



# COFFEE & COMMON SENSE

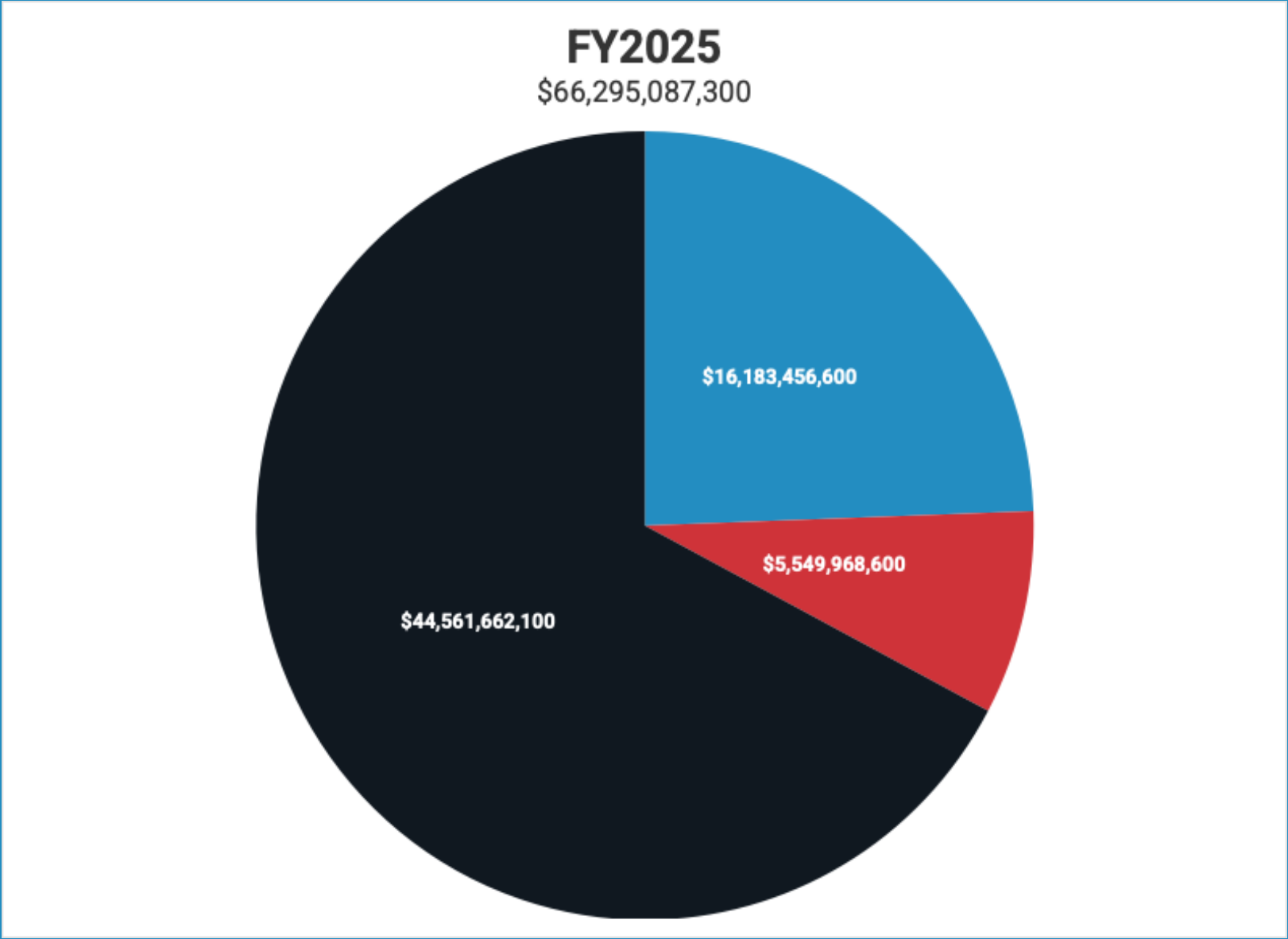
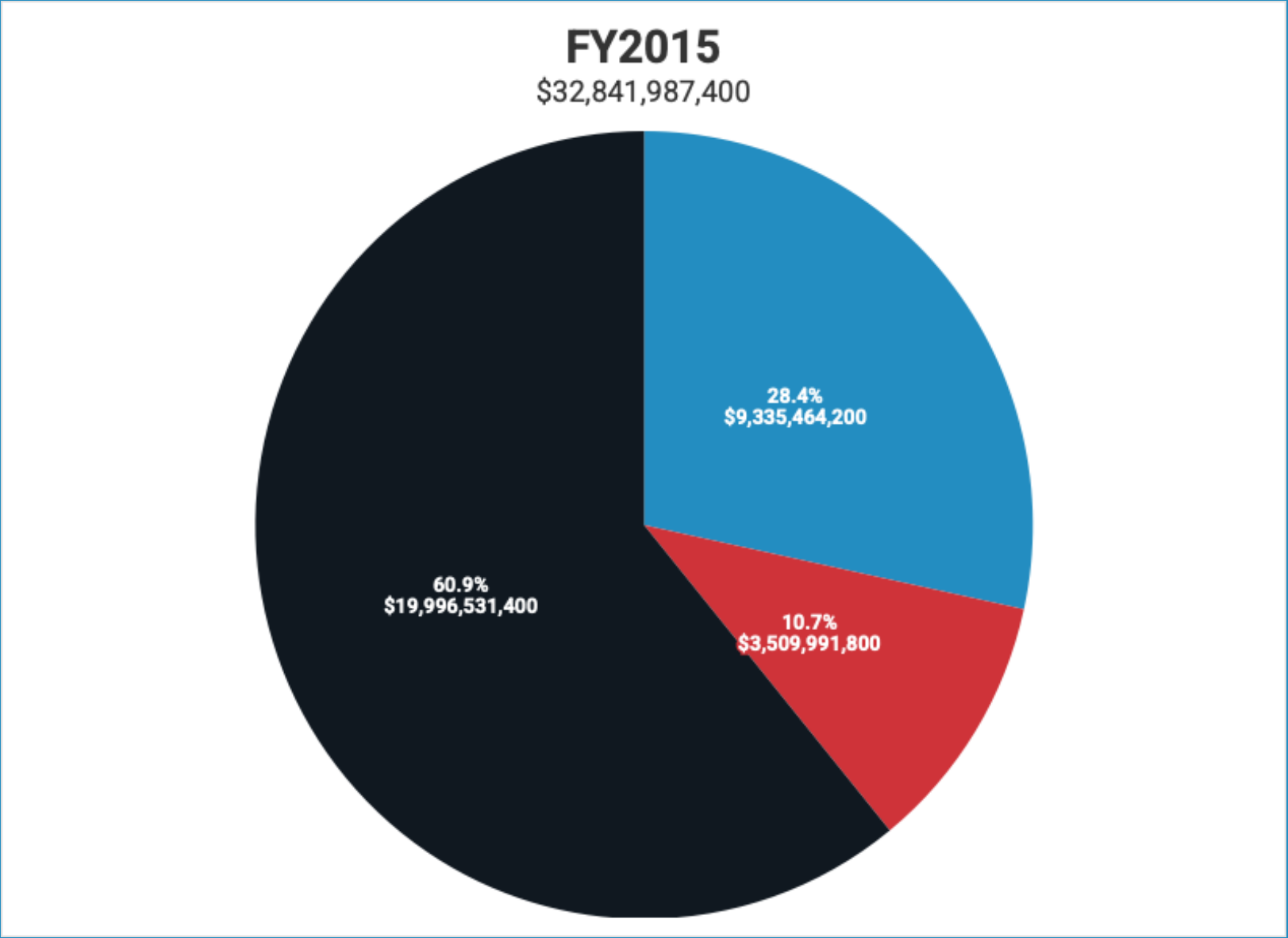
A LOOK AHEAD TO THE 2026 BUDGET

OCTOBER 1, 2025

COMMON SENSE INSTITUTE ARIZONA



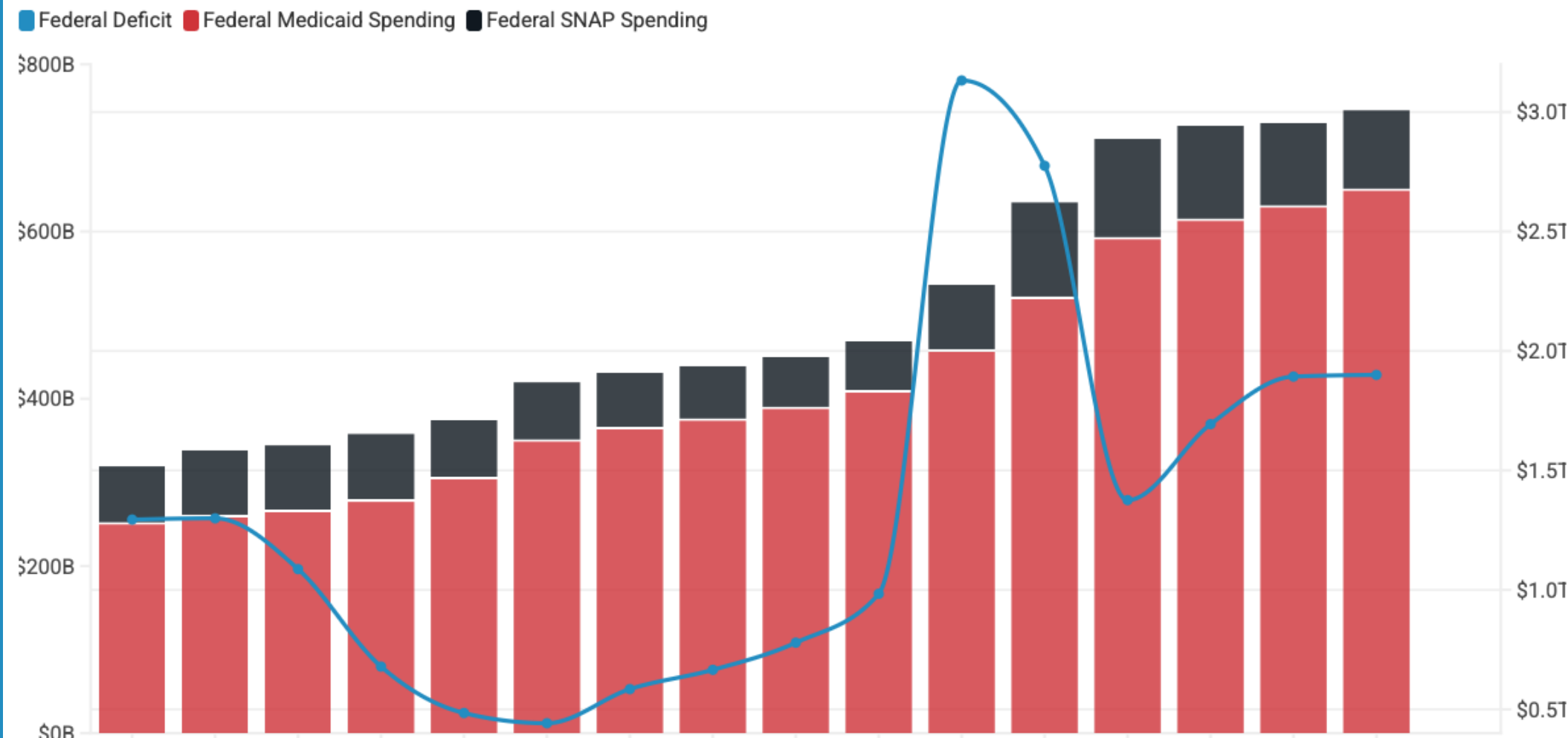
# Over the Last Decade, the State Budget Has Doubled



# OBBA Tries to Slow That Growth

## Federal Budget History

The federal deficit today is nearly \$2 trillion every year. Spending on entitlement and welfare programs has fueled much of that growth. Today, the federal government spends nearly \$800B a year on Medicaid and SNAP - up from \$450B before the pandemic.



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.

## MAJOR PROGRAM CHANGES

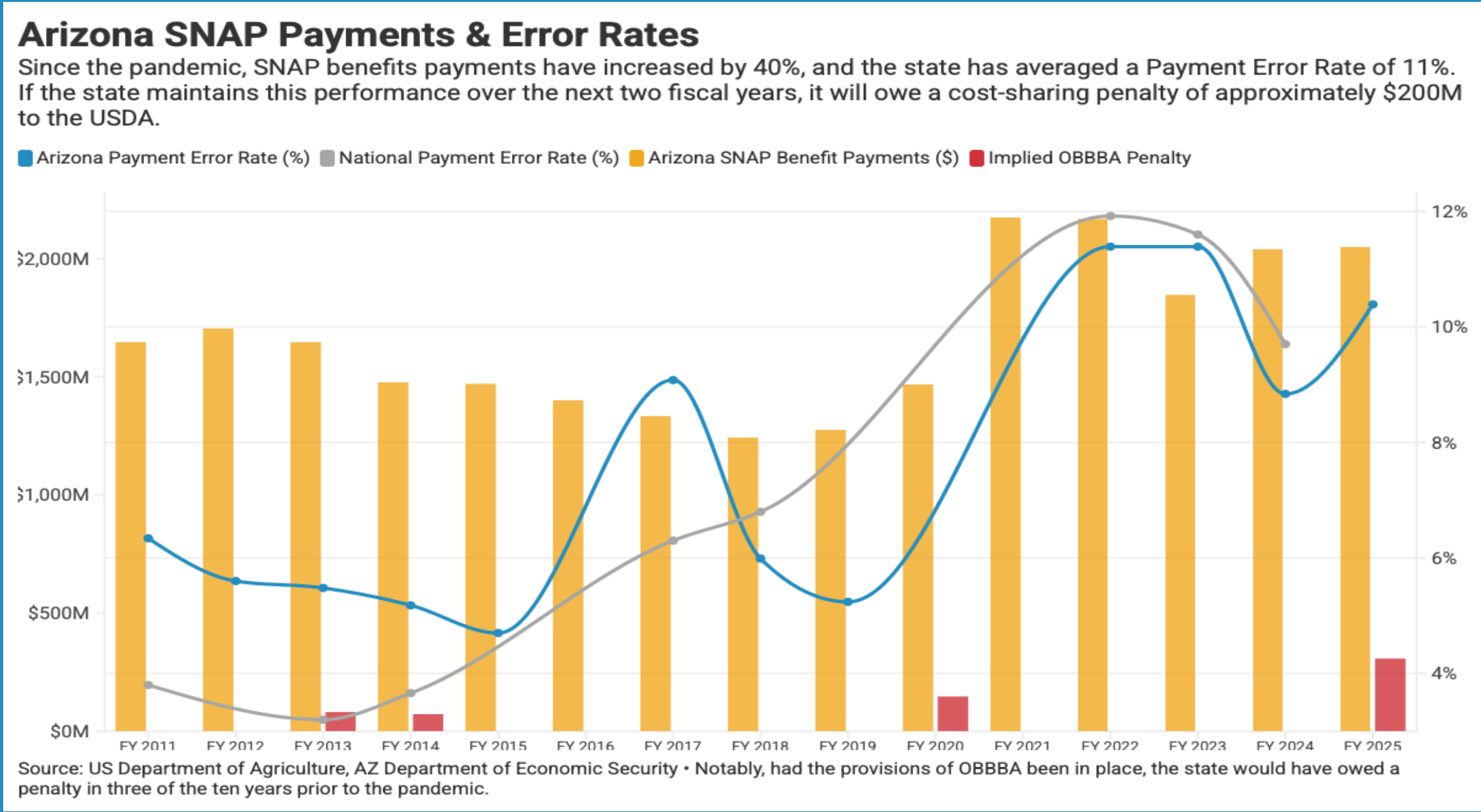
### FOOD ASSISTANCE

- Tighter rules on benefit time-limits and work requirement
- State cost-sharing if error rates are high (>6%)
- Admin cost sharing shift (50% -> 25%)

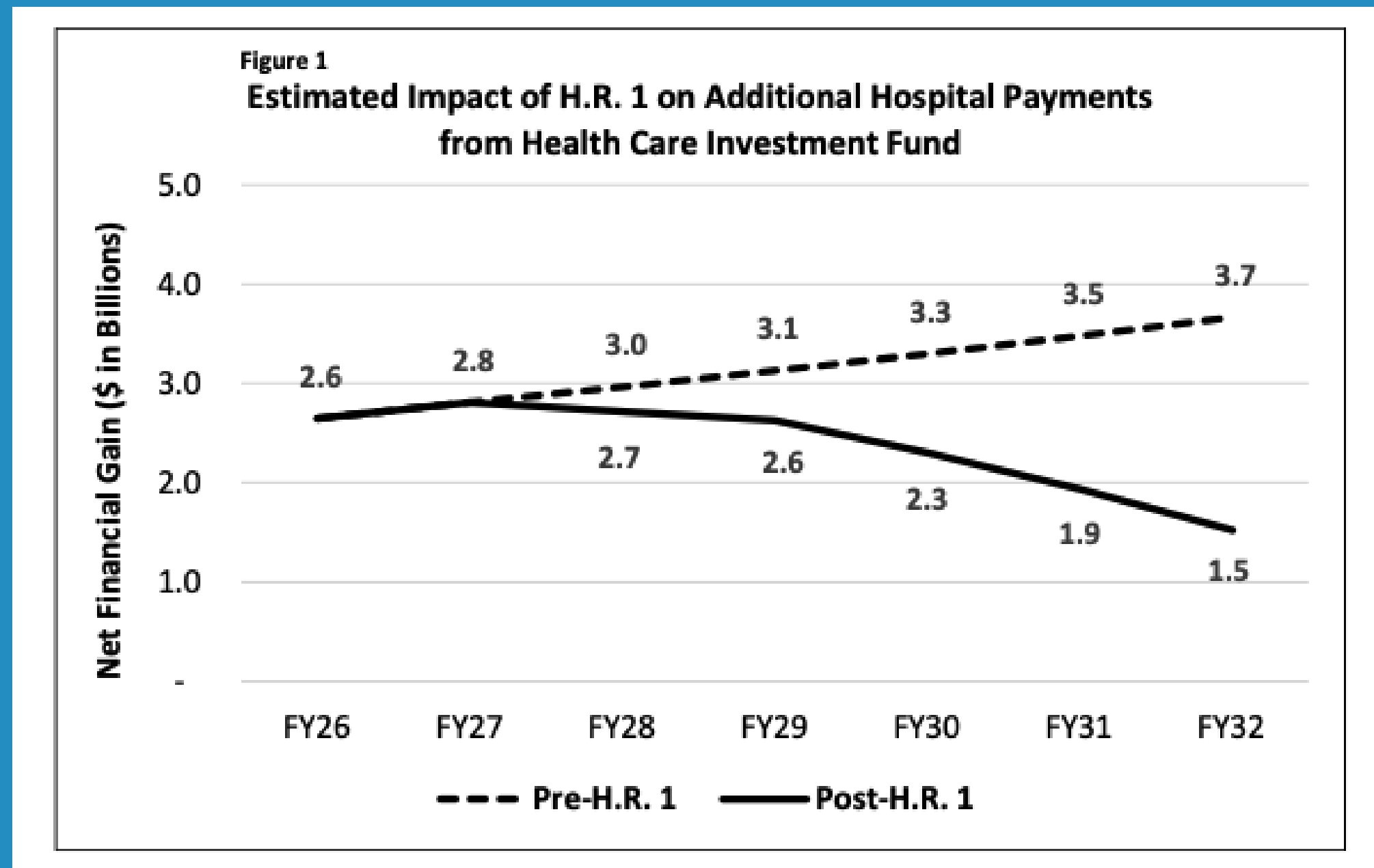
### MEDICAID

- New work requirements for adults
- Stronger regulation of non-citizen enrollment
- Semi-annual eligibility redetermination
- New limits on states' ability to fund-raise with provider assessments

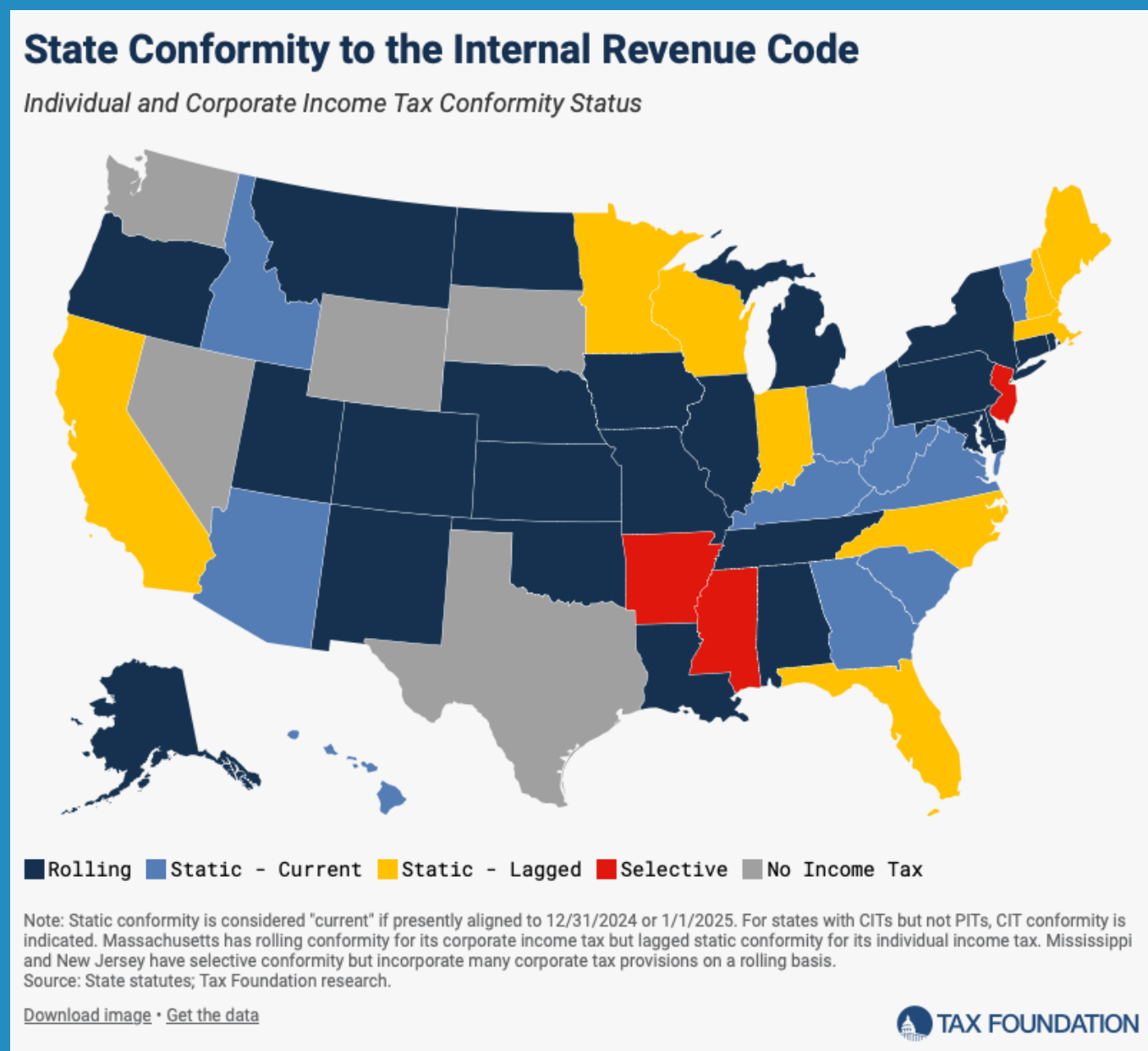
# Arizona Faces a SNAP Cost-Sharing Penalty at Current Error Rates



# Other Medicaid Changes Will Result in Small Savings For the State



# States Do Not Generally Adopt *All* Federal Income Tax Rules through Conformity



- Most states – including Arizona – use either “rolling” or “static” conformity to basic IRC definitions & rules
- Most importantly: the definition of “income” in Arizona matches the Federal definition
- We match those definitions on a *specific date* – meaning we must change that date annually (the “conformity bill”)
- **Most headline provisions in OBBBA are not definitional**

# Arizona's Conformity Exposure is Mostly on the Business Side

## Tax Foundation Guide to OBBBA State Tax Conformity

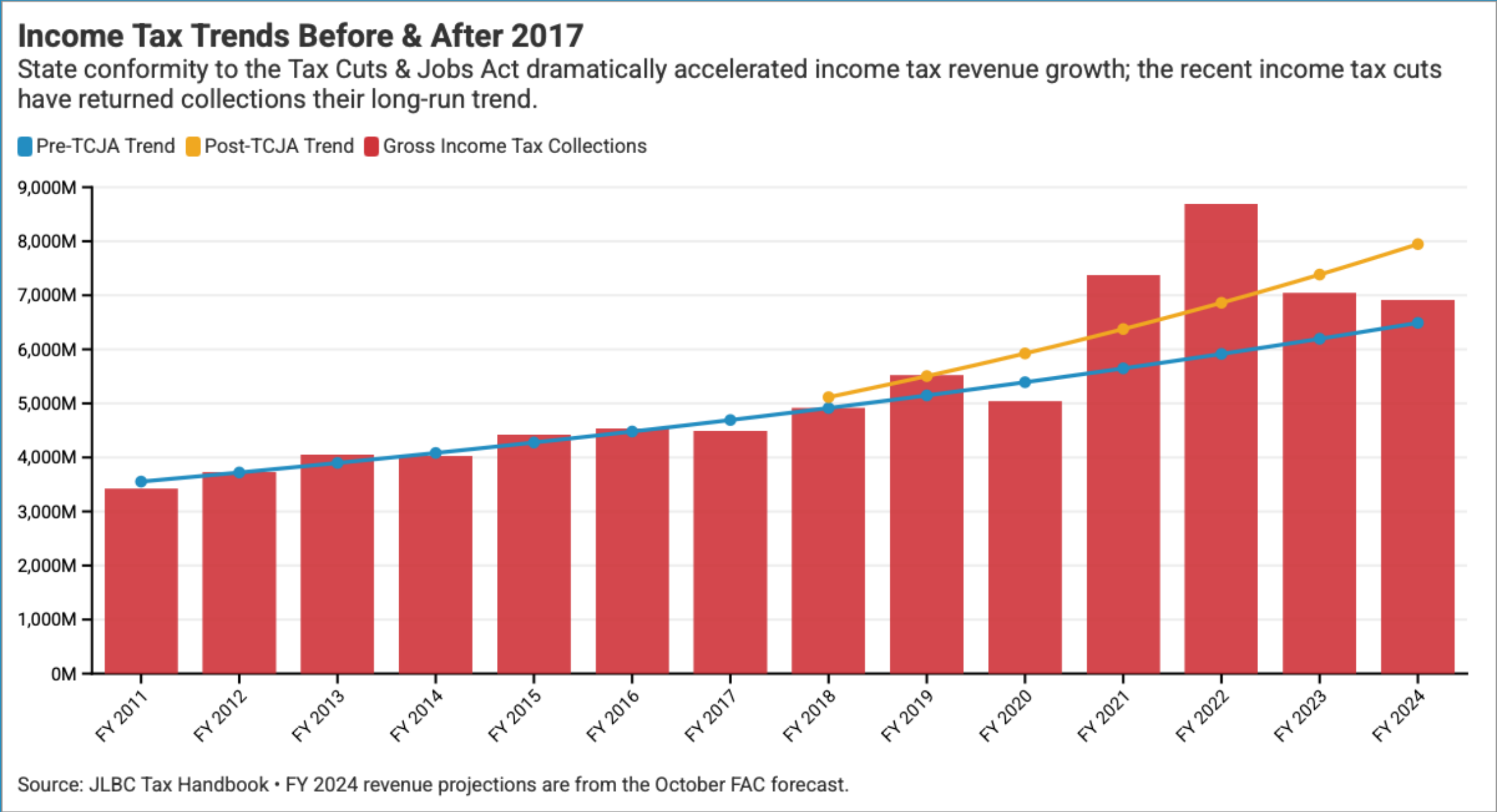
Details: <http://taxfoundation.org/state-impact>  
See reverse for additional info

State	Conformity		Personal Deductions						Business Expensing Provisions				Other Provisions	
	PIT	CIT	Tips	OT	Auto	Senior	Prop.	Char.	§ 168(k)	§ 168(n)	§ 174	§ 179	Int'l	Other
Alabama	Roll	Roll					✓		✓	✓	100%	✓		
Alaska	n.a.	Roll							✓	✓	✓	✓	NCTI	
Arizona	St-C	St-C					✓			✓	✓	✓		
Arkansas	Sel	Sel									✓			
California	St-L	St-L									✓			

- Assuming Arizona fully conforms to the business expensing changes, a conservative estimate of the fiscal impact: **~\$150M**
- Full SALT deduction conformity would add **~\$80M/year**, according to JLBC

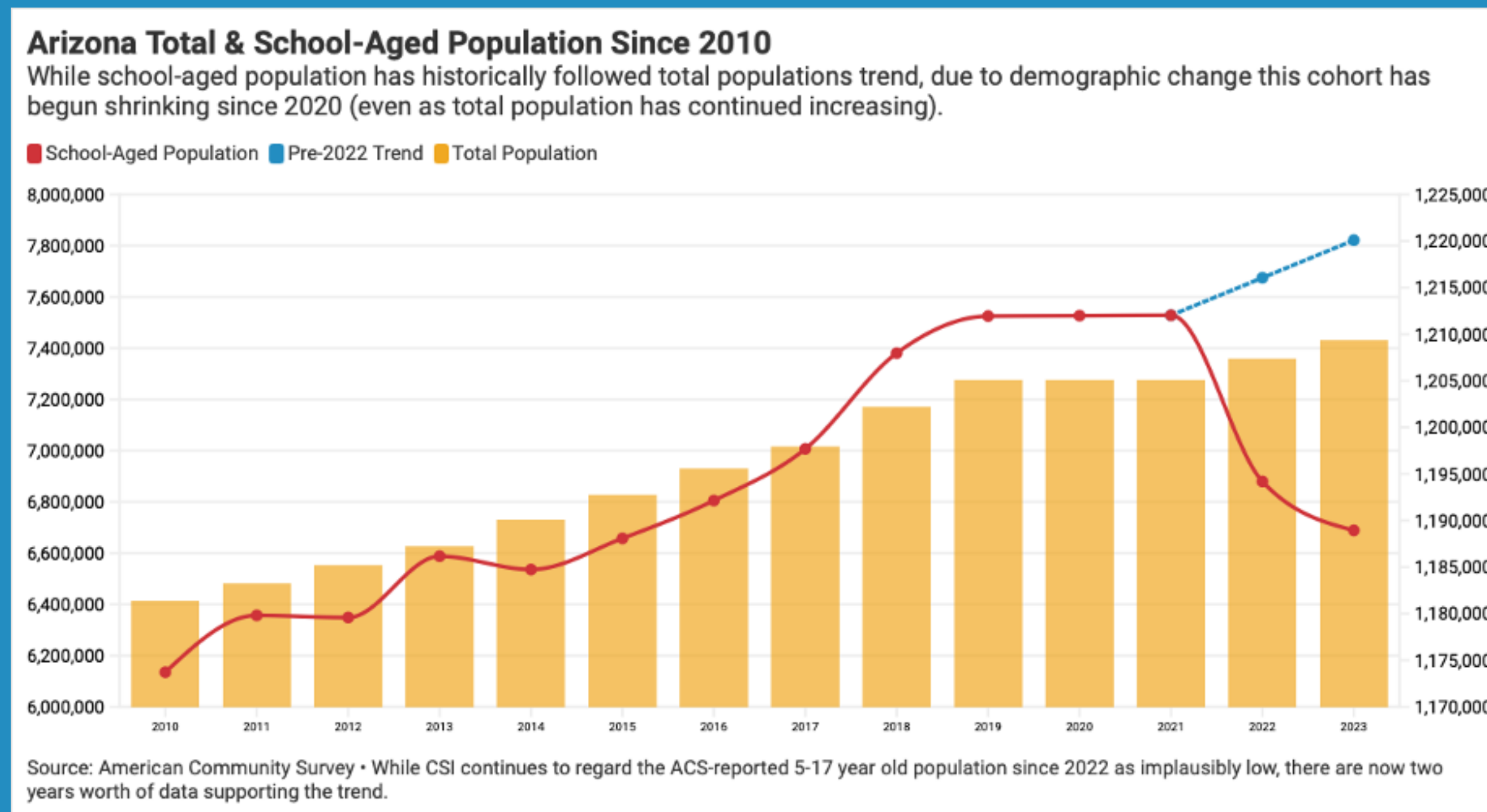


# Context: Even after the Flat Tax, the State is \$500M Above its Long-Run Income Tax Trend

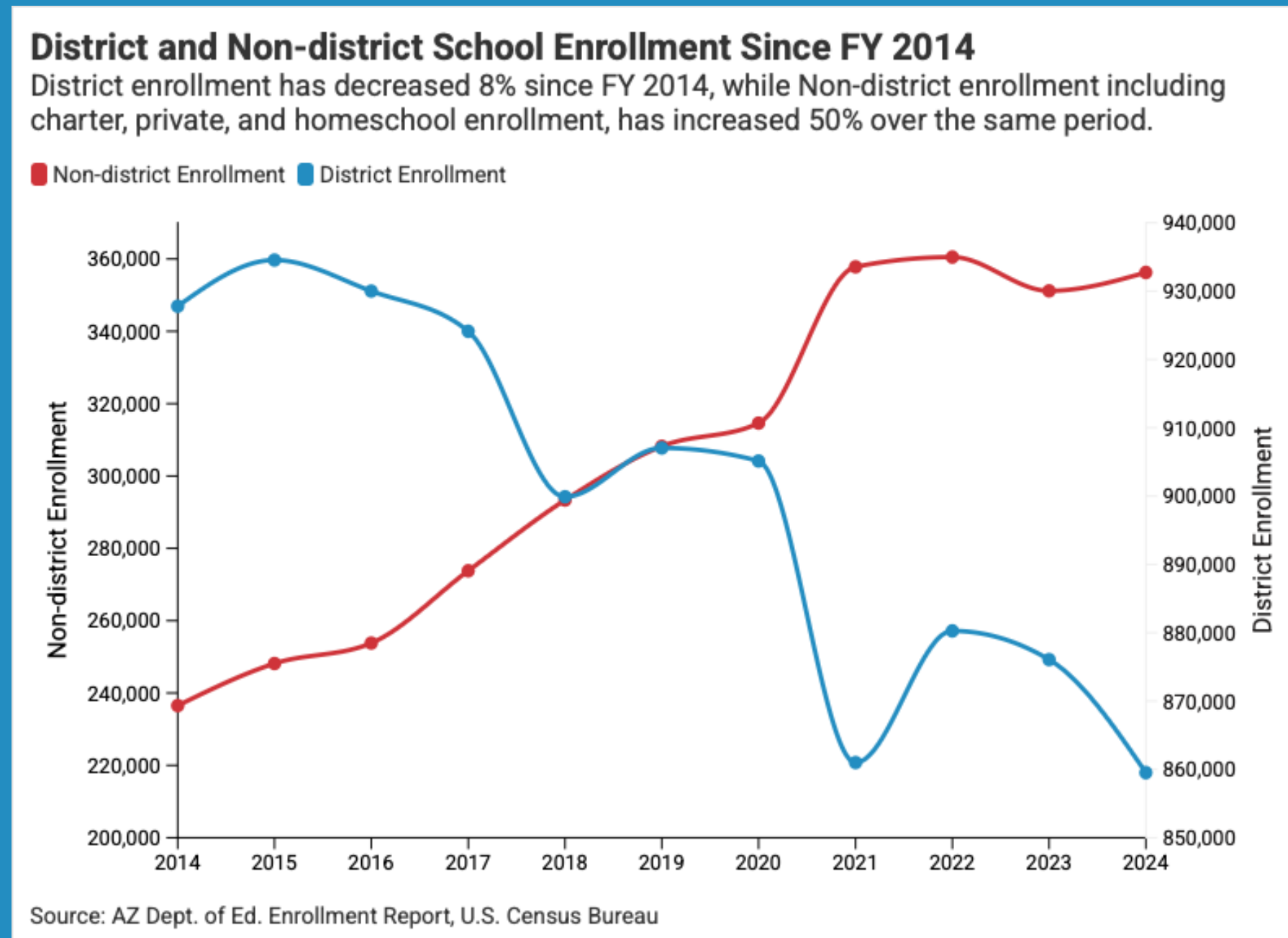




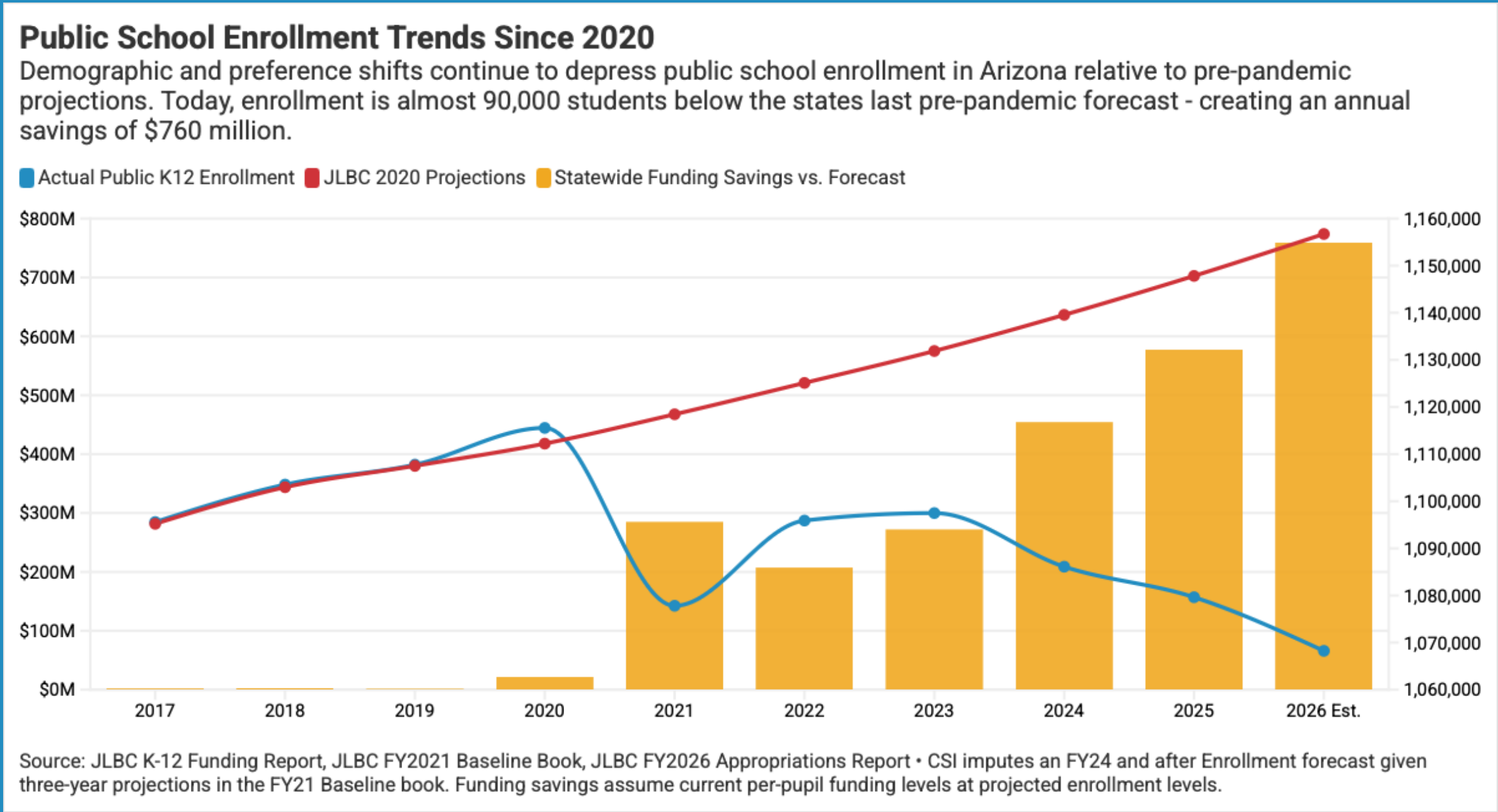
# Declining School-Aged Population & Enrollment Changes Are Driving Arizona's K-12 Budget



# The Result of Both is Rapid Change in What K-12 Enrollment Looks Like in Arizona



# These Shifts Have **Both** Costs & *Savings* Implications for the Budget



# Very Early Look: CSI Anticipates A Supplemental Will be Needed for ADE’s K-12 Formula Costs this Year

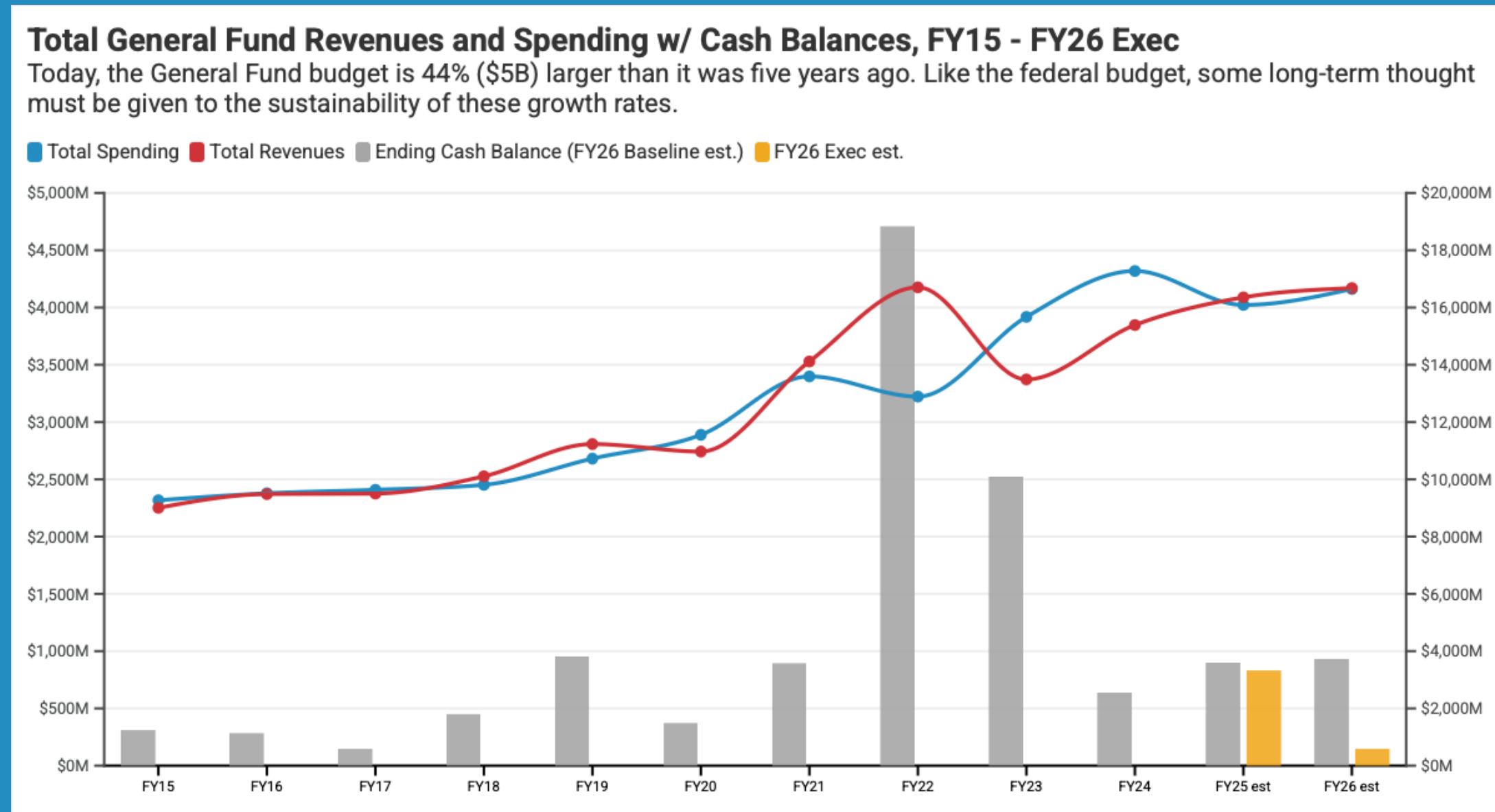
## State FY26 K-12 Education Budget vs. Actual Need

Based on its review of the most current enrollment data available from ADE, CSI estimates that there may be a supplemental need at ADE of at least \$35.2 million this year.

FY 2026	Budgeted Amount	CSI Expected Actual Cost	Over appropriation/(Under appropriation)
ESA	\$1,001,720,000	\$1,036,871,485	\$35,151,485
District	\$7,197,151,500	\$7,136,726,890	(\$60,424,610)
Charter	\$2,113,838,900	\$2,174,353,724	\$60,514,824
Total Costs	\$10,312,710,400	\$10,347,952,098	\$35,241,698

Source: JLBC, Arizona Dept. of Education

# OTHER BUDGET ISSUES TO WATCH



- Developmental Disabilities Program Growth
- Prop 123 & the \$300M General Fund Shift
- Agency Budget Requests to Comply with Federal Requirements