

The Arizona Budget Then & Now January 2023

Every year, the State of Arizona spends approximately \$60 billion – but only about a third of that is subject to legislative appropriation and less than \$16 billion is General Fund. 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.

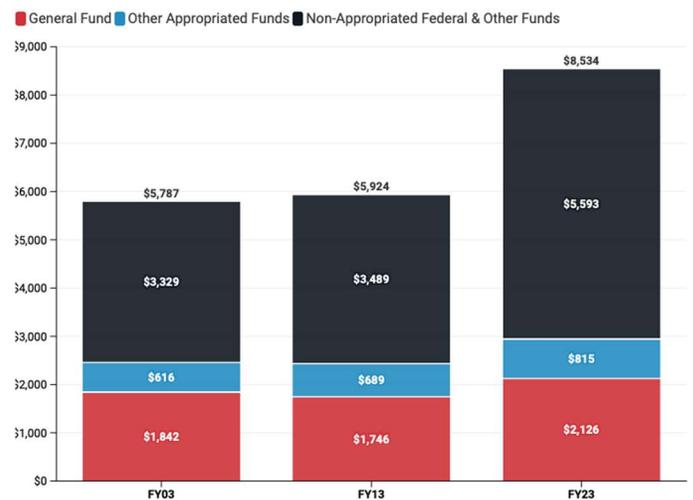
Real Per-Capita State Expenditures Have Increased 44% Over 10 Years

- **Expenditure growth in Arizona has outpaced both population and inflation over the past 10 years**

- Population growth since 2013 was 11% and inflation reduced the value of a dollar by 25%.
- However, total expenditures over the same period grew by 115%.

- **Growth has been concentrated in Education, Public Health & Healthcare, and Economic Security**

- Since 2013, State-only spending on K-12 education has increased 68.2%; Medicaid and public health has increased 115.9%; and economic security (largely social insurance and entitlement benefits) has increased 117.9%.



- **Most of this growth has occurred outside the General Fund, and has been financed by sources other than State tax increases**

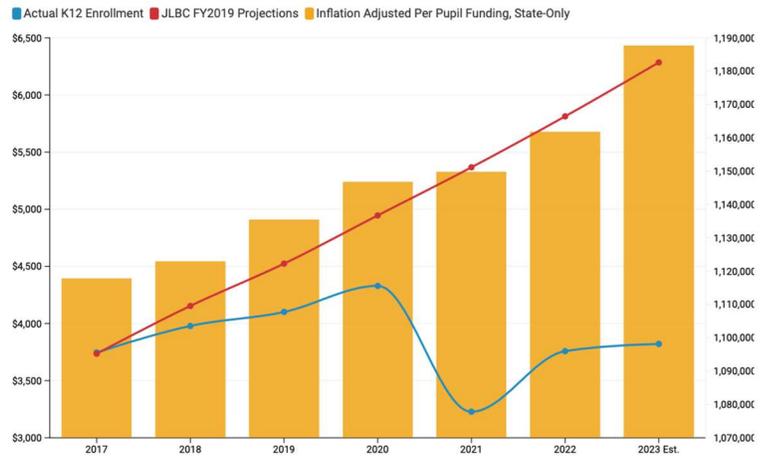
- Real per-capita General Fund spending was \$1,746 in FY 13, versus \$2,126 in FY23 (+22%).
- Over the same period, other Appropriated Fund spending increased 18% and Non-Appropriated spending increased 60%.
- An influx of federal monies since 2020 has surged non-appropriated spending by 54% in just three years.

- **It remains to be seen how the State will manage the transition if/when federal revenues (particularly in Medicaid and K-12 education) return to historic levels.**

Since 2020, the State Faces An Historic Shift in How It Educates Children

- **Since 2020, Enrollment in District Schools Has Declined By 31,000 Students (About 1% per year)**
 - Over the same period, Charter school enrollment has increased by 20,000 Students, and ESA enrollment by 30,000 Students
 - It remains to be seen whether this trend will persist going forward, but the response to universal ESA accounts so far suggests a period of continued transition
 - In part, state-funded enrollment declines have enabled policymakers to make substantial increases in the per-pupil funding levels (+27% since 2016)
 - If universal ESA eligibility arrests that declining trend, formula funding increases may need to moderate

Public School Enrollment & Funding Trends Since FY17



Surging Revenue Collections Are Not Limited to the General Fund

- **Revenue to the Highway User Revenue Fund (HURF) has increased 44% Since 2013**
 - While the gradual elimination of 'HURF sweeps' has increased local distributions from the Fund by about \$60 million, natural growth has added another \$360 million in city and county highway funding over the past decade
- **Since 2017, surging Sales & Income Tax Collections have added \$2.0 billion in 'residual revenues' to City budgets**
 - Statewide, municipal privilege tax collections have increased an estimated 61% over the past 5 years.
 - State shared revenues (a combination of sales and income taxes) have increased another 35%, even before a 20% increase in the income tax sharing rate takes effect next year.
 - To date, collections from the state's 2018 law levying sales taxes on online and out-of-state purchases have exceed official forecasts by a factor of four and add \$200 million annually to city coffers.