

**Appropriation Chairmen  
FY 2009 and FY 2010  
Budget Options**

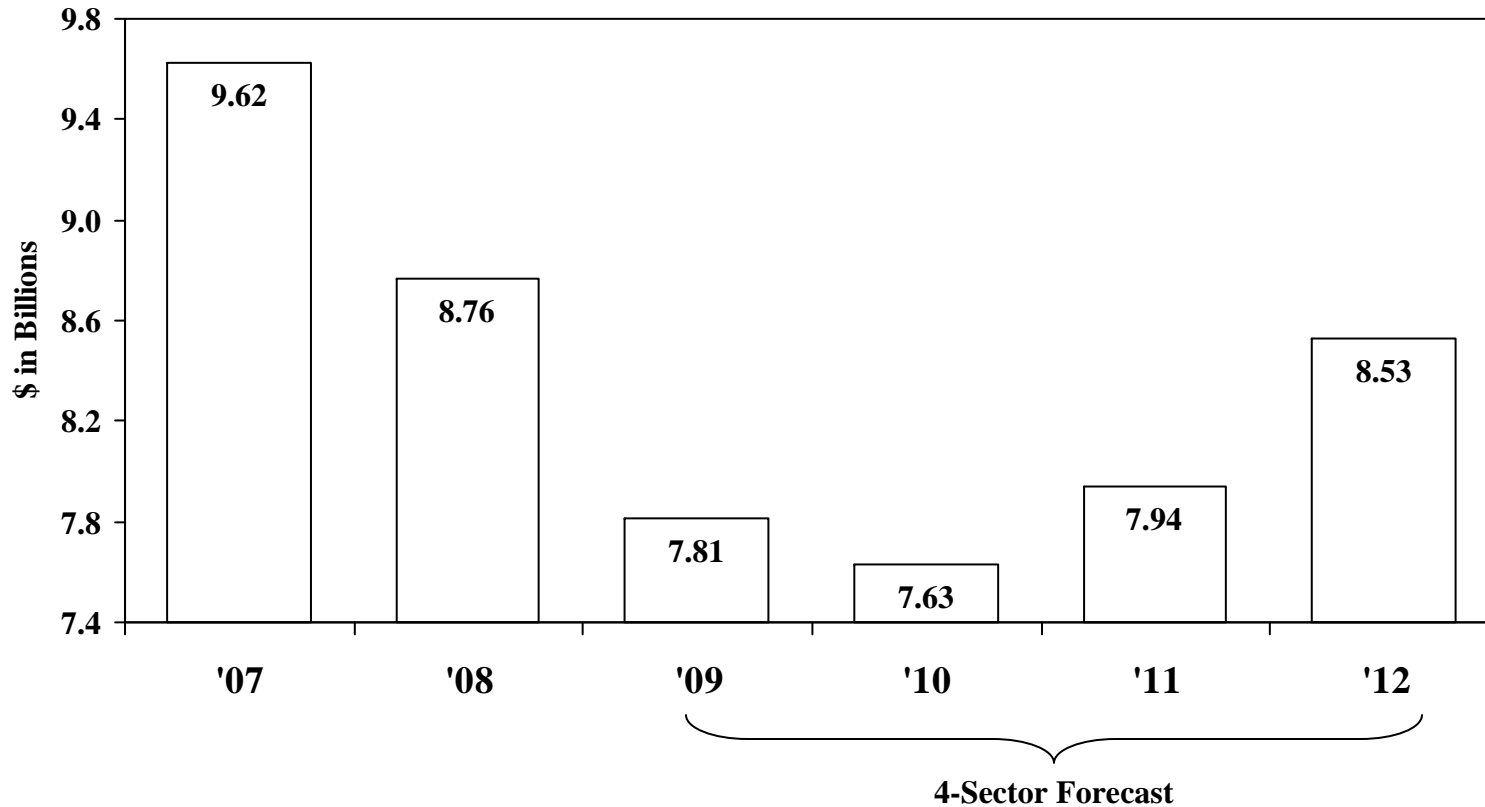
**January 15, 2009**

**JLBC**

# The Problem

# On-Going General Fund Revenue

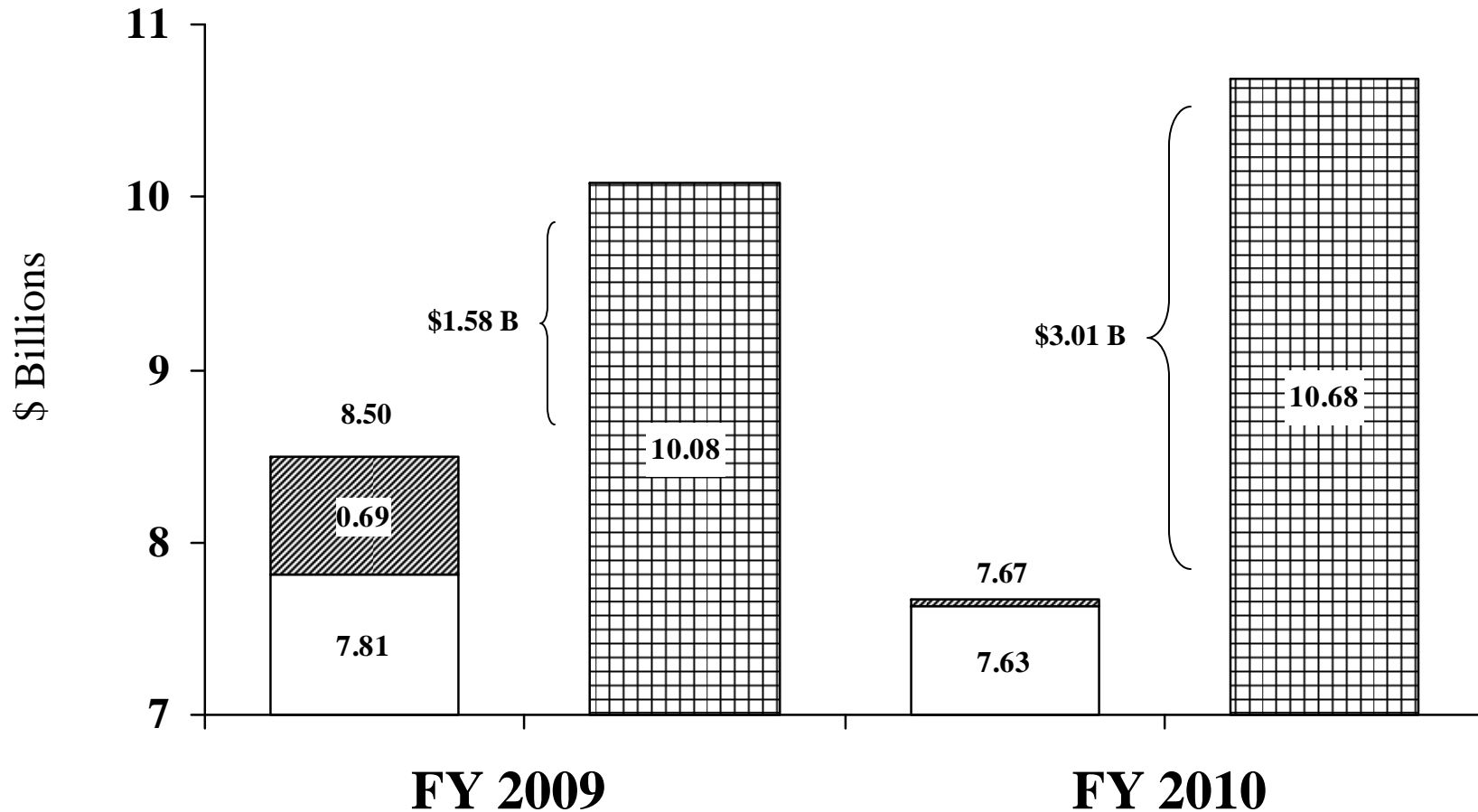
**- Collections Will Not Return to '08 Level Until After FY '12**



**Includes Urban Revenue Sharing and enacted tax law changes  
- excludes balance forward and other one-time revenues.**

# General Fund Shortfalls

- Any Permanent '09 Solutions Reduce '10 Shortfall

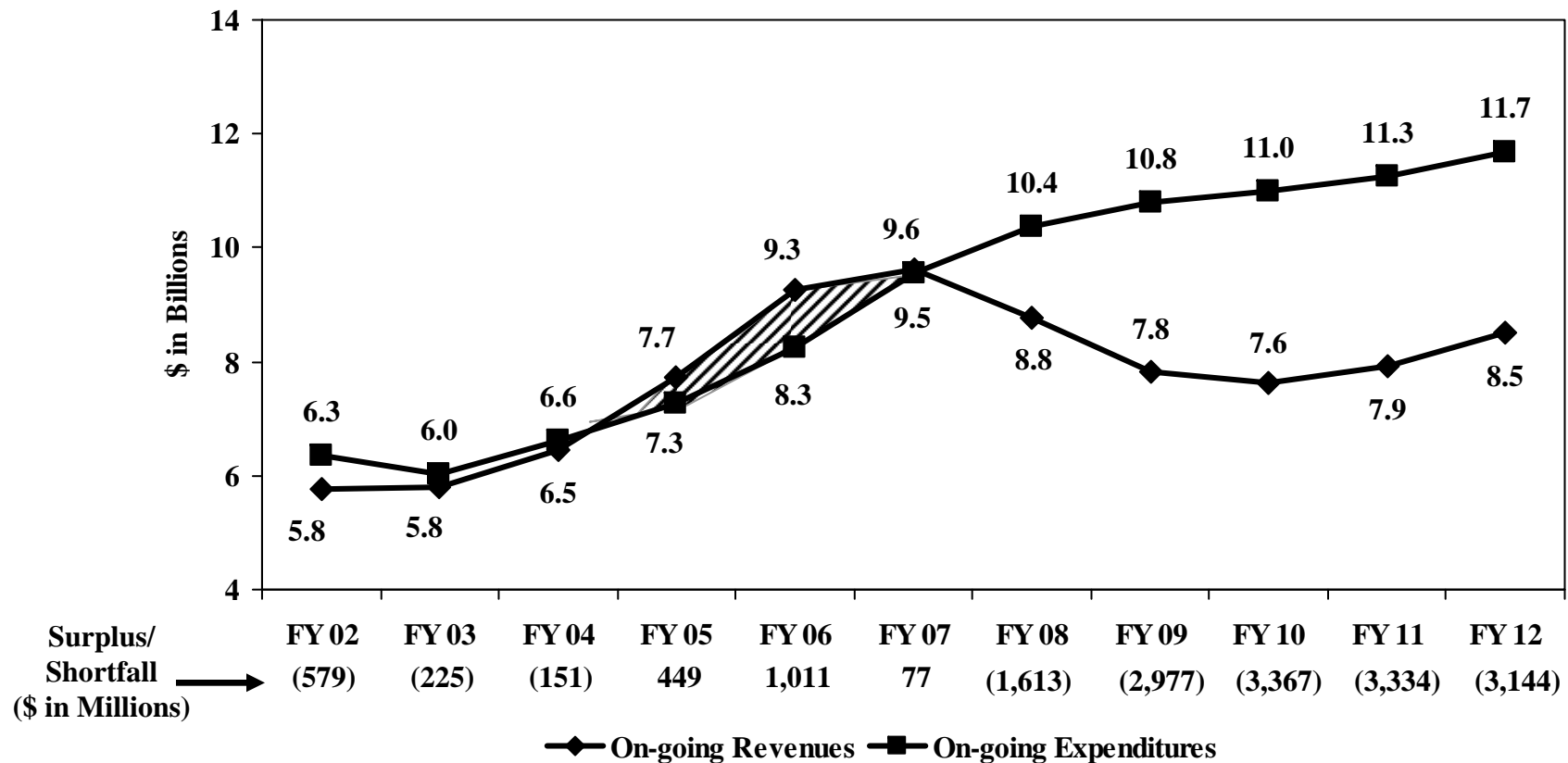


□ Ongoing Revenues    ▨ One-time Revenues    ▤ Expenditures



# The Structural Shortfall Remains Substantial Through FY 2012

- Long Term Consequences of FY 2010 Decisions Will Need To Be Evaluated



## **Prior to Developing Options to Address the Shortfall, Chairmen Asked:**

1. How much and where has spending grown over the last 5 years?
2. What is the impact of voter protection on spending?

# **In the Last 5 Years General Fund Spending Has Grown \$3.7 B**

**FY '04**

\$ 6.5 Billion

**FY '09\***

\$ 10.2 Billion

\*Adjusted for K-12 Rollover

# Formula and Caseload Spending Has Grown \$2.2 B Since FY '04

	<u>\$ in M</u>
Title 19 Medicaid – AHCCCS/DHS/DES	1,063
K-12 – Students and 2% Inflation	772
Higher Education Enrollment	106
Dept. of Corrections – Prisoner Growth	<u>218</u>
Total	\$ 2,159



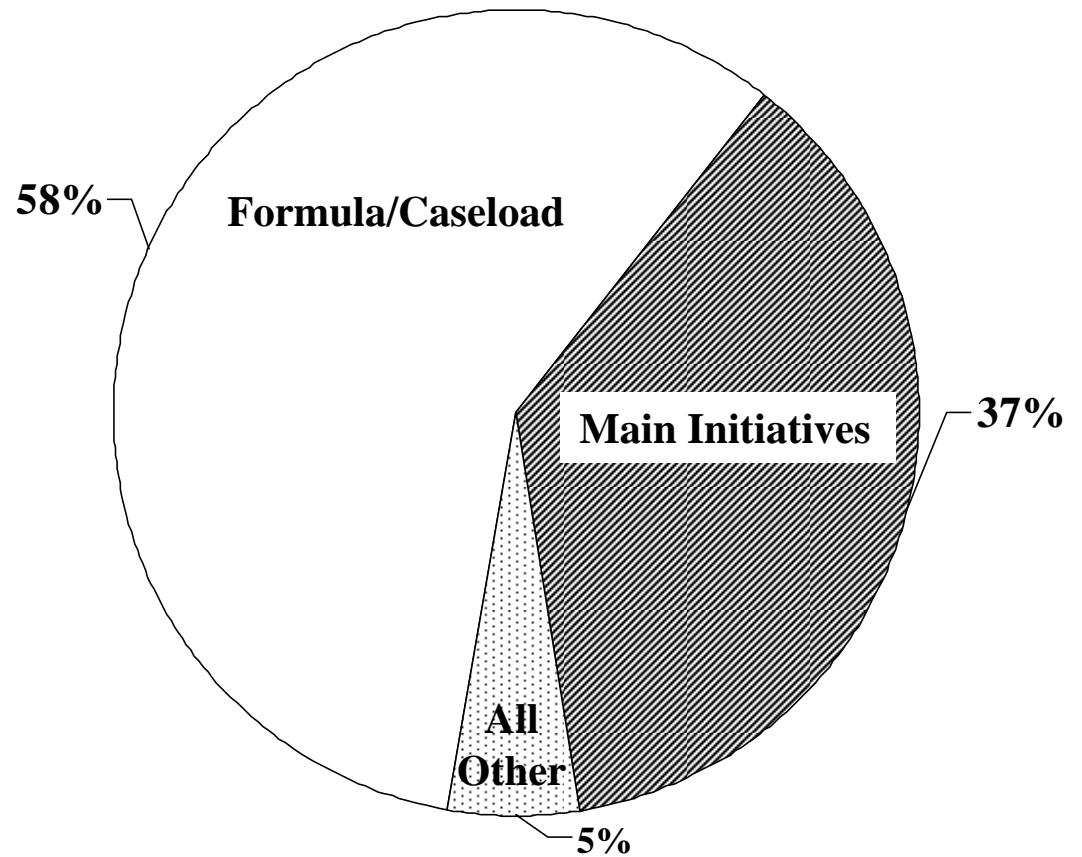
# **7 Other Initiatives Added**

## **\$1.4 B to State Budget Since FY '04**

	<u><b>\$ in M</b></u>
State Employee Pay and Benefits	431
Property Tax Reductions/K-12 Formula Backfill	250
Full Day Kindergarten	208
Federal Funds Backfill	162
Above 2% ADE Inflation	151
Debt Service – SFB/Universities	93
Child Protective Services	<u>83</u>
Total	\$ 1,378

# Overview of Spending Increases FY 2004 – FY 2009

	<u>\$ in M</u>
Caseload/Formula	2,159
Main Initiatives	1,378
All Other	<u>200</u>
Total	\$ 3,737



# What Spending is Voter Protected?

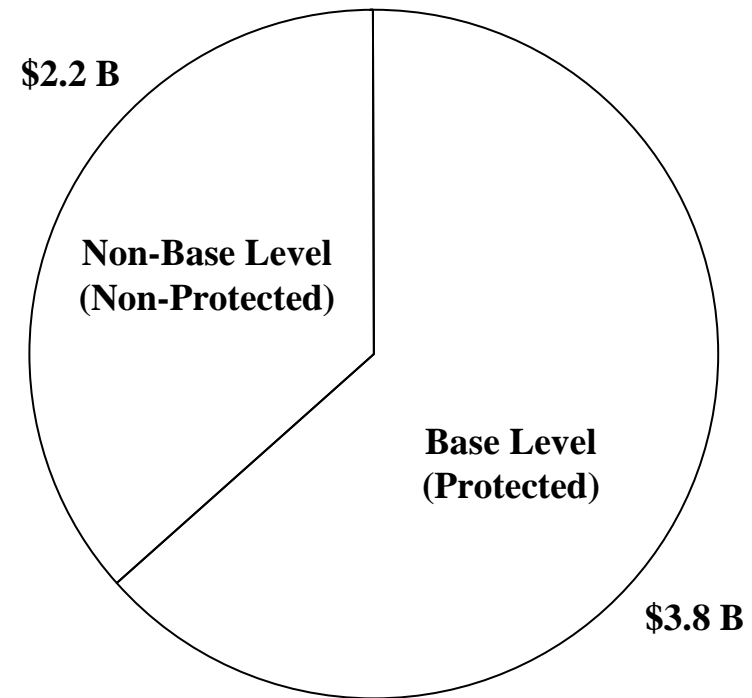
- Prop 105 only permits legislative changes to propositions with a 75% vote to “further the purpose”.
- Prop 301 Education and Prop 204 AHCCCS have greatest impact on state budget.
- This “voter protection” limits, but does not eliminate, our ability to modify ADE and AHCCCS.
- There has been no litigation to clarify the scope of Prop 105.

# How Does Prop 105 Affect K-12 Spending?

- Prop 301 guaranteed 2002 “base level” and inflation.
- Inflation has been applied to base level and transportation – the “and/or” debate.
- Prop 301 does not apply to:
  - Formula weights.
  - Capital outlay revenue limit.
  - Soft capital.
  - Charter’s additional assistance.

# At Least \$2.2 B of K-12 Spending is Not Subject to Prop 105

- State and local K-12 budget = \$6 B.
- As funding expands or contracts, marginal impact is on the state.
- Non-base level spending is \$2.2 B.



**State and Local K-12 \$**  
**State = \$4.4 B    Local = \$1.6 B**

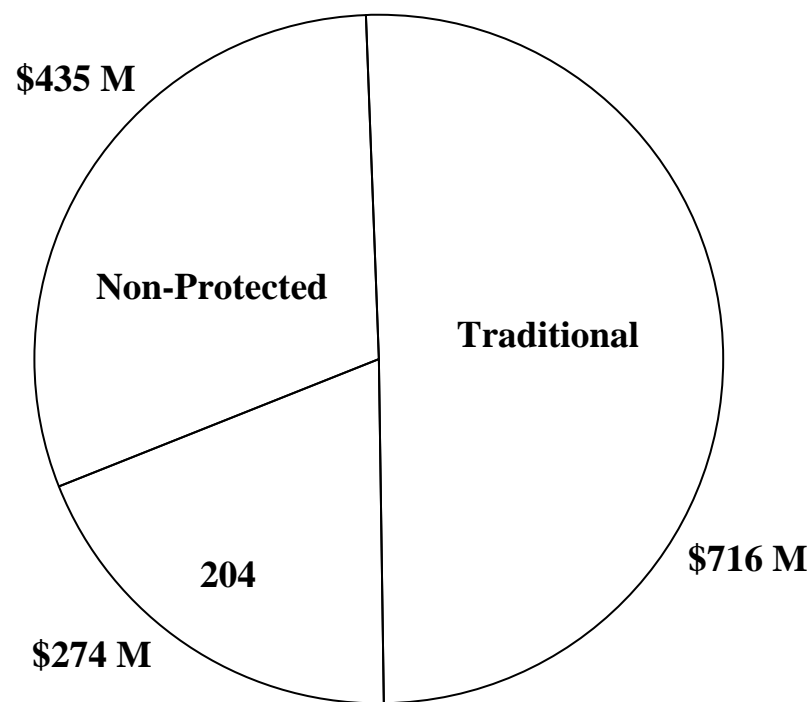
# How Does Prop 204 Affect Health Care Spending?

- Prop 204 guarantees indigent health care coverage below 100% of the federal poverty line (FPL) at a cost of \$1.4 B.
- Non-100% FPL cost includes KidsCare, special hospital payments, optional services and administration.
- Prop 204 does not protect the benefit package nor health plan rates.

# AHCCCS Non-Protected Share is at Least \$435 M

## - Feds May Permit Limited Adjustments to Rates

- Protected population cost \$990 M in AHCCCS (+\$380 M in DHS)
- Non-protected includes \$237 M in drugs/ALTCS optional costs.
- California injunction against 10% rate cut.

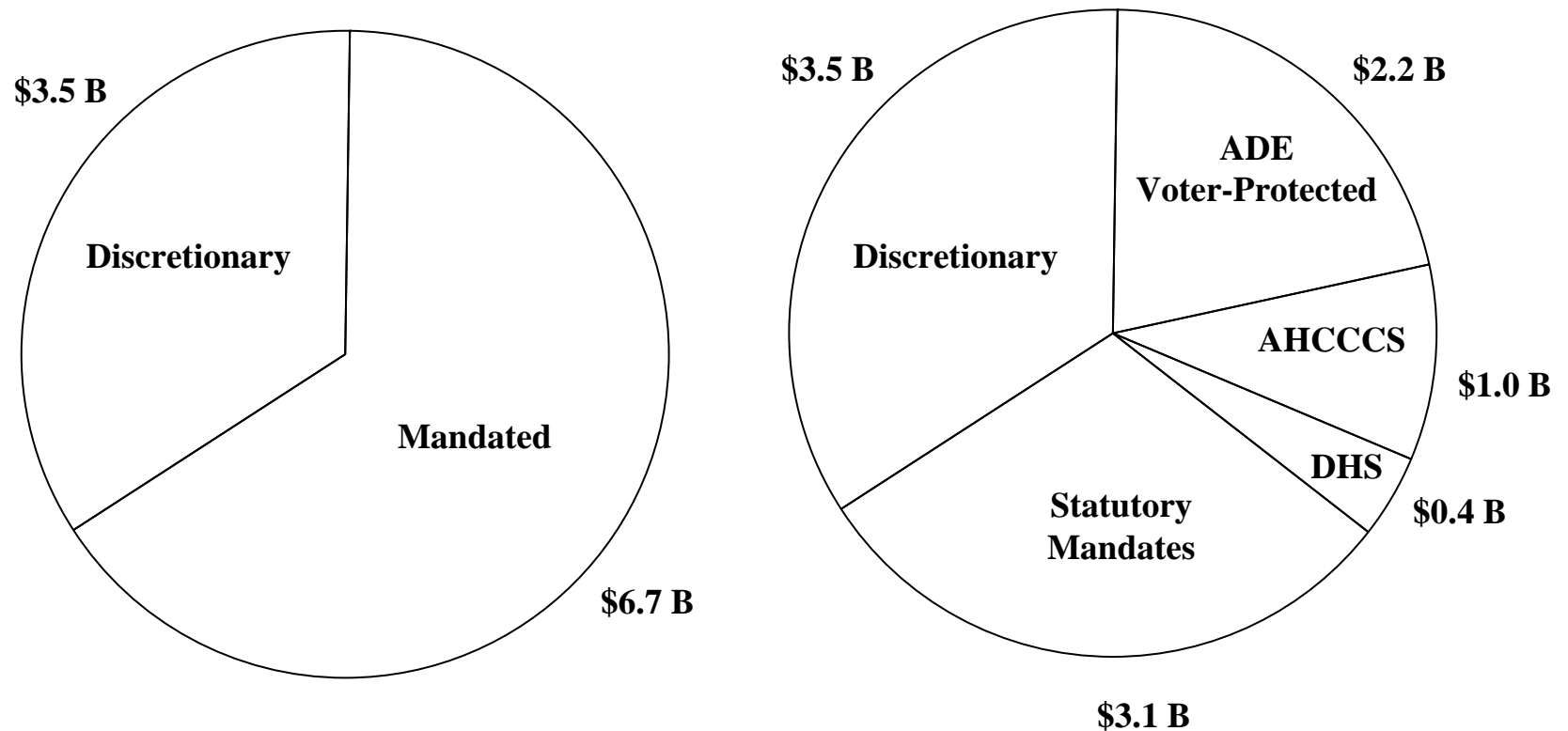


AHCCCS

\$1.425 B GF '09 Total

# What Is Voter Protected Share of GF Spending?

- No Definitive Answer, But Near \$3.6 B



**\$10.2 B GF Budget  
Rollover-Adjusted**



# What Are the Possible Options?

- Revenue
- Spending
- Fund Transfers
- Federal Assistance
- Borrowing
- Accounting

# The Chairmen's Perspective

- Revenue – but no tax increases
- Spending – suspension/reductions
- Fund Transfers
- Federal Assistance
- ~~Borrowing~~
- ~~Accounting~~

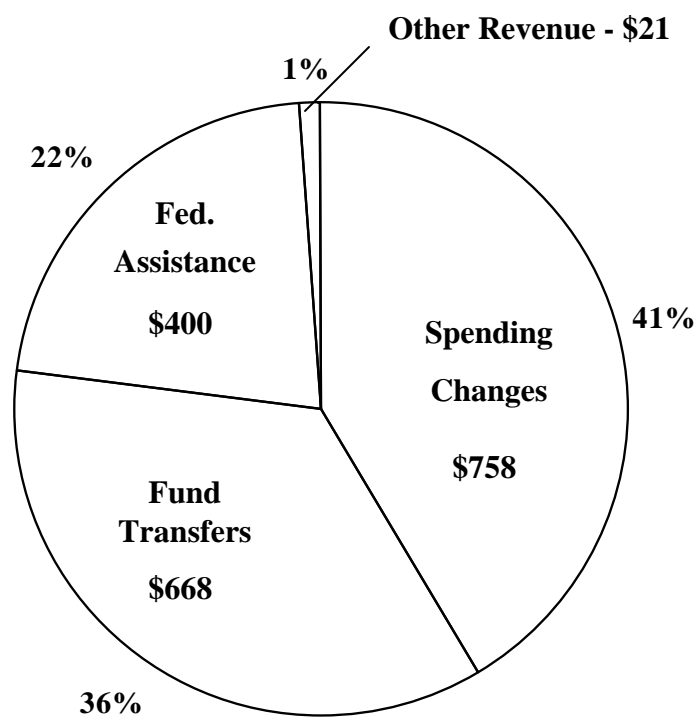
# **Chairmen's Goal: Options In Excess of Shortfall**

- Options Are Not A Specific Budget Proposal**
- Budget Proposal Will Be Developed  
by Appropriations Committees**

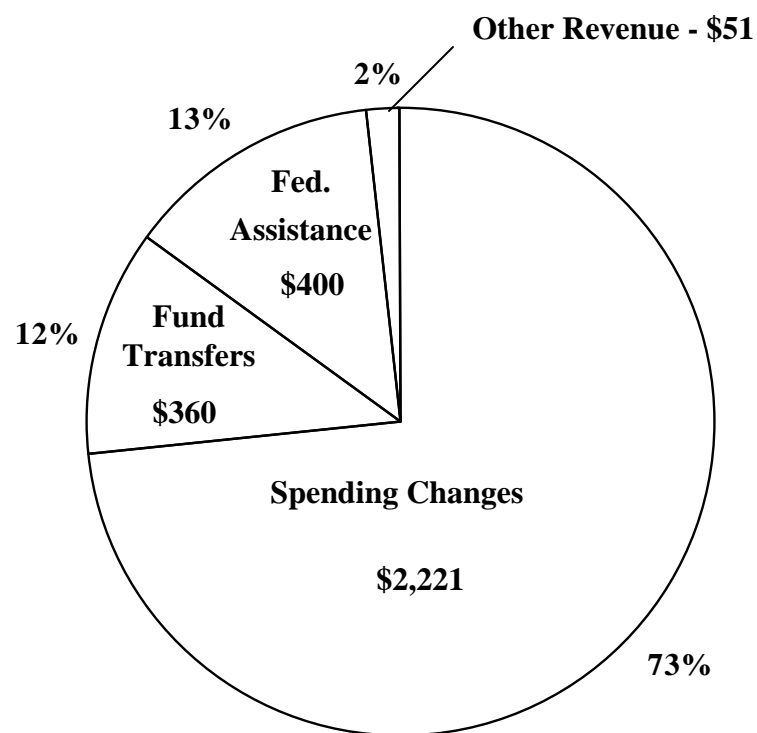
	<b><u>FY '09</u></b>	<b><u>FY '10</u></b>
Shortfall	\$ 1.58 B	\$ 3.01 B
Options	\$ 1.85 B	\$ 3.03 B

# Budget Options Overview

**FY 2009 = \$ 1.85 B**



**FY 2010 = \$ 3.0 B**



**Budget Options in \$ Millions**

## **FY '09 Options Assume Prompt Action**

- Spending changes are based on February 1<sup>st</sup> implementation date.
- \$273 M of '09 agency options require statutory change effective by February 1<sup>st</sup>.

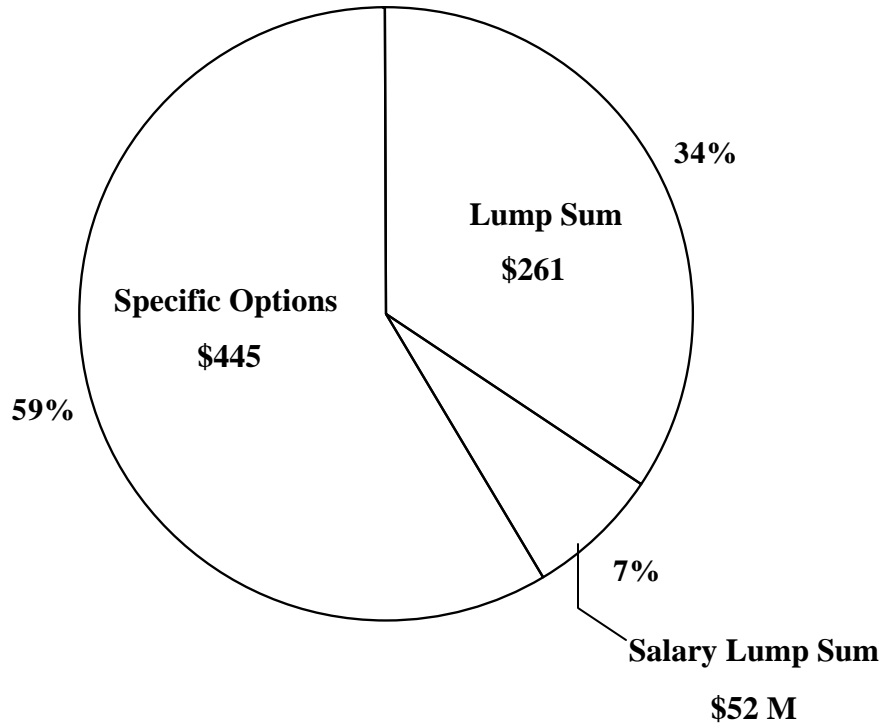
# Agency Spending Changes Based On 3 Types of Proposals

- Lump Sum Reduction/Suspension
  - 10% in '09 and 15% in '10 – but these percentages are adjusted for various agencies.
  - Agency can decide how to allocate.
- Salary Lump Sum Reduction/Suspension
  - 4.2% in '09 and 10% in '10.
  - Agency can use vacancies, furlough, RIF.
- Specific Agency Reductions/Suspensions
  - Some require statutory changes.

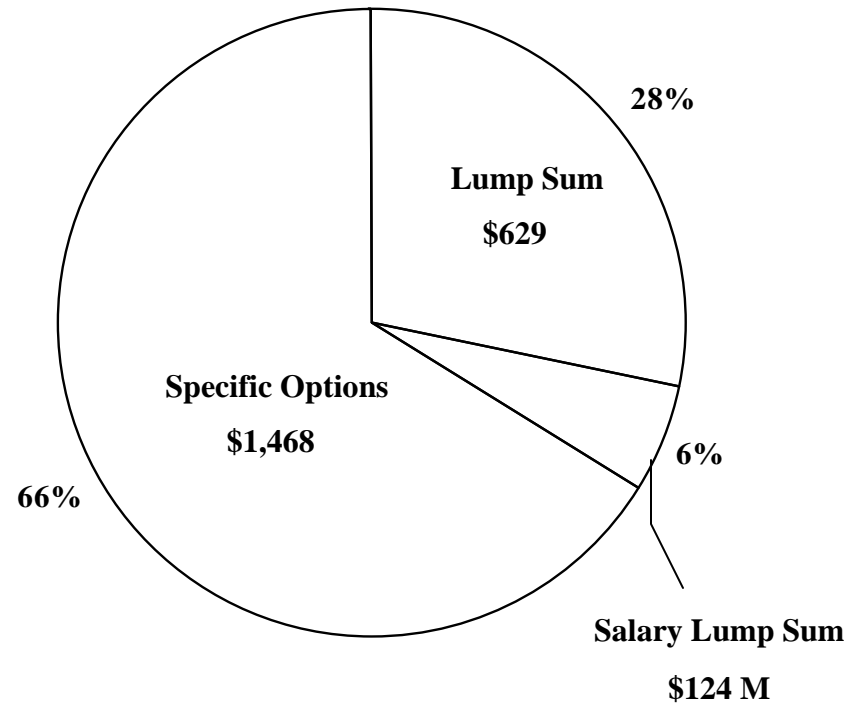
# Shares of Agency Spending Options

- - \$758 M in '09 and \$2.2 B in '10

**FY 2009**



**FY 2010**

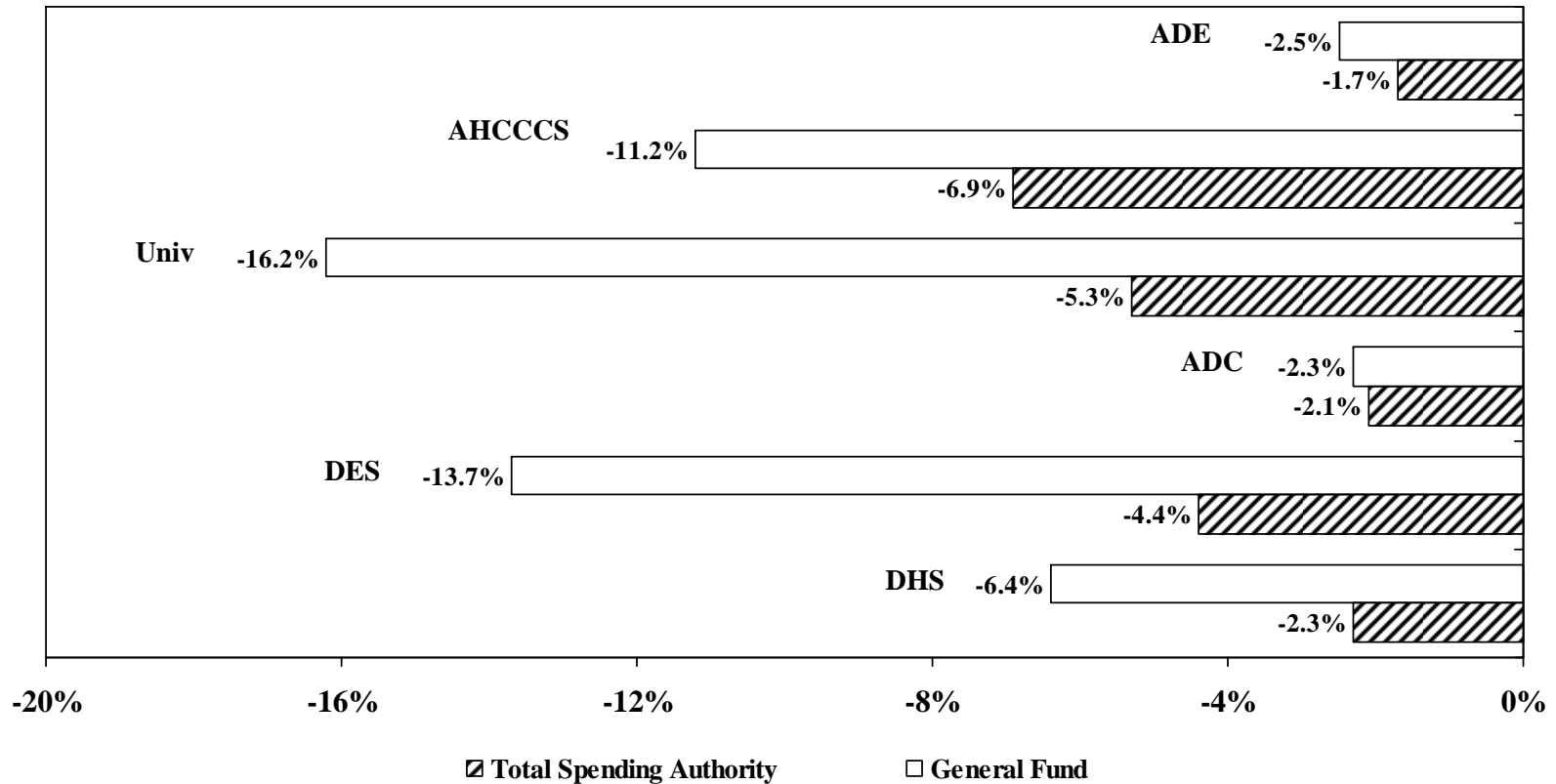


## Agency Savings Options Equal \$758 M In '09 and \$2.2 B in '10

	<u>\$ in M</u>	
	<u>FY '09</u>	<u>FY '10</u>
Dept. of Education	\$ 103	\$ 892
AHCCCS	160	372
Universities	175	314
Dept. of Corrections	22	132
Dept. of Economic Security	110	200
Dept. of Health Services	39	94
Other	<u>149</u>	<u>217</u>
Total	\$ 758	\$ 2,221



# FY '09 Chairmen Spending Options As A Percent of Agency's General Fund and Total Spending



# Fund Transfers

- EBT = Excess Balance Transfer
  - 50% of Balance in '09 and 25% in '10.
- FRAT = Fund Reduction and Transfer
  - Reduce Non-General Fund spending and sweep into the General Fund.
  - 5% in '09 and 10% in '10.
  - Also reduce salaries by 4.2% in '09 and 10% in '10.
- Other Transfers
  - Typically greater than 50% of remaining balance.
  - Includes \$130 M remaining in Budget Stabilization Fund.

# Fund Transfer Options Equal \$668 M in '09 and \$360 M in '10

	<u>\$ in M</u>	
	<u>FY '09</u>	<u>FY '10</u>
Excess Balances	\$ 245	\$ 116
Non GF Spending Reductions (FRAT)	102	194
Budget Stabilization Fund	130	0
Other Transfers	<u>191</u>	<u>50</u>
Total	\$ 668	\$ 360

# **Federal “Bailout” Assistance Still To Be Determined**

- Federal stimulus package may include temporary 2 year increase in the federal share of Title 19 Medicaid costs for AHCCCS, DHS and DES.
- The federal government would pay an even greater share than its current 66% share.
- Assistance option listed at \$400 M annually based on October legislation - - could be higher.
- Proposal will likely limit state’s ability to reduce existing eligibility levels.
- Stimulus proposal may also include education and infrastructure assistance.

## **To Avoid Revisiting '09 Budget Later, May Want Budget Plan to Exceed Shortfall By \$200 M**

- Given uncertain national economy, projecting FY 2009 revenue remains difficult.
- State has used most of “quick fix” solutions – Budget Stabilization Fund, Rollover.
- Since bailout may not be known for a month, some funding above \$400 M option may serve as the “back stop”.
- Any FY '09 surplus would be used to balance FY '10.