FY 2024-2025 STATE BUDGET

Executive Budget Recommendations & JLBC Baseline

Governor Hobbs' budget recommendation outlines a $16.2 billion spending plan in FY 2025. The Governor's recommendation includes $504 million in new spending initiatives and approximately $(1.5) billion in one-time spending cuts, fund transfers, tax policy reforms and ESA eligibility changes over multiple years. Substantial recommendations include:

New Spending Initiatives

- **$195 million** to address Dept. of Corrections lawsuit related to inmate healthcare
- **$100 million** in general fund and **$91 million** in federal funds for the DES Child Care Assistance Program
- **$46 million** for new medical schools at ASU and NAU, expansions in UA medical school and existing nursing and behavioral health programs
- **$25 million** for healthcare licensing reform, specifically in long-term care and sober living facilities
- **$15 million** to address the fentanyl epidemic
- **$13 million** for mortgage assistance, funded through the General Fund and Housing Trust Fund
- **$8 million** to extend the Low-Income Housing Tax Credit through FY 2033

Revenue Recovery Plan

- **$(419) million** spending reductions by eliminating select transportation projects that were previously appropriated
- **$(350) million** (approximately) in appropriation reductions for prior year appropriations, capital and IT projects
  - Includes **$(35) million** savings from eliminating distributions to local governments for specific projects in FY24
- **$(282) million** in fund transfers from 78 different funds to the state General Fund
- **$(244) million** spending reduction from Empowerment Scholarship Account eligibility modifications
- **$(185) million** in savings starting in FY 2026 from repealing Student Tuition Organizations (STO) income tax credits

The JLBC Baseline is forecasting a **funding shortfall of $(2.2) billion** that the state will need to address for FY 2024 and FY 2025. This shortfall includes a **$(1.7) billion revenue shortfall**, $396 million in one-time spending from FY 2024 that may need to be included in FY 2025, and a $100 million ending balance. In terms of spending, the Baseline generally continues FY 2024 funding levels into FY 2025 while making typical formula adjustments and removing one-time FY 2024 appropriations.

REVENUE AND EXPENDITURE PROJECTIONS

The following table reflects a comparison of the Governor's budget recommendations and the JLBC Baseline's revenue and expenditure projections.

Dollars in millions Figures may not add due to rounding	FY2024		FY2025		FY2026		FY2027	
	Exec.	***JLBC***	***Exec.***	***JLBC***	***Exec.***	***JLBC***	***Exec.***	***JLBC***
Beginning Balance^^	2,527.2	2,254.3	580.3	0	133.6	0	240.4	0
Total Revenues	17,884.5	16,921.0	16,378.5	15,392.4	16,722.2	16,206.0	17,613.8	16,970.3
Total Expenditures	17,304.2	17,756.2	16,244.9	16,271.4	16,481.8	16,626.2	16,989.9	17,157.3
Ending Balance	580.34	(838.2)	133.6	(879.0)	240.4	(420.3)	623.8	(187.0)
Ongoing Revenues	15,103.3	14,666.7	15,779.8	15,392.4	16,573.8	16,206.0	17,363.4	16,970.3
Ongoing Expenditures	14,936.5	14,874.2	15,434.0	15,700.5	16,308.1	16,453.3	16,719.2	16,873.2
Structural Balance	166.8	(207.5)	345.8	(308.1)	265.7	(247.3)	644.2	97.1

^^JLBC assumes the ending balance shortfall will be resolved prior to the end of the fiscal year.

Projected Underlying Revenue Growth

Revenue Stream	FY2024		FY2025		FY2026		FY2027	
	Exec.^	***JLBC****	***Exec.^***	***JLBC****	***Exec.^***	***JLBC****	***Exec.^***	***JLBC****
Base Revenue Growth	(3.8)%	(3.4)%	4.5%	2.6%	4.0%	4.1%	4.7%	4.7%
Sales & Use Tax	*3.6%*	*2.5%*	*4.1%*	*3.7%*	*5.6%*	*4.7%*	*5.5%*	*4.9%*
Individual Income Tax	*(6.3)%*	*(8.6)%*	*5.7%*	*6.0%*	*5.5%*	*5.6%*	*5.6*	*5.7%*
Corporate Income Tax	*(0.1)%*	*2.4%*	*(0.5)%*	*0.9%*	*1.1%*	*4.0%*	*2.5%*	*4.5%*

SELECT EXECUTIVE RECOMMENDATIONS

ADJC Cost Shift to Counties

Continues the recession-era cost shift that charges Maricopa County taxpayers **$6.7 million** to offset the state's General Fund obligation to the Arizona Department of Juvenile Corrections.

Eliminates Select Transportation Projects and Local Distributions

- Removes **$418.6 million** from one-time ADOT transportation projects allocated between FY 2021 and FY 2024. See Table 2 for full list of impacted projects.
- Removes **$34.6 million** in local distributions included in the FY 2024 budget. See Table 1 for full list of impacted projects. *Please note corrected table updated on 1/15/24.*

Child Care Assistance Program

Provides **$100 million** in one-time state General Fund and **$91 million** in ongoing federal funding to support DES' Child Care Assistance Program.

Fentanyl Crisis – Stopping Arizona's Fentanyl Epidemic (SAFE)

- An additional **$5 million** in ongoing spending for Local Border Support special line item within the Department of Public Safety. Requires that funds be used to provide grants to law enforcement agencies for drug interdiction efforts in border communities.
- Also provides **$10 million** in one-time funds to state agencies for various efforts related to the fentanyl crisis including **$2 million** to ADHS to distribute naloxone to first responders.

VOCA Funding Backfill

Provides **$20.7 million** ongoing to backfill recent decreases in federal Victims of Crime Act (VOCA) funding. **$9.3 million** is for DPS to provide grants to governments and non-profit agencies for a range of purposes, including offering victim support services.

Border Coordination Office - Operation SECURE

Provides funding from American Rescue Plan Act and **$1 million** ongoing from the state general fund to establish the Border Coordination Office within the Department of Homeland Security. Among the tasks of the office is to improve support for local emergency management and law enforcement, as well as increasing collaboration and maintain relationships with local law enforcement and emergency management personnel.

Water Investments

- **Reduces** the FY 2025 appropriation to the Water Infrastructure Finance Authority (WIFA) long-term water augmentation fund **from $333 million to $33 million**. Includes additional $33 million appropriations in FY 2026 and FY 2027.
- Eliminates $1.7 million of the $3.4 million appropriation to the Mohave Wash Recharge Basin project in FY 2024. Removes other non-county related water projects.
- Deposits **$9.5 million** in the Water Quality Fee Fund for ADEQ to ensure cleanliness and safety of surface water, groundwater and drinking water.

Fire Suppression Funding

Transfers **$5 million** from Dept. of Forestry and Fire Management (DFFM) Wildfire Mitigation SLI to the Fire Suppression SLI. Wildfire mitigation funds were appropriated for DFFM's Health Forest Initiative.

Primary and General Election Funding

Provides **$6 million** to the Secretary of State for primary and general election funding, largely for reimbursements for counties related to:

- costs of producing and mailing sample ballots to every household with a registered voter
- costs of certifying petition and referendum signatures

Additionally, allows funds to cover costs associated with printing and mailing a publicity pamphlet to every household with a registered voter for any initiative or referendum and reviewing and processing initiative and referendum signatures.

SELECT COUNTY SPECIFIC ISSUES

Item	Executive Recommendation	JLBC Baseline
AHCCCS/ALTCS[1]	Increases total county contribution to ALTCS by $35.6 million, for a total contribution of $401.8 million. Sets county Acute Care contributions at $43.7 million. Continues to allow counties to exclude BNCF payments from their expenditure limits.	Increases the county ALTCS contribution by $33.7 million, $399.9 million total for FY2025. Per statute, inflates county BNCF contributions by $245,000, to $4.9 million total. Sets county Acute Care contributions at $43.2 million. Continues to allow counties to exclude BNCF payments from their expenditure limits. By county estimates available here.
County Lottery Revenue[2]	Continues to appropriate $550,000 to each of 13 smallest counties.	
Department of Juvenile Corrections Cost Shift (ADJC)[3]	Continues to require Maricopa County to pay $6.7 million to ADJC.	
Flexibility Language[4]		Continues to allow certain counties (under 250,000 residents) to use up to $1.25 million from any source to fund county obligations.
Forestry – Environmental County Grants[5]	Continue to appropriate $250,000 for county environmental grants.	
Out-of-County Tuition Subsidy[6]	Appropriate $1.1 million as a subsidy to assist counties with the cost of out-of-county community college tuition.	

[1] FY2024 budget required counties to contribute $414.6 million, which includes payments to AHCCCS for Acute Care, ALTCS and the BNCF.
[2] The FY2024 budget provided an ongoing direct appropriation, in-lieu of lottery revenue, of $550,050 to the 13 smallest counties.
[3] In FY2020, the state eliminated the statutory fee for all counties except Maricopa and Pima Counties. In from FY2021 to FY 2023 the budget assessed the full fee on Maricopa and Pima Counties for the first time since FY 2016. In FY 2024, the fee was eliminated for Pima County, but Maricopa County was required to pay $6.7 million.
[4] Language was included in the FY2024 budget which allows counties under 250,000 persons to use any source of county revenue to meet any county fiscal obligations up to $1,250,000 per county. Report to JLBC required.
[5] Used by Greenlee, Graham, Gila, Navajo, Cochise, and Apache Counties for environmental projects that impact economic development.
[6] In FY2023 the state increased its share of the out-of-county tuition cost. This increased the state's portion of the cost to $2.3M. Additionally, the FY 2023 and FY 2024 budgets continued the Out-of-County Tuition Subsidy at $1.1M which was provided to Apache and Greenlee counties.

Restoration to Competency (RTC)[7]		As session law, continues to exclude county payments for RTC costs from the expenditure limit.
Rural County EORP Relief[8]	Continues to appropriate $250,000 to each of the 12 smallest counties.	
Graham County Appropriation	Continues to appropriate $500,000 to Graham County to help maintain essential county services.	
Coordinated Reentry Planning Services [9]	Per enacted budget, does not continue funding for coordinated reentry planning.	
Probation Officer Salary Funding[10]	Creates a Probation Stabilization Fund but provides no funding for probation officer salaries. Does not continue $6.7 million in one-time funding in FY 2024 in the Probation Salary Increase Backfill special line item.	Does not continue $6.7 million in one-time funding in FY 2024 in the Probation Salary Increase Backfill special line item.
Local Cyber Security Grants	Maintains $10 million grant, increases SLI by $67,800 to provide for state match to receive a $6.8 million federal grant through the federal State and Local Cybersecurity Grant program.	Maintains $10 million grant to local jurisdictions as an ongoing appropriation.
Election Funding	Appropriates $6.0 million to the Secretary of State to reimburse counties for: mailing sample ballots, processing and certifying signatures. Does not continue $5.9 million in one-time funding in FY 2024 for county PPE reimbursement.	Does not continue $5.9 million in one-time funding in FY 2024 for county PPE reimbursement.
Local Distributions	Eliminates $34.6 million in previously appropriated distributions to local governments. See Table 1 for full list of eliminated allocations.	

[7] Starting in FY2010, counties were required to pay 100 percent for RTC services. The FY2020 budget amended statute to make this requirement permanent.
[8] In FY2024 the state dedicated $3 million to the 12 smallest counties ($250,000 each) to help offset increased costs in the Elected Officials Retirement Plan (EORP).
[9] In FY2022 the state appropriated $10 million in one-time funds to establish a coordinated reentry planning services program at ADOA for distribution to Mohave ($5 million), Pinal ($4 million) and Yavapai ($1 million) Counties. The FY 2022 budget also included allocations of $7 million in FY 2023 and FY 2024.
[10] FY 2025 Arizona Administrative Office of the Courts funding request (p. 529 of PDF) included $8.7 million probation salary & ERE backfill request. AOC subsequently revised that figure to $10.1 million. FY 2022 and FY 2023 budget included language that required the counties to cover the cost of any additional pay adjustments authorized above a prefunded amount, however that language was excluded from the FY 2024 budget.

Transportation Projects	Eliminates $418.6 million in previously appropriated transportation projects. See Table 2 for full list of eliminated allocations.
Water Projects	Eliminates $1.7 million of the $3.4 million appropriation to the Mohave Wash Recharge Basin project in FY 2024. Removes other non-county related water projects.

***NOTE**: Not all impacts to counties are listed. This is a preliminary review of the major issues and the direct county impacts.*

Table 1: Prior Local Government Appropriations Eliminated

(Revised 1/15)

Project	Amount Revert to GF
County Recorder Voter Registration Accuracy Review	$3,000,000
County Recorder Offices Secure Ballot Paper	$5,000,000
County Property Owner Notification Systems	$63,100
Subtotal - County Relevant	***$8,063,100***
Nonprofit Volunteer Rodeo Organization	$15,300,000
State Route 30 Utility Relocation	$5,025,000
International Dark Sky Discovery Center	$5,000,000
Sun City Transportation Study	$850,000
Snowflake Sewer Lift Station	$375,000
Subtotal - Other Local Projects	***$26,550,000***
Grand Total	**$34,613,100**

Table 2: Prior Transportation Appropriations Eliminated

Project	Amount Revert to GF
FY 2023 Conduct a Tier 2 Study for Sonoran Corridor in Pima County	$2,400,000
FY 2023 Conduct a Tier 2 Study for the North-South Corridor in Pinal County	$12,279,000
FY 2024 Distribute to the Town of Queen Creek to extend State Route 24, a traffic interchange at State Route 24 and Ironwood Road Design	$87,500,000
FY 2024 Improve U.S. Route 95 Between Wellton Mohawk Canal Road and Aberdeen Road	$19,825,000
FY 2024 Improve intersection on State Route 347 at Casa Blanca Road and Cement Plant Access	$18,000,000
FY 2024 Repave U.S. Route 60 between Morristown and Wickenburg	$10,460,000
FY 2024 Design a freeway interchange on Interstate 10 at Jackrabbit Trail	$5,000,000
FY 2024 Improve State Route 260 within Navajo County	$4,210,000
FY 2023 Widen Interstate 10 between State Route 85 and Citrus Road	$113,000,000
FY 2023 Conduct a Tier 2 Study for Interstate 11 in Maricopa County	$24,999,366
FY 2023 Construct an Overpass at Riggs Road and State Route 347	$24,000,000
FY 2023 Rehabilitate Pavement along United States Route 191 between Mile Post 163 and Mile Post 173	$21,252,000
FY 2023 Rehabilitate Pavement along United States Route 191 between Armory Road and East Safford	$18,457,000
FY 2023 Construct a Screen Wall along Loop 101 between 51st Avenue and 59th Avenue	$9,314,000
FY 2023 Rehabilitate Pavement along State Route 90 between Campus Drive and the U.S. Border Patrol Station	$7,562,506
FY 2023 Design Interchange at State Route 303 and Interstate 17	$5,043,000
FY 2023 Study and Design Interchange on State Route 74 at Lake Pleasant Parkway	$4,650,000
FY 2023 Improve State Route 90 from Moson Road to Campus Drive	$3,300,000
FY 2023 Design Improvements along State Route 87 near the City of Coolidge	$269,000
FY 2023 Construct a Roundabout at State Route 69 and State Route 169 Intersection	$244,500
FY 2023 Design Improvements along State Route 303 between Interstate 17 and Lake Pleasant Parkway	$178,000
FY 2021 Construct an Overpass at Riggs Road and State Route 347	$25,000,000
FY 2021 Improve State Route 90 near Fort Huachuca	$1,705,797
Grand Total:	**$418,649,169**