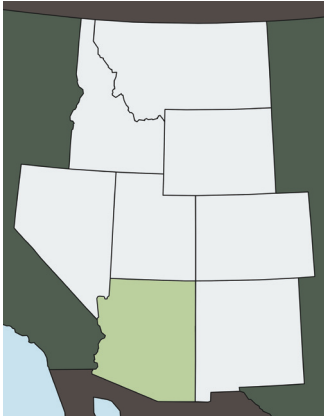


ARIZONA Budget Report Card



ALTHOUGH IT RECEIVED an average mark of D for its handling of legacy costs for fiscal 2016 through 2018, Arizona was not an outlier. Twenty-two states were graded D or worse for their funding of public employee pensions and other postemployment benefits (OPEB), principally health care. Like many others, Arizona did not make the full actuarially determined contributions for OPEB in 2016, 2017, or 2018. It also had a pension funding ratio of 63 percent as of 2017, over five percentage points below the total for all states.

The state posted a three-year average of B in budget forecasting. While Arizona got credit for making multiyear revenue and expenditure forecasts, as well as for providing a rationale for revenue projections, its estimates were not always on the nose. In 2017, the final year of a multiyear corporate tax reform plan, receipts were about a third less than what had been estimated and budgeted.

Arizona earned a B average in transparency. Its online disclosure of data was particularly strong, though it lacked data on deferred infrastructure replacement costs. The state makes it easy for online users to find past budgets, supplemental information, and budget briefs, which present summarized revenue and expenditure information, along with charts.

The consolidated website for budget information helps users track monthly spending, provides links to five-year strategic plans, and describes the impact of court cases on the state budget. It also contains revenue projection updates, such as a budget director’s memo from April 2018 noting that fiscal 2018 revenues beat estimates by \$262 million.


MOUNTAIN STATES SIDE BY SIDE: Three-Year Average Grades, 2016-18


| | BUDGET FORECASTING | BUDGET MANEUVERS | LEGACY COSTS | RESERVE FUNDS | TRANSPARENCY |
|------------|--------------------|------------------|--------------|---------------|--------------|
| Arizona | B | C | D | A | B |
| Colorado | C | C | D | B | B |
| Idaho | D | A | A | A | B |
| Montana | D | B | C | C | B |
| Nevada | C | B | C | B | B |
| New Mexico | B | C | D | B | B |
| Utah | C | A | A | A | C |
| Wyoming | B | B | D- | C | C |
| US AVERAGE | C | B | C | B | B |


NOTE States are grouped by US Census Bureau divisions.


Average grades are based on annual numerical scores. For more information, download *Truth and Integrity in State Budgeting: Preventing the Next Fiscal Crisis* at VolckerAlliance.org.


ARIZONA Budget Report Card

| BUDGET FORECASTING | | | | | |
|-----------------------------------------------------------------------------------|---------------------------------|----------|-----------------------|----------|--|
| | | 2016 | 2017 | 2018 | |
|  | CATEGORY GRADE | B | B | B | |
| | Consensus Revenue Forecasts | X | X | X | |
| | Multiyear Expenditure Forecasts | ✓ | ✓ | ✓ | |
| | Multiyear Revenue Forecasts | ✓ | ✓ | ✓ | |
| | Revenue Growth Projections | ✓ | ✓ | ✓ | |
| 3-YEAR AVERAGE B | | | 3-YEAR TREND — | | |

| BUDGET MANEUVERS | | | | | |
|-----------------------------------------------------------------------------------|------------------------------------------|----------|-----------------------|----------|--|
| | | 2016 | 2017 | 2018 | |
|  | CATEGORY GRADE | C | C | C | |
| | Deferring Recurring Expenditures | X | X | X | |
| | Revenue and Cost Shifting | X | X | X | |
| | Funding Recurring Expenditures with Debt | ✓ | ✓ | ✓ | |
| | Using Asset Sales and Up-Front Revenues | ✓ | ✓ | ✓ | |
| 3-YEAR AVERAGE C | | | 3-YEAR TREND — | | |

| LEGACY COSTS | | | | | |
|-------------------------------------------------------------------------------------|---------------------------------------|----------|-----------------------|----------|--|
| | | 2016 | 2017 | 2018 | |
|  | CATEGORY GRADE | D | D | D | |
| | Public Employee OPEB Funding | X | X | X | |
| | Public Employee Pension Funding | ✓ | ✓ | ✓ | |
| | Public Employee Pension Funded Ratio* | 68% | 63% | 63% | |
| 3-YEAR AVERAGE D | | | 3-YEAR TREND — | | |

| RESERVE FUNDS | | | | | |
|-------------------------------------------------------------------------------------|------------------------------------------|----------|-----------------------|----------|--|
| | | 2016 | 2017 | 2018 | |
|  | CATEGORY GRADE | A | A | A | |
| | Positive Reserve or General Fund Balance | ✓ | ✓ | ✓ | |
| | Reserve Funds Disbursement Policy | ✓ | ✓ | ✓ | |
| | Reserve Funds Replenishment Policy | ✓ | ✓ | ✓ | |
| | Reserves Tied to Revenue Volatility | ✓ | ✓ | ✓ | |
| 3-YEAR AVERAGE A | | | 3-YEAR TREND — | | |

| TRANSPARENCY | | | | | |
|-------------------------------------------------------------------------------------|-----------------------------------------------------|----------|-----------------------|----------|--|
| | | 2016 | 2017 | 2018 | |
|  | CATEGORY GRADE | B | B | B | |
| | Consolidated Budget Website | ✓ | ✓ | ✓ | |
| | Provides Debt Tables | ✓ | ✓ | ✓ | |
| | Discloses Deferred Infrastructure Replacement Costs | X | X | X | |
| | Discloses Tax Expenditures | ✓ | ✓ | ✓ | |
| 3-YEAR AVERAGE B | | | 3-YEAR TREND — | | |

KEY

| | |
|----------|------------------------------|
| ✓ | Followed best practice |
| X | Did not follow best practice |

BUDGET FORECASTING evaluates whether and how states estimated long-term revenue and expenditure trends. **BUDGET MANEUVERS** evaluates whether states used one-time revenues, borrowings, asset sales, and other measures to achieve short-term budgetary balance. **LEGACY COSTS** evaluates whether states provided adequate funding, as defined by retirement system actuaries, for pensions and other promised retirement benefits for public workers. **RESERVE FUNDS** evaluates states' rainy day funds and other fiscal reserves, as well as any policies governing their use and replenishment. **TRANSPARENCY** evaluates the accessibility to the public of states' budget practices.

* **SOURCE** Bloomberg; 2017 data also used for 2018.