

GENERAL FUND REVENUE

Summary of General Fund Forecast

The legislatively-enacted budget is built on a revenue forecast that assumes that both the national and Arizona economies will continue to grow over the forecast period from July 2001 to June 2003.

The forecast reflects General Fund baseline revenue growth rates of 7.1% in FY 2001, 6.3% in FY 2002, and 7.0% in FY 2003. Note that baseline revenue estimates reflect the forecasted "natural" growth in revenues, prior to accounting for any newly effective or phased-in legislation, proposed legislation, sales tax collections related to Proposition 301, or urban revenue sharing.

After adjusting for tax law and other revenue changes, the net adjusted revenue growth rate is projected to be 5.3% in FY 2001, 12.3% in FY 2002, and 6.4% in FY 2003 (including Proposition 301 revenues and urban revenue sharing). In dollar terms, net adjusted revenues are expected to equal \$6,275.1 million in FY 2001, \$7,049.8 million in FY 2002, and \$7,504.3 million in FY 2003. Without Proposition 301, the net adjusted revenue growth rate is 4.6% in FY 2002 and 6.3% in FY 2003.

The detailed revenue forecast appears in [Figure 1](#) and [Figure 2](#) at the end of this section. These figures include baseline and adjusted forecasts for each revenue category.

Tax Law and Revenue Changes

The adjusted revenue forecast provided in [Figure 2](#) includes a net reduction of \$(116.6) million for FY 2001 tax law and revenue changes below FY 2000. In comparison to FY 2001, the tax law and revenue changes total \$(108.4) million for FY 2002, and \$(163.2) million in FY 2003.

As noted in [Table 1](#) below, these reductions are the net result of tax reductions and revenue changes enacted by the 45th Legislature - 1st Regular Session, as well as those previously enacted in regular and special sessions of the 44th Legislature (excluding Proposition 301 sales tax increase revenues). Estimated tax law and other revenue changes resulting from the 45th Legislature total \$(21.0) million in FY 2001, \$(38.0) million in FY 2002, and \$(88.1) million in FY 2003. These changes are in addition to estimated changes from the 44th Legislature totaling \$(95.7) million in FY 2001, \$(70.4) million in FY 2002, and \$(75.1) million in FY 2003.

Most of the 45th Regular Session changes involved non-tax law provisions. The total amount of new tax changes in this session was a net reduction of \$(15.2) million in FY

2002 and \$(15.7) million in FY 2003. Most of this amount is associated with an increase in the income tax standard deduction of \$450 for single filers and \$900 for joint filers.

The estimates of FY 2002 and FY 2003 tax law changes are new changes over and above already enacted FY 2001 tax laws (it should be noted that FY 2003 tax law changes do not reflect incremental changes from FY 2002). More details of legislative changes are provided in [Figure 3](#) at the end of this narrative.

Table 1

Legislative and Revenue Changes ^{1/}
(\$ in Thousands)

	FY 01	FY 02	FY 03
Enacted Prior to 45 th Legislature			
-Tax Law Changes	(95,164.9)	(70,386.2)	(75,083.5)
-Other Revenue Changes	<u>(486.9)</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	(95,651.8)	(70,386.2)	(75,083.5)
45 th Legislature			
-Tax Law Changes	(593.0)	(15,237.8)	(15,659.8)
-Other Revenue Changes	<u>(20,382.6)</u>	<u>(22,800.0)</u>	<u>(72,466.8)</u>
Subtotal	(20,975.6)	(38,037.8)	(88,126.6)
Total	<u><u>(116,627.4)</u></u>	<u><u>(108,424.0)</u></u>	<u><u>(163,210.1)</u></u>

1/ Excluding Proposition 301 sales tax revenues.

In addition to the tax reductions and revenue changes noted above, the enacted budget includes another \$(34.0) million in corporate income tax cuts and \$(13.1) million in individual income tax cuts that are contingent on the level of state tax revenues in FY 2001 and FY 2002.

Corporate Income Tax — If revenues exceed projections in FY 2001 by \$138.1 million, \$(7.0) million of the corporate income tax cut would occur in FY 2002, and the remaining \$(27.0) million in FY 2003. If revenues do not exceed projections in FY 2001 by the required amount, but do exceed projections by \$125.4 million in FY 2002, the \$(34.0) million in corporate income tax cuts would all occur in FY 2003. The tax cuts include a corporate income tax rate reduction from 6.968% to 6.8%, and a change in the apportionment formula that places 65% weight on multi-state company's sales factor, replacing the current 50% weight.

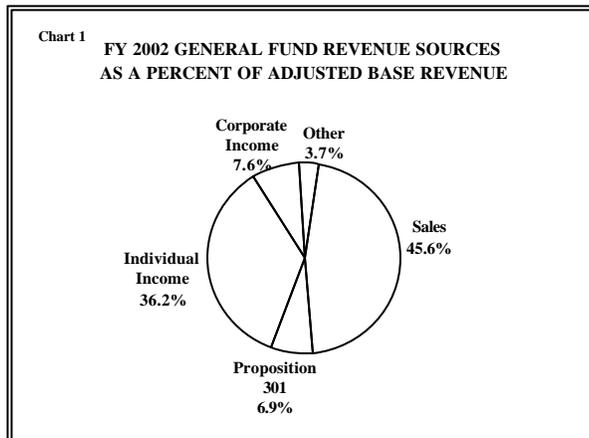
Individual Income Tax — If revenues exceed projections in FY 2001 by \$104.1 million or by \$91.4 million in FY 2002, the entire \$(13.1) million individual income tax cut would occur in FY 2003. The tax cut would include

reducing the tax rate for the lowest bracket from 2.87% to 2.81%. If revenues exceed projections in FY 2001 by only \$79.7 million or \$73.5 million in FY 2002, the individual income tax cut would be only partially implemented, with a reduction in individual income tax of \$(6.6) million in FY 2003. This cut would lower the rate for the lowest bracket from 2.87% to 2.84%.

Prior to September 1, 2001 and September 1, 2002, the JLBC and the OSPB will determine if there are sufficient revenues to trigger these corporate and individual income tax cuts.

Arizona's Major Revenue Sources

The bulk of General Fund revenues is raised from three sources, known as the "Big Three". The largest of these is the sales tax, which is projected to generate 45.6% of total General Fund revenue in FY 2002. The individual income tax is the next largest source, accounting for 36.2%, while the corporate income tax share is 7.6%. In addition, Proposition 301 sales taxes are expected to generate 6.9% of General Fund revenue. Together these three taxes plus Proposition 301 are expected to provide approximately 96.3% of General Fund revenue. [See [Chart 1](#) below]



Development of General Fund Revenue Forecast

The economy began to slow around the time that the Executive and JLBC released their initial revenue forecasts in January. As a result, the revenue forecasts were revised downward during the course of the legislative session.

[Table 2](#) below provides General Fund revenue baseline growth rates for the forecast presented in the [January FY 2002 - FY 2003 Proposed Budget](#), the various alternative forecasts prepared by both JLBC and OSPB during the budget development process, and the final version of the budget as adopted by the Legislature.

Table 2

Baseline Growth Rates

Forecast	FY 01	FY 02	FY 03
-JLBC Policy - January	8.3%	8.1%	7.9%
-JLBC Staff - January	8.2%	7.4%	7.8%
-Executive January	8.4%	6.5%	7.2%
-JLBC Policy - March	7.3%	8.1%	7.9%
-JLBC Staff - March	7.3%	7.3%	7.8%
-Executive March Revised	7.0%	6.5%	6.1%
-Final Legislative Budget ^{1/}	7.1%	6.3%	7.0%

^{1/} The baseline methodology was revised for the final legislative budget due to a technical issue with licenses and fees, which had the effect of increasing the FY 2003 baseline by 0.3% relative to prior versions.

[Table 3](#) below provides General Fund adjusted revenues associated with the various versions of the forecast, excluding Proposition 301 and Urban Revenue Sharing.

Table 3

Adjusted Revenues ^{1/} (\$ in millions)

Forecast	FY 01	FY 02	FY 03	Total
-JLBC Policy - January	6,768.4	7,246.2	7,819.5	21,834.1
-JLBC Staff - January	6,762.0	7,192.0	7,753.8	21,707.8
-Executive January ^{2/}	6,780.7	7,151.0	7,649.9	21,581.6
-JLBC Policy - March	6,707.9	7,177.7	7,742.3	21,627.9
-JLBC Staff - March	6,707.9	7,129.6	7,683.7	21,521.2
-Executive March Revised ^{2/}	6,692.6	7,054.7	7,484.3	21,231.6
-Final Legislative Budget ^{3/}	6,671.6	6,985.7	7,426.5	21,083.8

^{1/} Excludes Proposition 301 and URS.

^{2/} Disproportionate Share Hospital (DSH) added to Executive in FY 02 and FY 03 for comparative purposes.

^{3/} Includes \$(150) million reduction for DSH revenue, not included in prior forecasts.

The January forecast recommended by JLBC totaled \$21,834.1 million for FY 2001 - FY 2003. The January Executive forecast (adjusted for disproportionate share revenue in FY 2002 and FY 2003) was \$21,581.6 million, or \$(252) million less.

In early March, JLBC developed revised forecasts based on lower than anticipated individual income tax and sales tax collections in the last two months of CY 2000 and the first quarter of CY 2001. The JLBC March policy forecast was approximately \$(200) million below the January policy forecast, and the JLBC March Staff forecast was

approximately \$(300) million below the January policy forecast. Based on the mixed economic news during the first quarter of 2001, a downward revision of \$(200) million to \$(300) million seemed reasonable.

In mid-March, the Governor's office developed a revision to the forecast which was approximately \$(600) million below the January JLBC forecast. This forecast included the addition of approximately \$50 million in miscellaneous revenue over the biennium.

The forecast included in the budget as adopted by the Legislature is approximately \$(750) million below the January forecast. It includes a reduction in estimated revenue collections of approximately \$(600) million, and a downward revision in Disproportionate Share revenue of approximately \$(150) million (see Disproportionate Share narrative below).

General Fund Revenue Forecast by Major Source

The following discussion of the General Fund revenue forecast is based on the adopted legislative budget.

Sales and Use Tax

Baseline sales and use tax collections are forecasted to increase by 6.5% in FY 2001, 7.0% in FY 2002, and 7.6% in FY 2003. By comparison, baseline sales and use tax revenues increased by 9.0% in FY 1999 and 10.0% in FY 2000.

Beginning with FY 2002, the 0.6% increase in the sales tax rate dedicated to education (Proposition 301) will become effective, and this tax is projected to generate \$486.0 million in FY 2002 and \$524.7 million in FY 2003. This Proposition 301 amount has not been revised since the January forecast.

The forecast for sales and use tax is based on slower growth in FY 2001, with a return to growth rates approaching the long-term average over the biennium. Economic fundamentals remain positive, and consumer spending is projected to continue at a healthy rate.

Over the upcoming biennium, sales tax revenues will continue to be influenced by economic conditions. In particular, consumer spending is highly correlated with consumer confidence and the stock market, as spending often rises and falls concurrent with consumers' perception of the economy and investors' evaluation of their market wealth. Also, sales tax collections in Arizona are greatly affected by population growth and the housing market.

Individual Income Tax

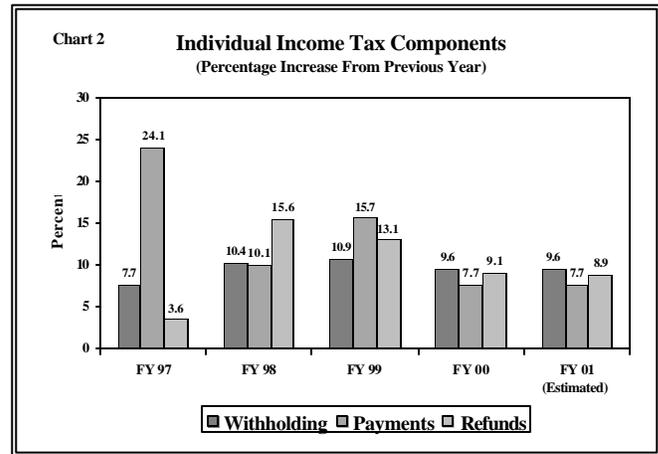
Baseline individual income tax collections are expected to grow by 6.7% in FY 2001, 8.3% in FY 2002, and 9.0% in

FY 2003. This compares to 10.3% growth in FY 2000 and 15.4% in FY 1999. After adjusting for tax cuts, adjusted individual income tax collections are projected to be 5.5% in FY 2001, 5.7% in FY 2002, and 9.1% in FY 2003.

Included in the adjusted revenue figures is \$(15.0) million in individual income tax cuts in FY 2002 and FY 2003 related to an increase in the standard deduction. The current standard deduction is \$3,600 for single filers and \$7,200 for joint filers. Beginning in FY 2002, the standard deduction will increase to \$4,050 for single filers and to \$8,100 for joint filers.

As noted in the Tax Law and Revenue Changes section above, the enacted budget also includes another potential \$(13.1) million in individual income tax cuts that are contingent on the level of state tax revenues in FY 2001 and FY 2002.

Total individual income tax receipts have four major components: withholding, estimated payments, annual final payments, and refunds (see [Chart 2](#)). Withholding, the amount of money withheld from paychecks historically has been a relatively stable series, mainly reflecting employment and wage growth trends. However, in recent months, this subcategory of the tax has been very volatile.



Significant changes in the amount of money withheld from paychecks can probably be attributed to bonuses that companies provide to employees, employees exercising stock options, or simply to changes in the level of employment. The slowing economy and recent poor performance of the stock market could impact company and employee behavior on the above issues and make the individual income tax difficult to predict. In addition, there will be components of the federal tax cut package that may also impact individual income tax collections. These issues will require further research over the biennium.

Included in the net revenue forecast is the estimate for the costs of alternative fuels tax credits which eligible taxpayers are expected to take over the next three years.

This includes \$(4.4) million for alternative fuel tax credits which will be applied to taxpayers' individual income tax liabilities. Credits which are over and above the taxpayers liability will be paid out of the Budget Stabilization Fund, as discussed in the following section of this report. In addition, an estimated \$(15.7) million has been deducted from the forecast in FY 2001 for the cost of tax credits for neighborhood electric vehicles.

Corporate Income Tax

Baseline corporate income tax collections are forecasted to increase by 15.2% in FY 2001, and increase by a conservative 3.0% in both FY 2002 and FY 2003. After accounting for tax reductions, collections are projected to increase by 7.8% in FY 2001, decrease by (4.5)% in FY 2002, and grow by 3.2% in FY 2003.

The large difference between baseline revenue growth and adjusted revenue growth in this tax is a result of an estimated \$(39.2) million in tax reductions in FY 2001, followed by another \$(42.5) million in tax reductions in FY 2002. The majority of the tax reduction is from legislation that reduced the tax rate from 8% down to 7%, which is estimated to have a \$(64.0) million impact over FY 2002 and FY2003.

As noted in the Tax and Revenue Changes section above, the enacted budget also includes another \$(34.0) million in corporate income tax cuts that are contingent on the level of state tax revenues in FY 2001 and FY 2002.

There are a number of corporate income tax issues to monitor over the next biennium. First, it is difficult to determine when the recently reported slowing in corporate profits will begin to show up in the actual state tax collection amounts. It may take a number of years before the state realizes the full extent of any reductions in tax collections as a result of the recent slowing of the economy. Furthermore, it will be difficult to predict the extent of any potential revenue decline. The forecast, however, builds in a fairly sharp decline in baseline tax collections (15.2% in FY 2001, but only 3.0% in FY 2002 and FY 2003).

Other General Fund Revenues

Other General Fund revenue sources include other tax categories such as Property Tax, Luxury Tax, Insurance Premium Tax, Estate Tax, and other miscellaneous tax categories. Also included are non-tax revenue sources such as the Lottery, Licenses, Fees and Permits, Interest, Disproportionate Share Revenue, and transfers and reimbursements. As noted in [Chart 1](#) above, these categories make up almost 4% of General Fund revenues (after netting out Urban Revenue Sharing). Following is a brief discussion of major variances in these categories.

Insurance Premium Tax

The FY 2001 forecast for this category is based on Department of Insurance estimates. The FY 2001 increase of 13.3% is based on significantly higher than anticipated life insurance premium volume of 21.4% in CY 2000. The current JLBC forecast assumes no change from FY 2001 collections for FY 2002 and FY 2003. DOI has indicated that an updated forecast for FY 2002 and FY 2003 insurance premium tax collections will be provided pending a thorough review of actual FY 2001 collections and CY 2000 data.

Motor Vehicle License Tax

The General Fund portion of the vehicle license tax has been phased out over several years, with FY 2001 representing the first year that the General Fund will receive no vehicle license tax.

Estate Tax

The current baseline forecast for estate tax over the biennium is for approximately \$80 million annually. The recently enacted federal tax cut bill includes a provision to phase out the federal estate tax over a period of years, and to reduce the states' death tax credit by 25% in FY 2002, 50% in FY 2003, 75% in FY 2004, and 100% in FY 2005. The estate tax forecast will be updated pending an evaluation of the impact of this legislation on the state's General Fund revenues.

Licenses, Fees and Permits

This category exhibits a significant increase in FY 2001 as the final lump sum payment of approximately \$25 million from a judgement related to an insurance bankruptcy is received. This large final payment is the primary reason for the increase, and the subsequent decrease in FY 2002.

Disproportionate Share

Disproportionate Share Hospital (DSH) program revenue represents money paid by the federal government to hospitals that disproportionately serve the indigent population. Payments are made to the state, which then transmits the funds to the counties. A portion of DSH revenue is withheld by the state for deposit into the state General Fund. Pursuant to Laws 2001, Chapter 344 (the Proposition 204 implementation bill), the state and county portions of the DSH program are phased out beginning in FY 2002. A small portion of DSH that is distributed to private hospitals will continue, but will not impact General Fund revenue. As a result, DSH revenue decreases from the original estimate of \$76.5 million to \$20.4 million in FY 2002, and from \$76.5 million to \$0 in FY 2003. These revenue decreases are offset by savings in the AHCCCS budget (see the AHCCCS "Acute Care" section for further information on DSH and Proposition 204).

Figure 1

BIENNIAL BUDGET LEGISLATIVE FORECAST (FY 2001 - FY 2003)

BASELINE REVENUE GROWTH ^{1/}										
(\$ in Thousands)										
	BASELINE ESTIMATE FY 2000	BASELINE ESTIMATE FY 2001	% CHANGE FY 2000 ACTUAL	\$ CHANGE FY 2000 ACTUAL	BASELINE FORECAST FY 2002	% CHANGE FY 2001 ADJUSTED	\$ CHANGE FY 2001 ADJUSTED	BASELINE FORECAST FY 2003	% CHANGE FY 2002 BASE	\$ CHANGE FY 2002 BASE
Taxes:										
Sales and Use	2,837,659.7	3,013,212.4	6.5%	183,905.0	3,218,902.8	7.0%	210,582.4	3,463,490.5	7.6%	244,587.7
Income -Individual	2,314,079.1	2,442,323.2	6.7%	152,994.3	2,616,800.2	8.3%	201,126.8	2,851,083.4	9.0%	234,283.2
-Corporate	538,216.1	602,916.1	15.2%	79,734.5	580,641.9	3.0%	16,911.9	598,061.3	3.0%	17,419.4
Property	41,443.9	39,953.8	-3.5%	(1,438.5)	38,791.1	-2.8%	(1,132.7)	38,478.8	-0.8%	(312.3)
Luxury	65,436.1	65,899.8	0.7%	463.7	66,293.7	0.6%	393.9	66,691.0	0.6%	397.3
Insurance Premium	160,701.3	182,000.0	13.3%	21,298.7	182,000.0	0.0%	0.0	182,000.0	0.0%	0.0
Motor Vehicle License	79,265.8	25,000.0	3.0%	734.2	0.0	-	0.0	0.0	-	0.0
Estate	80,644.3	75,000.0	-7.0%	(5,644.3)	80,000.0	6.7%	5,000.0	80,000.0	0.0%	0.0
Other Taxes	2,071.1	2,196.4	1.0%	21.7	2,229.4	1.5%	33.0	2,262.8	1.5%	33.4
Sub-Total - Taxes	6,119,517.4	6,448,501.7	7.2%	432,069.3	6,785,659.1	6.8%	432,915.3	7,282,067.8	7.3%	496,408.7
Other Non-Tax Revenues:										
Lottery	21,000.0	20,574.9	-2.0%	(425.1)	19,878.7	-3.4%	(696.2)	18,626.7	-6.3%	(1,252.0)
Licenses, Fees and Permits	90,557.0	121,611.4	34.3%	31,054.4	121,900.2	0.2%	288.8	117,296.3	-3.8%	(4,603.9)
Interest	77,702.1	83,000.0	6.8%	5,297.9	80,000.0	-3.6%	(3,000.0)	85,000.0	6.3%	5,000.0
Transfers and Reimbursements	26,222.1	30,615.7	16.8%	4,393.6	30,615.7	1.6%	486.9	30,615.7	0.0%	0.0
Disproportionate Share Revenue	101,667.9	76,490.0	-24.8%	(25,177.9)	56,107.4	0.0%	0.0	56,107.4	0.0%	0.0
Balance Transfers	4,393.6	7,433.4	69.2%	3,039.8	0.0	-	(7,433.4)	0.0	-	0.0
Sub-Total - Non-Tax	321,542.7	339,725.4	5.7%	18,182.7	308,502.0	-3.2%	(10,353.9)	307,646.1	-0.3%	(855.9)
Total Base Revenue	6,441,060.1	6,788,227.1	7.1%	450,252.0	7,094,161.1	6.3%	422,561.4	7,589,713.9	7.0%	495,552.8
Dedicated 301 Sales Tax	-	-	N/A	N/A	485,976.6	N/A	N/A	524,698.6	8.0%	38,722.0
Base Revenue w/301	6,441,060.1	6,788,227.1	7.1%	450,252.0	7,580,137.7	13.6%	908,538.0	8,114,412.5	7.0%	534,274.8
Urban Revenue Sharing (URS)	(377,711.0)	(396,452.6)	5.0%	(18,741.6)	(421,876.6)	6.4%	(25,424.0)	(446,910.5)	5.9%	(25,033.9)
Base Revenue w/301 & URS	6,063,349.1	6,391,774.5	7.2%	431,510.4	7,158,261.1	14.1%	883,114.0	7,667,502.0	7.1%	509,240.9

^{1/} The baseline forecast represents revenue growth prior to accounting for tax law changes. The FY 2001 and FY 2002 baselines are compared to prior year actual revenues. The FY 2003 baseline is compared to the FY 2002 baseline as part of the biennial budget.

Figure 2

BIENNIAL BUDGET LEGISLATIVE FORECAST (FY 2001 - FY 2003)

ADJUSTED REVENUE GROWTH ^{1/}										
(\$ in Thousands)										
	ACTUAL REVENUE FY 2000	ADJUSTED ESTIMATE FY 2001	% CHANGE FY 2000 ACTUAL	\$ CHANGE FY 2000 ACTUAL	ADJUSTED FORECAST FY 2002	% CHANGE FY 2001 ADJUSTED	\$ CHANGE FY 2001 ADJUSTED	ADJUSTED FORECAST FY 2003	% CHANGE FY 2002 ADJUSTED	\$ CHANGE FY 2002 ADJUSTED
Taxes:										
Sales and Use ^{2/}	2,829,307.4	3,008,320.4	6.3%	179,013.0	3,217,138.2	6.9%	208,817.8	3,460,173.4	7.6%	243,035.2
Income -Individual	2,289,328.9	2,415,673.4	5.5%	126,344.5	2,552,717.4	5.7%	137,044.0	2,785,415.1	9.1%	232,697.7
-Corporate	523,181.6	563,730.0	7.8%	40,548.4	538,130.2	-4.5%	(25,599.8)	555,306.6	3.2%	17,176.4
Property	41,392.3	39,923.8	-3.5%	(1,468.5)	36,526.2	-8.5%	(3,397.6)	34,475.6	-5.6%	(2,050.6)
Luxury	65,436.1	65,899.8	0.7%	463.7	66,293.7	0.6%	393.9	66,691.0	0.6%	397.3
Insurance Premium	160,701.3	182,000.0	13.3%	21,298.7	182,000.0	0.0%	0.0	182,000.0	0.0%	0.0
Motor Vehicle License	24,265.8	0.0	-100.0%	(24,265.8)	0.0	-	0.0	-	-	0.0
Estate	80,644.3	75,000.0	-7.0%	(5,644.3)	80,000.0	6.7%	5,000.0	80,000.0	0.0%	0.0
Other Taxes	2,174.7	2,196.4	1.0%	21.7	2,229.4	1.5%	33.0	2,262.8	1.5%	33.4
Sub-Total - Taxes	<u>6,016,432.4</u>	<u>6,352,743.8</u>	5.6%	336,311.4	6,675,035.1	5.1%	322,291.3	7,166,324.5	7.4%	491,289.4
Other Non-Tax Revenues:										
Lottery	21,000.0	20,574.9	-2.0%	(425.1)	19,878.7	-3.4%	(696.2)	18,626.7	-6.3%	(1,252.0)
Licenses, Fees and Permits	90,557.0	121,611.4	34.3%	31,054.4	101,900.2	-16.2%	(19,711.2)	97,296.3	-4.5%	(4,603.9)
Interest	77,702.1	83,000.0	6.8%	5,297.9	80,000.0	-3.6%	(3,000.0)	85,000.0	6.3%	5,000.0
Transfers and Reimbursements	26,222.1	30,128.8	14.9%	3,906.7	88,540.5	193.9%	58,411.7	59,256.3	-33.1%	(29,284.2)
Disproportionate Share Revenue	101,667.9	56,107.4	-44.8%	(45,560.5)	20,382.6	-63.7%	(35,724.8)	-	-100.0%	(20,382.6)
Balance Transfers	4,393.6	7,433.4	69.2%	3,039.8	0.0	-100.0%	(7,433.4)	0.0	-	0.0
Sub-Total - Non-Tax	<u>321,542.7</u>	<u>318,855.9</u>	-0.8%	(2,686.8)	310,702.0	-2.6%	(8,153.9)	260,179.3	-16.3%	(50,522.7)
Total Adjusted Revenue	6,337,975.1	6,671,599.7	5.3%	333,624.6	6,985,737.1	4.7%	314,137.4	7,426,503.8	6.3%	440,766.7
Dedicated 301 Sales Tax ^{3/}		0.0	N/A	N/A	485,976.6	N/A	N/A	524,698.6	8.0%	38,722.0
Adjusted Revenue w/ 301	6,337,975.1	6,671,599.7	5.3%	333,624.6	7,471,713.7	12.0%	800,114.0	7,951,202.4	6.4%	479,488.7
Urban Revenue Sharing (URS)	(377,711.0)	(396,452.6)	5.0%	(18,741.6)	(421,876.6)	6.4%	(25,424.0)	(446,910.5)	5.9%	(25,033.9)
Adjusted Revenue w/ 301 & URS	5,960,264.1	6,275,147.1	5.3%	314,883.0	7,049,837.1	12.3%	774,690.0	7,504,291.9	6.4%	454,454.8

1/ The adjusted revenue forecast includes tax law changes and represents a "bottom line" revenue growth estimate.

2/ See below for Proposition 301 0.6% forecast amounts.

3/ 0.6% sales tax for education authorized by Proposition 301.

Figure 3

BASELINE REVENUE ADJUSTMENTS BY CATEGORY			
(\$ in Thousands)			
	<u>FY 2001</u> ^{1/}	<u>FY 2002</u> ^{1/}	<u>FY 2003</u> ^{1/}
Summary By Category:			
Tax Law Changes			
Sales & Use Tax	(4,892.0)	(1,764.6)	(3,317.1)
Individual Income Tax	(26,649.8)	(64,082.8)	(65,668.3)
Corporate Income Tax	(39,186.1)	(42,511.7)	(42,754.7)
Property Tax	(30.0)	(2,264.9)	(4,003.2)
Motor Vehicle License Tax (VLT)	(25,000.0)	0.0	0.0
Subtotal - Tax Law Changes	<u>(95,757.9)</u>	<u>(110,624.0)</u>	<u>(115,743.3)</u>
Other Revenue Adjustments			
Disproportionate Share	(20,382.6)	(35,724.8)	(56,107.4)
Licenses and Fees	0.0	(20,000.0)	(20,000.0)
Transfers & Reimbursements	(486.9)	57,924.8	28,640.6
Subtotal - Other Revenue Adjustment	<u>(20,869.5)</u>	<u>2,200.0</u>	<u>(47,466.8)</u>
TOTAL REVENUE CHANGES	<u>(116,627.4)</u>	<u>(108,424.0)</u>	<u>(163,210.1)</u>
Proposition 301 Sales Taxes ^{5/}	0.0	485,976.6	524,698.6

ADJUSTMENTS BY INDIVIDUAL LEGISLATION

Ch.	Reference Title	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	Revenue Category
45th Legislature - 1st Regular Session:					
232	Supplemental Appropriations; (Corrections Fund Transfer)	0.0	15,000.0	0.0	Transfers
235	Conditional Appropriations; Taxation (reduce Individual Income Tax Standard Deduction)	0.0	(15,000.0)	(15,000.0)	Individual
261	Department of Revenue; Confidentiality	0.0	1,400.0	1,300.0	Individual
277	Nuclear Emergency Appropriation/Assessment	0.0	924.8	940.6	Transfers
286	Flight Property Tax Revenues ^{2/}	0.0	0.0	0.0	Property
296	Internal Revenue Code Conformity	(470.0)	(628.0)	(845.0)	Corporate
		<u>(123.0)</u>	<u>(157.0)</u>	<u>(262.0)</u>	Individual
	Subtotal - Chapter 296	<u>(593.0)</u>	<u>(785.0)</u>	<u>(1,107.0)</u>	
344	AHCCCS; Proposition 204	(20,382.6)	(35,724.8)	(56,107.4)	Dispro Share
370	Enterprise Zone Program; Extension		cannot be determined		Corporate
380	Retirement Benefits; Defined Contribution	0.0	(300.0)	(300.0)	Individual
382	Equity Tax Act; Archaic Laws	0.0	(552.8)	(552.8)	Individual
na	Water Banking Fees	0.0	2,000.0	2,700.0	Transfers
na	Sale of Assets (revenue increase)	0.0	15,000.0	0.0	Transfers
na	License and Fees Adjustment ^{3/}	0.0	(20,000.0)	(20,000.0)	Other
	Session Total	<u>(20,975.6)</u>	<u>(38,037.8)</u>	<u>(88,126.6)</u>	
44th Legislature - 7th Special Session:					
1	Alternative Fuels Program Changes ^{4/}	(4,427.0)	4,427.0	4,427.0	Individual
	Session Total	<u>(4,427.0)</u>	<u>4,427.0</u>	<u>4,427.0</u>	
44th Legislature - 5th Special Session:					
1	Education 2000; Programs				
	Low-income Tax Credit	0.0	(41,600.0)	(41,600.0)	Individual
	Tuition Tax Credit	0.0	(3,750.0)	(3,847.5)	Individual
	Reimbursement of General Fund	0.0	25,000.0	25,000.0	Transfers
	Proposition 301 Sales Tax		^{5/}	^{5/}	
	Session Total	<u>0.0</u>	<u>(20,350.0)</u>	<u>(20,447.5)</u>	
44th Legislature - 2nd Regular Session:					
111	Board of Athletic Training	60.0	0.0	0.0	Transfers
168	Victim Compensation; Unclaimed Restitution	(83.3)	0.0	0.0	Transfers
214	Renewable Energy; Tax Incentive	(40.7)	(2.1)	(4.3)	Sales
		0.0	0.0	(57.0)	Individual
		0.0	0.0	(8.8)	Property
	Subtotal - Chapter 214	<u>(40.7)</u>	<u>(2.1)</u>	<u>(70.1)</u>	

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Revenue Category</u>
209	Named Claimants; Appropriations	(103.6)	0.0	0.0	Transfers
239	Technology Training; Tax Credit	0.0	(2,500.0)	(2,500.0)	Corporate
		0.0	(300.0)	(300.0)	Individual
	Subtotal - Chapter 239	0.0	(2,800.0)	(2,800.0)	
252	Internal Revenue Code Conformity	(2,116.0)	(464.0)	2,160.0	Individual
		36.0	154.0	128.0	Corporate
	Subtotal - Chapter 252	(2,080.0)	(310.0)	2,288.0	
258	Cemeteries; Property Tax Exemption Process	0.0	0.0	(7.3)	Property
267	Agricultural Preservation District	0.0	(100.0)	(100.0)	Individual
313	Tax Credits; Character Instruction	0.0	(75.0)	(75.0)	Individual
359	Spaceport; Launch Site; Exemption	(18.3)	0.0	0.0	Sales
372	Tourism and Sports Authority	0.0	(3,500.0)	(7,350.0)	Individual
		0.0	(1,512.5)	(3,062.8)	Sales
	Subtotal - Chapter 372	0.0	(5,012.5)	(10,412.8)	
381	Appropriation; Floodway Control	(360.0)	0.0	0.0	Transfers
384	Property Tax; Electrical Generation Facilities	0.0	(2,234.9)	(3,957.1)	Property
394	Tuition Tax Credit; Handicapped Preschoolers	0.0	(100.0)	(100.0)	Individual
405	2000 Clean Air Act	0.0	192.3	192.3	Corporate
		(15,750.0)	96.1	96.1	Individual
	Subtotal - Chapter 405	(15,750.0)	288.4	288.4	
	Session Total	(18,375.9)	(10,346.1)	(14,945.9)	
<u>44th Legislature - 1st Special Session:</u>					
5	VLT Rate Reductions	(20,000.0)	0.0	0.0	VLT
5	<u>Enacted Triggers:</u>				
	Reduce Mining Severance	(3,333.0)	0.0	0.0	Sales
	Corporate Tax Rate Reductions				
	R & D Tax Credit Cap	(5,000.0)	(5,000.0)	(5,000.0)	Corporate
	Personal Property Tax	(30.0)	(30.0)	(30.0)	Property
	Additional VLT Rate Reductions	(5,000.0)	0.0	0.0	VLT
	Subtotal - Triggers	(45,363.0)	(37,030.0)	(37,030.0)	
	Session Total	(65,363.0)	(37,030.0)	(37,030.0)	
<u>44th Legislature - 1st Regular Session:</u>					
50	Public Retirement; Benefits	(1,766.7)	0.0	0.0	Individual
168	Alternative Fuel Vehicles	(1,052.1)	0.0	0.0	Corporate
		(427.1)	(427.1)	(427.1)	Individual
	Subtotal - Chapter 168	(1,479.2)	(427.1)	(427.1)	
183	Tax Sharing; Indian Tribal Colleges	(1,500.0)	(250.0)	(250.0)	Sales
190	Corporate Income Tax; Income Allocation	(700.0)	(700.0)	(700.0)	Corporate
250	Taxpayer Bill of Rights	(400.0)	200.0	200.0	Individual
317	Taxation; Internal Revenue Code Conformity	0.0	(2,030.0)	(2,030.0)	Corporate
		(1,640.0)	(3,880.0)	(3,880.0)	Individual
	Subtotal - Chapter 317	(1,640.0)	(5,910.0)	(5,910.0)	
	Session Total	(7,485.9)	(7,087.1)	(7,087.1)	
TOTAL - All Sessions		(116,627.4)	(108,424.0)	(163,210.1)	

1/ Adjustments for FY 2001 reflect estimated change from FY 2000, and adjustments for FY 2002 and FY 2003 both reflect estimated changes from FY 2001. FY 2003 adjustments do not reflect incremental changes from FY 2002.

2/ This legislation is anticipated to have a \$7.5 million impact beginning in FY 2004.

3/ A one-time payment of an additional \$20 million from a judgement related to an insurance bankruptcy occurred in FY 2001. An offsetting adjustment is made to result in no permanent gain from this one-time payment for FY 2002 and FY 2003.

4/ An estimated one-time \$4.4 million loss to the individual income tax category will occur in FY 2001 as a result of the recently enacted Alternative Fuels Program. This loss will not occur in FY 2002 or FY 2003. Since the amounts displayed in FY 2002 and FY 2003 are in comparison to FY 2001, an offsetting adjustment is made to result in no permanent loss to the General Fund.

5/ Proposition 301 sales tax increase of 0.6%. While this revenue is part of the General Fund, it is dedicated to be used exclusively for education related expenditures. Estimated revenues are \$486.0 million in FY 2002, and \$524.7 million in FY 2003.