Current Financial Position

Budget Goals

Spending Priorities

Summary
## Last Year’s General Fund Outcome

<table>
<thead>
<tr>
<th></th>
<th>FY 2015 Forecast (from last enacted budget)</th>
<th>FY 2015 Actual (preliminary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>577</td>
<td>577</td>
</tr>
<tr>
<td>One-time Revenues</td>
<td>69</td>
<td>71</td>
</tr>
<tr>
<td>Adjusted Base Revenues</td>
<td>8,557</td>
<td>8,933</td>
</tr>
<tr>
<td>Transfer from Rainy Day Fund</td>
<td>144</td>
<td>--</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td><strong>$ 9,347M</strong></td>
<td><strong>$ 9,581M</strong></td>
</tr>
<tr>
<td>Total Spending</td>
<td>9,336</td>
<td>9,269</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>$ 12M</td>
<td>$ 312M</td>
</tr>
<tr>
<td>Structural Deficit</td>
<td>($ 737M)</td>
<td>($ 336M)</td>
</tr>
</tbody>
</table>
# Economic Indicators

**Executive Forecast: Moderate growth**

## Arizona's Economic Indicators

| Indicator             | 2015* (%) | 2016 Forecast (%) | Last 25 Years
|-----------------------|-----------|-------------------|---------------
| 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

<table>
<thead>
<tr>
<th></th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ongoing</strong></td>
<td>$8.9B</td>
<td>$9.2B</td>
<td>$9.5B</td>
<td>$9.9B</td>
<td>$10.2B</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td>$0.1B</td>
<td>$0.2B</td>
<td>$0.1B</td>
<td></td>
</tr>
<tr>
<td><strong>One-Time</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>3.4%</td>
<td>3.0%</td>
<td>3.7%</td>
<td>3.1%</td>
<td></td>
</tr>
</tbody>
</table>

### Ongoing Revenue Growth:
- FY 2015: 3.4%
- FY 2016: 3.0%
- FY 2017: 3.7%
- FY 2018: 3.1%
Current Financial Position

Budget Goals

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Summary
Budget Goals

✓ **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
Current Financial Position

Budget Goals

Spending Priorities

Summary
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

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

*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 \textit{(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

<table>
<thead>
<tr>
<th>2015 Special Session</th>
<th>FY 2016 Supplemental</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$224 Million</td>
<td>$15.2 Million</td>
<td>$106 Million</td>
</tr>
<tr>
<td>$172M from the State Land Trust</td>
<td>$15M in Building Renewal for SFB</td>
<td>$46.5M from caseload, inflation and past policy adjustments</td>
</tr>
<tr>
<td>$52.4M from the General Fund</td>
<td>$200,000 for standard setting for the State Board of Education</td>
<td>$43.9M in new initiatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$15M for new school construction and building renewal</td>
</tr>
</tbody>
</table>
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

Reports

Cases
In-Home and Out-of-Home

Permanent Placement

Report backlog
Front end

Cost overruns
Core operations

Court delays
Back end
Reduce Backlog and Improve Response Time

- 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)

$4M investment in field staff capacity
Reduce Cost Overruns by Improving Operations

<table>
<thead>
<tr>
<th>Out-of-Home Care FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>population growth rate</td>
</tr>
<tr>
<td>12%</td>
</tr>
<tr>
<td>support service cost growth rate</td>
</tr>
<tr>
<td>34%, $175M</td>
</tr>
</tbody>
</table>

$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

Children in Out-of-Home Care

FY 2016 growth - 9.6%
FY 2017 growth - 4.8%
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

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

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

<table>
<thead>
<tr>
<th>Dependency Petitions Filed</th>
<th>Preliminary Protective Hearings Not Conducted Within 7 Days of Child's Removal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 3,464</td>
<td>2006 16%</td>
</tr>
<tr>
<td>2014 7,086</td>
<td>2014 50%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Without Recommendation</th>
<th>With Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2013</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>FY 2014</td>
<td>121</td>
<td></td>
</tr>
<tr>
<td>FY 2015</td>
<td>137</td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>FY 2017</td>
<td>90 78</td>
<td></td>
</tr>
<tr>
<td>FY 2018</td>
<td>137 110</td>
<td></td>
</tr>
</tbody>
</table>

- Without Recommendation
- With Recommendation
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

<table>
<thead>
<tr>
<th>Increase in Seizures 2010-2014 (in Arizona)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heroin: 223%</td>
</tr>
</tbody>
</table>

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
In FY 2015:
- Total inmate population grew by 838
- Male Medium population grew by 470 (projected to grow by 492 in FY 2016 and FY 2017)
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)

Male Medium – Available Beds

FY 2016 addition of 1000 beds

Recommended New Beds
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-fighting 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
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**

- Office of the State Fire Marshal
- Office of Manufactured Housing
- Homeowner’s Association Disputes

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**
- License Fees, Examination Fees, and Fines
- Regulation, Supervision and Examinations

**Recommended Fund Structure**
- License and Examination Fees
- Operating Fund
- Regulation, Supervision and Examinations
Current Financial Position
Budget Goals
Spending Priorities
Summary
## Where We End Up

<table>
<thead>
<tr>
<th></th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 Education (ADE)</td>
<td>3,835</td>
<td>3,942</td>
<td>3,996</td>
</tr>
<tr>
<td>AHCCCS</td>
<td>1,226</td>
<td>1,205</td>
<td>1,755</td>
</tr>
<tr>
<td>Corrections</td>
<td>997</td>
<td>1,035</td>
<td>1,061</td>
</tr>
<tr>
<td>Universities</td>
<td>768</td>
<td>665</td>
<td>675</td>
</tr>
<tr>
<td>Economic Security</td>
<td>483</td>
<td>504</td>
<td>543</td>
</tr>
<tr>
<td>Child Safety</td>
<td>361</td>
<td>404</td>
<td>396</td>
</tr>
<tr>
<td>Health Services</td>
<td>619</td>
<td>625</td>
<td>93</td>
</tr>
<tr>
<td>Other</td>
<td>980</td>
<td>920</td>
<td>961</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 9,269M</strong></td>
<td><strong>$ 9,301M</strong></td>
<td><strong>$ 9,480M</strong></td>
</tr>
</tbody>
</table>
Arizona is on track to be structurally balanced for the first time since the Great Recession.

Structural Balance

Start of Great Recession

FY 2006 $1,004

FY 2007 $76

FY 2008 ($1,266)

FY 2009 ($2,203)

FY 2010 ($3,000)

FY 2011 ($3,401)

FY 2012 ($409)

FY 2013 ($364)

FY 2014 ($411)

FY 2015 ($336)

FY 2016 ($24)

FY 2017 $173

FY 2018 $232

FY 2019 $244

Millions $
## Where We End up

<table>
<thead>
<tr>
<th><strong>FY 2016 supplemental</strong></th>
<th>$105M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY 2017 baseline</strong></td>
<td>$116M</td>
</tr>
<tr>
<td><strong>FY 2017 initiative (81% one-time)</strong></td>
<td>$168M</td>
</tr>
<tr>
<td><strong>Total FY 2016 and FY 2017 Spending</strong></td>
<td><strong>$389M</strong></td>
</tr>
</tbody>
</table>

| **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

azospb.gov