Revenue and Budget Update

November 25, 2025

JLBC

Key Points

- The October 9th Finance Advisory Committee (FAC) update revised General Fund revenue and expenditure projections through FY 29.
- The projected cash balance is positive in each year after accounting for statutory funding formula growth.
- The lowest ending balance in the 3-year budget projection determines the dollars available for discretionary purposes.
- The lowest ending balance is $67 M in FY 28.

$67 M Balance Insufficient to Continue FY 26 One-Time Projects
- These Largest One-Time Projects Cost $580 M

		$ in M
1)	State Employee Health Insurance Subsidy (Ongoing One-Time)	195
2)	School Facility Repairs (Ongoing One-Time)	183
3)	K-12 Low Income/Additional Assistance	66
4)	ADC Private Prison Support (Expires After FY 27)	54
5)	DES Child Care	45
6)	ADC Correctional Officer 4% Bonus Stipends	21
7)	University Promise Scholarship (In-State/Pell-Eligible)	16

$67 M Balance Insufficient to Address $1.1 B of H.R. 1 Tax Impacts

- Arizona conforms a portion of its state income tax to the federal forms.
- H.R. 1, the federal budget legislation of this summer, made numerous changes to federal income tax laws effective as of January 2025.
- The state has the choice of how many H.R. 1 federal tax provisions to incorporate into state law.
- If we conform to all federal changes, the projected General Fund revenue loss is $(438) M in FY 26, $(336) M in FY 27 and $(372) M in FY 28.
- The fiscal impact may change depending on the results of Department of Revenue statistical model runs.

$67 M Balance Insufficient to Address H.R. 1 Admin Spending
- But Border Security Funding Could Defray H.R. 1 Impacts

	$ in M
• DES SNAP (Food Stamps) FY 26-FY 28 administrative cost to lower error rate ($ = DES request)	62
• AHCCCS FY 26-FY 28 administrative cost to implement new work program & semiannual eligibility checks ($ = AHCCCS request)	50

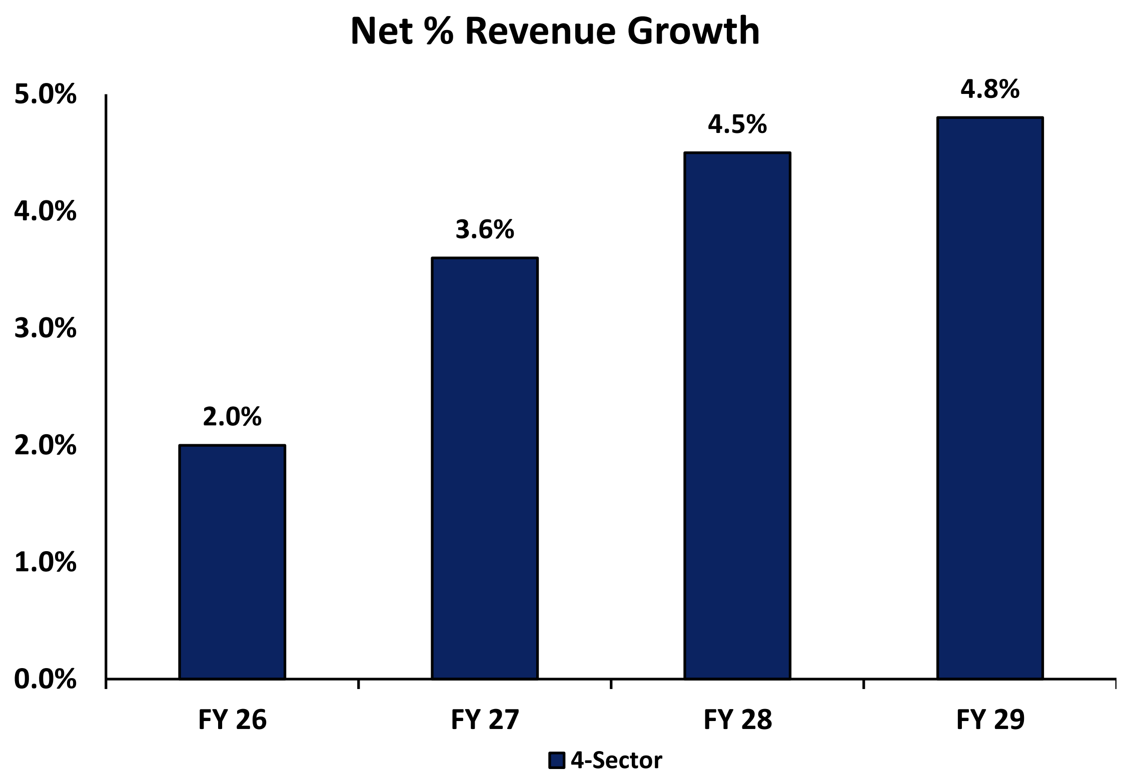
- H.R. 1 provided $10 B to reimburse states for border security costs since 2021.
  - Arizona has requested $750 M
  - State statute requires this reimbursement to be deposited into the General Fund and could be used as directed in the budget.

Forecasting State Revenues

4-Sector: Slow 2.0% Growth In FY 26
- With Gradual Improvement From FY 27 Through FY 29

4-Sector Components

- Finance Advisory Committee
- UA model – base forecast
- UA model – more cautious
- JLBC Staff



Excludes balance forward, fund transfers and urban revenue sharing

See Appendix A and B

Spending Adjustments

Baseline Spending Projections

- Reflects changes to active statutory/other funding formulas.
  - ADE, Medicaid and the Community Colleges.
- Annually adjusts federal Medicaid matching rates. H.R. 1 sets 2 new federal-state matching rates in the SNAP program.
  - State share of SNAP admin expenses increases from 50% to 75% = $33 M FY 27 cost
  - State share of SNAP benefits increases from 0% to 10% due to AZ's error rate in administering the program. Cost = $139 M in FY 28
- Follows guidance of the enacted budget 3-year plan by reducing one-time spending from $1.1 B in FY 26 to $290 M in FY 27 spending

FY 27 Baseline Spending Projected To Decrease By $(66) M

FY 27 Ongoing Spending Changes	
	$ in M
ADE – K-12 Formula	234
DES – Medicaid Formula	226
AHCCCS – Medicaid Formula	191
DES – SNAP Admin. Formula	33
Other	39
Total	**723**

Total Spending Changes	**$(66) M**
Total Spending	**$17.54 B**
% Change	**(0.4)%**

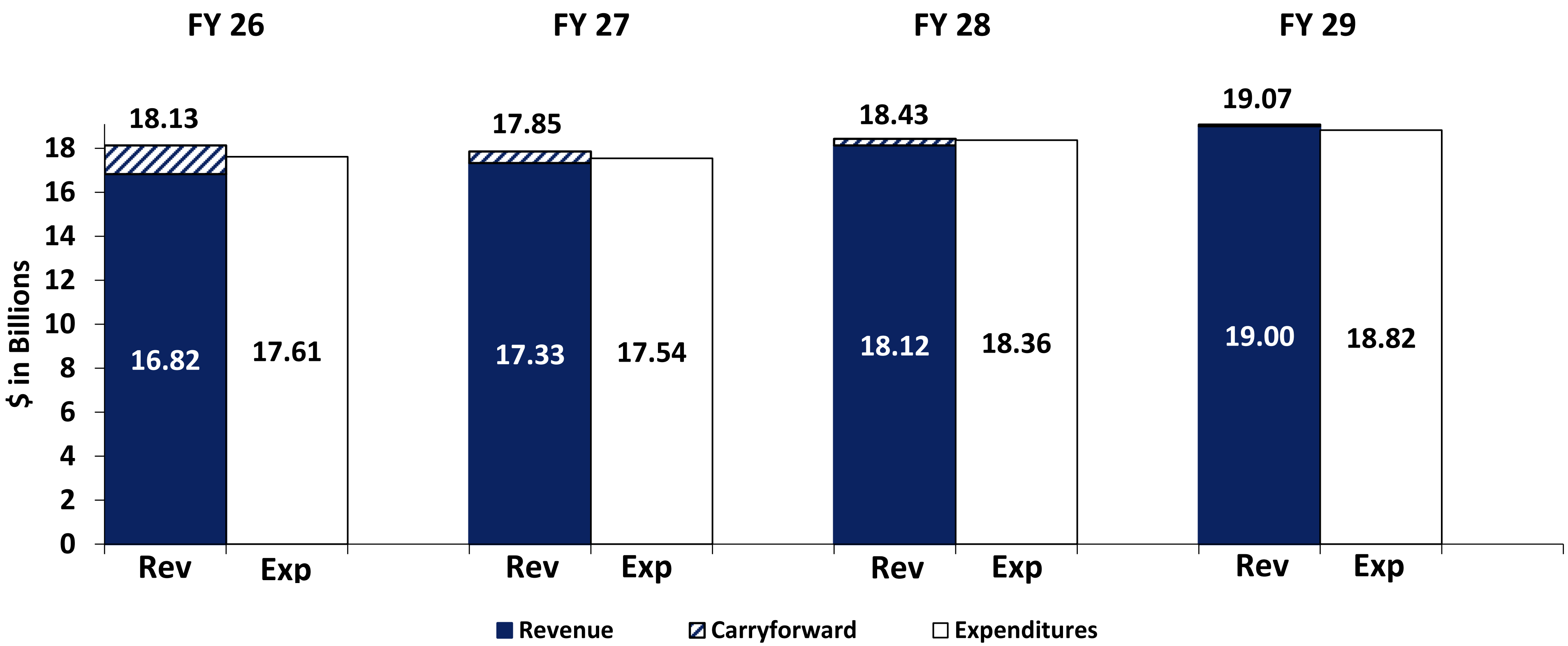
FY 27 One-Time Spending Changes	
	$ in M
Backfill AHCCCS Hospital Assessment Shift	100
State Employee Health Insurance	(195)
K-12 Building Renewal Grants	(183)
DES Housing/Services Funding	(128)
K-12/ADE Funding	(84)
Transportation/Capital Projects	(106)
Other Agency Spending	(193)
Total	**(789)**

Projected Ending Balances

Excludes $1.6 B in Budget Stabilization Fund

More Information in Appendix C

Projected Balance Falls To $67 M By FY 28
- Each Year's Carryforward Is Used to Balance The Following Year Budget



Cash Balance	$519 M	$305 M	$67 M	$247 M

November Addendum to October 9th Budget Status
- Month-End October Corporate Revenues Were Much Higher than Expected

- October Corporate Income Tax collections doubled last year's amount.
- Total October General Fund revenues were $188 M above forecast.
- This new data could raise our October FAC FY 26 2% growth rate when FAC reevaluates the forecast in January.
- As a sample scenario, a 3% growth rate would increase ongoing revenues by $170 M above the October projections.
  - Total available resources through FY 28 would increase to approximately $600 M.
  - These added monies could provide some assistance but would not resolve the challenges from H.R. 1 tax and spending changes as well as "ongoing one-times."

STAFF OF THE
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Appendix A: October 4-Sector Revenue Forecast

	2026	2027	2028	2029
Sales Tax				
JLBC Forecast	3.7%	4.4%	4.3%	4.3%
UA – Low	1.7%	2.8%	3.9%	4.1%
UA – Base	3.1%	3.9%	4.3%	4.5%
FAC	2.6%	2.6%	4.2%	5.0%
Average:	**2.8%**	**3.4%**	**4.2%**	**4.5%**
Individual Income Tax				
JLBC Forecast	6.5%	6.0%	5.5%	5.0%
UA – Low	4.2%	4.7%	5.6%	5.7%
UA – Base	6.0%	6.2%	6.0%	6.1%
FAC	5.3%	3.8%	6.8%	6.2%
Average:	**5.5%**	**5.2%**	**6.0%**	**5.8%**
Corporate Income Tax				
JLBC Forecast	-2.4%	3.5%	4.0%	4.0%
UA – Low	-9.6%	-1.8%	3.4%	4.1%
UA – Base	-7.6%	0.3%	3.6%	4.3%
FAC	-3.6%	0.9%	7.3%	6.6%
Average:	**-5.8%**	**0.8%**	**4.6%**	**4.8%**

JLBC Weighted Average	**4.0%**	**4.9%**	**4.7%**	**4.5%**
UA Low Weighted Average	**1.3%**	**3.0%**	**4.5%**	**4.7%**
UA Base Weighted Average	**2.9%**	**4.4%**	**4.9%**	**5.1%**
FAC Consensus Weighted Average	**2.8%**	**2.9%**	**5.5%**	**5.6%**
“Big-4” Weighted Average	**2.8%**	**3.8%**	**4.9%**	**5.0%**
Consensus Weighted Average *	**2.0%**	**3.6%**	**4.5%**	**4.8%**

* Represents ongoing revenue adjusted for small revenue categories.

Appendix B: 4-Sector Forecast FY 25 - FY 27

FORECAST REVENUE GROWTH

($ in Thousands)

	PREL. ACTUAL FY 2025	% CHANGE PRIOR YR	FORECAST FY 2026	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2027	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	8,151,850.1	2.7%	8,377,045.0	2.8%	225,194.9	8,663,845.9	3.4%	286,800.9
Income - Individual	5,482,950.4	13.1%	5,784,855.3	5.5%	301,905.0	6,084,773.4	5.2%	299,918.1
- Corporate	1,750,547.2	0.3%	1,649,234.3	-5.8%	(101,312.9)	1,662,137.9	0.8%	12,903.6
Property	35,136.7	35.2%	34,609.6	-1.5%	(527.0)	34,194.3	-1.2%	(415.3)
Luxury - Tobacco	16,233.8	-16.9%	16,315.0	0.5%	81.2	16,298.7	-0.1%	(16.3)
- Liquor	48,621.2	8.2%	50,614.7	4.1%	1,993.5	53,145.4	5.0%	2,530.7
Insurance Premium	923,760.0	12.6%	1,024,449.8	10.9%	100,689.8	1,069,525.6	4.4%	45,075.8
Other Taxes	19,006.4	10.5%	19,994.8	5.2%	988.3	21,074.5	5.4%	1,079.7
Subtotal - Taxes	16,428,105.8	6.3%	16,957,118.5	3.2%	529,012.7	17,604,995.7	3.8%	647,877.2
Other Non-Tax Revenues:								
Lottery	217,294.1	-2.2%	156,341.1	-28.1%	(60,953.0)	160,484.4	2.7%	4,143.3
Gaming Revenue	39,734.4	8.9%	47,075.2	18.5%	7,340.7	65,626.6	39.4%	18,551.5
Licenses, Fees and Permits	55,470.5	5.3%	58,188.6	4.9%	2,718.1	60,807.0	4.5%	2,618.5
Interest	286,881.2	-22.7%	220,000.0	-23.3%	(66,881.2)	175,000.0	-20.5%	(45,000.0)
Sales and Services	28,469.5	-7.4%	29,779.1	4.6%	1,309.6	31,119.2	4.5%	1,340.1
Other Miscellaneous	363,676.6	60.2%	363,676.6	0.0%	0.0	381,860.4	5.0%	18,183.8
Transfers and Reimbursements	111,195.3	-66.1%	52,681.2	-52.6%	(58,514.1)	49,212.0	-6.6%	(3,469.2)
Medicaid Hospital Revenue	93,526.3	3.8%	93,320.8	-0.2%	(205.5)	93,275.2	0.0%	(45.6)
Subtotal - Other Non-Tax	1,196,248.0	-11.9%	1,021,062.4	-14.6%	(175,185.5)	1,017,384.8	-0.4%	(3,677.6)
Net Ongoing Revenue	**17,624,353.8**	**4.8%**	**17,978,180.9**	**2.0%**	**353,827.1**	**18,622,380.5**	**3.6%**	**644,199.6**
Urban Revenue Sharing (URS)	(1,268,257.8)	N/A	(1,186,305.8)	N/A	81,952.0	(1,302,029.6)	N/A	(115,723.8)
Net Ongoing Revenue w/ URS	**16,356,096.0**	**7.3%**	**16,791,875.1**	**2.7%**	**435,779.1**	**17,320,350.9**	**3.1%**	**528,475.8**
One-Time Financing Sources:								
Fund Transfers	32,491.8	-96.1%	15,500.0	-52.3%	(16,991.8)	9,700.0	-37.4%	(5,800.0)
One-Time Income Tax Rebate	(16.1)	-100.0%	0.0	N/A	16.1	0.0	N/A	0.0
One-Time Revenue Forecast Adjustment	0.0	N/A	0.0	N/A	0.0	0.0	N/A	0.0
Enhanced FMAP One-Time Rev. Adjustment	131,100.0	N/A	0.0	-100.0%	(131,100.0)	0.0	N/A	0.0
Other One-Time Revenue Adjustments	71,200.0	N/A	14,574.4	-79.5%	(56,625.6)	0.0	-100.0%	(14,574.4)
Subtotal - One-Time Financing Sources	234,775.7	-58.7%	30,074.4	-87.2%	(204,701.3)	9,700.0	-67.7%	(20,374.4)
Subtotal - Revenues	**16,590,871.7**	**4.9%**	**16,821,949.5**	**1.4%**	**231,077.8**	**17,330,050.9**	**3.0%**	**508,101.4**
Balance Forward	962,823.0	-61.9%	1,308,516.1	35.9%	345,693.1	519,411.5	-60.3%	(789,104.6)
Total - Resources	**17,553,694.7**	**-4.3%**	**18,130,465.6**	**3.3%**	**576,770.9**	**17,849,462.4**	**-1.5%**	**(281,003.2)**

Appendix B: 4-Sector Forecast FY 28 - FY29

FORECAST REVENUE GROWTH ($ in Thousands)	FORECAST FY 2028	% CHANGE PRIOR YR	$ CHANGE PRIOR YR	FORECAST FY 2029	% CHANGE PRIOR YR	$ CHANGE PRIOR YR
Sales and Use	9,025,161.9	4.2%	361,316.0	9,429,360.7	4.5%	404,198.8
Income - Individual	6,448,880.7	6.0%	364,107.4	6,819,993.0	5.8%	371,112.2
- Corporate	1,738,795.4	4.6%	76,657.5	1,821,762.4	4.8%	82,967.0
Property	34,604.6	1.2%	410.3	34,950.7	1.0%	346.0
Luxury - Tobacco	16,135.7	-1.0%	(163.0)	16,055.0	-0.5%	(80.7)
Insurance Premium	55,696.4	4.8%	2,551.0	58,202.7	4.5%	2,506.3
	1,115,515.2	4.3%	45,989.6	1,159,020.3	3.9%	43,505.1
Other Taxes	22,233.6	5.5%	1,159.1	23,367.5	5.1%	1,133.9
Subtotal - Taxes	18,457,023.5	4.8%	852,027.8	19,362,712.3	4.9%	905,688.8
Other Non-Tax Revenues:						
Lottery	164,412.1	2.4%	3,927.7	173,641.6	5.6%	9,229.5
Gaming Revenue	84,718.8	29.1%	19,092.2	88,954.8	5.0%	4,236.0
Licenses, Fees and Permits	63,239.3	4.0%	2,432.3	68,668.9	8.6%	5,429.6
Interest	120,000.0	-31.4%	(55,000.0)	112,000.0	-6.7%	(8,000.0)
Sales and Services	32,363.9	4.0%	1,244.8	33,658.5	4.0%	1,294.6
Other Miscellaneous	397,516.7	4.1%	15,656.3	413,417.4	4.0%	15,900.7
Transfers and Reimbursements	49,761.4	1.1%	549.5	50,330.4	1.1%	568.9
Medicaid Hospital Revenue	93,275.2	0.0%	0.0	93,275.2	0.0%	0.0
Subtotal - Other Non-Tax	1,005,287.6	-1.2%	(12,097.2)	1,033,946.7	2.9%	28,659.2
Net Ongoing Revenue	**19,462,311.1**	**4.5%**	**839,930.6**	**20,396,659.0**	**4.8%**	**934,347.9**
Urban Revenue Sharing (URS)	(1,338,136.1)	N/A	(36,106.6)	(1,394,444.0)	N/A	(56,307.9)
Net Ongoing Revenue w/ URS	**18,124,175.0**	**4.6%**	**803,824.0**	**19,002,215.0**	**4.8%**	**878,040.0**
One-Time Financing Sources:						
Fund Transfers	600.0	-93.8%	(9,100.0)	0.0	-100.0%	(600.0)
One-Time Income Tax Rebate	0.0	N/A	0.0	0.0	N/A	0.0
One-Time Revenue Forecast Adjustment	0.0	N/A	0.0	0.0	N/A	0.0
Enhanced FMAP One-Time Rev. Adjustment	0.0	N/A	0.0	0.0	N/A	0.0
Other One-Time Revenue Adjustments	0.0	N/A	0.0	0.0	N/A	0.0
Subtotal - One-Time Financing Sources	600.0	-93.8%	(9,100.0)	0.0	-100.0%	(600.0)
Subtotal - Revenues	**18,124,775.0**	**4.6%**	**794,724.0**	**19,002,215.0**	**4.8%**	**877,440.0**
Balance Forward	304,892.5	-41.3%	(214,519.0)	66,610.1	-78.2%	(238,282.4)
Total - Resources	**18,429,667.5**	**3.3%**	**580,205.0**	**19,068,825.1**	**3.5%**	**639,157.6**

Appendix C: General Fund Balance Sheet

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES
WITH ONE-TIME FINANCING SOURCES

	FY 2026 October FAC	FY 2027 October FAC	FY 2028 October FAC	FY 2029 October FAC
REVENUES				
Ongoing Revenues	$17,978,180,900	$18,622,380,500	$19,462,311,100	$20,396,659,000
Urban Revenue Sharing	(1,186,305,800)	(1,302,029,600)	(1,338,136,100)	(1,394,444,000)
Net Ongoing Revenues	$16,791,875,100	$17,320,350,900	$18,124,175,000	$19,002,215,000
One-Time Revenues				
Balance Forward	1,308,516,100	519,411,500	304,892,500	66,610,100
Marana Prison Sale Revenue	14,574,400			
Fund Transfers	15,500,000	9,700,000	600,000	
Subtotal One-Time Revenues	$1,338,590,500	$529,111,500	$305,492,500	$66,610,100
Total Revenues	$18,130,465,600	$17,849,462,400	$18,429,667,500	$19,068,825,100
EXPENDITURES				
Ongoing Operating Appropriations	$16,614,952,300	$17,309,764,700	$18,090,609,900	$18,752,448,200
Administrative Adjustments	123,500,000	145,000,000	145,000,000	145,000,000
Revertments	(206,500,000)	(200,000,000)	(200,000,000)	(200,000,000)
Subtotal Ongoing Expenditures	$16,531,952,300	$17,254,764,700	$18,035,609,900	$18,697,448,200
One-Time Expenditures				
Capital Outlay	$26,227,100		$25,000,000	
Transportation Funding	109,989,000	30,000,000	125,000,000	
FY 26 One-Time Supplementals	40,852,100			
Operating One-Time Spending	1,002,033,600	259,805,200	177,447,500	124,519,000
Hospital Assessment Savings	(100,000,000)			
Subtotal One-Time Expenditures	$1,079,101,800	$289,805,200	$327,447,500	$124,519,000
Total Expenditures	$17,611,054,100	$17,544,569,900	$18,363,057,400	$18,821,967,200
Ending Balance	$519,411,500	$304,892,500	$66,610,100	$246,857,900