



FY 2019 Executive Budget Briefing

January 12, 2018

Governor's Office of Strategic Planning and Budgeting

Overview

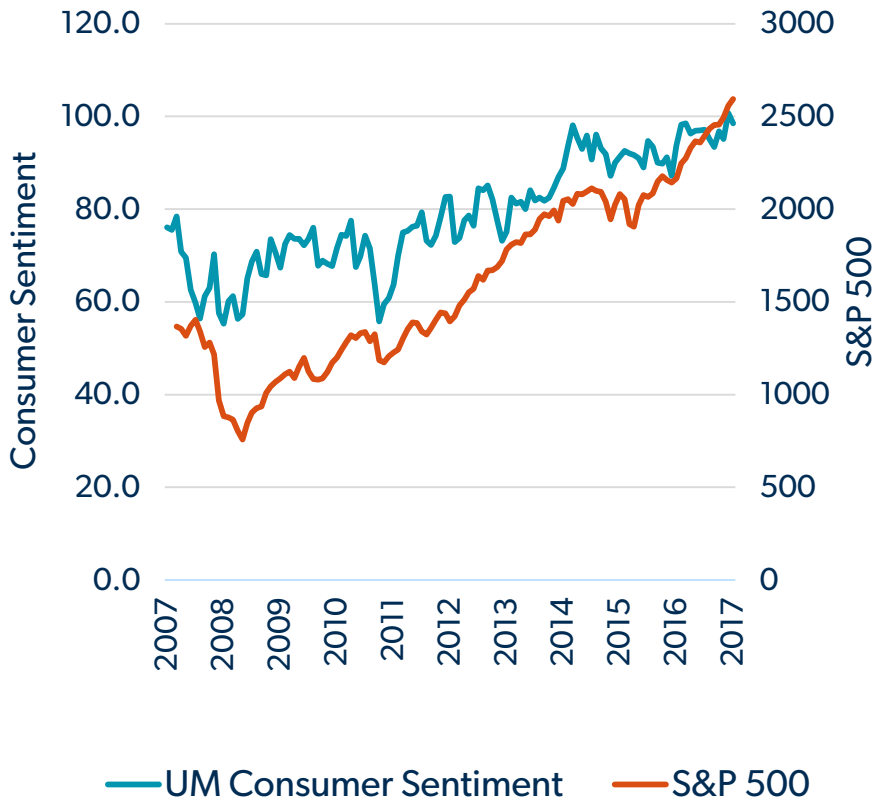
- General Fund Snapshot
- The Economy and State Revenues
- FY 2019 Budget Priorities
 - Education
 - Opioid Crisis
 - Child Safety
 - Economic Security
 - Natural Resources
 - Public Safety
 - Responsible Government
- Highlights

General Fund Snapshot

<i>\$ in millions</i>	FY 2018	FY 2019
Total Revenues	\$9,871.4	\$10,218.8
Enacted Base Spending	9,815.1	9,815.1
Baseline Changes	6.4	170.1
New Initiatives	7.2	158.5
Total Spending	9,828.7	10,143.7
Ending Balance	42.6	67.2
Structural Balance	\$5.6	\$4.8

The Economy and State Revenues

Growing Indications of a National Economic Surge



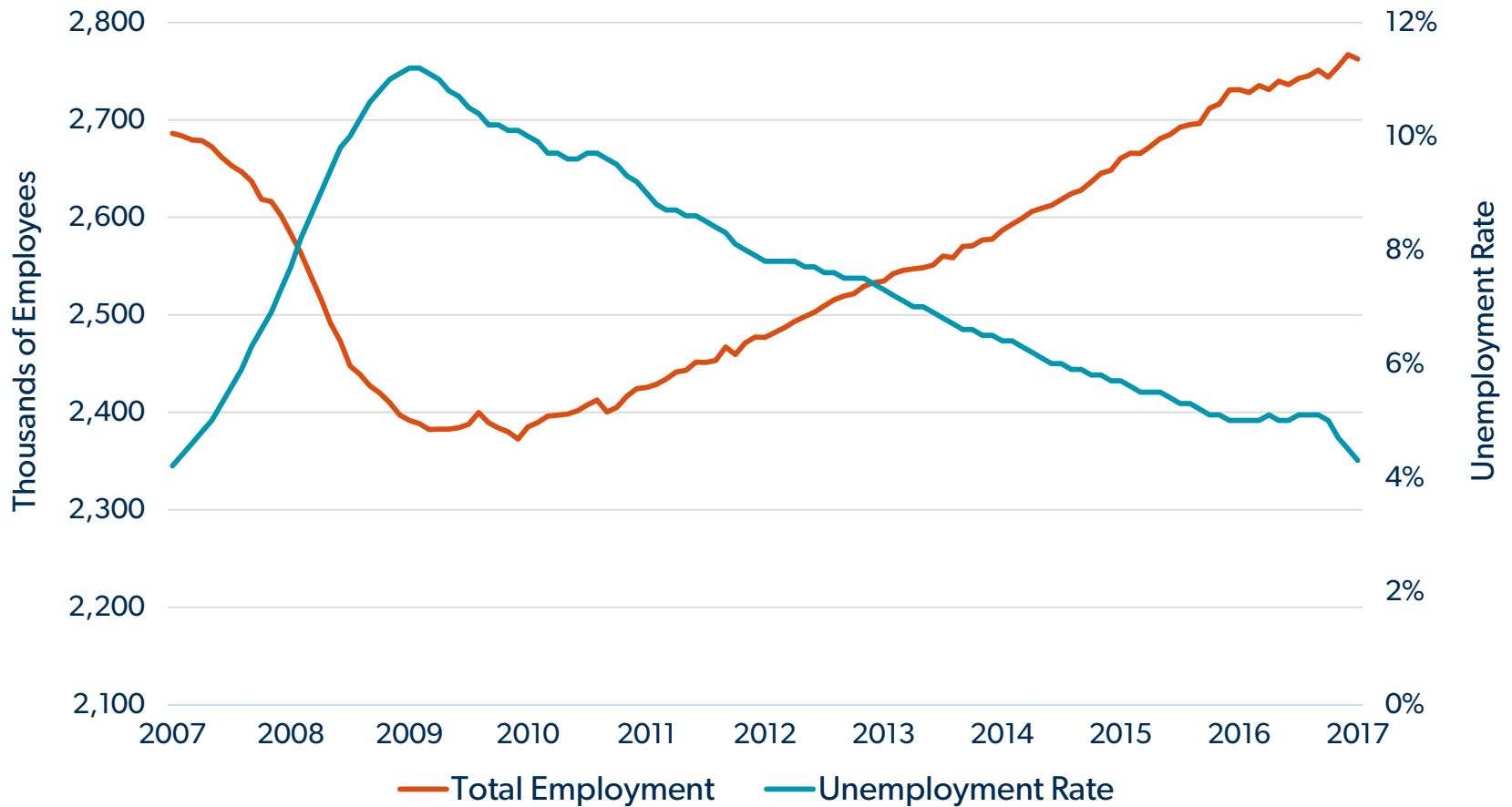
“A wave of optimism has swept over American business leaders, and it is beginning to translate into the sort of investment... that bolsters economic growth, ... the newfound confidence was initially inspired by the Trump administration’s regulatory pullback,”

New York Times, The Trump Effect: Anticipating Less Regulations, Loosens Purse Strings, January 1, 2018

“Some of the cash windfall from corporate tax cuts is already trickling down to Main Street workers. A handful of U.S. companies are already promising to pay one-time bonuses to their employees and bump up hourly pay...”

USA Today, AT&T, Comcast, Wells Fargo promise bonuses or pay hikes once tax cut bill passes, December 20, 2017

Arizona's Labor Market



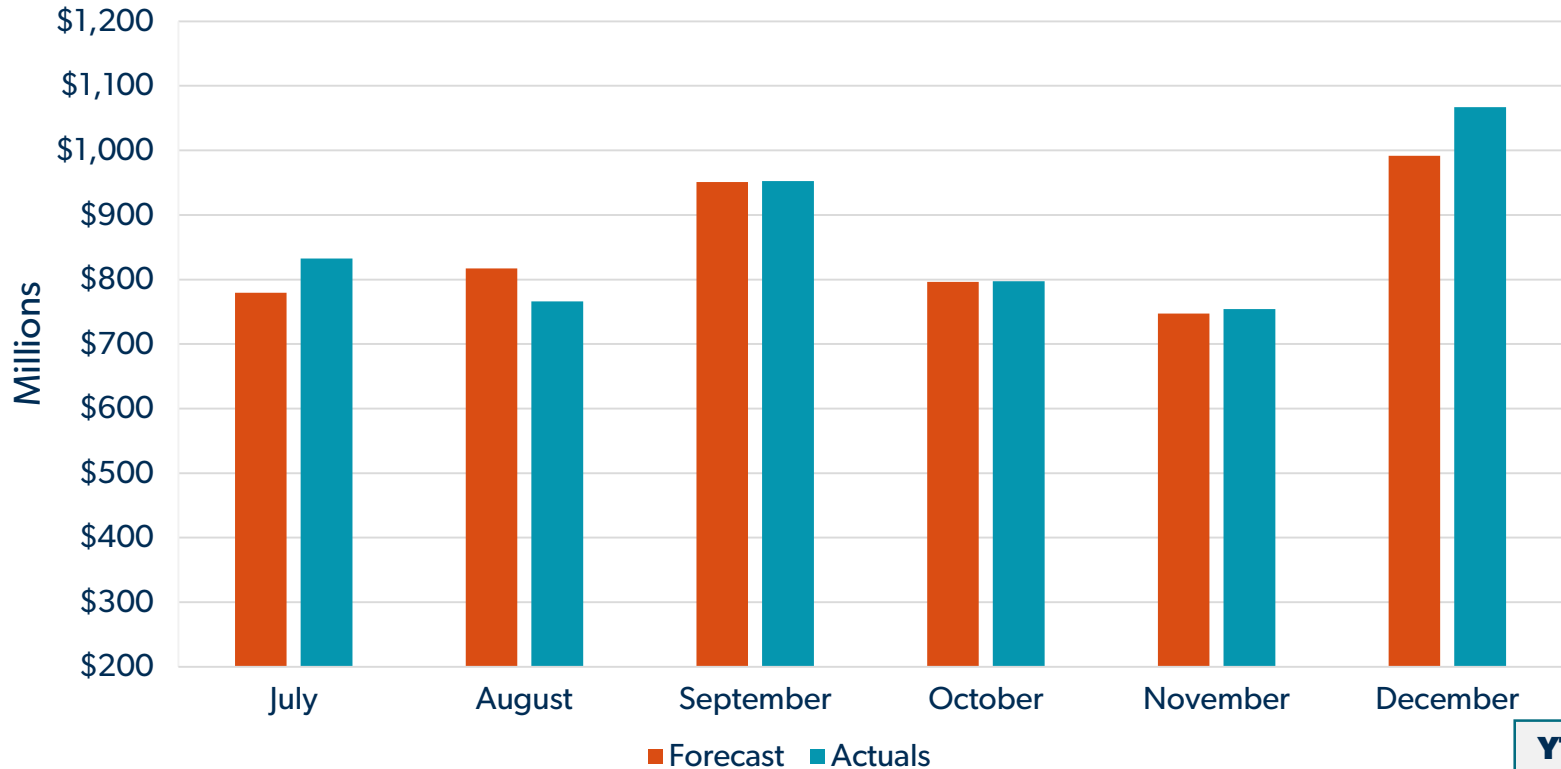
Arizona Well Positioned to Take Advantage of Federal Policy

- Arizona's high tech service and manufacturing sectors have led the nation in job growth since the Recession

Manufacturing Job Growth, 2015-Present		
United States	Arizona	Mountain West
1.5%	5.2%	4.0%

- Net in-migration may be picking up after post-Recession stall; 5th fastest growing state in 2017, driven by people moving to Arizona

FY 2018 General Fund Revenues Well Over Forecast



Actuals - Forecast

53.0M

(51.0)M

1.2M

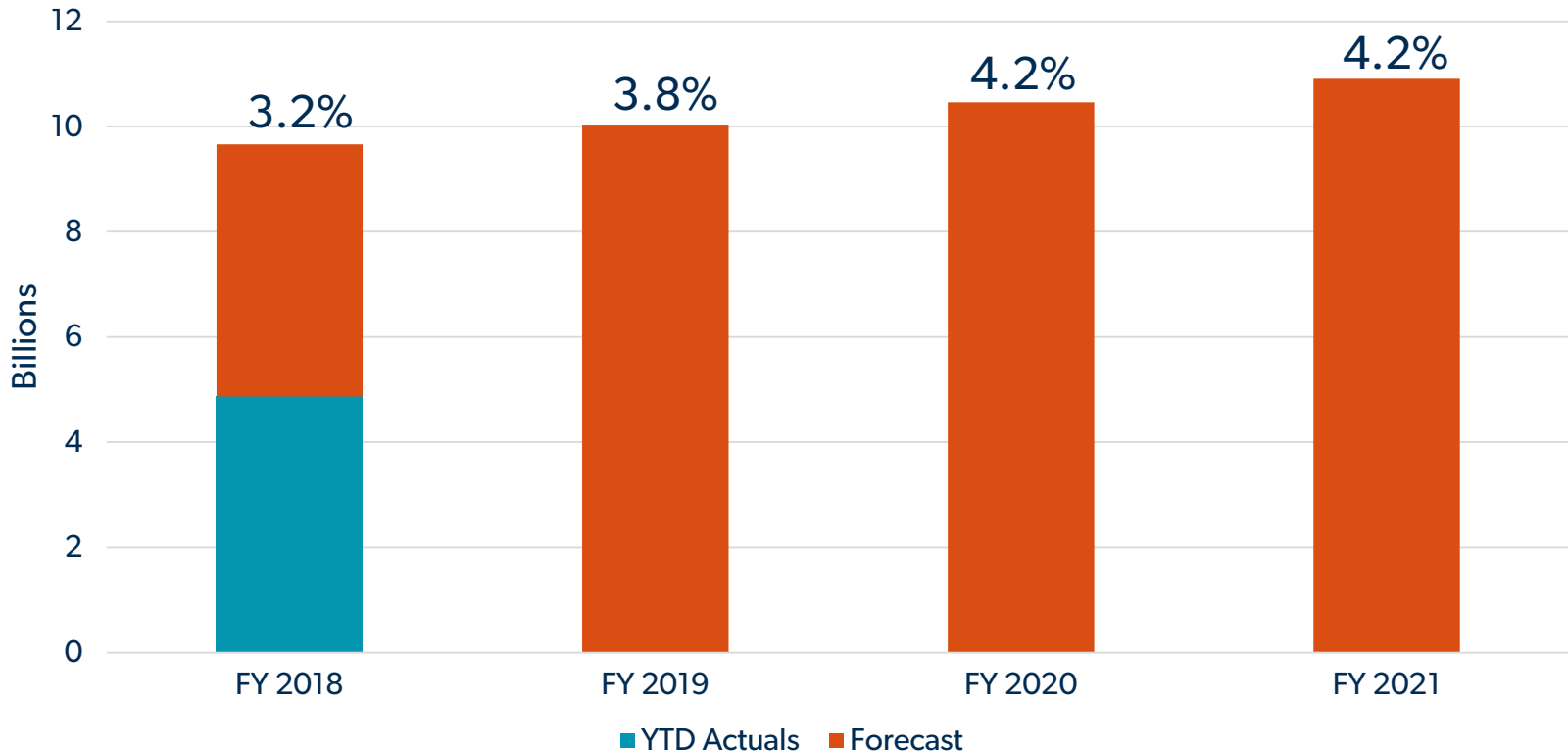
0.9M

6.9M

75.6M

**YTD Total:
\$86.7M**

General Fund Ongoing Revenue Forecast



Revenue Enhancing Policies

	<i>\$ in Millions</i>
Expand Tax Fraud Prevention Services	\$30
Increase Audit and Collections Resources	25
Total Ongoing	\$55

Additionally, the FY 2019 budget includes multiple revenue-enhancing administrative changes, expected to increase General Fund revenues by at least \$11.5M, including:

- Lottery vending machine and in-lane sale expansion

Recognizing Our Veterans

- Arizona's 52,000 20-year veterans receive a pension for their service
- Recognizing the unique contributions of our retired military, the State has partially exempted \$2,500 of this pension income from tax since 1989
- **Executive Budget** increases the Exemption to \$10,000 over two years, beginning in tax year 2019
 - \$15.9M/year impact in FY 2021

FY 2018 Supplemental Funding

In order to close out the current fiscal year, the Executive Budget includes the following one-time supplemental funding:

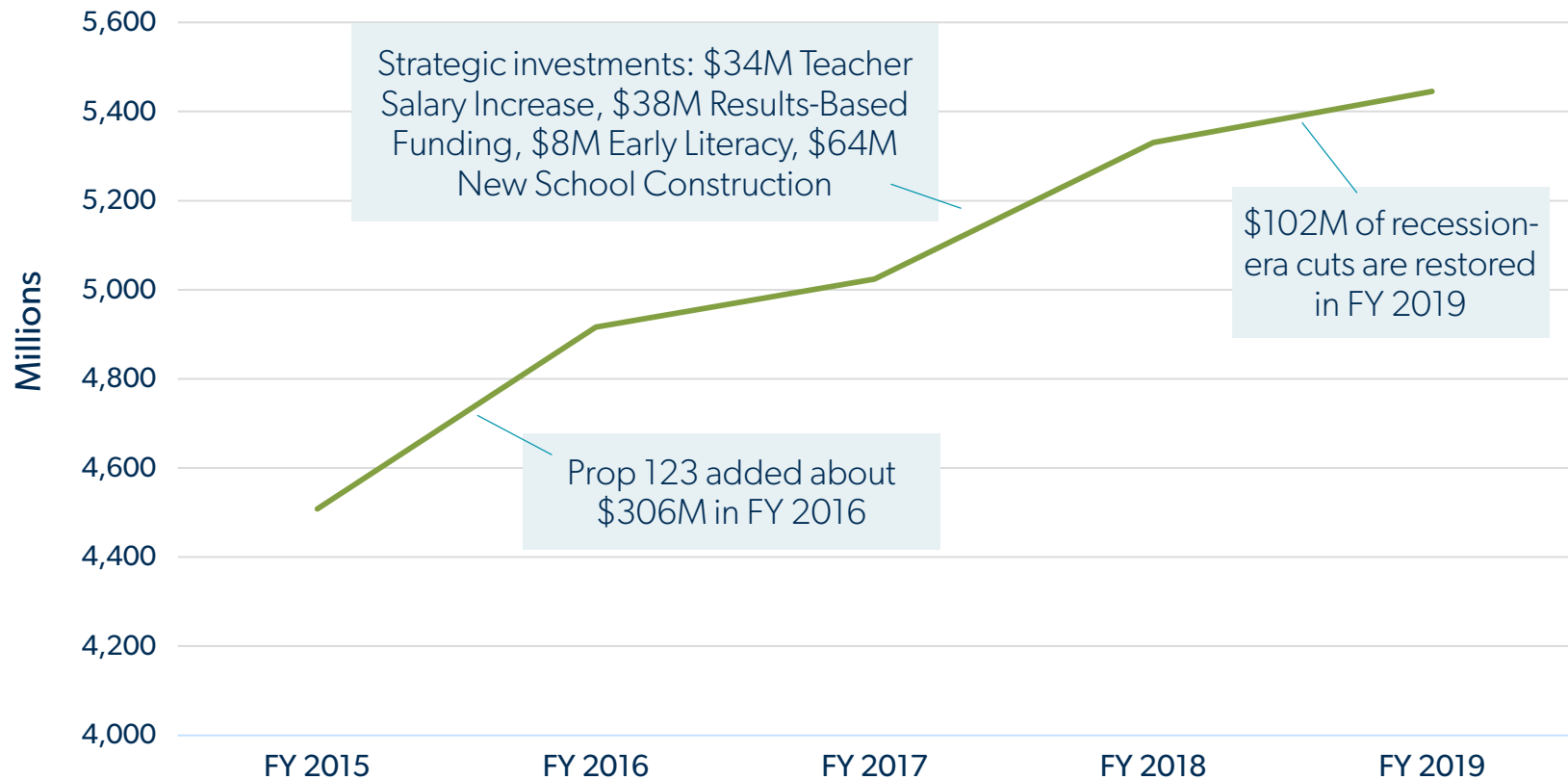
	<i>\$ in Millions</i>
School Facilities Board Building Renewal Grants	\$10.0
Department of Forestry Fire Expenses	4.1
Land Department CAP Water Rights Fees	0.4
Secretary of State Election Administration	1.9
Total FY 2018 Supplemental	16.4
Efficiency Savings	(2.8)
Net FY 2018 Increase	\$13.6

FY 2019 Budget Priorities

Education

Since FY 2015, \$1.7 Billion Invested into K-12 Education

State K-12 Funding – All Sources



Prioritizing Education

80% of new discretionary spending will go to education

\$190M of \$237M total new initiatives

- \$100M to increase additional assistance
- \$2M to fully fund large JTEDs
- \$34M to permanently increase teacher salaries
- \$35.2M for building renewal grants
- \$5.1M in debt service to leverage \$88.1M to finance new school construction
- \$14.1M for other targeted investments

Ending K-12 Recession-Era Formula Funding Cuts

\$100M in permanent and flexible funding for Additional Assistance with a path to fully restore the capital formula

Year	Impact (in Millions)
FY 2019	\$100
FY 2020	\$168
FY 2021	\$236
FY 2022	\$303
FY 2023	\$371

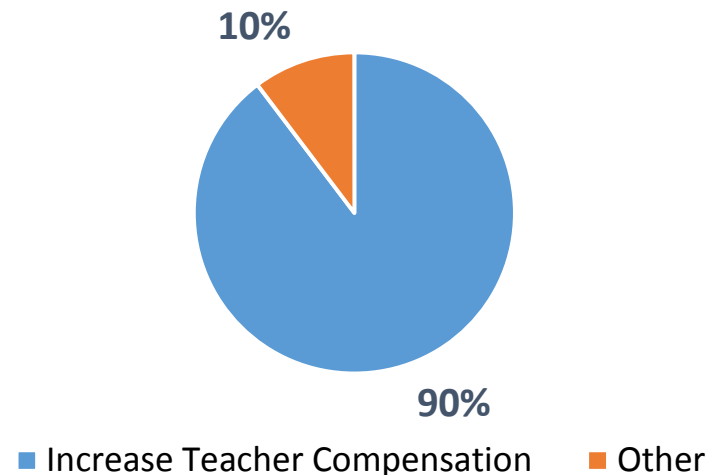
Fully Fund Large JTEDs

- \$2M to fully restore the Basic State Aid formula for Joint Technical Education Districts (JTEDs)
 - JTEDs with over 2,000 students will receive 100% of Basic State Aid to enhance courses and industry-certified programs
 - The additional resources will enhance the courses and industry-certified programs offered at JTEDs that serve more than half of all Arizona JTED students

Teacher Pay In The Base

- \$34M for the second year of the permanent teacher salary increase
- The Executive Budget moves teacher salary package into the base level to ensure it will be adjusted for inflation each year going forward
- School Districts have increased spending on teacher salaries by 9% since FY 2015¹
- Spending on teachers' salaries is expected to be at least **12% higher** in FY 2019 than in FY 2015 including this funding

School District Use of Prop 123 Dollars¹



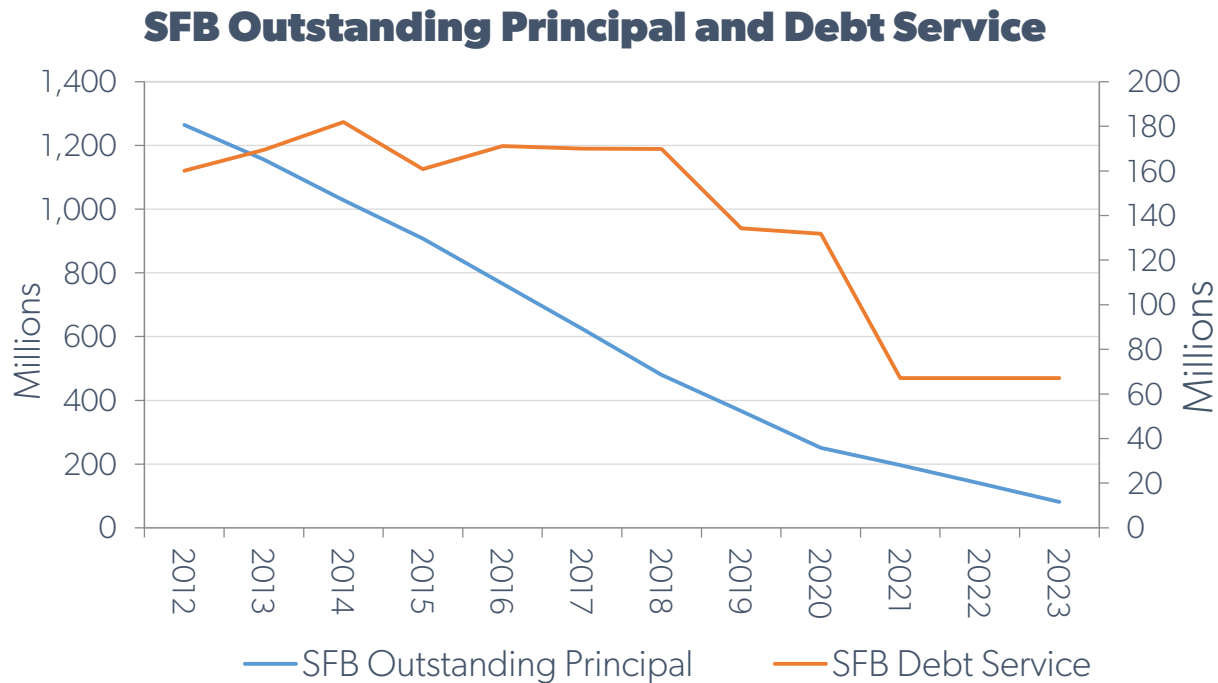
¹Arizona School Boards Association and Arizona Association of School Business Officials 1/3/2018 webinar

K-12 School Construction and Repairs

- \$35.2M increase for building renewal at School Facilities Board (SFB) to fund school districts' capital needs
- Totaling \$51.8M in FY 2019 for building renewal, the highest infusion of cash since 2007
- From FY 2013 to FY 2017, building renewal requests from school districts have more than doubled, from 313 to 866

New School Construction and Expansion

- \$88.1M for five new schools or school expansions
- Financed through 25-year COPs: \$5.1M annual debt service



Targeted Education Investments

- \$1.6M for the Schools for the Deaf and the Blind to hire 21 new teachers for the “Birth to 3” program
- \$2.5M for the Governor’s Partnership for K-12 Computer Science pilot program
- \$4M for the second year of expanding early literacy programs

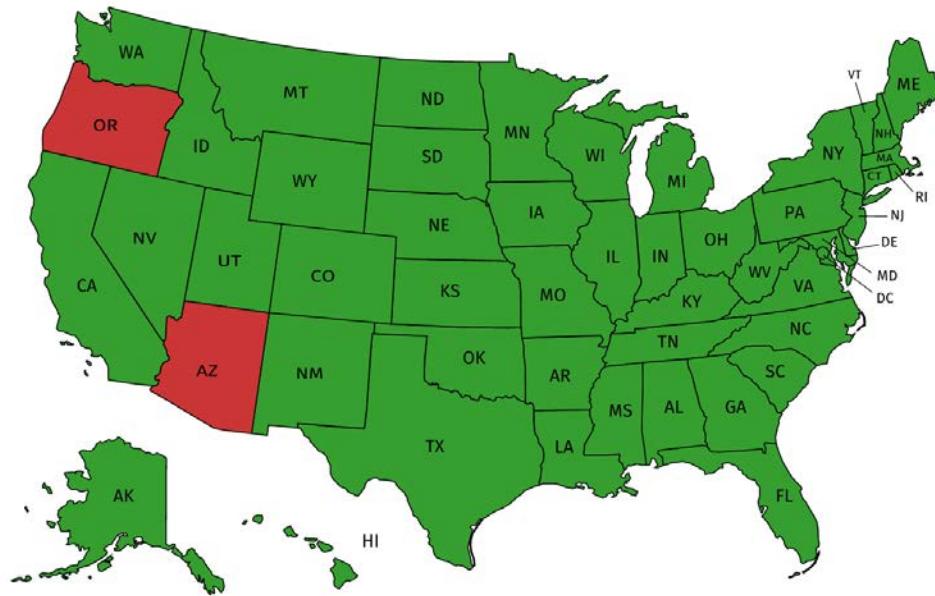
Higher Education

- \$8M for capital and operational needs to better serve Arizona’s resident students

National Guard Tuition Assistance

- \$1M for tuition benefits to assist National Guard members who are pursuing post-secondary degrees or certificates

States with Education Benefits versus States with No Benefits



National Guard Readiness Center Construction

- \$24.1M investment in Tucson area
 - Improve training and readiness for 172 soldiers
 - Consolidate assets from temporary National Guard facilities

Opioid Crisis

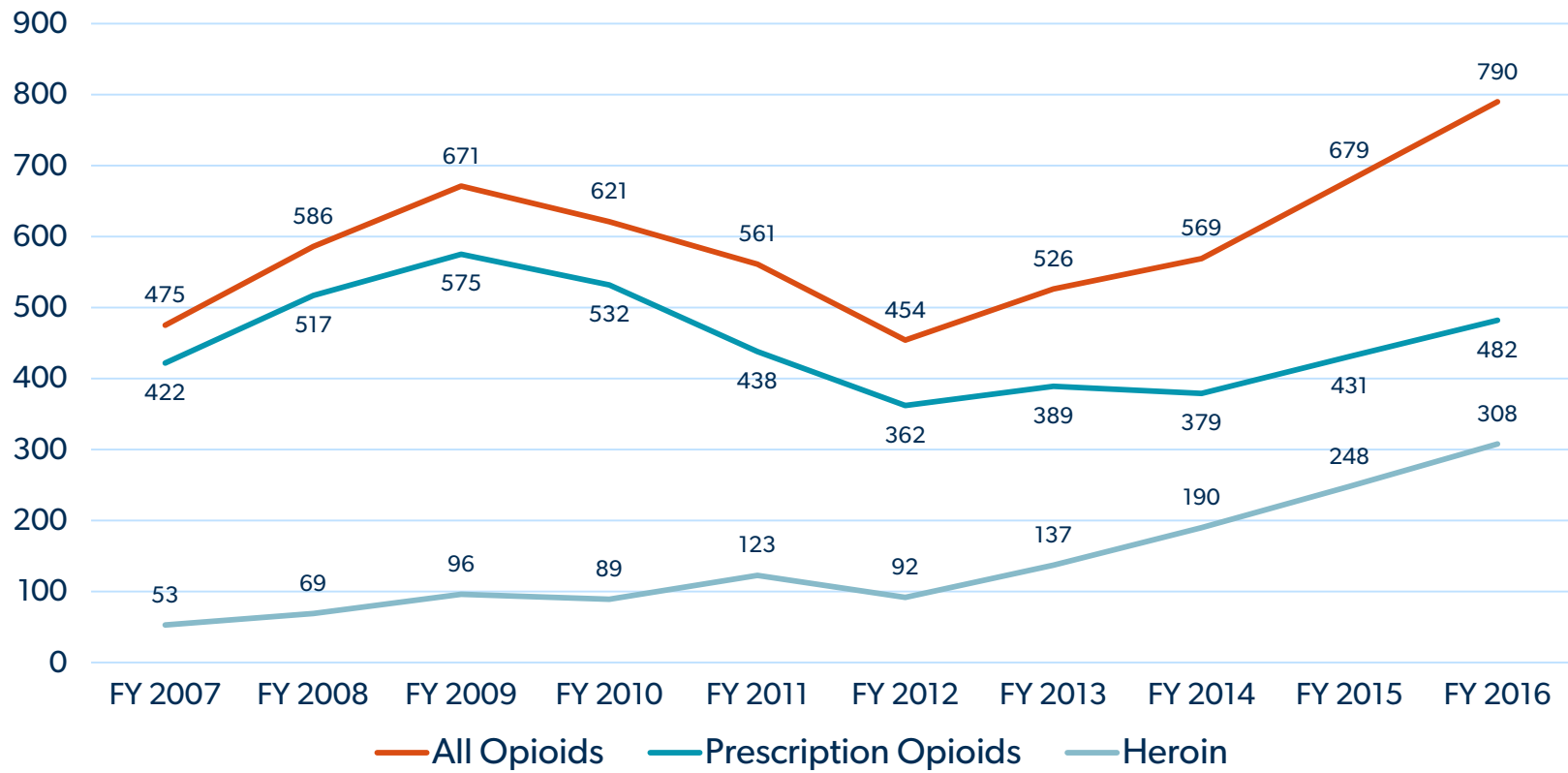
“This much I commit: All bad actors will be held accountable – whether they are doctors, manufacturers or just plain drug dealers”

Governor Doug Ducey, 2018 State of State Address

Opioid Deaths

Up 74% since 2012

Opioid Deaths in Arizona from 2007 to 2016



Opioid Action Plan

On September 2017 the Department of Health Services issued an opioid action plan to:

- Improve access to medication assisted treatment
- Increase access to Naloxone
- Increase participation by law enforcement in the U.S. Drug Enforcement Administration's Tactical Diversion Squad



Opioid Enforcement

\$758,100 to establish the Arizona Pharmaceutical Diversion and Drug Theft Task Force to combat abuse and trafficking of prescription drugs and inappropriate prescriber behavior

This will fund:

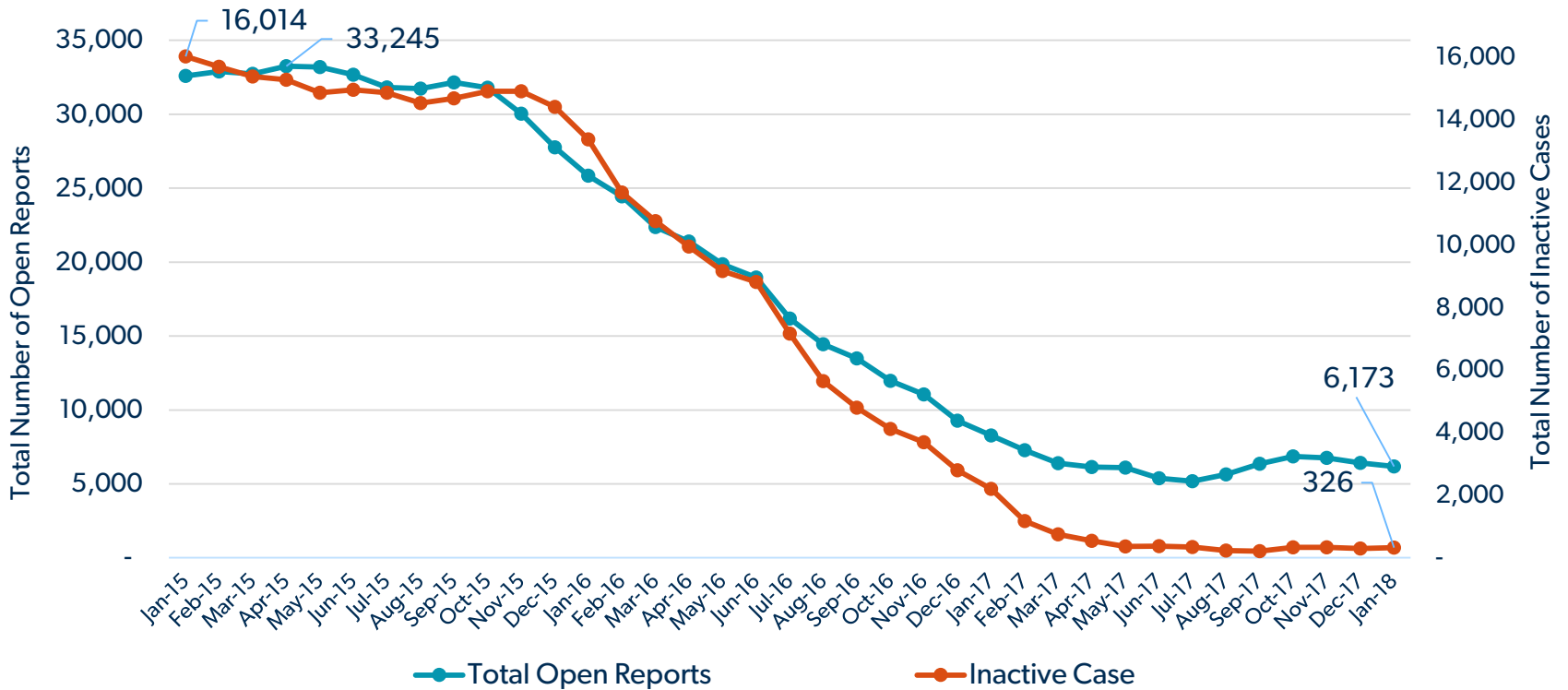
- 2 FTE Detective positions
- 1 FTE Sergeant position

Child Safety

Continuing critical investments that support more safe and loving homes for children

Backlog Elimination

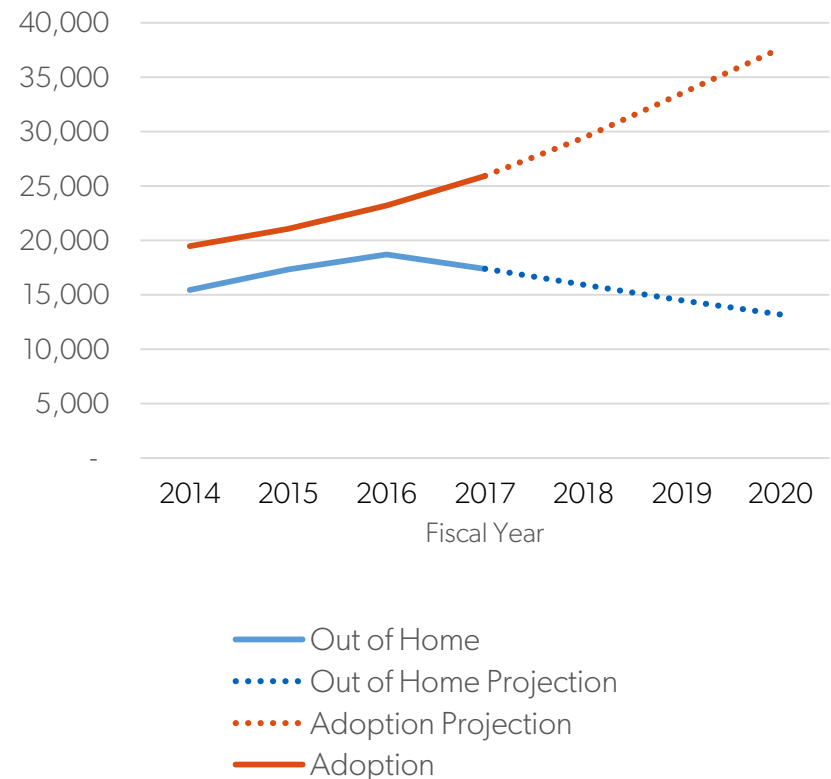
Inactive Cases and Total Open Reports Trends - 1/1/2018



From Foster Care to Forever Families

- \$15.8M to fully fund the adoption subsidy for 33,087 children
- As the out of home population decreases, more children are adopted
- In the past year, more children were adopted than ever before

DCS Population Trends

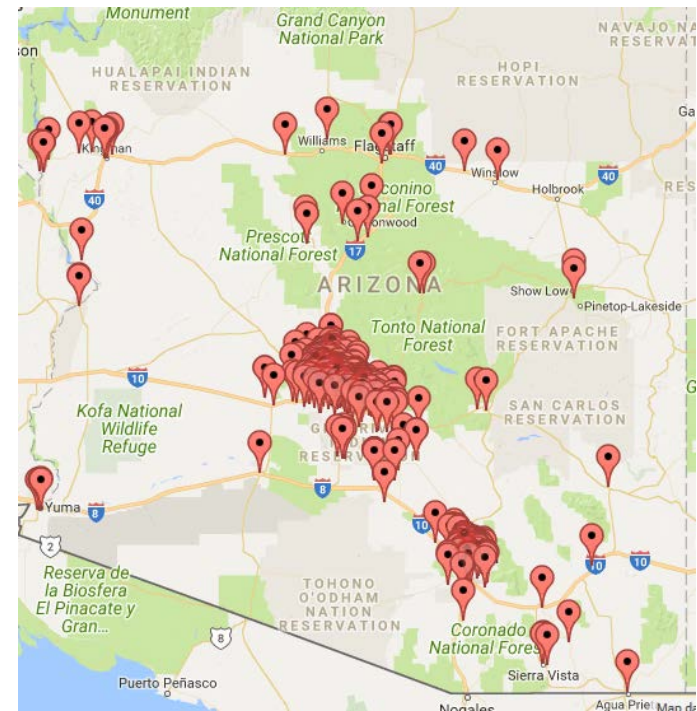


Guardian: The New Child Welfare Information System

- Mobile Solution has been completely deployed
- \$9.5M FY 2019 for Guardian Development:
 - Complete platform development and hosting environment
 - Continue business integration, document management, technical integration, and quality management

Statewide Application Usage by Location

December 2017



Economic Security

Increasing resources for vulnerable Arizonans

Fixing the DD Structural Shortfall

\$10.7M to backfill portions of the Division of Developmental Disabilities (DD) program which are not eligible for federal match

This will ensure:

- Children 0-3 receive free developmental evaluation
- Eligible DD clients have room and board
- All DD clients receive case management

Serving Vulnerable Populations

- Using newly-identified federal funds to fully fund Adult Protective Services caseload growth
- \$471,000 to allow seniors to safely remain in their own homes as they age
- \$1M one-time funding to increase food banks' capacity to provide more farm-fresh produce to low-income families, particularly in rural areas

Natural Resources

The Executive Budget improves and expands recreational opportunities at State Parks

Transforming Oracle State Park into a Destination

\$4M from the State Parks Revenue Fund to add 30 RV sites, 20 cabins, and 20 tent sites



Redeveloping Buckskin Mountain State Park

- \$1.5M from the State Parks Revenue Fund and \$1M from the State Lake Improvement Fund
- Redevelopment will include new cabins, electrical and water infrastructure upgrades, and new shower and restroom facilities

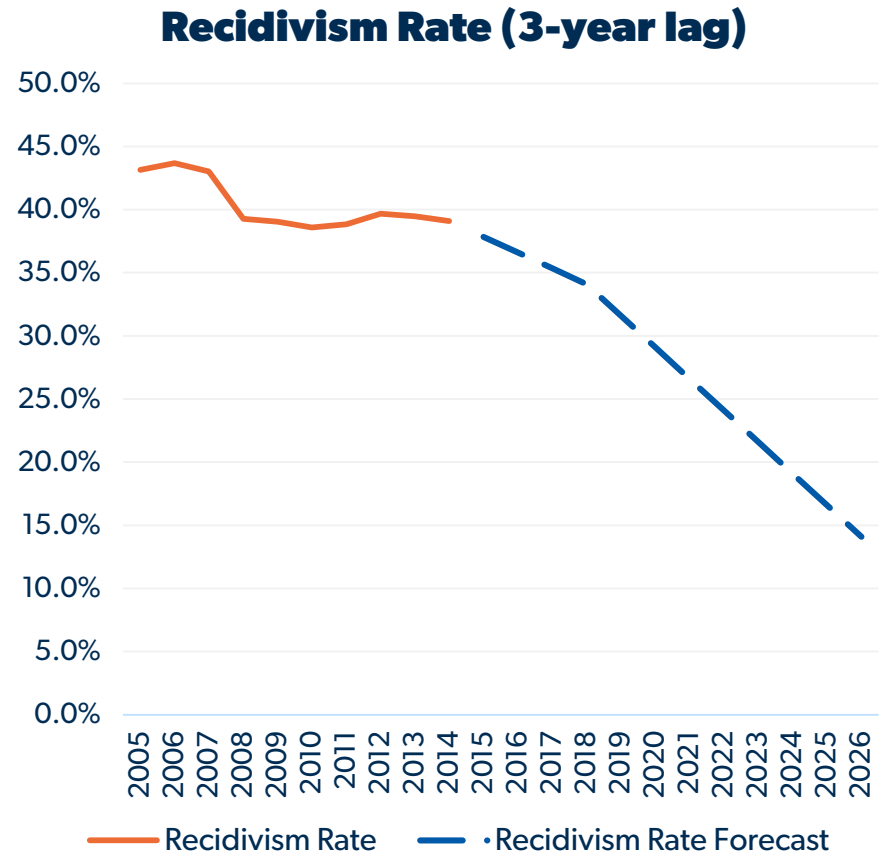


Public Safety

Making strategic investments to heighten public safety and ensuring individuals who have paid their debt to society are given a real second chance

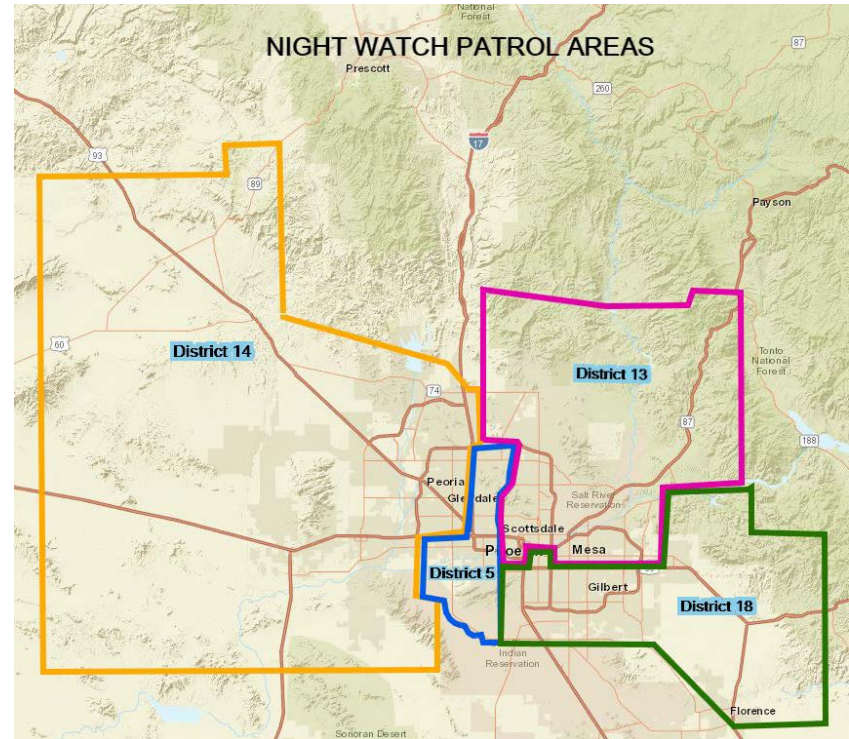
A Real Second Chance

- \$1.7M to provide substance abuse treatment to an additional 1,560 inmates each year
- \$1.4M to expand educational services to an additional 486 inmates each year
- \$449,900 to expand Second Chance Centers at the Lewis and Perryville facilities, allowing an additional 975 inmates to participate in employment training each year



Wrong-Way Driver Night Watch

- Already in place: 145 state-of-the-art infrared cameras to better detect instances of wrong-way driving
- This plan: Adds \$1.4M to improve patrol coverage and response time for night watch
- At full implementation, the Night Watch will have an additional 19 State Troopers to assist in patrolling the Metropolitan Phoenix freeway system at night



Border Strike Force Enhancement

- \$2.9M to enhance Southern Arizona coverage
- This will fund
 - 11 FTE Trooper positions
 - 1 FTE Sergeant positions
- At full implementation, there will be an additional 24 State Troopers

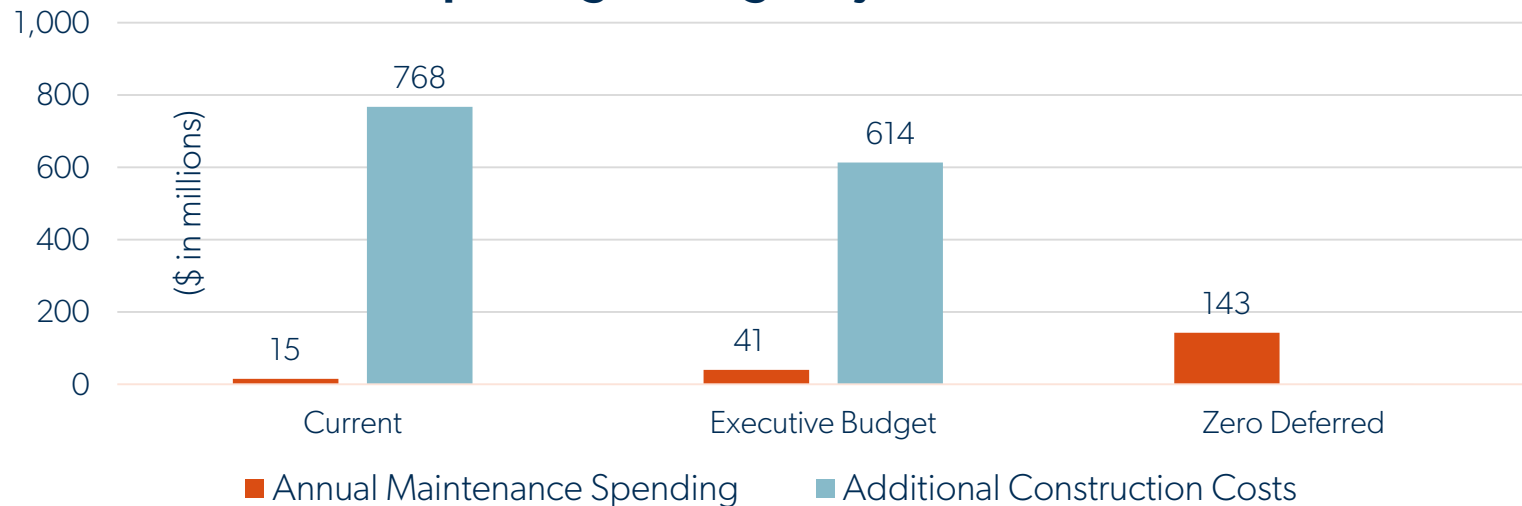
Responsible Government

Enhancing and capitalizing on the value of public assets are hallmarks of an effective state government

Preventive Highway Maintenance

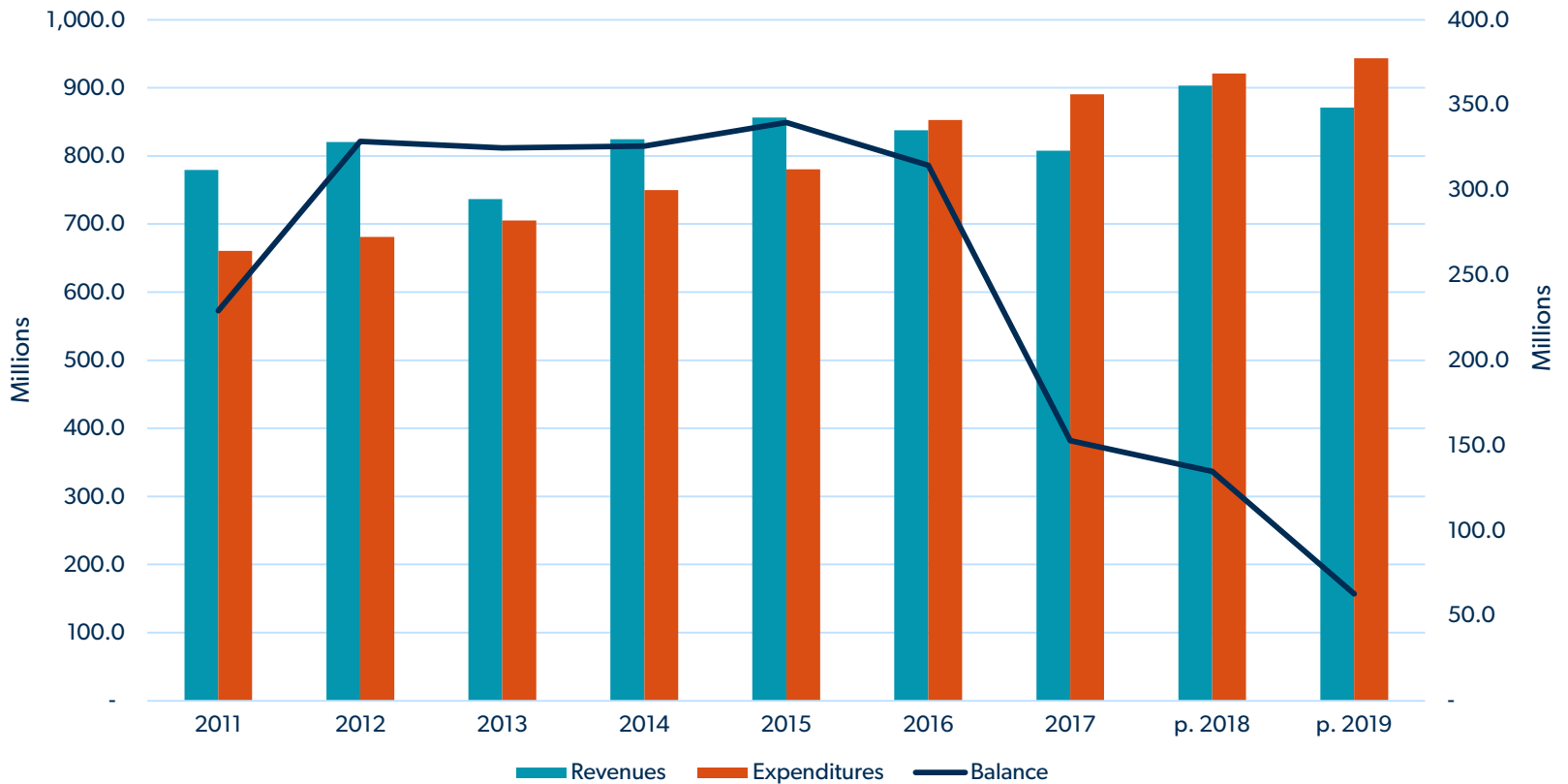
\$25.6M from the State Highway Fund to provide surface treatments for more than 3,000 additional lane-miles

Maintenance Spending and Highway Construction Costs



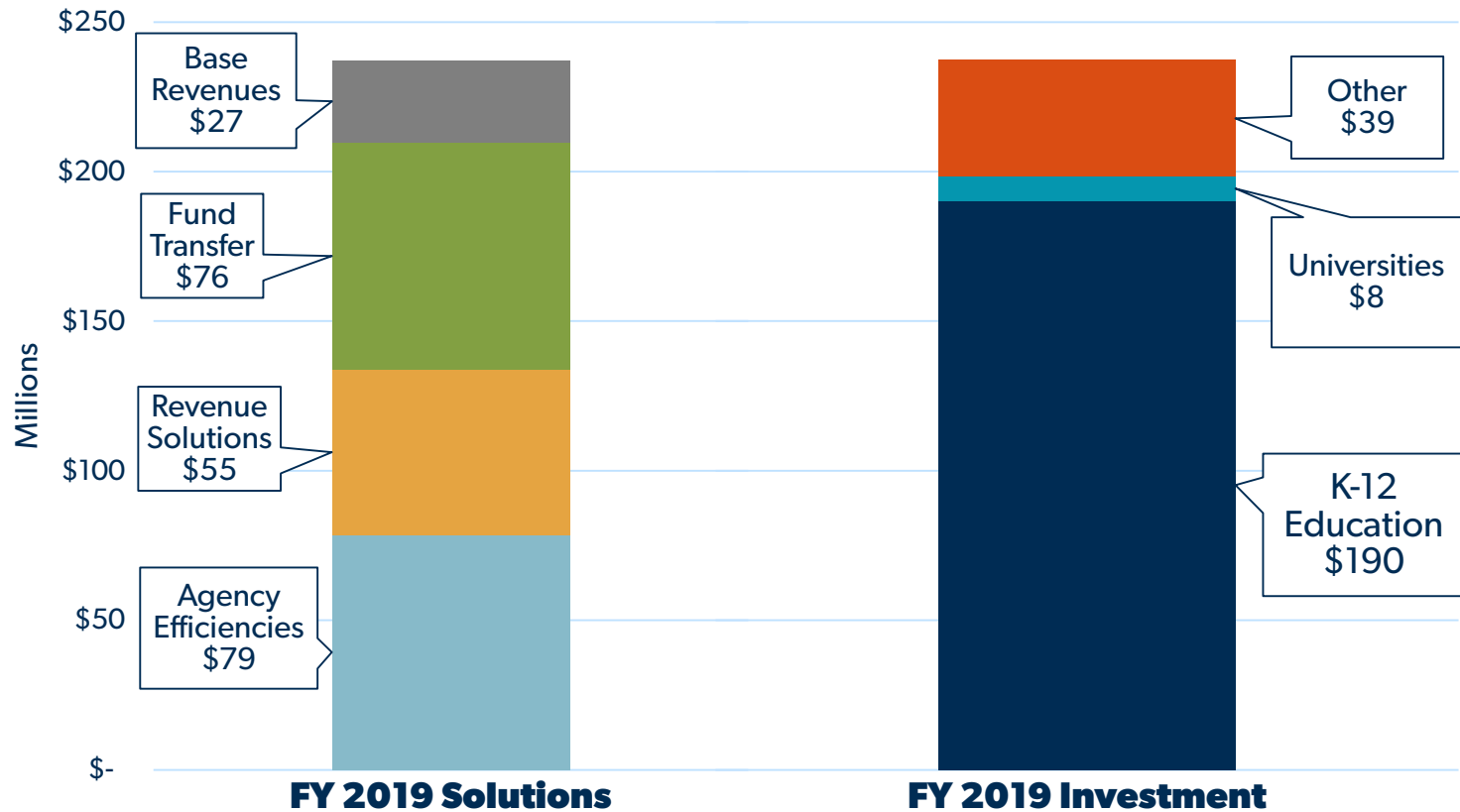
Health Insurance Trust Fund

Health Insurance Trust Fund Revenues to Expenditures



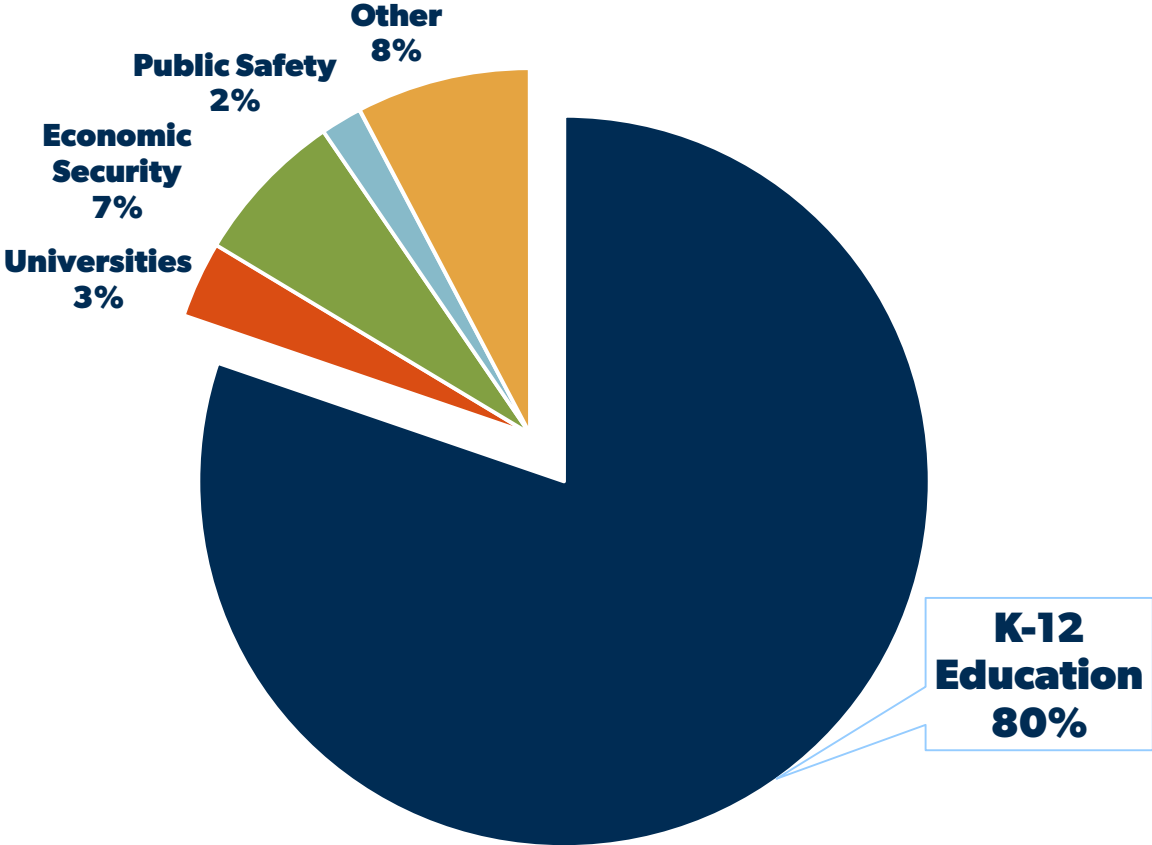
Shifting Efficiency Savings from Agencies to Education

Agency efficiencies supply 40% of FY 2019 education initiative spending



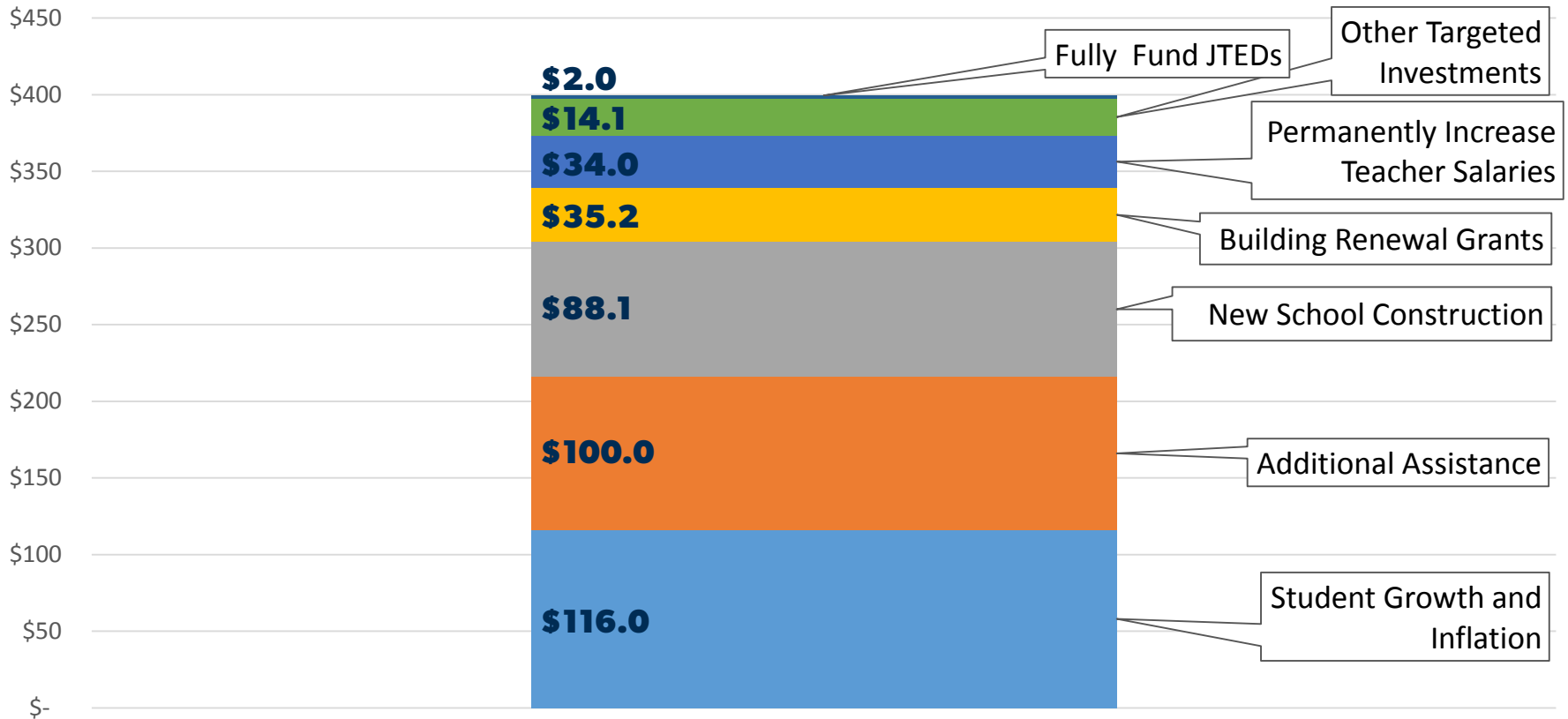
Highlights of New FY 2019 Investments

FY 2019 New Investments by Agency



\$400M in New FY 2019 K-12 Investments

FY 2019 Education Investments (millions)



Acknowledgement

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