

FY 2025-2026 STATE BUDGET

Executive Budget Recommendations & JLBC Baseline

Governor Hobbs' [budget recommendation](#) outlines a \$17.7 billion spending plan in FY 2026. The Governor's recommendation includes \$794.3 million in new spending initiatives in FY 2026. Select recommendations include lowering housing costs, providing child-care assistance, expanding Arizona's workforce and increasing access to postsecondary education.

The [JLBC Baseline](#) generally continues FY2025 funding levels into FY2026 while making typical formula adjustments. JLBC staff anticipates that after paying for "ongoing one-time" costs, there will be **\$560 million** available. They provided a range of options for allocation, from all \$560 million for one-time costs to as much as \$125 million for ongoing initiatives and \$435 million for one-time items. This does not include the \$1.6 billion that the state has in its rainy-day fund.

This week, the House and Senate Majority Caucuses also released their priorities for the 2025 legislative session. You can find the Senate plan [here](#) and the House plan [here](#). A list of priorities with a county nexus can be found [below](#).

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

	FY2025		FY2026		FY2027		FY2028	
	Exec.	JLBC	Exec.	JLBC	Exec.	JLBC	Exec.	JLBC
Beginning Balance[^]	\$1,023.9	\$962.8	\$831.9	\$903.7	\$146.9	\$0	\$100.8	\$0
Total Revenues	17,254.2	16,994.3	17,801.8	17,582.5	17,586.8	17,382.4	18,333.7	18,185.1
Total Expenditures	16,422.4	16,090.6	17,654.9	16,647.4	17,486.0	17,314.8	17,923.2	17,964.2
Ending Balance	831.9	903.7	146.9	935.1	100.8	67.6	410.5	220.9
Ongoing Revenues	16,174.5	15,997.4	16,954.6	16,661.8	17,433.6	17,370.4	18,232.8	18,185.1
Ongoing Expenditures	15,367.2	15,570.2	16,768.9	16,532.6	17,180.4	17,020.9	17,572.9	17,627.0
Structural Balance	807.6	427.2	185.8	129.2	253.3	349.5	659.8	558.1

[^]JLBC estimates that the FY 2026 cash balance is presumed to be allocated as a part of the budget process

Projected Underlying Revenue Growth

Revenue Stream	FY2025		FY2026		FY2027		FY2028	
	Exec.	JLBC	Exec.	JLBC	Exec.	JLBC	Exec.	JLBC
Base Revenue Growth	2.4%	2.7%	4.6%	3.4%	4.0%	4.4%	4.6%	4.7%
Sales & Use Tax	3.5%	3.1%	4.2%	3.7%	4.5%	4.2%	4.8%	4.2%
Individual Income Tax	8.2%	7.3%	5.4%	5.4%	5.4%	5.7%	5.5%	5.6%
Corporate Income Tax	4.8%	6.9%	4.0%	3.7%	3.8%	4.2%	3.8%	3.9%

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 (GF) obligation to the Arizona Department of Juvenile Corrections.

Probation Salary Backfill

\$10.1 million ongoing beginning in FY 2027, with \$10.1 million provided by ARPA dollars in FY 2026 to provide necessary funding for state-funded probation officer salaries.

SMART Grant Deposit

\$13 million deposit into State Match Advantage Rural Transportation (SMART) Fund. The SMART Fund assists communities in the 13 rural counties with funds to draw down federal transportation grants.

Arizona Long Term Care System (ALTCS) Adjustments

- 6% ALTCS provider rate increase over three years, including \$92.1 million ongoing from state GF. This would contribute to the increase in county contributions to ALTCS, which are set at \$424 million in the Executive Recommendation.
- \$481,900 ongoing from state GF and \$1.1 million from federal funds to address provider enrollment and redetermination timelines.
- Adds 28 pre-admission assessors to address ALTCS medical eligibility application timelines, funding from various sources including \$541,400 state GF.

Housing Initiatives

- **Housing Trust Fund Deposit** : Includes \$15 million one-time deposit into the Housing Trust Fund to be used for the current grant program to help increase housing affordability.
- **Low Income Housing Tax Credit Expansion (LIHTC)**: Extends the LIHTC program through December 31, 2031 and increases the state tax credit from \$4 million to \$10 million annually.
- Creates the *Homes for Heroes Fund* and deposits \$5 million for the Arizona Dept. of Veterans' Services to address veteran homelessness.
- \$13 million for the *Arizona is Home* program, \$3 million federal ARPA funding, \$10 million from Housing Trust Fund.
- \$5.3 million to draw down \$49.8 million in federal monies to provide housing and supportive services through the Housing and Health Opportunities (H2O) pilot program.

Child Care Assistance and the Bright Futures Az Initiatives

- \$191 million to support the Child Care Assistance program to assist low-income families with child-care costs, offer incentives to childcare providers, and admit households for the childcare waitlist.
- \$3 million ongoing to the Early Childhood Development and Health Board (First Things First) program.
- \$3 million to DES to create a grant program for youth ages 5-12 for afterschool and summer programming for working-class families.
- \$1 million to create a corporate tax credit with a five-year sunset for businesses that provide childcare for employees.

Border Security and SAFE Investments

- \$5 million ongoing increase for DPS Local Border Support.
- \$5 million one-time increase for DPS Local Border Support.
- \$5 million one-time to DEMA to expand existing Counterdrug Task Force efforts.
- \$2 million one-time to DHS for overdose reversal medications to first responders.
- \$2 million one-time to AHCCCS to expand medication-assisted treatment in underserved rural communities.
- \$1 million one-time ARPA funds to DPS for statewide fentanyl awareness and education campaign.

Victims of Crime Initiatives

- \$20.7 million ongoing beginning in FY 2027 (\$20.7 million in ARPA dollars in FY 2026) to backfill an ongoing loss of federal Victims of Crime Act (VOCA) funding.
 - \$9.3 million to DPS for grants to local entities that offer services for victims of crime.
 - \$9.1 million to DES to continue to provide case management and crisis intervention services.
 - \$2.3 million to ACJC to cover victim compensation and victim assistance program operating costs.

Wildfire Suppression Funding

\$30 million to the Department of Forestry and Fire Management (DFFM) for wildfire suppression.

State Employee Pay Raise

- \$35 million to increase various state law enforcement and corrections officer pay by 5%, including officers in DPS and DOC.
- \$11 million from state GF and \$31.8 million from OF for 2% state employee pay increase.
- \$303,300 from state GF and \$578,700 from OF for state firefighting positions for 15%.
Some variation in pay adjustments for specific job classifications.

ADEQ Fund Initiatives

- \$1.2 million one-time funding for air quality initiatives at ADEQ, including support for the State Implementation Plan development and federal Diesel Emissions Reduction Act (DERA) grant.
- Provides expenditure authority for ADEQ to utilize increased fee revenue in the Solid Waste Fee Fund and the Hazardous Waste Management Fund.
- \$2 million from the Recycling Fund for Recycling Grants Program.

Statewide Emergency Evacuation Education Campaign

\$300,000 to DEMA for an awareness campaign to education residents and visitors about local evacuation protocols.

DEMA Grant Deployment Improvement

\$491,000 and 5.0 FTE for DEMA to improve grant administration processes.

STORM Act Matching

\$200,000 one-time funding to draw down \$9.0 million in federal Safeguarding Tomorrow Through Ongoing Risk Mitigation (STORM) Act funding.

Illegal Marijuana and Hemp Product Enforcement

\$1 million to the Attorney General (AG) for grants for local law enforcement to promote compliance with state marijuana laws and for AG to issue statewide notice.

State Parks Heritage Fund Deposit

\$2.5 million deposit into the State Parks Heritage Fund, including for grants to local entities.

Tribal Healthcare

- Ongoing \$1.3 million GF and \$221.6 million Federal spending authority for Traditional Healing services through Indian Health Services (IHS) and tribal health facilities.
- \$226,900 GF and matching federal authority to support tribal healthcare education and workforce development.

SELECT LEGISLATIVE MAJORITY PRIORITIES

House and Senate Majority Caucus both released their legislative priorities this week. Priorities with county government nexus:

- Support the implementation and enforcement of Arizona's Secure the Border Act (Proposition 314) and ensure law enforcement agencies have resources to enforce criminal penalties against unlawful border crossings.
- Allocate funding for law enforcement retention and recruitment efforts.
- Require a 60% supermajority of any government body to pass a tax increase.
- Implement timelines on governing bodies to expedite the review of building and zoning plans and land development.
- Support the implementation of the Property Tax Refund for Non-Enforcement of Public Nuisance Laws Measure (Proposition 312).
- Ensure rapid tabulation of ballots to provide election results faster.
- Prioritize state investments in modernizing infrastructure, including roads, bridges, and broadband.

SELECT COUNTY SPECIFIC ISSUES

Item	Executive Recommendation	JLBC Baseline
AHCCCS/ALTCS ¹	Increases total county contribution to ALTCS by \$25 million, for a total contribution of \$424 million. Sets county Acute Care contributions at \$43.1 million. Continues to allow counties to exclude BNCF payments from their expenditure limits.	Increases the county ALTCS contribution by \$9.7million, \$409.5 million total for FY2026. Per statute, inflates county BNCF contributions by \$198,000, to \$5.1 million total. Sets county Acute Care contributions at \$42.8 million. Continues to allow counties to exclude BNCF payments from their expenditure limits. By county estimates available here . Please note, several counties saw substantial changes in their individual contributions.
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.	
Justice of the Peace Salaries ⁴	Includes supplemental funding of \$251,000 in FY 2025 and \$479,000 appropriation in FY 2026 to cover the state's share of 40% of JP salaries.	Includes a supplemental appropriation of \$138,600 in FY 2025 and a \$271,400 appropriation in FY 2026 to cover the state's share of 40% of JP salaries.
Flexibility Language ⁵		Continues to allow certain counties (under 250,000 residents) to use up to \$1.25 million from any source to fund county obligations.

¹ FY2025 budget required counties to contribute \$447.9 million, which includes payments to AHCCCS for Acute Care, ALTCS and the BNCF.

² The FY2025 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. 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 2022, the fee was eliminated for Pima County, but Maricopa County is still required to pay \$6.7 million.

⁴ The FY 2025 General Appropriations Act increased Superior Court judge's salaries from \$180,000 to \$190,000 on January 1, 2025 and to \$200,000 on January 1, 2026. However, the enacted budget did not adjust the appropriation for Justice of the Peace salaries proportionally, resulting in a projected FY 2025 shortfall.

⁵ Language was included in the FY2025 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.

Forestry – Environmental County Grants ⁶	Continue to appropriate \$250,000 for county environmental grants.	
Out-of-County Tuition Subsidy ⁷	Appropriate \$1.1 million as a subsidy to assist counties with the cost of out-of-county community college tuition.	
Restoration to Competency (RTC) ⁸		As session law, continues to exclude county payments for RTC costs from the expenditure limit.
Rural County EORP Relief ⁹	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.	
Probation Officer Salary Funding ¹⁰	Provides \$10.1 million ongoing for the state’s portion of probation officer salaries. Funded utilizing federal ARPA in FY 2026, state General Fund in FY 2027 and beyond.	Maintains funding for all probation line items in FY 2026 at FY 2025 levels, which is insufficient to cover the cost of all state funded probation personnel.
ADOR Integrated Tax System fee	Includes funding source that maintains enacted fee revenue level in the Integrated Tax System Project Fund.	Sets fee for ADOR ITS upgrade to \$6.6 million for all counties, cities, towns and RTAs for FY 2026. This is a small reduction from FY 2025. Clarifies that the Maricopa Association of Governments RTA tax extension (Prop. 479) shall be included in the calculation for the RTA’s proportionate share.
Distributions to County Indigent Defense	Maintains State Aid to Indigent Defense and State Aid for Juvenile Dependency Proceedings Fund at FY 2025 funding levels.	

⁶ Used by Greenlee, Graham, Gila, Navajo, Cochise, and Apache Counties for environmental projects that impact economic development.

⁷ 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 2024 and FY 2025 budgets continued the Out-of-County Tuition Subsidy at \$1.1M which was provided to Apache and Greenlee counties.

⁸ Starting in FY2010, counties were required to pay 100 percent for RTC services. The FY2020 budget amended statute to make this requirement permanent.

⁹ In FY2025 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).

¹⁰ FY 2026 Arizona Administrative Office of the Courts [funding request](#) (p. 680 of PDF) included \$10.1 million probation salary payroll request.

Local Cyber Security Grants	Maintains \$10 million grant, increases SLI by \$107,800 to provide for state match to receive a \$5 million federal grant through the federal State and Local Cybersecurity Grant program.	Maintains \$10 million grant to local jurisdictions as an ongoing appropriation.
Local Border Support	Increases Local Border Support by \$10 million, \$5 million of which is one-time.	In alignment with the 2024 General Appropriations Act, includes a decrease of \$(4,000,000) from the General Fund in FY 2026 to remove one-time additional Local Border Support funding.
Expenses and Prosecution and Reimbursement of Counties	As permanent law, amend A.R.S. § 31-227 to reflect the operations and relationship between the counties and DOC for the housing of incarcerated persons in county facilities and the counties' costs associated with prosecuting and defending these individuals	

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