

The Executive Budget

FY 2011 and FY 2012
Status and Recommendation



Topics

- The Deficit
- The Economy/Revenues
- The Budget
 - Principles
 - Plan
 - Budget Reform



The Deficit

FY 2011 - \$763.6 M

Major Components:

One-Time Impacts

Prop. 301 & 302 \$509.0 M

Medicaid Supplementals \$19.0 M

Ongoing Impacts

Revenue Loss \$108.0 M

K-12 Shortfall \$103.0 M



The Deficit

FY 2012 - \$1.15 billion

Revenue Changes

| | |
|-----------------------------------|-----------|
| Base Revenue Growth | 490.0 M |
| Loss of One-Time Revenues | (494.7) M |
| FY 2011 Ending Balance Adjustment | (35.3) M |
| <hr/> | |
| Total Revenue Change | (39.9) M |

Expenditure Changes

| | |
|-------------------------------|-------------|
| Federal Funding Cliff | (805.6) M |
| Medicaid Population Growth | (152.9) M |
| School Facilities Board Debt | (96.6) M |
| 27th Payroll | (81.0) M |
| Education Growth | (55.8) M |
| Other Agency Adjustments | 14.2 M |
| Education Property Tax Change | 70.5 M |
| <hr/> | |
| Total Expenditure Change | (1,107.1) M |

Shortfall (1,147.1) M



The Economy/Revenues

Projecting slow steady improvement

| | |
|------------------|---------------------|
| Personal Income: | 3.9% average growth |
| Employment: | 1.8% average growth |
| S&P Growth: | 7.0% average growth |



The Economy/Revenues

Revenue Forecast

- Develop optimistic, baseline, and pessimistic.
- Assume below baseline for both FY 2011 and FY 2012

FY 2011 – 3.0% above FY 2010 actual

FY 2012 – 7.3% above FY 2011 projected

Both numbers exclude the impact from revenue sharing



The Budget: Principles

- Attack structural deficit with permanent reforms
- Use temporary steps as necessary
- Public safety is the core function of State Government
- Education funding is key to long-term success
- Reductions should be strategic



The Budget: Summary

FY 11 Solutions

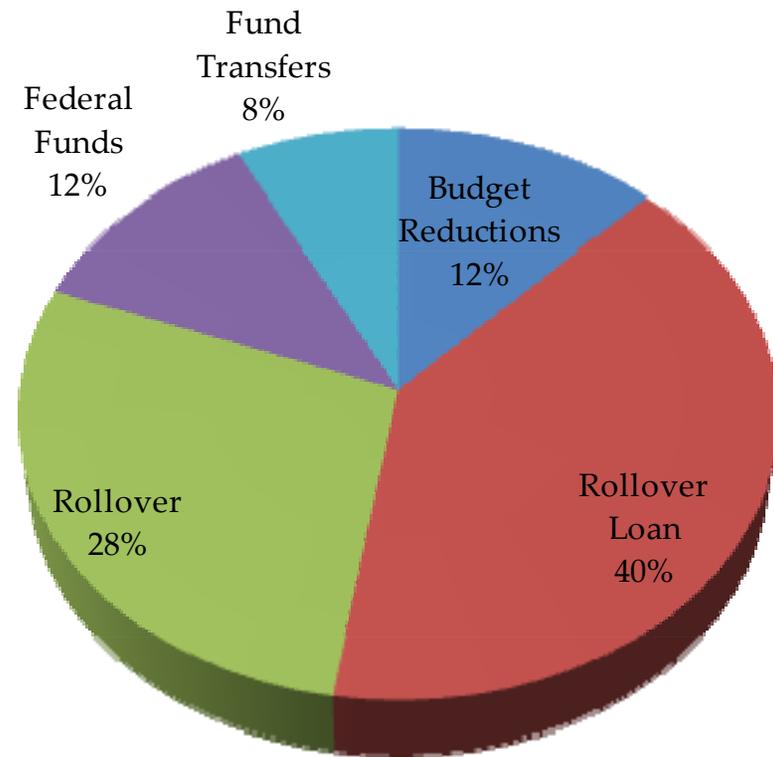
Permanent

| | |
|-------------------|-----------|
| Budget Reductions | \$107.2 M |
| Federal Funds | \$101.2 M |

One-Time

| | |
|----------------|-----------|
| Rollover Loan | \$330.0 M |
| Rollover | \$245.0 M |
| Fund Transfers | \$66.0 M |

Total \$849.4 M



The Budget: Summary

FY 2011 Budget Reductions

| | |
|------------|----------------|
| DES | \$91.0 M |
| DOC | \$10.0 M |
| DJC | \$3.6 M |
| <u>DHS</u> | <u>\$2.6 M</u> |
| Total | \$107.2 M |

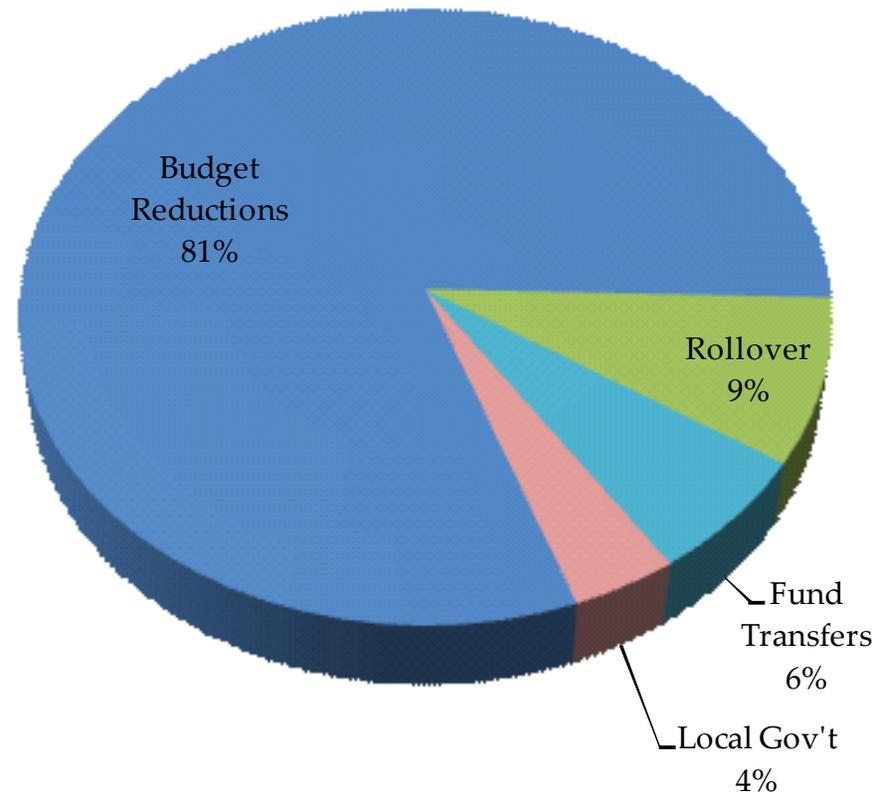
In addition to these reductions, the Executive has identified \$55 million to offset supplemental needs at DHS and AHCCCS



The Budget: Summary

FY 12 Solutions

| | |
|-----------------------|-----------------|
| Budget Reductions | \$1,077.5 M |
| Rollover | \$115.4 M |
| Local Gov't Impacts | \$52.4 M |
| <u>Fund Transfers</u> | <u>\$85.7 M</u> |
| Total | \$1,331.0 M |



The Plan

- Medicaid
- Public Safety
- Education
- Universities
- Community Colleges
- DES



The Plan: Medicaid

Since FY 2007:

- Medicaid capitated populations have grown 46 percent leading to the current population of 1.2 million members
- General Fund support for Medicaid has grown almost 65 percent
- The percent of the General Fund dedicated to Medicaid has grown from 17 percent to 29 percent



The Plan: Medicaid

Proposition 204 Rollback:

- In 2000, voters expanded Medicaid coverage to all residents at or below 100 percent of the federal poverty limit
- FY 2012 General Fund support for the expansion population is estimated to be \$810 million



The Plan: Medicaid

Federal Health Care Reform limits states ability to change Medicaid eligibility levels. However, the Centers for Medicare and Medicaid Services (CMS) has the authority to waive that requirement.

The Executive recommends the Legislature provide the authority to seek a waiver as described. The Executive cannot apply for the waiver without specific authority.

Because of the anticipated timeline to receive a waiver, the Executive recommends the change in eligibility be effective on October 1, 2011.



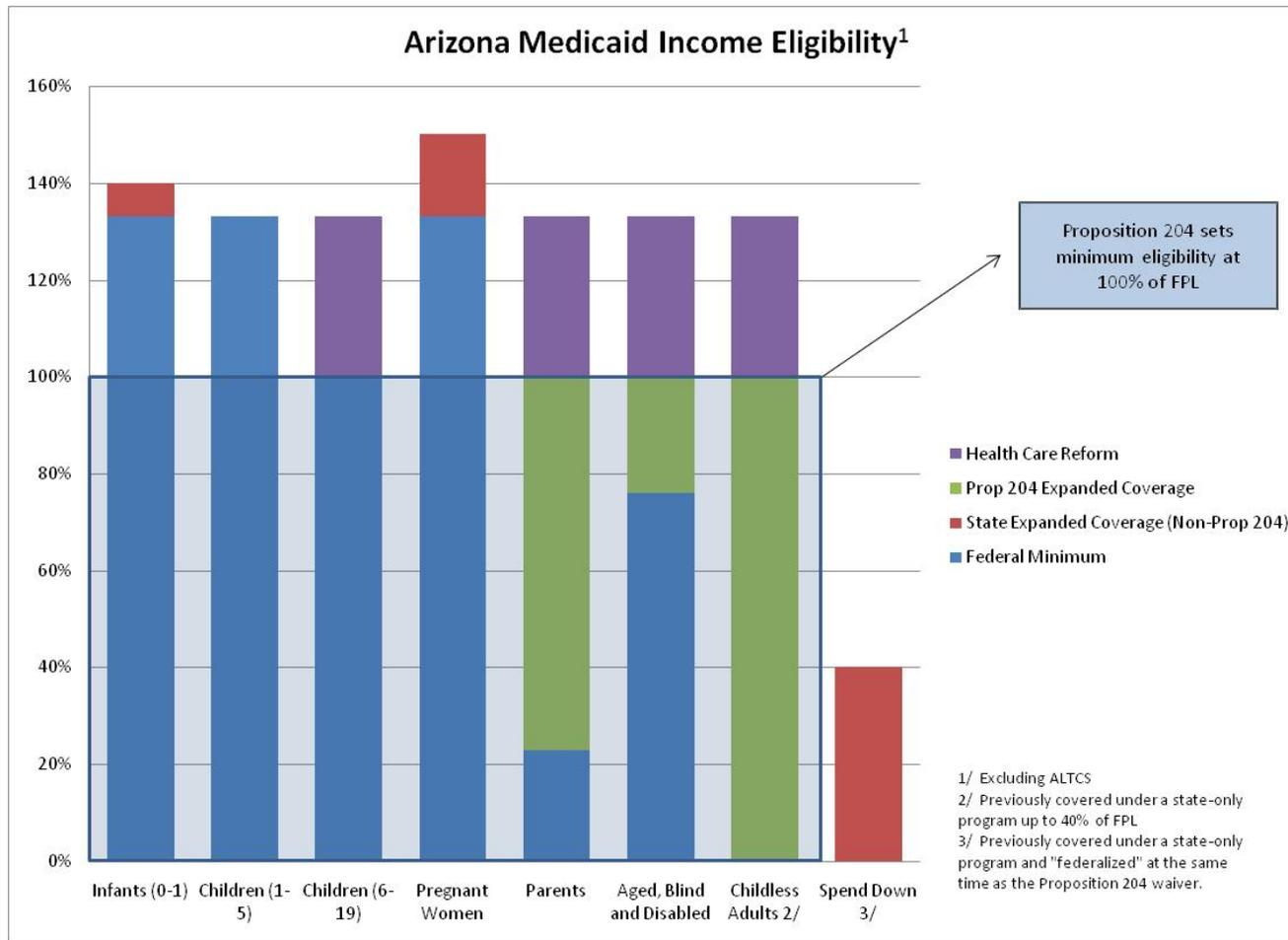
The Plan: Medicaid

Prop 204:

- The Executive recommends limiting Prop. 204 costs to dedicated tobacco settlement and tobacco tax revenues
- To achieve these savings, the Executive recommends eliminating coverage for childless adults and spend-downs as well as capping TANF parents at a level that can be sustained by tobacco funds

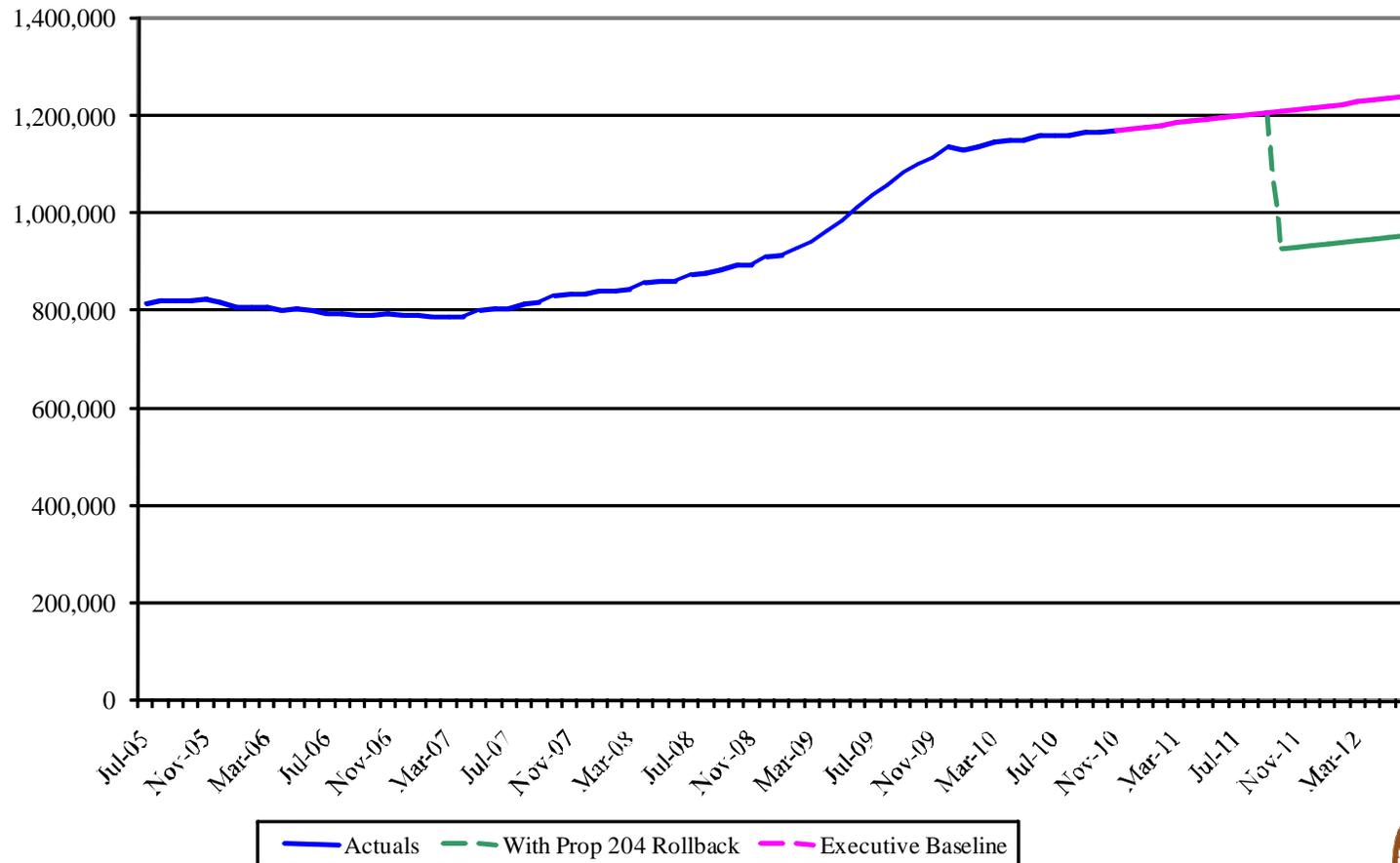


The Plan: Medicaid



The Plan: Medicaid

AHCCCS All TXIX Capitation Member Months
Actuals and Forecasts



Office of Governor Janice K. Brewer



The Plan: Medicaid

FY 2012 General Fund savings are estimated at \$541.5 million

- The State will lose approximately \$1.1 billion in federal match
- An estimated 280,000 Arizonans will lose coverage (250,000 childless adults and spend-downs as well as 30,000 parents)
- The Executive recommendation continues coverage for an estimated 30,000 aged, blind or disabled persons and 90,000 parents

FY 2013 General Fund savings are estimated at almost \$1.0 billion



The Plan: Medicaid

The Executive recommends two steps to mitigate the impact of the change in eligibility:

1. Create a \$151.0 million uncompensated care pool (\$50.0 million GF, \$101.0 million matching funds) for Arizona healthcare providers. These funds will be available to reimburse healthcare providers for continuing care for the most seriously ill.
2. Provide \$10.3 million to DHS to fund prescription drug coverage for the estimated 5,200 SMIs who may lose Medicaid eligibility. This estimate represents a worst case scenario. DHS believes up to 80 percent of this population may retain coverage.



The Plan: Medicaid

Other Issues

- The Executive has announced a 5 percent provider rate cut that will be implemented April 1, 2011 – FY 2012 savings of \$89.0 million.
- Capitation rate growth will be held flat
- Move Children's Rehabilitative Services to AHCCCS



The Plan: Medicaid

FY 2011 Supplementals

DHS

| | |
|------------------------|----------|
| Required Supplemental: | \$41.6 M |
|------------------------|----------|

Savings:

| | |
|----------------------|----------|
| Excess RBHA profits: | \$30.0 M |
|----------------------|----------|

| | |
|-----------------------|---------|
| April 1 provider cut: | \$2.6 M |
|-----------------------|---------|

| | |
|----------------|---------|
| Other savings: | \$3.3 M |
|----------------|---------|

| | |
|------------------------------|---------|
| Supplemental Recommendation: | \$5.7 M |
|------------------------------|---------|



The Plan: Medicaid

FY 2011 Supplementals

AHCCCS

Required Supplemental: \$118.6 M

(includes retiring rollover)

Savings:

Estimated drug rebate: \$10.0 M

April 1 provider cut: \$14.8 M

Admin Adjustments: \$56.1 M

Supplemental Recommendation: \$37.7 M



The Plan: Public Safety

Department of Public Safety

- Transfer Capitol Police to DPS \$1.0 M
- Expansion of DNA Testing Program \$2.4 M
 - Test everyone sentenced to jail or prison
- Redirect Certain Grants to Equipment Fund \$2.2 M
 - From State Aid for Public Defenders



The Plan: Public Safety

Department of Corrections

FY 2011

\$10.0 million in one-time savings

| | |
|----------------|---------|
| Start-up costs | \$2.0 M |
|----------------|---------|

| | |
|-------------|---------|
| Bed savings | \$8.0 M |
|-------------|---------|

FY 2012

| | |
|-------------|---------|
| CO staffing | \$8.4 M |
|-------------|---------|

First year of a three-year plan to add
306 new COs



The Plan: Public Safety

Department of Corrections (cont.)

FY 2012 Capital Budget

- DOC's 10 complexes comprise over 8.5 million square feet.
- Building renewal needs total an estimated \$150.0 million

Executive Proposes: Building Renewal/Preventative Maintenance Fund

| | |
|----------------------------------|---------|
| ACI Fund: | \$1.0 M |
| Telephone & Commissary Proceeds: | \$1.0 M |
| 1% Inmate Banking Fee: | \$0.3 M |
| Inmate Visitor Application Fee: | \$2.3 M |
| Corrections Fund | \$0.6 M |

Estimated Continuing Appropriation of \$5.2 M



The Plan: Public Safety

Department of Corrections (cont.)

Executive also proposes a one-time bonding program to address most critical needs.

\$50 million bond funded from General Fund portion of lottery proceeds.



The Plan: Public Safety

Department of Juvenile Corrections

Current population is down approximately 12 percent.

The Executive recommends a budget reduction consistent with this loss of population.

Department of Emergency and Military Affairs

Eliminate State funding for Project Challenge



The Plan: K-12 Education

FY 2011 Supplemental

Estimated shortfall of \$103.1 million

Executive recommends recognizing Education Jobs funds in the formula.

Provides \$1.8 million for the for-profit charters that are not eligible for federal funds. The Executive also recognizes additional charters may not be eligible. Which charters cannot accept the funds, if any, is currently unclear.

The Federal Government distributed approximately \$206 million in Education Jobs funds. The Executive proposal would count approximately \$101 million. The balance would still be available to enhance K-12 budgets in FY 2011 and FY 2012.



The Plan: K-12 Education

FY 2011 Supplemental – Remaining Payments

| Pmt# | Scheduled Pmt Date | Current Payment | Proposed Payment | Description |
|------|-----------------------|--------------------|---------------------|------------------|
| 7 | February 1, 2011 | \$239.7 | \$239.7 | Full Payment |
| 8 | March 1, 2011 | \$0.0 | \$0.0 | Payment Deferral |
| 9 | April 1, 2011 | \$41.8 | \$41.8 | Deferral |
| 10 | May 2, 2011 | \$295.7 | \$295.7 | Full Payment |
| 11 | June 1, 2011 | \$245.6 | \$144.5 | Education Jobs |
| 12 | June 30, 2011 | \$245.3 | \$0.4 | Deferral |



The Plan: K-12 Education

FY 2011

K-12 State Support Level \$3,491.2 M

Federal Support \$146.0 M

The Executive proposes providing growth from the State support level, but not backfilling federal support.

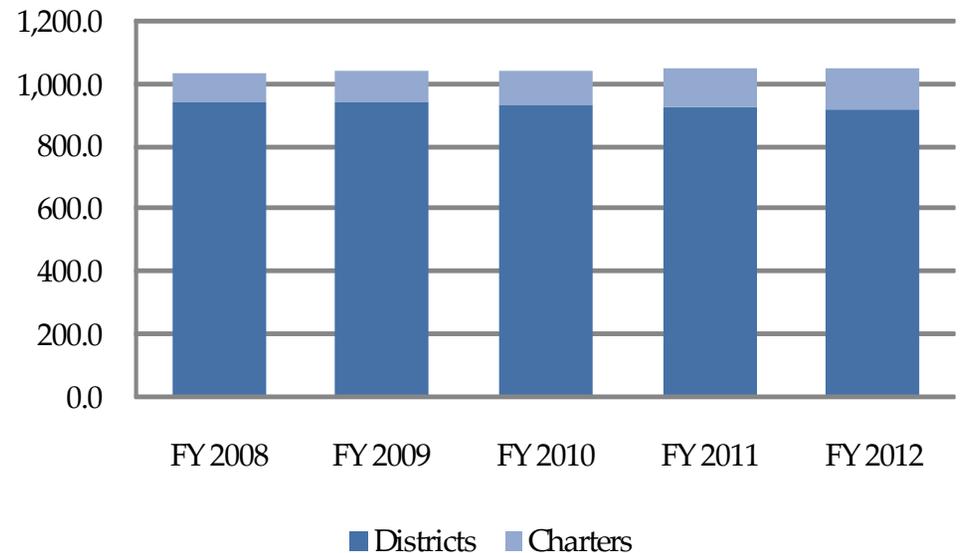


The Plan: K-12 Education

K-12 Formula Growth

| | |
|--|----------|
| 1% Enrollment Growth: | \$49.1 M |
| 0.9 Percent Inflation: (on transportation only) | \$3.8 M |
| Property Valuation/QTR Changes | \$2.8 M |
| Total Growth | \$55.7 M |

K-12 Student Growth



The Plan: K-12 Education

To Reset the K-12 Formula to State support levels, the Executive recommends the following reductions:

| | |
|---|----------|
| Additional state aid adjustment | \$61.9 M |
| Capital outlay and additional assistance reductions | \$66.5 M |
| Online instruction capital funding | \$11.6 M |
| Career ladder 5-year phase out | \$5.6 M |



The Plan: K-12 Education

On-Line Education

Current law provides 95 percent of the operating cost and 100 percent of the capital and transportation costs provided for students in bricks and mortar classrooms.

The Executive recommends eliminating capital and transportation funding for AOI students including School Facilities Board funding.



The Plan: K-12 Education

P-20 Council

- The Executive recommends placing the P-20 council in statute.
- Would manage and promote outcomes across systems

Data Systems

- Provide funding for longitudinal data system and SAIS replacement
- The Executive recommends a per pupil fee for K-12, Community College, and University students to fund the development of the system
- Fee would be less than 0.4 percent of total state support
- Governor's Office is conducting a review of existing systems right now
 - Will have report in February



The Plan: K-12 Education

School Facilities Board

Building Renewal

- Approximately 120 million square feet of academic space
- No funding for building renewal formula

Recommendation

- Increase Building Renewal Grant fund to \$10 M
- Focus on Preventative Maintenance by providing additional training and support to school districts



The Plan: Universities

Universities

The Executive recommends reducing University General Fund support by \$170 million (that includes the reduction from the pay reduction)

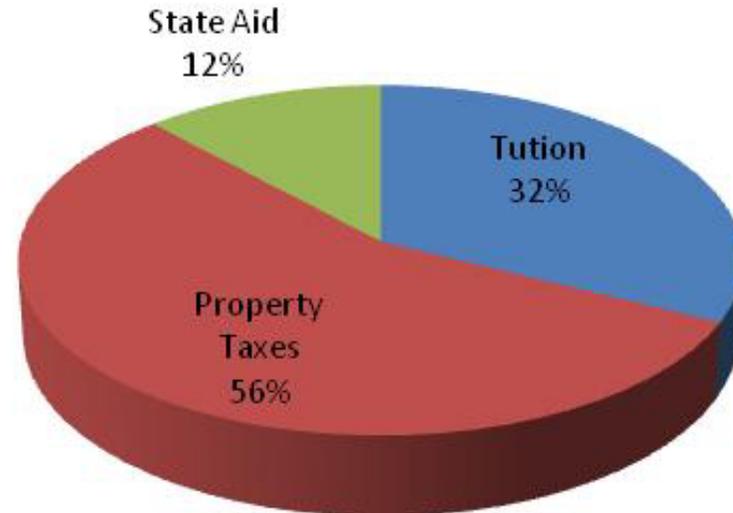
Approximately 20% of current support (excluding capital)



The Plan: Community Colleges

FY 2011 Community Colleges Operating Funds

| | |
|--------------------|------------------|
| Tuition: | \$358.9 M |
| Property Taxes: | \$618.8 M |
| <u>GF Support:</u> | <u>\$132.4 M</u> |
| Total | \$1,110.1 M |



The Plan: Community Colleges

The Executive recommends maintaining total operating revenues for the Community Colleges at FY 2011 estimates.

To achieve this, the Executive recommends reducing General Fund support for Community Colleges by \$72.9 million.

This is approximately 6.2 percent of projected FY 2012 operating funds.



The Plan: Economic Security

The Executive funds both growth and replaces ARRA funds

| | |
|--------------------|-----------|
| Growth: | \$22.7 M |
| ARRA Backfill: | \$82.5 M |
| Technical changes: | \$(3.0) M |

The Executive recommends the following reductions:

| | |
|--|----------|
| Prop. 302 Failure - absorbed in additional savings from reductions in cash assistance, provider rate cuts, other operational savings | \$40.0 M |
| Reallocate TANF to offset GF obligations | \$20.0 M |
| Leverage Community Resources to draw down additional TANF | \$15.0 M |
| Maintain Child Care Waiting List | \$10.0 M |
| Reallocate Social Services Block Grant to offset GF obligations | \$6.0 M |
| <hr/> | |
| Total | \$91.0 M |

The net impact on DES is an increase of \$11.1 million



The Plan: DES

The Executive also transfers \$30 million from the Long-Term Care system fund in both FY 2011 and FY 2012

- Continuation of the 10% provider rate reduction has generated excess fund balance through FY 2012
- Future capitation rates will be adjusted to reduce the excess fund balance
- Maintains sufficient fund balance for unexpected contingencies



The Plan: General Government

The Executive Recommends:

- Changing the HITF deposit to per payroll costs; this change will provide approximately \$12.0 million in savings
- Reinvesting the HITF savings and additional savings from the pay reduction to eliminate the furlough program (both the last day in FY 2011 and the full program in FY 2012)
- Reinvesting \$8.7 million of retiring debt service payments into the Department of Administration building system
- Align Convention Center debt service with schedule (\$15.0 million)



The Plan: General Government

Agency Consolidations

The Executive recommends the following:

- the Department of Mines and Mineral Resources with the Arizona Geological Survey
- the Department of Racing with Gaming
- the Government Information Technology Agency (GITA) with ADOA
- the State Forester with DEMA
- the Biomedical Research Commission with DHS



The Budget: Summary

Budget Reductions

| | |
|---------------------------|------------------|
| Medicaid Reform | \$541.5 |
| Universities | \$170.0 |
| DES | \$91.0 |
| Provider Rate Reduction | \$89.0 |
| K-12 | \$83.7 |
| Community Colleges | \$72.9 |
| Convention Center Payment | \$15.0 |
| DJC | \$7.2 |
| Other | \$7.2 |
| Total | \$1,077.5 |



The Budget: Local Government

Cities

| | |
|-------------------------|----------|
| Support Water Resources | \$6.2 M |
| Move SHF shift to HURF | \$12.6 M |

Counties

| | |
|------------------------|----------|
| Move SHF shift to HURF | \$7.8 M |
| Charge 50% of SVP cost | \$2.7 M |
| Shift grants to DPS | \$2.2 M |
| Continue cash payment | \$21.0 M |



The Budget: Rollovers

FY 2011

| | |
|--------------------------|----------|
| Retire Medicaid rollover | \$97.3 M |
|--------------------------|----------|

| | |
|-------------------|-----------|
| New K-12 rollover | \$245.0 M |
|-------------------|-----------|

Because of the Enhanced FMAP, if the State eliminates the Medicaid rollover, the Federal Government will pay the enhanced rates on the June payment, saving the State approximately \$18 million.

FY 2012

| | |
|------------------------------------|-----------|
| Re-establish the Medicaid rollover | \$115.4 M |
|------------------------------------|-----------|



The Budget: Debt

FY 2011

First Things First Rollover Loan - \$330 million

To limit interest costs to the State and impacts on First Things First programs, this loan will be taken out on June 30 and repaid July 1.

FY 2012

\$50 million lottery backed bond for Corrections building renewal



The Budget: Reform

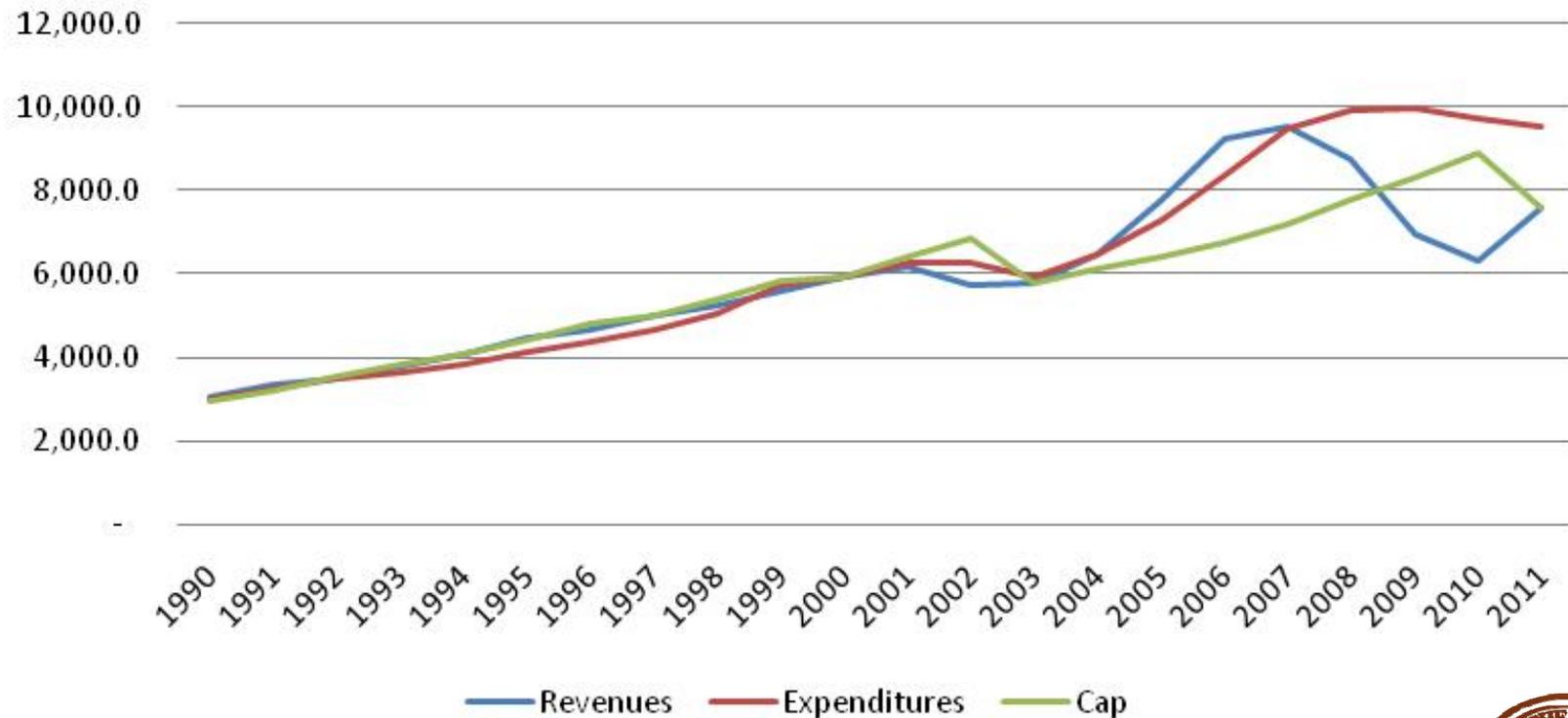
Repaying Debt through a Spending Limit

- Based on 10-year average revenue growth
- Negative growth years limited to -2 percent
- Excess funds dedicated to:
 1. Debt reduction
 2. Rollover reduction
 3. Budget Stabilization Fund deposits
 4. One-time capital projects
 5. Tax rebates
- Projected to provide \$1.9 billion by FY 2020 to retire debt



The Budget: Reform

Proposed Spending Limit
Historical Application



Office of Governor Janice K. Brewer



The Budget: Reform

Executive Authority to Reduce Expenditures

In over 20 other states, the Executive has some form of authority to reduce appropriations. The Governor should have authority under certain conditions to modify appropriations – including voter approved programs.

Line Item Reduction

Governors in an estimated 12 other states have authority to line item reduce appropriations without resorting to a complete veto.

Budget Stabilization Fund

The Executive recommends increasing the BSF to 15 percent of GF revenues and Constitutionally separate it from the General Fund.



Summary Budget Recommendations

Arizona General Fund Ongoing Expenditures and Revenues FY 2002-FY 2013



Office of Governor Janice K. Brewer



Summary Budget Recommendations

FY 2012 – GF expenditures \$8.9 billion

FY 2012 – Including Rollovers \$9.0 billion

Both are between FY 2006 (\$8.8 billion) and FY 2007 expenditure levels (\$10.2 billion)

