Arizona Budget Status

FY 2010 and 2011
What’s the Problem?

There are three interconnected problems

- Current year deficit
- Structural deficit
- Cash flow
What’s the Problem?

Remaining Deficit

- $0.0 (Special Session)
- $1,000,000.0 (FY 2010)
- $3,500,000.0 (FY 2011)

December 2009
General Fund Ongoing Revenue and Expenditures before Solutions

Assumptions: **Revenue**: Ongoing revenue does not include one time items such as fund transfer, asset sales, etc. Growth rates assumptions: FY10: -9.2%, FY11:7%, FY12 and 7%. **Expenditure**: Ongoing expenditure does not include rollover or ARRA. FY10 and FY11 estimated Expenditure from most current S&U, FY12 and beyond assuming 7% growth.
Cash Flows

Operating Cash Balance

<table>
<thead>
<tr>
<th>Month</th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance</td>
<td>$600,000.0</td>
<td>$400,000.0</td>
<td>$200,000.0</td>
<td>$0.0</td>
<td>$(200,000.0)</td>
<td>$(400,000.0)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$(600,000.0)</td>
<td>$(800,000.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$(1,000,000.0)</td>
</tr>
</tbody>
</table>
How did we get here?

There are at least six reasons that led us to this point:

- The Economy
- Reduced Revenues
- Added Spending
- State Actions
- Constraints Imposed by the Voters
- The Federal Government
How did we get here?

**Arizona**
Number of Months needed to surpass a peak in employment.

- 1948
- 1953
- 1974
- 1981
- 1991
- 2001
- 2007

Number of Months After Peak Employment

Percent Change from Peak Employment

Arizona 2001 2007

December 2009
State tax revenues have declined 34 percent in three years.

Arizona Base Revenues

December 2009
Growing Populations – Including FY 2011 Estimates

Current revenues = FY 2004

- Since FY 2004, Arizona has added 144,700 K-12 students and more than $1.0 billion in annual costs to the K-12 system.

- Since FY 2004, enrollment in State universities has increased enrollment by 18,100 students and annual General Fund costs of $393.5 million.

- Since FY 2004, Corrections has added 11,600 prisoners and annual General Fund costs of $405.4 million.

- Since FY 2004, AHCCCS has added 475,000 new members and annual costs of nearly $1.5 billion (General Fund).

-- In just the past 12 months, AHCCCS has grown by 207,800 members--
How did we get here?

AHCCCS All TXIX Capitation Member Months

December 2009
How did we get here?

The Federal Government (cont’d)

- The MOE for education prohibits reducing funding below the SFY 2006 funding the state provided to education (K-12, Community Colleges, Universities).

- The MOE for AHCCCS provides that as long as we accept the ARRA funds for the program, we cannot reduce eligibility. ARRA funds for AHCCCS are currently scheduled to end on December 31, 2010.
Approximately $2.4 billion unprotected
Approximately $3.4 billion unprotected

(note: Federal MOE for Medicaid currently ends on December 31, 2010)
### How did we get here?

#### Unprotected Funds

- **Judiciary**: $120 m
- **Juvenile Corrections**: $68 m
- **Legislature**: $55 m
- **Public Safety**: $44 m
- **Revenue**: $41 m
- **Kids Care (AHCCCS)**: $30 m
- **State Only DD (DES)**: $57 m
- **State Hospital (DHS)**: $65 m
- **State Only SMI (DHS)**: $79 m

*December 2009*
How did we get here?

The Federal Government (cont’d)

- In SFY 11, the majority of the ARRA funds will discontinue and the State will have to replace the funding that the federal government has provided in SFYs 2009, 2010 and continuing into 2011.

- The Table on the following page illustrates that in SFY 2011 General Fund monies are to replace over $1 billion of ARRA funds.
How did we get here?

The ARRA SFY 2011 Cliff

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
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<tbody>
<tr>
<td>AHCCCS</td>
<td>201,806.9</td>
</tr>
<tr>
<td>DHS</td>
<td>90,343.5</td>
</tr>
<tr>
<td>DES</td>
<td>105,151.6</td>
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<tr>
<td>K-12 Education</td>
<td>472,114.0</td>
</tr>
<tr>
<td>Universities</td>
<td>150,000.0</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>27,000.0</td>
</tr>
<tr>
<td>Corrections</td>
<td>50,000.0</td>
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<tr>
<td>TOTAL</td>
<td>1,096,416.0</td>
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</table>
Since FY 2008, the State has aggressively used one-time options.

<table>
<thead>
<tr>
<th>Action</th>
<th>Amount</th>
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<tbody>
<tr>
<td>BSF Sweep</td>
<td>$710,000</td>
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<tr>
<td>K-12 Rollover</td>
<td>$602,000</td>
</tr>
<tr>
<td>Fund Transfers</td>
<td>$1,264,000</td>
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<tr>
<td>DPS to HURF</td>
<td>$248,000</td>
</tr>
<tr>
<td>Midnight Reversion</td>
<td>$50,000</td>
</tr>
<tr>
<td>K-12 Local Fund Balances</td>
<td>$184,000</td>
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<tr>
<td>Sale Leaseback</td>
<td>$735,000</td>
</tr>
<tr>
<td>Prison Concession</td>
<td>$100,000</td>
</tr>
<tr>
<td>SFB NC Recapture</td>
<td>$344,000</td>
</tr>
<tr>
<td>SFB New Construction</td>
<td>$237,000</td>
</tr>
<tr>
<td>AHCCCS Rollover</td>
<td>$118,000</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>$1,867,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$6,459,000</strong></td>
</tr>
</tbody>
</table>
Summary

FY 2010
- FY 2010 remaining deficit - $1.5 billion
- FY 2010 remaining unprotected fund - $1.2 billion

FY 2011
- FY 2011 deficit - $3.4 billion
- FY 2011 unprotected funds - $3.4 billion

Cash
- Borrowing nearly $1 billion each day to cover cash needs
<table>
<thead>
<tr>
<th></th>
<th>GF – 15% Proposal</th>
<th>TF – 15% Proposal</th>
<th>GF – 5&lt;sup&gt;th&lt;/sup&gt; Spec. Session</th>
<th>TF – 5&lt;sup&gt;th&lt;/sup&gt; Spec. Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>KidsCare</td>
<td>9.25</td>
<td>43.6</td>
<td>3.2</td>
<td>13.2</td>
</tr>
<tr>
<td>Administration</td>
<td>2.25</td>
<td>4.5</td>
<td>2.25</td>
<td>4.5</td>
</tr>
<tr>
<td>Graduate Medical Education</td>
<td>4.3</td>
<td>12.7</td>
<td>1.3</td>
<td>5.4</td>
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<tr>
<td>Disproportionate Share Hosp Pmts.</td>
<td>3.1</td>
<td>9.1</td>
<td>.9</td>
<td>2.7</td>
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<td>Total Changes</td>
<td>18.9</td>
<td>69.9</td>
<td>7.65</td>
<td>25.8</td>
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</tbody>
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