maricopa County

The Goal of NCCC is to correct the behavior of technical parole violators in a more efficient manner.

- In FY 2015, the Department revoked the community release of 3,554 inmates for technical violations; the majority were from Maricopa County.
- These inmates return to prison for an average of 95 days, whereas stays at NCCC (for technical violations) will be 5-7 days.
- NCCC will offer intensive drug treatment with housing and transitional services.

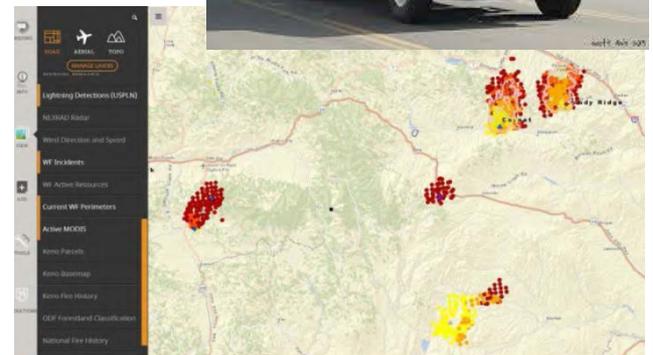
Address Forester Settlement

\$387,500 to strengthen support to firefighters responding to wildland fires

As part of the recent Yarnell Hill Settlement, the State Forester is responsible for adopting new wildland-firefighting measures to improve safety. Funding will provide:

- **Software** - that provides real-time imaging of a fire, accessible in the field on mobile devices and across multiple agencies
- **Vehicles** - New wildland fire engine and a new inmate fire crew carrier

Collaborative mapping



State Parks Capital Improvement Needs

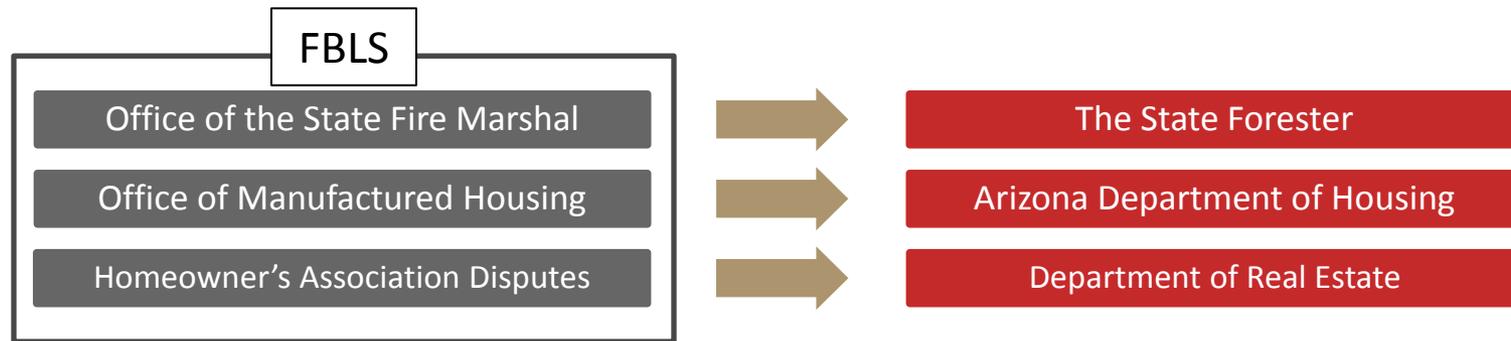
\$10M intergovernmental loan to State Parks to address capital needs - bolstering revenue streams

- The loan will finance two major revenue generating projects
 - Cattail Cove near Lake Havasu
 - Rockin' River Ranch near Camp Verde
- **The loan will be paid back to the General Fund with interest** after construction is complete, using new park revenue.



Recommended Consolidations

Transferring the duties of the **Department of Fire, Building and Life Safety**



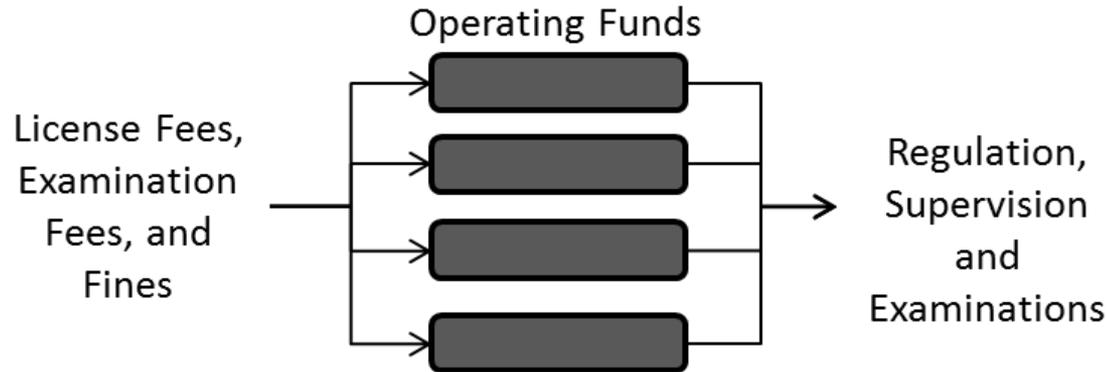
Consolidating the **Arizona Geological Survey** into the University of Arizona:

- Except for Oil & Gas Commission, which would go to DEQ

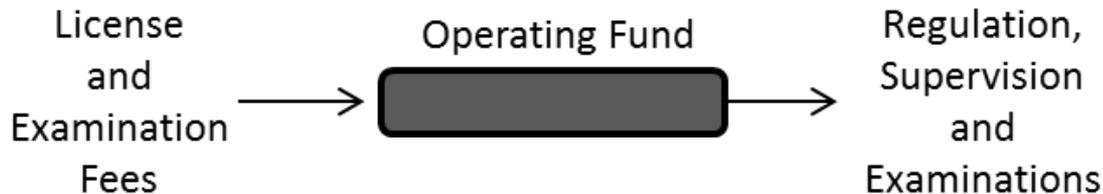
Recommended Restructure

Restructuring 4 funds at the **Department of Financial Institutions** into 1 fund to maximize transparency

Current Fund Structure



Recommended Fund Structure



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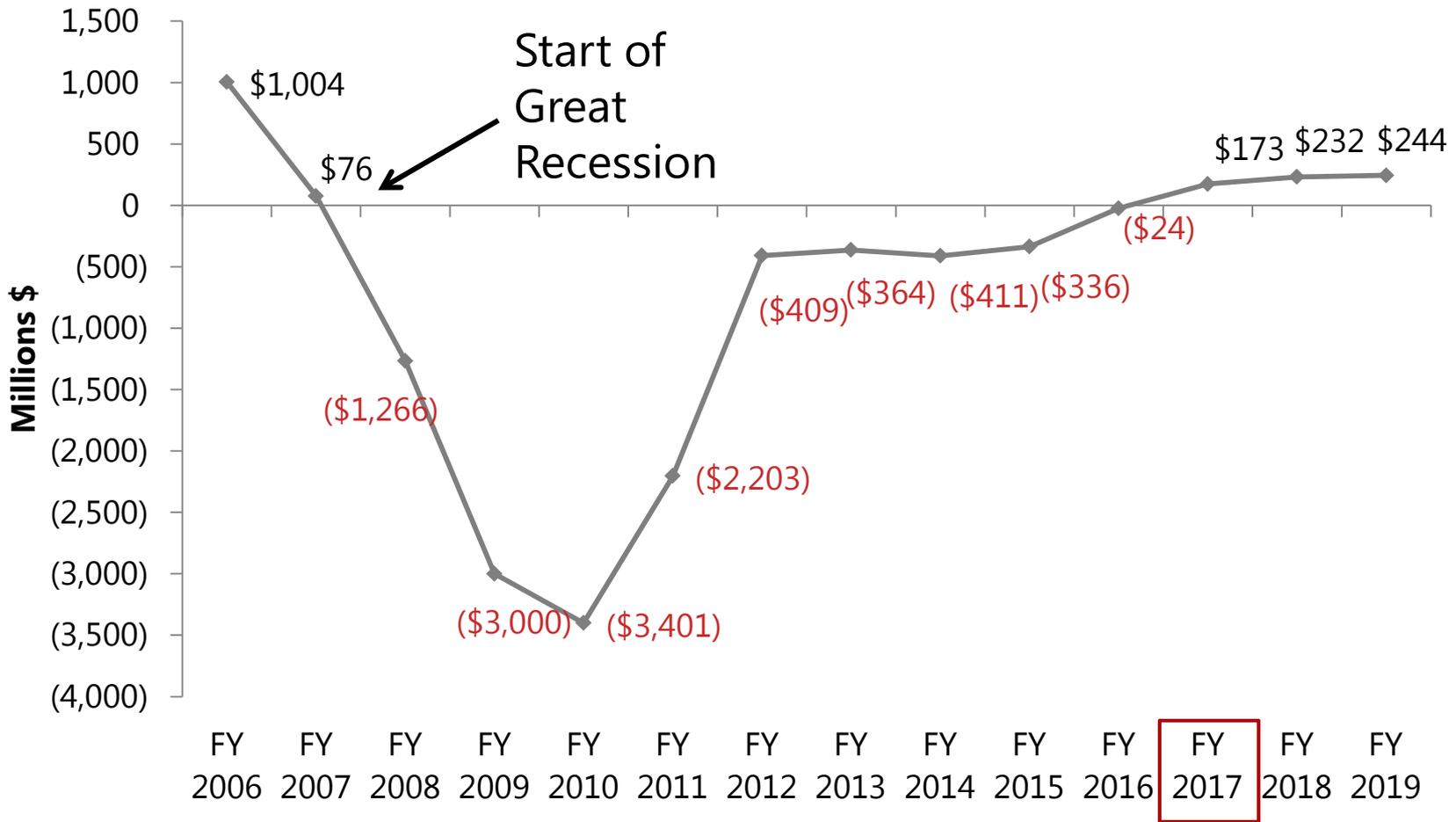
Summary

Where We End Up

<i>\$ in millions</i>	FY 2015	FY 2016	FY 2017
K-12 Education (ADE)	3,835	3,942	3,996
AHCCCS	1,226	1,205	1,755
Corrections	997	1,035	1,061
Universities	768	665	675
Economic Security	483	504	543
Child Safety	361	404	396
Health Services	619	625	93
Other	980	920	961
Total	\$ 9,269M	\$ 9,301M	\$ 9,480M

Arizona is on track to be structurally balanced for the first time since the Great Recession.

Structural Balance



Where We End up

FY 2016 supplemental	\$105M
FY 2017 baseline	\$116M
FY 2017 initiative (<i>81% one-time</i>)	\$168M
Total FY 2016 and FY 2017 Spending	\$389M

FY 2017 ending General Fund cash balance	\$621M
FY 2017 rainy day fund cash balance	\$470M

FY 2017 structural balance \$173M



FY 2017 Executive Budget Available at:

azgovernor.gov

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