



The Arizona Budget Then and Now

June 2nd 2026
5th Annual Release

The Arizona Budget Then and Now

Arizona Budget: Then and Now contextualizes the Arizona State Budget – over time and across all funds.

Although there remains approximately \$1 billion in tax and spending differences between the Governor and the Legislature, ultimately the Legislature will enact, and the Governor will sign a budget that spends almost \$75 billion – including from the General Fund (over \$18 billion in spending), approximately 1,200 Other Appropriated Funds (\$6 billion), and another almost **\$51 billion** in so-called Non-Appropriated Funds.

This year, the state will probably spend approximately \$30 billion in Federal funds – mostly on healthcare, but in recent years Federal sources have grown across state government (for example, after the pandemic Federal funding in Arizona’s K-12 system doubled, and though it has declined since it remains about 30% higher than 2019-2020 levels).

Common Sense Institute (CSI) is a non-profit free-enterprise think tank dedicated to the protection and promotion of Arizona’s economy.

We believe sound fiscal and economic research is essential to uphold Arizona’s economic vitality, future, and individual opportunity.

Methodology

The findings of this report are generated from the annual appropriations reports compiled by the Arizona Joint Legislative Budget Committee and the Governor's Office of Strategic Planning & Budgeting staff. These reports draw from each of the annual legislative bills, which authorize funding for each state department. The reports include appropriations from all funds including General Funds, Other Appropriated Funds, Federal Funds, and spending from Non-Appropriated Funds. In general, "spending" and "appropriation" are used synonymously for appropriated funds throughout this report, unless explicitly clarified.

Appropriated Fund: Legislatively mandated segregation of monies into separate funds, which are specifically subject to the annual Legislative appropriations process. The **General Fund (GF)** is the state's largest Appropriated Fund, as opposed to **Other Funds (OF)**.

Non-Appropriated Fund: Technically, these funds are statutorily appropriated and therefore not subject to the annual Legislative appropriations process. Subject to available fund monies and state law, an Agency may freely spend these monies.

Federal Funds: Amounts collected and made available to this state by the federal government, usually in the form of grants or matching entitlement funding. Though generally not subject to Legislative appropriation, the Legislature maintains some control over a subset of Federal Funds through the 'expenditure authority' process.

Cash Balance: The remaining, unexpended and unencumbered cash in a fund at the end of a fiscal year. Specifically, revenues minus expenditures plus beginning balance.

Structural Balance: The ongoing balance in a fund at the end of a fiscal year. Specifically, ongoing revenues minus ongoing expenditures. This is intended to reflect the long-term fiscal stability of a particular Fund (typically the General Fund).

Key Findings

- The state budget – currently at \$71 billion from all appropriated and non-appropriated sources – is likely to reach \$75 billion by FY 2027 and now captures 11% of state GDP. It has doubled in 10 years. The Executive FY27 Budget proposal increases General Fund spending by nearly \$900 million next year. It balances this with a combination of tax and fee increases, and speculative federal aid.
- The cost of the state’s federally-supported health and welfare programs continues to grow, despite the end of the Public Health Emergency. While AHCCCS enrollment is down 10% since the 2024 peak, costs are up 14%; JLBC projects the state will need to invest another ~\$400 million General Fund this year for Developmental Disabilities component of Medicaid costs at the Department of Economic Security, alone.
- The Federal “One Big Beautiful Bill” Act made sweeping changes to federal income taxes. Although most (about two-thirds, in dollars) of those changes are “below the line” and technically don’t have state form impacts, nearly all have been swept into the state’s annual “Conformity” conversation.
- The Department of Revenue issues state forms that assumed the state would conform to definitional changes and adopted federal policy changes. Taxes have been filed based on those assumptions. Therefore, for practical purposes, the state has “conformed” for Tax Year 2025 and by now effectively absorbed nearly all associated fiscal impacts in base revenues.

Common Sense Institute (CSI) is a non-profit free-enterprise think tank dedicated to the protection and promotion of Arizona’s economy.

We believe sound fiscal and economic research is essential to uphold Arizona’s economic vitality, future, and individual opportunity.

The Sticking Points on the FY 2027 Budget

Policy Difference	Executive Proposed (January)	Legislature Transmitted/Vetoed (May)
Federal tax conformity / tax cuts	Proposes partial conformity with approximately \$800 million in so-called “middle-class tax cuts” – principally below-the-line policy items that are not technically related to conformity.	Proposes full technical and policy conformity (~\$1.4 billion in scored tax reductions). Includes the expensing/depreciation changes that simplify filing and induce investment.
How to balance the budget	<ul style="list-style-type: none"> • \$200 million in new/increased taxes • \$50 million in new fees • \$760 million in federal monies for reimbursement of border security costs (speculative) 	<ul style="list-style-type: none"> • Slow expenditure growth (1.5% YOY) • 5% agency operating reductions • Entitlement program reforms (~\$175M scored savings) • ~\$70M in repealed tax credits/deductions
Proposition 123 / school funding	Proposes continuing increased land trust distributions, but at a higher rate and for new general and capital funding (not meeting state base formula commitments).	The Legislature's most recent budget proposal continues the reduced 2.5% land trust distributions (e.g., no Prop 123 extension).

The Governor and Legislature are currently negotiating a compromise budget between these two proposals. It seems likely that a final budget will include some version of conformity to federal tax cuts, tax increases for data centers, and no change to the post-Prop. 123 land trust distribution rate of 2.5%.

Annual Appropriations & Spending – Where It Goes

How Much Money Does the Arizona State Government Spend?



FY 2025 Actual Spending

Sum of General Fund Appropriations	\$17,422,583,612
Sum of Other Fund Appropriations	\$4,543,717,988
Sum of Non-Appropriated Spending	\$45,926,862,000
TOTAL SPENDING	\$67,893,163,600
<i>Spending Subject to Annual Legislative Appropriation</i>	<i>\$21,966,301,600</i>

FY 2026 Budgeted Spending

Sum of General Fund Appropriations	\$17,682,400,000
Sum of Other Fund Appropriations	\$5,461,053,900
Sum of Non-Appropriated Spending	\$48,034,575,200
TOTAL SPENDING	\$71,178,029,100
<i>Spending Subject to Annual Legislative Appropriation</i>	<i>\$23,143,453,900</i>

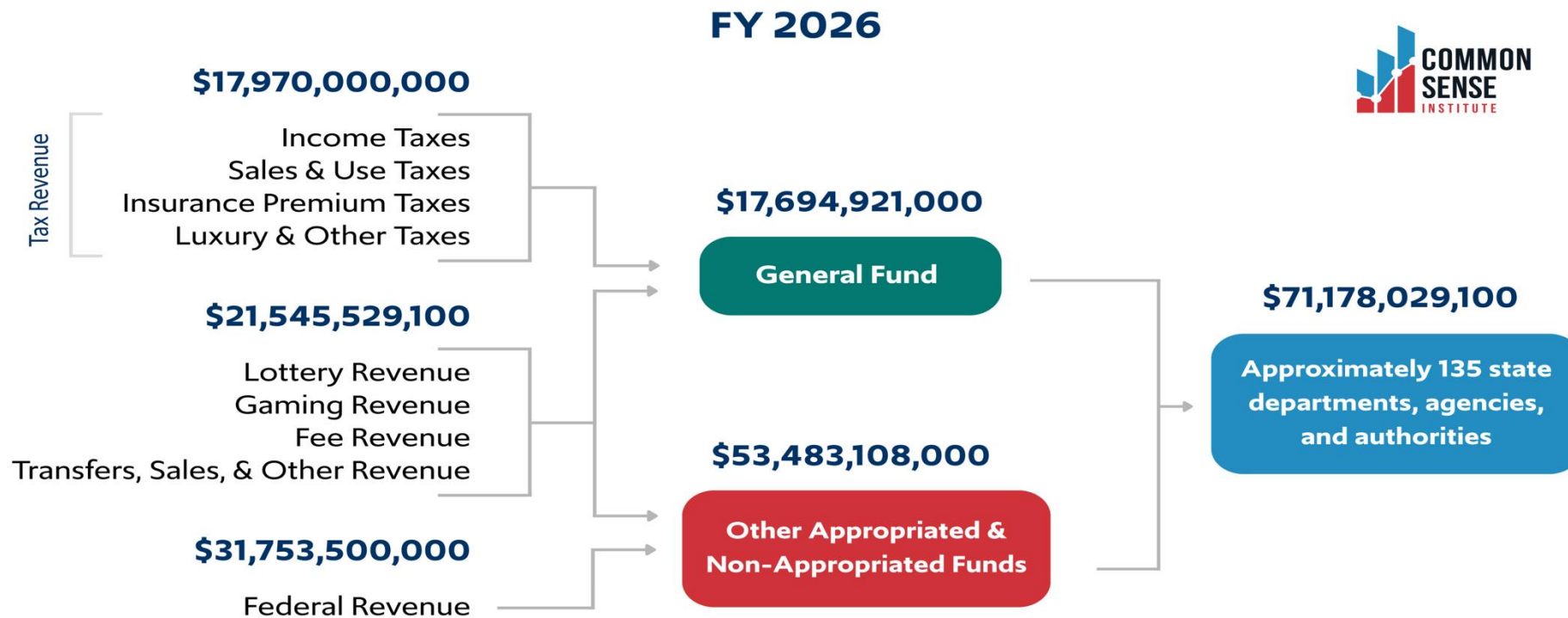
** Because of revertsments, supplementals, and other end-of-year adjustments, actual spending for both years may not exactly match the estimates included here.*

Source: Open Books , JLBC Appropriations Reports, Governor’s Office

Each year, the state's legislature approves the General Appropriations Act - a single budget omnibus that dictates how most public revenue will be spent. The Legislature additionally approves dozens of individual spending and appropriations bills.

While all public money generated by State taxes and fees is subject to appropriation, some funds are statutorily or continuously appropriated and not subject to the annual budget process. Federal and certain non-State monies are not subject to appropriation by the Legislature but may be subject to some statutory control.

State Government Revenues – Where It Comes From Flow of Tax & Non-Tax Revenue from the Source to State Agencies in FY26

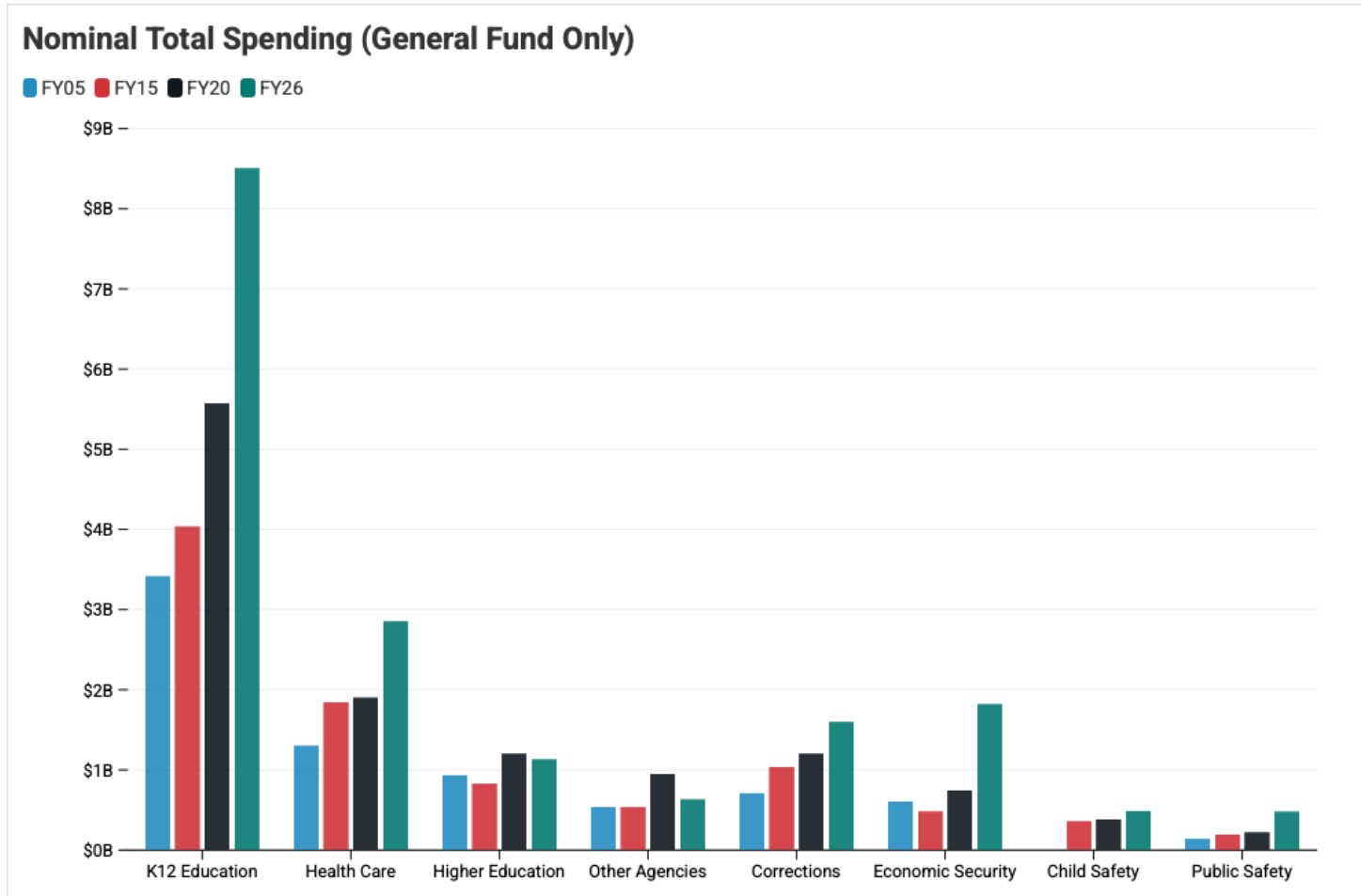


Source: State of Arizona Financial Transparency Portal

The image above displays the flow of state revenue from the tax, fee or other revenue source to the state agency that is authorized to spend the revenue. There are many different types of state agencies, and many different types of revenue, and the Legislature ultimately determines who receives what. The flow above is intended to be generally illustrative only.

Critically, we hope this illustrates that a substantial volume of annual revenue (predominantly Federal funds but also including other non-State grants, gifts, and other sources) is not well captured in the existing annual budgeting and public oversight processes, and that overtime a growing majority of spending and revenue occurs outside the General Fund.

Change in Total Appropriations By Spending Area From FY05 to the FY26 Enacted Budget

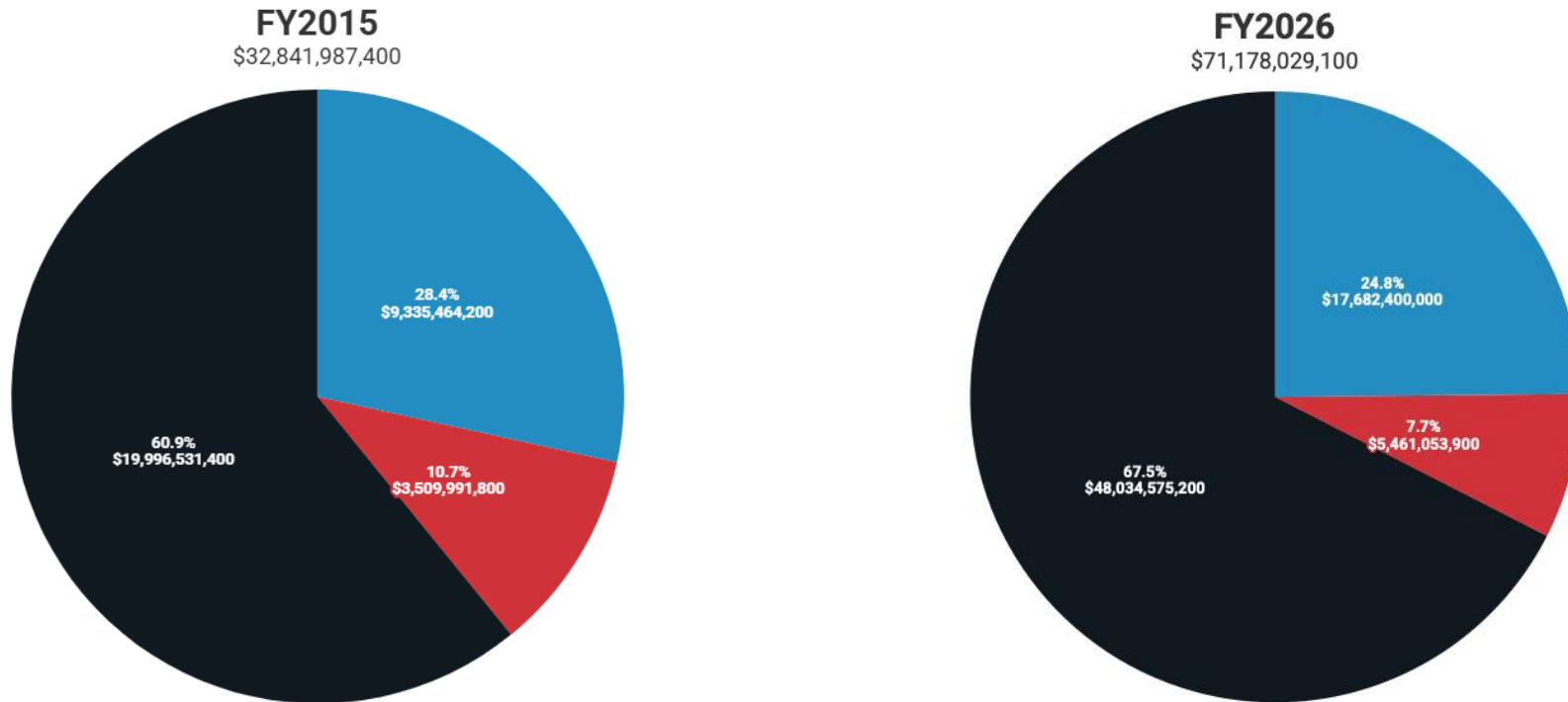


Source: JLBC FY 2006, 2016, 2020, 2026 Appropriations Reports

In terms of all funds – General Fund, appropriated and non-appropriated spending but excluding federal funds – nominal spending growth over the past decade has been concentrated in education, healthcare, and social services.

Arizona Total Spending by Fund Type in FY15 & FY26

■ General Fund
 ■ Other Appropriated Funds
 ■ Non-Appropriated Federal & Other Funds



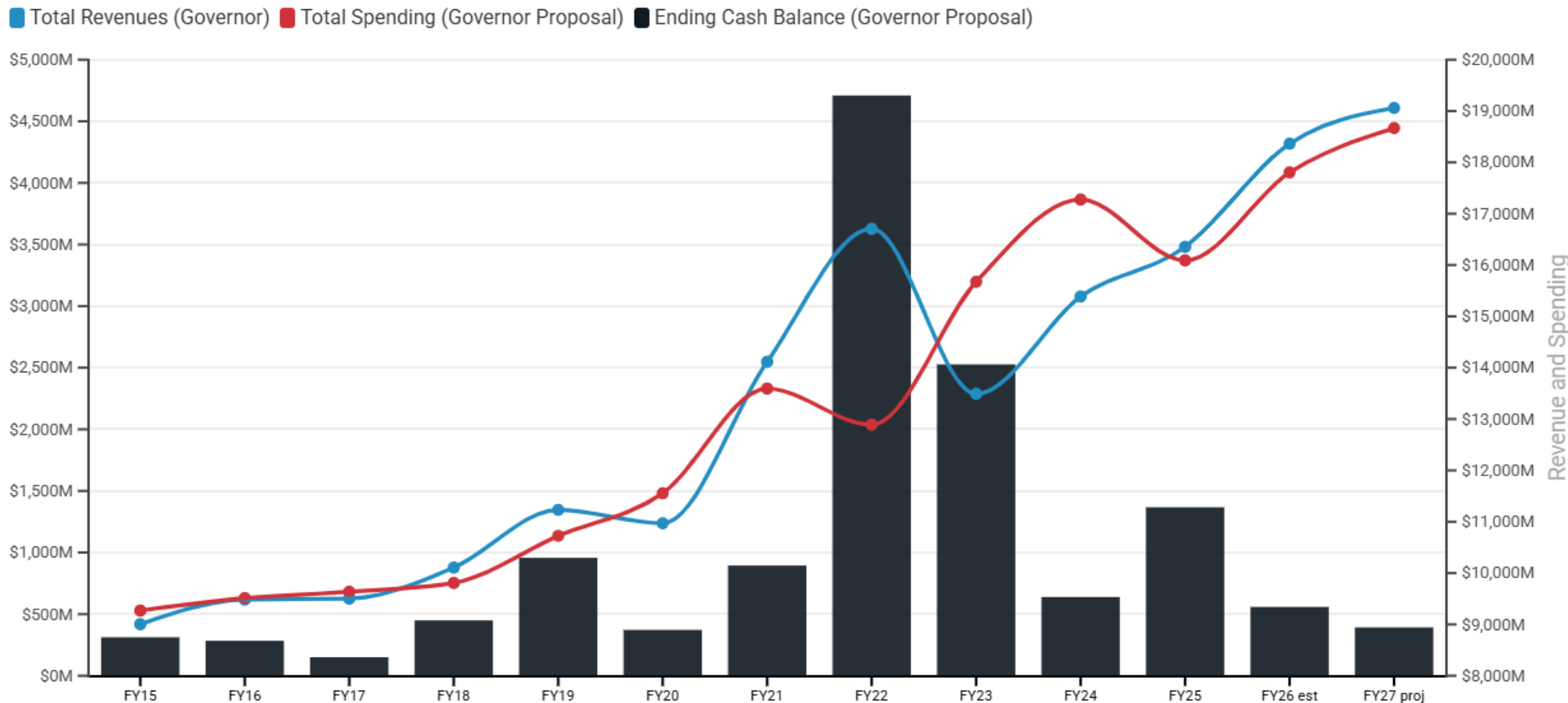
Source: JLBC Appropriations Reports; because JLBC reports budgeted & estimated spending vs. reconciled actuals, these figures may not match Accounting Office (Open Books) sources.

Total appropriations and estimated non-appropriated spending in FY26 is approximately \$71 billion, or more than double the spending levels from 2015. Additionally, while all appropriated funds – including the General Fund – grew by 102% over this time, **total non-appropriated spending – spending not directly subject to regular legislative oversight – grew by 153%.**

General Fund Revenue and Spending Growth From FY11 to the FY27

Total General Fund Revenues and Spending w/ Cash Balances, FY15 - FY27

The Budget According to the Governor's Proposal



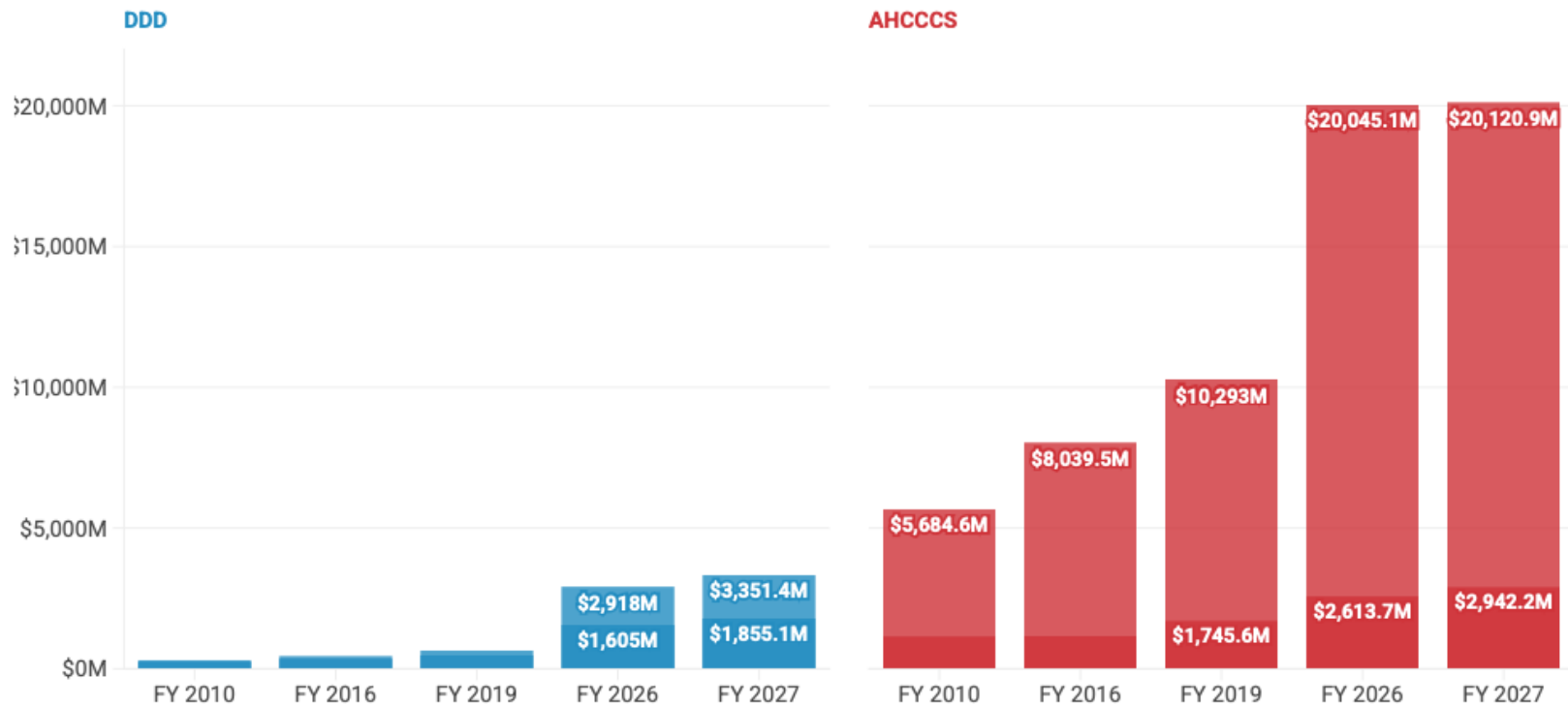
Source: JLBC, OSPB

Fast forward to the FY 2027 budget, and the differences between the proposed budget from the executive branch and the Legislature's budget are stark. While the Legislature called for a 1.6% budget increase over FY 2026, the Governor has asked for 4.9% - a difference of over \$800 million. The Governor's budget proposal includes more optimistic revenue forecasts and various new one-time and ongoing funding sources.

Health Care: AHCCCS and DDD Costs Continue Climbing

Arizona Health Care Programs' Expenditures Over Time

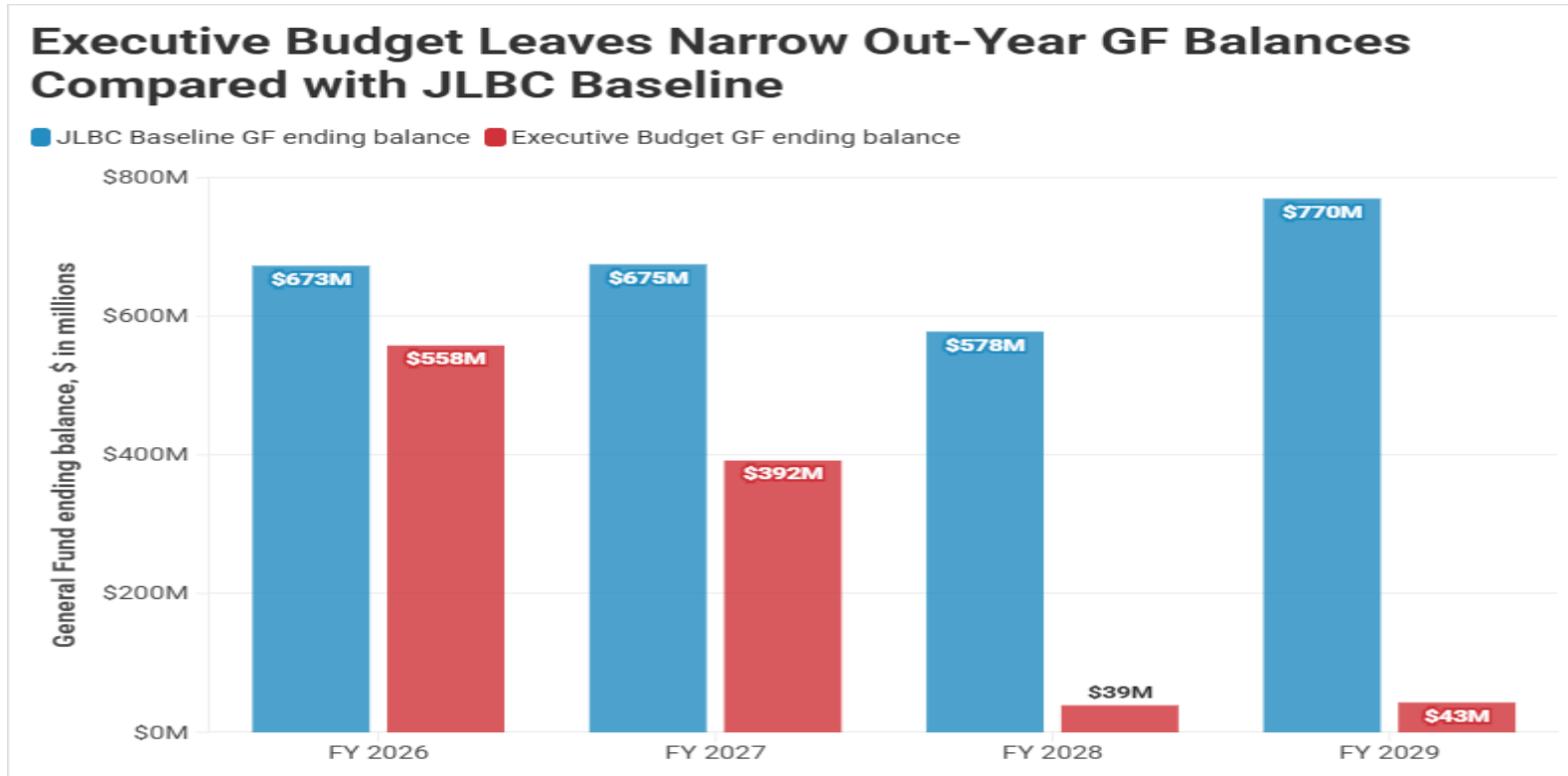
Traditionally a relatively small Medicaid program, costs of the state's DDD program at DES have grown rapidly since the pandemic - more than tripling in just the last six years. Today DDD is the second-largest baseline issue in Arizona, along with K-12 formula costs. Other Medicaid costs grew rapidly during the pandemic, but growth has slowed following the end of the Emergency.



Source: JLBC Annual Appropriations Reports, JLBC Baseline Budget • The bottom number in each year is the General Fund portion. The top number is all other funding sources.

Based on JLBC's Baseline estimates, the cost of the state's DDD program will grow by over \$400 million next year – versus just \$80 million for all of traditional Medicaid (a program almost 7-times larger than DDD).

Executive proposal maintains positive GF balances, but leaves only about \$39M–\$43M in FY 2028–FY 2029 compared with JLBC baseline balances of roughly \$578M–\$770M



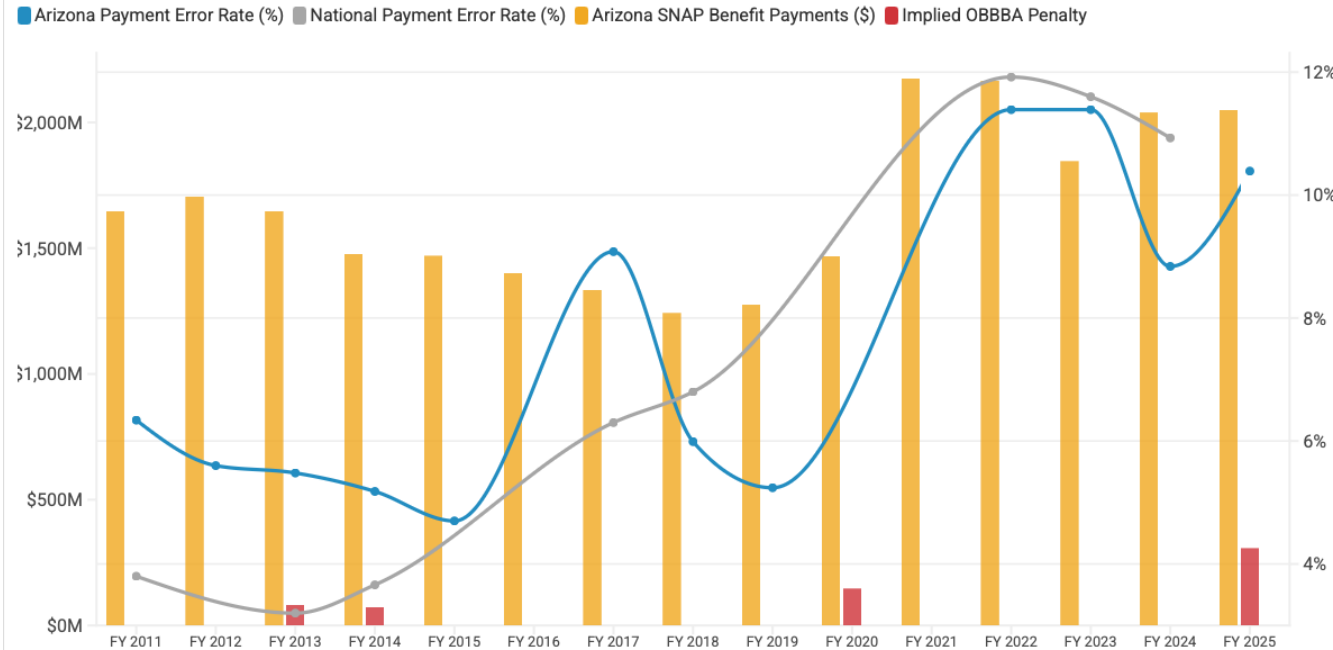
Source: JLBC Baseline Comparison Presentation, FY 2027 Executive Budget Proposal

Executive proposal maintains positive General Fund balances, but leaves only \$39M–\$43M in FY 2028–FY 2029 compared with JLBC baseline balances of \$578M–\$770M. The two budgets differ markedly in how they achieve the fund balances: the Executive speculates on higher base revenue numbers, and an infusion of federal general funds. The Legislature’s vetoed proposal relied on modest expenditure growth and reduced general agency spending.

DES/SNAP - Food stamp program high error rate costs money even though enrollment is anticipated to decline in coming years.

Arizona SNAP Payments & Error Rates

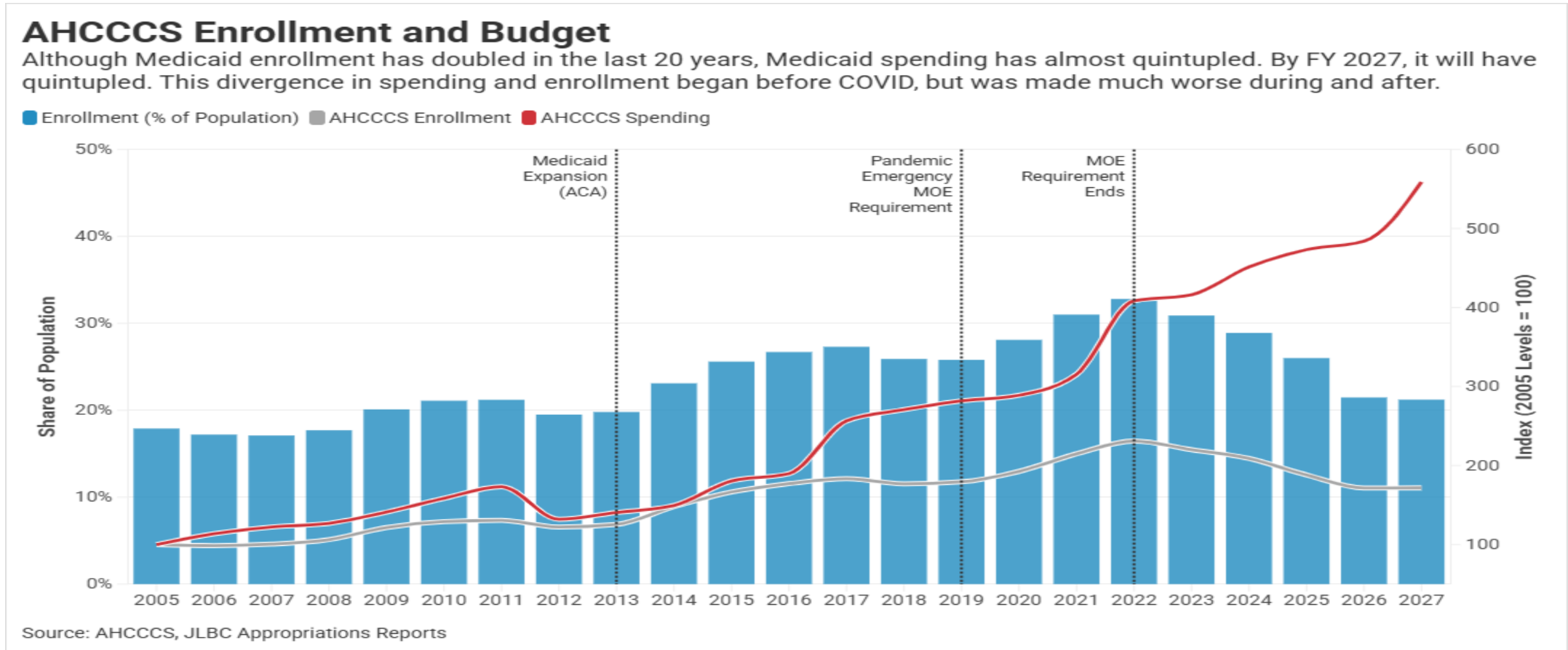
Since the pandemic, SNAP benefits payments have increased by 40%, and the state has averaged a Payment Error Rate of 11%. To try and contain this growth, HR1 requires states to share costs or reduce the error rates. At the programs current performance, the state would owe over \$300 million in cost-sharing payments beginning in FY 2028. DES has publicly committed to lowering the error rate below 6%.



Source: US Department of Agriculture, AZ Department of Economic Security • Notably, had the provisions of OBBBA been in place, the state would have owed a penalty in three of the ten years prior to the pandemic.

Nationally and in Arizona, enrollment and costs for the federal-funded SNAP (previously “Food stamp”) program grew rapidly during the pandemic. The end of the Public Health Emergency has slowed that growth, but overall enrollment remained. Also notably, audited Payment Error Rates – established by federal audit – grew significantly in recent years, especially following the suspension of certain checks and audits during the pandemic. HR1 requires states to reduce their benefit payment errors or face a cost-sharing requirement of up to 15% of benefits paid.

The pandemic-era Medicaid unwinding reduced enrollment, but remaining members are higher-cost on average. That means total program costs remain under pressure even as caseload comes down



The dynamic is clear: pandemic eligibility protections kept many younger/healthier members enrolled, suppressing average costs; after redeterminations resumed, lower-acuity members dropped off and higher-acuity members remained. JLBC noted that AHCCCS enrollment fell by about 209,000, or 10%, while average per-member cost rose 14%.

The pandemic-era Medicaid unwinding reduced enrollment, but remaining members are higher-cost on average. That means total program costs remain under pressure even as caseload comes down

Medicaid (AHCCCS) Enrollment is Falling, But Per-Member Costs Are Rising

Enrollment decline does not equal savings if people remaining in the program are more medically expensive.

Measure	Amount
Enrollment Decline (JLBC FY 2026)	-209,000 (-10%)
Average per-member-per-month cost (JLBC FY 2026)	\$607 (+24% since 2020)
Average per-member-per-month cost (JLBC FY 2020)	\$489
Baseline JLBC FY 2027 AHCCCS GF spending increase	\$328.6M (+12.6%)

Source: JLBC, Governor's Office, Executive Budget



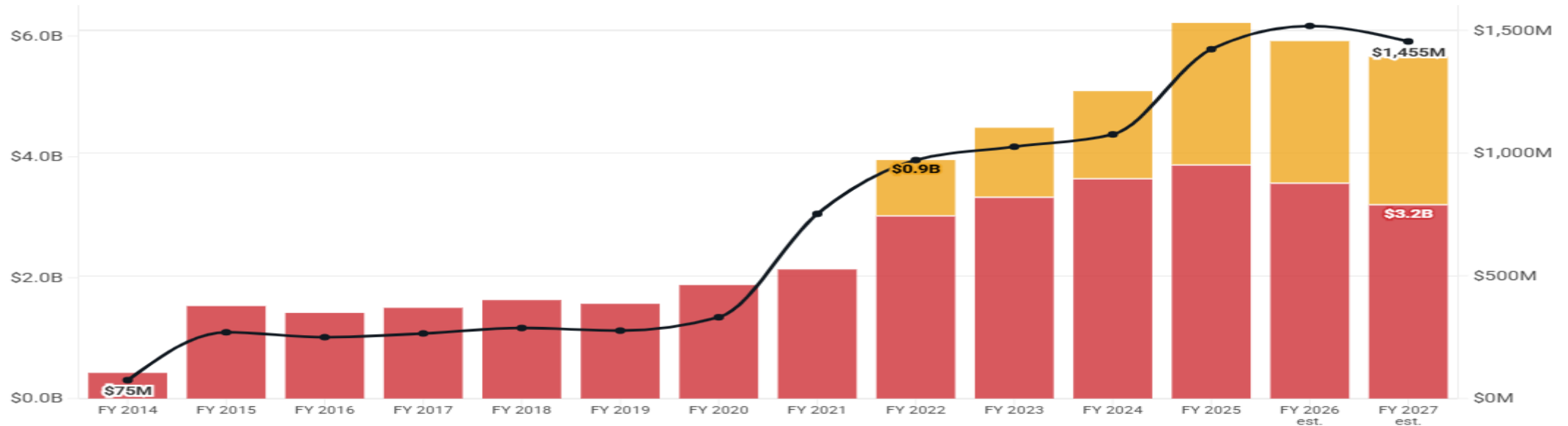
The dynamic is clear: pandemic eligibility protections kept many younger/healthier members enrolled, suppressing average costs; after redeterminations resumed, lower-acuity members dropped off and higher-acuity members remained. JLBC noted that AHCCCS enrollment fell by about 209,000, or 10%, while average per-member cost rose 14%.

Arizona uses hospital assessments to draw down federal Medicaid matching funds and reduce General Fund pressure. But H.R. 1/provider-assessment changes create future risk to that financing model.

Arizona's Hospital Assessment

The Medicaid provider assessment generates approximately \$1.5B annually as state-matching funds to cover the costs of Medicaid expansion and increased provider payments. Over the last decade, revenues have increased over 500%, and federal costs have grown over 400%.

■ Hospital Assessment (State) Funds
 ■ Estimated Federal Matching Funds
 ■ Surplus Directed Match



Source: AHCCCS Assessment Models, Joint Legislative Budget Committee • "Surplus Directed Match" are federal payments associated with assessment revenue deposited in the HCIF and used for directed provider payments.

Source: JLBC Baseline Comparison Presentation, FY 2027 Executive Budget Proposal

Arizona uses hospital assessments to draw down federal Medicaid matching funds and reduce General Fund pressure. But H.R. 1/provider-assessment changes put caps on that financing model.

IMPROVING THE BUDGET PROCESS GOING FORWARD:

Every year, CSI provides its suggestions for policy-makers on how to avoid the fiscal challenges that have dogged the state budget in recent years.

The solution: moderate annual expenditure growth, and ensure the state manages all of its programs – including federally-funded programs.

- **Limit annual spending growth.** Annual 7%+ growth rates are simply too risky even in a revenue environment where the recent history might suggest it is sustainable. Sustainable annual growth rates should target the 4% range. **New spending priorities should be driven by clear policy need rather than the simple availability of cash.**
- **Use Supplemental and Non-Appropriated Funds to fund existing commitments** that are authorized and anticipated by the regular budget process. New policymaking should occur in the regular budget order. Federally-funded programs were allowed to grow and expand too quickly during the pandemic period, often with federal support (at the time) but limited state oversight.
- **Fully account for the three-year budget outlook.** Failure to include all reasonable cost and revenue projections over the entire three years makes it easier to overcommit to new ongoing spending or miss clear and imminent fiscal issues.

A Window into our Local Government Budgets

- In addition to the annual state budget, there are hundreds of local budgets adopted, often with limited public oversight – 91 cities and towns, 15 counties, and numerous local political subdivisions like school districts.
- Like the state budget, data suggests local spending grew rapidly during the pandemic – and that growth is now becoming difficult to sustain
- **The Result:** Local governments are looking to new tax increases to sustain growth, even though spending and revenue is already at record highs. They rely on a lack of much historical insight into these budgets to blame state policies (like the 2.5% flat income tax or rental sales tax relief).
- **This year:** CSI anticipates many more local governments will propose various sales and property tax increases, and local fee increases, during the upcoming November election. For example, the City of Tempe is proposing a nearly-30% increase in its city sales tax rate – even though its budget is 50% larger today than it was five years ago.

Common Sense Institute (CSI) is a non-profit free-enterprise think tank dedicated to the protection and promotion of Arizona's economy.

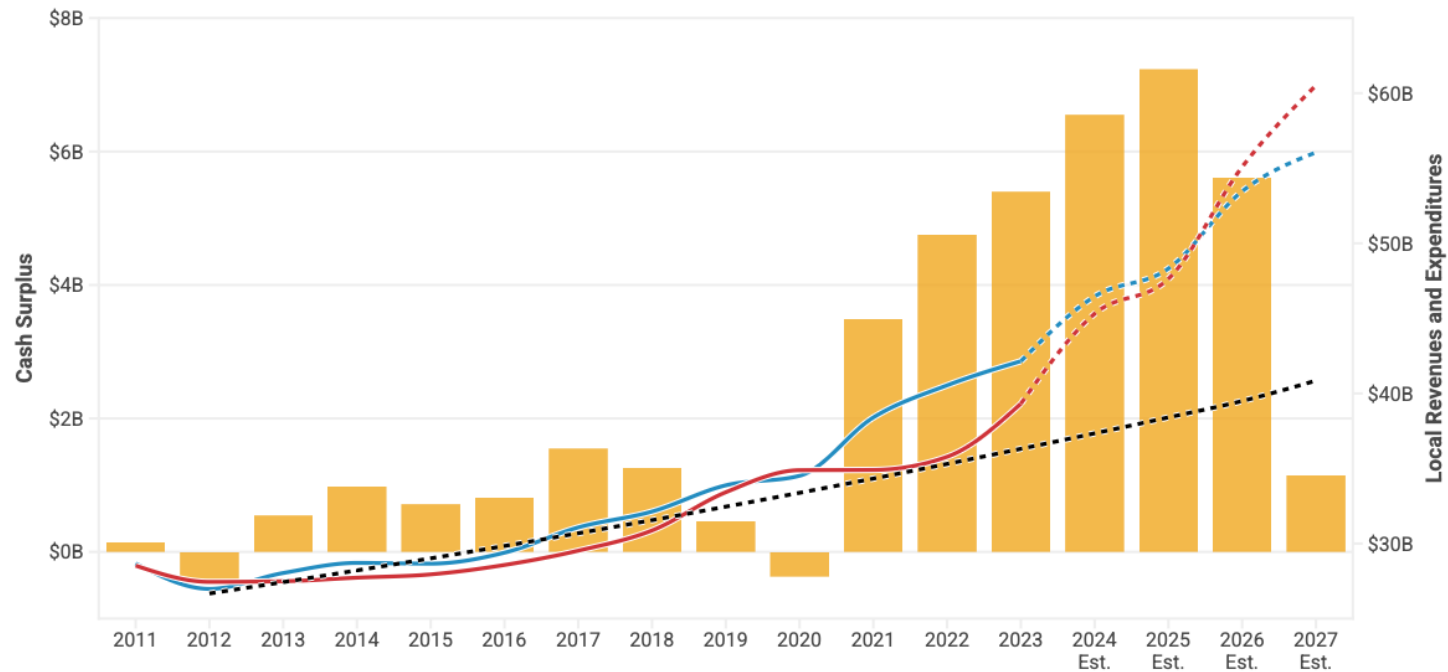
We believe sound fiscal and economic research is essential to uphold Arizona's economic vitality, future, and individual opportunity.

Local Government Revenue and Spending Growth From CY11 to CY27

Local Government Revenues and Expenditures

Based on a combination of Census Bureau data through 2023 and expected expenditure growth in more recent years, CSI estimates that local spending has nearly doubled since the pandemic. This rapid expenditure growth risks exhausting implied surpluses accumulated during periods of revenue surplus.

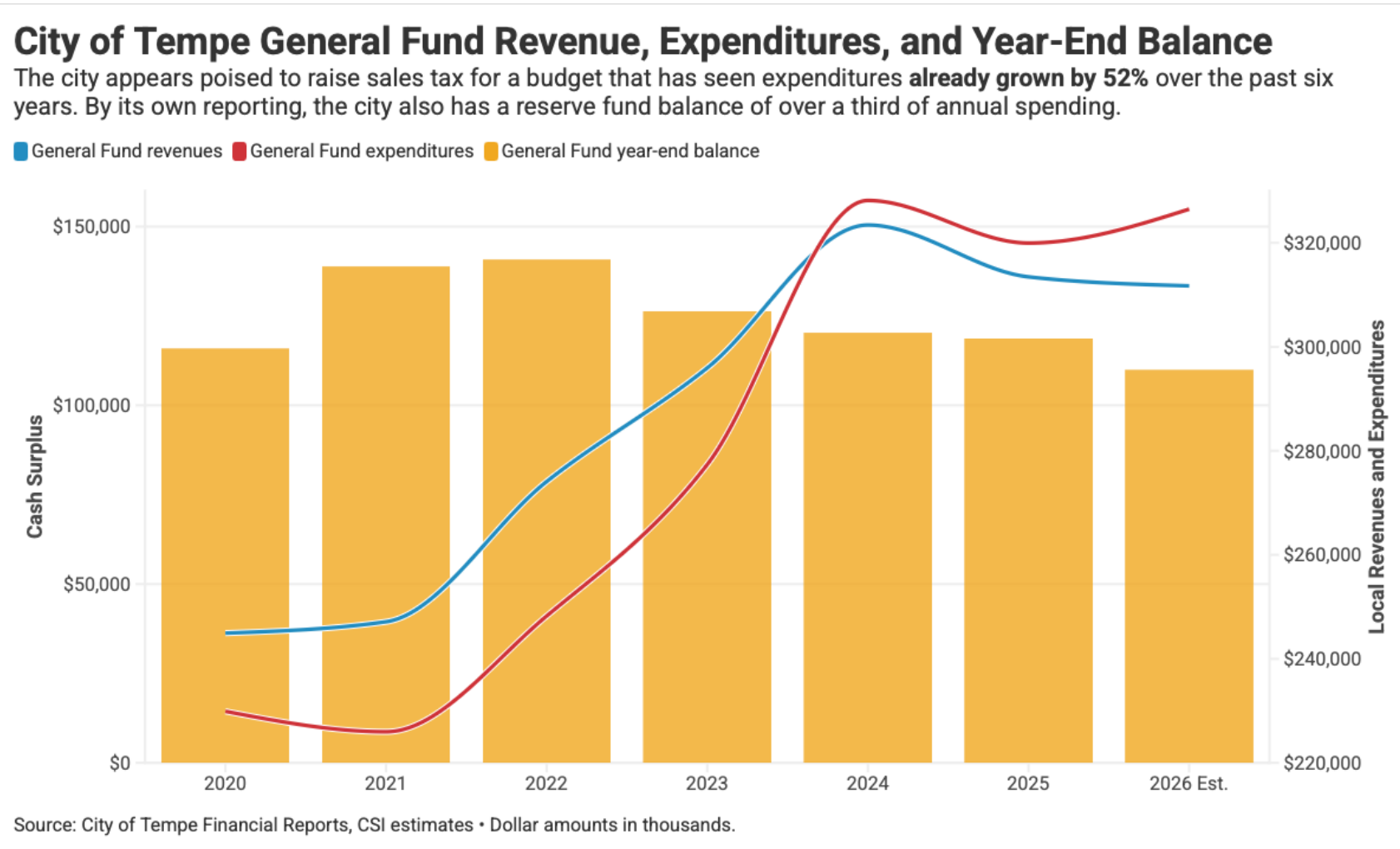
Implied Cash Surplus Local Revenues Local Expenditures



Source: Census Bureau Survey of Local Finances • Because Census Bureau survey data about statewide local government revenue and spending are available only with a lag, CSI assumes local government revenue and spending grows at the same rate as the state budget after 2023.

Based on its review of some local and statewide historical revenue and expenditure data, there is a strong correlation between the State budget, and local budgets. Therefore, it is no surprise that – like the State General Fund – local governments saw rapid revenue growth over the past 5-10 years. And unsurprisingly, local spending likely caught up to this growth by FY2024. Given normalizing growth, that is far more likely to be driving any current local budget shortfalls than state policy.

Tempe Revenue and Spending Growth From 2020 to 2026



Since 2020, spending by the City of Tempe’s General Fund has grown by approximately 50%. Initially, the city’s abnormally rapid revenue growth exceeded expenditure growth, but that trend broke during FY 2024. Revenue growth has slowed since, but the budget has failed to keep pace. This November, voters will decide whether to raise city sales taxes nearly 30%. 19

Main Points / Takeaways

- Lawmakers at both the State and local level have allowed their budgets to grow rapidly over the past five years, in response to tax revenue growth. Inevitably, revenue growth has normalized, but policymakers at all levels failed to leave adequate reserves and/or continue to expect large annual spending increases.
- The state's federally-funded Medicaid, food stamp, and other entitlement programs have exploded in costs since the pandemic. While growth has slowed following the end of the public health emergency and unwinding of certain federal coverage mandates, the programs haven't returned to pre-pandemic trends.
- HR1 represents a novel but likely ongoing federal response: federal policymakers are shifting responsibility for reining in these programs to their state partners, who traditionally have enjoyed broad administrative leeway on programs that are mostly federally funded.
- If the state cannot get the error rates in its food stamp program under statutory limits in the next year or two, it will be responsible for up to \$300 million in annual cost-sharing on a program that previously was entirely federally funded.
- Similarly, the state will have to reduce its use of provider taxes to absorb the above-baseline costs of its Medicaid expansion program in the next few years. In the last five years, Arizona maxed out its use of such taxes.

Common Sense Institute (CSI) is a non-profit free-enterprise think tank dedicated to the protection and promotion of Arizona's economy.

We believe sound fiscal and economic research is essential to uphold Arizona's economic vitality, future, and individual opportunity.



Arizona Budget Then and Now

Email us at info@csinstituteaz.org