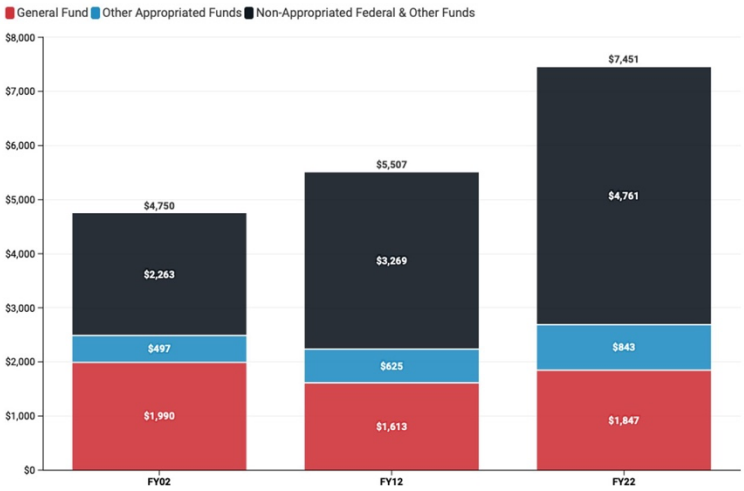
The Arizona Budget Then & Now
March 2022

This report looks back at Arizona's budget over 20 years and examines trends in revenues and spending.

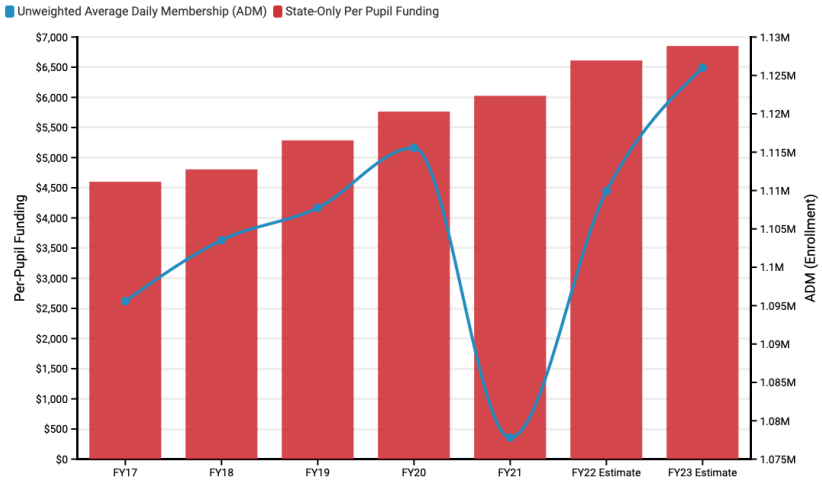
In FY 2022, the State of Arizona will spend over $50 billion in total – but only a third of that is subject to legislative appropriation and less than $13 billion is General Fund (GF). Of note is the fact that K-12 education is now nearly half of General Fund spending. Over the last 10 years, real (inflation adjusted) annual K-12 education spending has increased by more than $2.2 billion. Per-pupil funding (total and inflation adjusted) is the highest it has ever been.

Even In The Face Of Record Investments, Arizona Still Has Large Ongoing Cash Balances

- New ongoing revenues have increased by nearly $5 billion just since FY18, but policymakers have avoided pre-recession budget practices – focusing on one-time initiatives like infrastructure investments and leaving ongoing surpluses exceeding $2 billion and growing.
- **K-12 Education Spending At Highest Levels Ever**
  - Since 2012, state-only spending on K-12 education has increased 68.2%
  - Per-pupil education funding (total and inflation adjusted) in Arizona is at record levels.



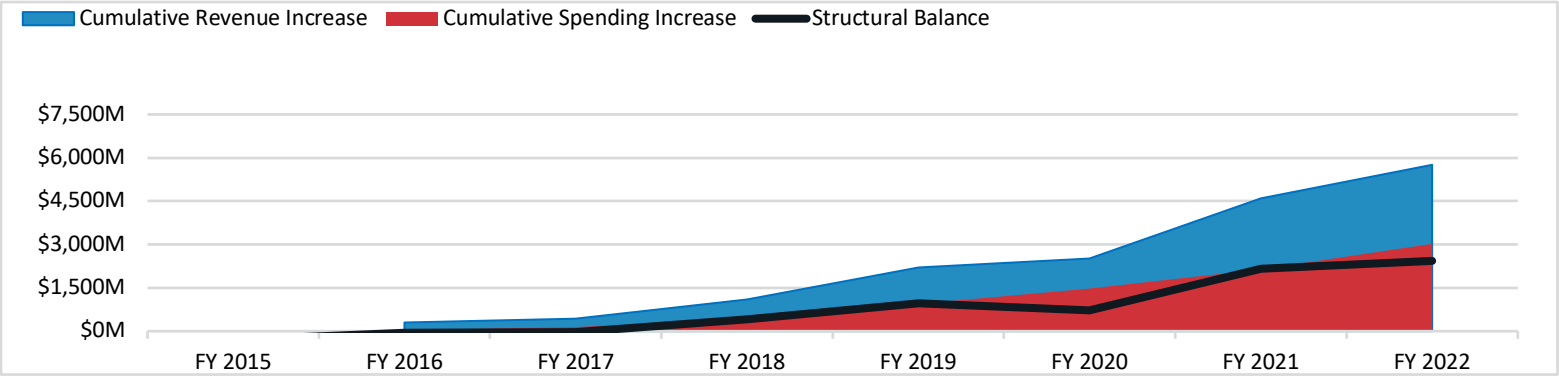
- **Much of Arizona's spending growth has occurred outside the General Fund, and has been financed without state tax increases but at the cost of reduced annual oversight**



  - According to the Governor's Office of Strategic Planning & Budgeting, there are at least 1,148 funds across the State's 135 departments, agencies, and spending authorities. During the 2021 legislative session alone, the State created 26 new funds.
  - Real per-capita General Fund spending increased $213 (14%) over prior 10 years.
  - Over the same period, other Appropriated Fund spending increased 35% and Non-Appropriated spending increased 46%.

Accelerating General Fund Revenue Growth Since FY18 Creates Unprecedented Fiscal Surplus

- **The General Fund (GF) has added a combined $6 billion in new ongoing revenue since FY15, including nearly $5 billion just since FY18**
  - Over the same period, ongoing spending has increased by more than $3 billion, and policymakers have spent billions more on various one-time initiatives.
  - Despite these new commitments, cash and structural surpluses have exceeded $2 billion and are still growing.
- **Executive and Legislative forecasters cannot keep up with revenue growth – actual GF revenues have exceeded enacted budget forecasts by a combined $4 billion recently**
  - Since enactment in 2019, the State's *Wayfair* sales tax on out-of-state sellers has generated nearly $1 billion in new revenue, while JLBC estimated only about $150 million.
  - Since tax year 2018 – when Arizona permanently conformed to the income tax increases in the Federal *Tax Cuts & Jobs Act* – gross individual income tax receipts have grown by 10%/year – versus less than 5.0%/year between FY13 and FY18.
  - This rapid revenue growth and surplus resource accumulation has occurred despite two rounds of tax cuts intended to restore General Fund balance – the *2019 Tax Omnibus* bill and last year's phase-in of a 2.5% flat individual income tax over three years.



Policymakers Should Consider the Structure of the General Fund and State Budgeting

- **Arizona's rapid recent growth is a direct result of its low-tax, pro-business environment**
  - The State's response to the 3.5% income tax surcharge on small businesses and high earners alleviates downside risk, but uncertainty remains over the fate and timing of the 2.5% flat income tax.
  - One-time investments in the state's core growth infrastructure – including shoring up its rainy-day fund to prevent future tax increases or disruptive spending cuts; investing in its water infrastructure; reducing pension and other general obligation public debt – provides opportunities to continue to invest available dollars without changing our long-term structure.

NOTE: This study will be an annual report from the Common Sense Institute, and in future years be released in advance of the legislative session.