

GENERAL FUND REVENUE

Summary of General Fund Forecast

The FY 2004 budget assumes that both the national and Arizona economies will show continued signs of slow recovery in FY 2004. The budget is built on a baseline revenue growth rate (excluding one-time financing sources and previously enacted legislative changes) of 4.6% in FY 2004 compared to forecasted FY 2003 baseline growth of (2.3)%.

After adjusting for on-going tax law and other revenue changes, as well as one-time financing sources, the net adjusted revenue growth rate in the FY 2004 budget is projected to be 4.6% in FY 2004, compared to a (3.4)% decline in FY 2003. In dollar terms, net adjusted revenues are expected to equal \$6,030.2 million in FY 2003, and \$6,305.8 million in FY 2004.

The detailed enacted budget revenue forecast appears in Table 5 and Table 6 at the end of this section. These figures include baseline and adjusted forecasts for each revenue category. The FY 2003 estimates in these tables are based on the compromise forecast used in the 1st Special Session. Actual FY 2003 revenue collections exceeded projections. Table 7 and Table 8 at the end of this section include the preliminary actual collections for FY 2003. The FY 2004 revenues remain the same as in Table 5 and Table 6, but the FY 2004 percentage changes are different due to the revised FY 2003 base.

As noted in Table 8, exclusive of one-time financing sources, FY 2004 revenue collections will have to grow by 3.7% over preliminary actual FY 2003 collections in order to meet the enacted budget forecast.

Tax Law and Revenue Changes

The adjusted revenue forecast provided in Table 6 and Table 8 includes a net decrease of \$(92.5) million for FY 2003 tax law changes, revenue changes, and one-time financing sources compared to FY 2002. In comparison to FY 2003, tax law changes, revenue changes, and one-time financing source changes total \$(61.3) million for FY 2004.

As noted in Table 1 below, these revenue adjustments are the net result of tax reductions and revenue changes enacted by several regular and special sessions of the Legislature.

The revenue changes decrease of \$(92.5) million for FY 2003 consists primarily of the net impact of one-time revenue enhancements enacted by the Legislature for FY 2002, partially offset by one-time financing sources

(mostly fund transfers) enacted by the Legislature for FY 2003.

The revenue changes decrease of \$(61.3) million in FY 2004 is due primarily to the net impact of one-time fund transfers in FY 2003, partially offset by tax law and revenue changes enacted for FY 2004.

The estimates of FY 2003 tax law and revenue changes are new changes over and above already enacted FY 2002 tax laws, and the FY 2004 changes are over and above FY 2003. Table 9 at the end of this narrative provides a summary of the FY 2003 and FY 2004 legislative and revenue changes.

Table 1

Legislative and Revenue Changes (\$ in Thousands)

	FY 03	FY 04
<u>Enacted Prior to July 2002</u>		
-Tax Law Changes	\$ 3,393.2	\$(26,310.0)
-Other Revenue Changes	(45,260.3)	(55,849.6)
-One-Time Financing Sources	<u>(337,570.7)</u>	<u>(184,101.6)</u>
Subtotal	(379,437.8)	(266,261.2)
<u>Enacted After July 2002 ^{1/}</u>		
-Tax Law Changes	5,838.0	147,139.1
-Other Revenue Changes	0.0	14,131.1
-One-Time Financing Sources	<u>281,119.5</u>	<u>43,737.5</u>
Subtotal	286,957.5	205,007.7
Total – Tax Law Changes	9,231.2	120,829.1
Total – Other Revenue Changes	(45,260.3)	(41,718.5)
Total – One-Time Financing Sources	<u>(56,451.2)</u>	<u>(140,364.1)</u>
Total	<u>\$(92,480.3)</u>	<u>\$(61,253.5)</u>

^{1/} Includes 45th Legislature – 6th Special Session, and 46th Legislature – 1st Special and 1st Regular Sessions.

FY 2004 Revenue Changes

Following are explanations for major legislative and revenue adjustments included in the FY 2004 enacted budget:

Ladewig Reserve – Based on the 2001 Arizona Supreme Court decision in the *Ladewig v. State of Arizona* case, the state is required to refund individual income taxes paid on non-Arizona dividends earned for the years 1986 through 1989. Payments and related costs associated with this case are expected to total approximately \$348 million over the next 5 years.

Laws 2002, Chapter 321 provided a \$75 million “set-aside” for the FY 2003 payments and costs associated with the Ladewig case. Laws 2003, 1st Special Session, Chapter 2 reduced this allocation for FY 2003 to \$15 million. These remaining monies were to pay administrative costs associated with the settlement.

Laws 2003, Chapter 263 as transmitted to the Governor allocated \$75 million for Ladewig for FY 2004. Of this amount, \$7.3 million was for administrative costs, and the remainder would be set aside for taxpayer refunds. The Governor line-item vetoed the FY 2004 set-aside. The Governor’s intent was to provide an additional \$75 million to the FY 2004 General Fund balance. As a result of the veto, there is no new funding available for administrative costs. Laws 2003, Chapter 263, Section 67 does make any unused FY 2003 monies available for use in FY 2004.

Table 2 below provides a summary of the budget allocation as enacted for FY 2003 and FY 2004, and the associated annual costs of the settlement. Most of the FY 2005-2007 expenses reflect taxpayer refunds. Of the total refund, 50% is to be paid in FY 2005 and 25% in both FY 2006 and FY 2007.

Ladewig Settlement (\$ in Millions)			
<u>Fiscal Year</u>	<u>Budget Allocation</u>	<u>Cost</u>	<u>Balance</u>
2003	15.0	13.5	1.5
2004	0.0	7.3	(5.8)
2005	--	161.7	--
2006	--	81.4	--
2007	--	84.1	--

Department of Revenue (DOR) Revenue Generating Program – The FY 2004 enacted budget includes a \$6.6 million appropriation and 153 new FTE positions for an expansion of the DOR revenue generating program, which was begun in FY 2003. This program is anticipated to generate \$53.2 million in sales tax, individual income tax, and corporate income tax revenues in FY 2004, through increased audit and collections activity. The \$53.2 million estimate includes \$25.4 million of sales tax, \$18.7 million individual income tax, and \$9.1 million corporate income tax.

Tax Amnesty – Included in the FY 2004 revenue estimate is \$25 million from the DOR tax amnesty program. The program provides for abated penalties and reduced interest on unpaid sales and income tax liability from 1983 through January 1, 2003. One third of the tax liability must be paid by October 31, 2003, and the remaining balance must be paid by May 1, 2004. The program is anticipated to generate \$18 million in on-going revenue, including \$9 million of sales tax, \$4.5 million in individual income tax, and \$4.5 million in corporate income tax. The program is

also anticipated to generate \$7 million in one-time tax revenue.

Withholding Tax – The enacted FY 2004 budget includes two changes to withholding tax. The state’s withholding tax is a percentage of federal withholding tax. Federal tax reductions included in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 will result in reduced federal withholding taxes. As a result, the state’s withholding tax revenue would have been reduced by an estimated \$14 million. The enacted budget includes an increase in the state’s withholding tax rates to hold the state harmless from the federal tax reductions.

In addition, the enacted budget includes a provision to implement a minimum \$5 per month withholding tax. The minimum withholding tax is estimated to generate approximately \$5 million in additional individual income tax revenue in FY 2004.

Federal Cash Assistance – One of the provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 is a flexible assistance grant to the states. The grant is to be used for the provision of essential government services. Arizona’s share of this grant is estimated to be \$174.5 million. The enacted FY 2004 budget includes this amount as a one-time resource to the General Fund. However, half of the amount, or \$87 million, was received in FY 2003 (June 2003), and will be carried forward as part of the FY 2004 General Fund beginning balance.

Urban Revenue Sharing (URS) – The FY 2004 URS distribution of \$365.1 million to incorporated cities and towns is \$(65.5) million less than the FY 2003 distribution of \$430.6 million. The URS distribution is based on individual and corporate income tax collections from two years prior. The reduction is a result of reduced income tax collections in FY 2002. The FY 2004 distribution percentage remains at the FY 2003 rate of 14.8%.

Other Revenue Adjustments – The enacted budget includes \$21.1 million of miscellaneous one-time revenue sources for FY 2004. The following are included in this category:

- Through FY 2003, 50% of flight property tax revenue was deposited into the General Fund, and 50% was deposited into the Aviation Fund. Laws 2001, Chapter 286 provided that, beginning in FY 2004, 100% of flight property tax revenue would be deposited into the Aviation Fund. The enacted budget defers this change until FY 2005.
- Liquor penalties are increased in order to fund an increased liquor license enforcement positions.
- Bill Pima County for adult and juvenile probation costs will continue in FY 2004. This billing began in FY 2003.

- Aviation civil penalties are redirected to the General Fund.
- Arizona Department of Transportation civil penalties previously deposited into the Clean Air Fund are redirected to the General Fund. Existing statute eliminates the Clean Air Fund.
- Sell the state-owned Black Canyon office building to Maricopa County.
- Sell the Department of Corrections Arizona Center for Women (32nd Street and Van Buren) to Maricopa County.
- Maricopa County is billed for state operations in both FY 2004 and FY 2005.
- The state will receive a portion of the settlement related to the national securities industry lawsuit.
- Assess the consortium of corporations that operate the Palo Verde Nuclear Generating Station for costs related to the emergency management program funded by the Nuclear Emergency Management Fund.
- Department of Health Services audiologist fees are increased in order to fund the licensing of audiologists.

Table 3 below provides a summary of these one-time miscellaneous revenue sources.

Table 3	
Miscellaneous One-Time FY 2004 Revenues	
(\$ in Thousands)	
<u>Revenue Source</u>	<u>Amount</u>
Flight Property Tax	\$ 7,000.0
Liquor Civil Penalties	128.4
Pima County Probation Billing	1,381.9
Aviation Civil Penalties	33.0
ADOT Civil Penalties	142.0
Black Canyon Building	1,800.0
32 nd St. and Van Buren Property	3,000.0
Maricopa County Billing	5,402.8
Securities Industry Lawsuit Settlement	1,100.0
Nuclear Emergency Management	1,013.0
DHS Audiologist Fees	<u>130.0</u>
Total	<u>\$21,131.1</u>

Development of General Fund Revenue Forecast

Table 4 below summarizes baseline revenue assumptions used through the various stages of budget development.

Table 4	
Baseline Revenue Change Assumptions	
	<u>Percent Change</u>
<u>FY 2003</u>	
Adopted FY 2003 Budget	4.2%
JLBC Chairmen's Proposal (1/03)	(3.2)%
Governor's Forecast (1/03)	(1.4)%
Compromise Forecast	(2.3)%
Preliminary Actual FY 2003	0.7%
<u>FY 2004</u>	
JLBC Chairmen's Proposal	0.2%
Governor's Forecast	4.5%
Enacted Budget Forecast	4.6%

FY 2003

The adopted FY 2003 budget assumed a baseline General Fund revenue growth rate for the fiscal year of 4.2%. Revenue collections were significantly lower than anticipated throughout the first half of the fiscal year, with year-to-date collections through December a total of (3.3)% below previous year's collections.

In January 2003, the JLBC Chairmen's Budget Proposal estimated that baseline FY 2003 revenues would decrease by (3.2)% compared to the previous year. The Governor's proposal estimated that baseline FY 2003 revenues would decrease by (1.4)%.

The compromise FY 2003 forecast included in the enacted FY 2004 budget included an estimated decrease of (2.3)% for baseline FY 2003 revenue collections. Based on strong June collections, preliminary FY 2003 actual revenue collections are 0.7% over the previous year.

FY 2004

The January 2003 JLBC Chairmen's Budget Proposal estimated baseline FY 2004 revenue growth at 0.2%. The Governor's proposal estimated an increase of 4.5%. The enacted budget is essentially based on the Governor's projected FY 2004 growth rate.

Table 5

FY 2004 GENERAL FUND REVENUES COMPARED TO FY 2003 FORECAST

BASELINE REVENUE GROWTH ^{1/}							
(\$ in Thousands)							
	BASELINE ESTIMATE FY 2002	BASELINE FORECAST FY 2003	% CHANGE FY 2002 ACTUAL	\$ CHANGE FY 2002 ACTUAL	BASELINE FORECAST FY 2004	% CHANGE FY 2003 ADJUSTED	\$ CHANGE FY 2003 ADJUSTED
Taxes:							
Sales and Use	3,002,148.4	3,043,059.5	1.4%	42,675.7	3,104,511.0	1.9%	58,323.5
Income							
-Individual	2,066,823.4	2,009,995.9	-3.7%	(76,652.8)	2,124,333.3	5.4%	107,950.9
-Corporate	383,740.0	265,133.0	-23.4%	(81,147.4)	387,853.0	35.9%	102,435.0
Property	37,916.5	35,038.3	-1.8%	(643.3)	32,000.0	-3.9%	(1,300.0)
Luxury	66,069.6	66,104.0	0.1%	34.4	66,427.0	0.5%	323.0
Insurance Premium	195,333.0	217,845.7	11.5%	22,512.7	217,656.2	-0.1%	(189.5)
Estate	80,552.2	105,000.0	30.4%	24,447.8	86,170.0	0.0%	0.0
Other Taxes	2,223.5	4,762.8	114.2%	2,539.3	4,762.8	0.0%	0.0
Sub-Total - Taxes	5,834,806.6	5,746,939.2	-1.1%	(66,233.6)	6,023,713.3	4.6%	267,542.9
Other Non-Tax Revenues:							
Lottery	21,000.0	30,000.0	-3.2%	(1,000.0)	30,000.0	0.0%	0.0
Licenses, Fees and Permits	128,751.5	100,495.2	-7.6%	(8,256.3)	100,295.2	0.0%	0.0
Interest	33,023.7	15,000.0	-54.6%	(18,023.7)	20,000.0	33.3%	5,000.0
Transfers and Reimbursements	95,056.8	47,284.3	-51.0%	(49,172.2)	24,382.6	13.4%	2,882.5
Disproportionate Share Revenue	64,200.7	87,623.9	0.0%	(1.0)	87,623.9	0.0%	0.0
Sub-Total - Non-Tax	342,032.7	280,403.4	-21.4%	(76,453.2)	262,301.7	3.1%	7,882.5
Subtotal Base Revenue	6,176,839.3	6,027,342.6	-2.3%	(142,686.8)	6,286,015.0	4.6%	275,425.4
Urban Revenue Sharing (URS)	(421,876.6)	(426,288.8)	1.0%	(4,412.2)	(369,215.5)	-14.2%	61,349.4
Litigation/Other Set-Aside	0.0	0.0	N/A	0.0	(15,000.0)	0.0%	0.0
Base Revenue w/URS/Litigation	5,754,962.7	5,601,053.8	-2.6%	(147,099.0)	5,901,799.5	6.1%	336,774.8
One-Time Financing Sources:							
FY 2002 Transfers/Other One-Time	(30,500.0)	521,672.3	6.2%	30,500.0	0.0	-100.0%	(0.0)
FY 2003 Disproportionate Share	0.0	0.0	N/A	0.0	61,677.2	0.0%	0.0
FY 2003 Prison Funding	0.0	0.0	N/A	0.0	3,800.0	0.0%	0.0
FY 2003 Transfers - 2nd RS/6th SS/1st SS	0.0	0.0	N/A	0.0	348,843.9	0.0%	0.0
FY 2003 Asset Sales - 1st SS	0.0	0.0	N/A	0.0	50,900.0	0.0%	0.0
FY 2004 Transfers - 1st RS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Disproportionate Share - 1st RS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Tax Amnesty - 1st RS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Federal Cash Assistance	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Use of Ladewig Reserve	0.0	0.0	N/A	0.0	0.0	N/A	0.0
Sub-Total - One-Time Financing Sources	(30,500.0)	521,672.3	6.2%	30,500.0	465,221.1	0.0%	(0.0)
Total Base Revenue	5,724,462.7	6,122,726.1	-1.9%	(116,599.0)	6,367,020.6	5.6%	336,774.8

^{1/} The baseline forecast represents revenue growth prior to accounting for tax law and other one-time changes.

Table 6

FY 2004 GENERAL FUND REVENUES COMPARED TO FY 2003 FORECAST

ADJUSTED REVENUE GROWTH ^{1/}							
(\$ in Thousands)							
	ACTUAL FY 2002	ADJUSTED FORECAST FY 2003	% CHANGE FY 2002 ACTUAL	\$ CHANGE FY 2002 ACTUAL	ADJUSTED FORECAST FY 2004	% CHANGE FY 2003 ADJUSTED	\$ CHANGE FY 2003 ADJUSTED
Taxes:							
Sales and Use	3,000,383.8	3,046,187.5	1.5%	45,803.7	3,135,795.0	2.9%	89,607.5
Income							
-Individual	2,086,648.7	2,016,382.4	-3.4%	(70,266.3)	2,150,248.3	6.6%	133,865.9
-Corporate	346,280.4	285,418.0	-17.6%	(60,862.4)	401,065.0	40.5%	115,647.0
Property	35,681.6	33,300.0	-6.7%	(2,381.6)	32,000.0	-3.9%	(1,300.0)
Luxury	66,069.6	66,104.0	0.1%	34.4	66,427.0	0.5%	323.0
Insurance Premium	195,333.0	217,845.7	11.5%	22,512.7	287,384.3	31.9%	69,538.6
Estate	80,552.2	86,170.0	7.0%	5,617.8	66,860.0	-22.4%	(19,310.0)
Other Taxes	2,223.5	4,762.8	114.2%	2,539.3	4,762.8	0.0%	0.0
Sub-Total - Taxes	5,813,172.8	5,756,170.4	-1.0%	(57,002.4)	6,144,542.4	6.7%	388,372.0
Other Non-Tax Revenues:							
Lottery	31,000.0	30,000.0	-3.2%	(1,000.0)	30,000.0	0.0%	0.0
Licenses, Fees and Permits	108,751.5	100,295.2	-7.8%	(8,456.3)	100,728.6	0.4%	433.4
Interest	33,023.7	15,000.0	-54.6%	(18,023.7)	20,000.0	33.3%	5,000.0
Transfers and Reimbursements	96,456.5	21,500.1	-77.7%	(74,956.4)	38,080.3	77.1%	16,580.2
Disproportionate Share Revenue	87,624.9	87,623.9	0.0%	(1.0)	87,623.9	0.0%	0.0
Sub-Total - Non-Tax	356,856.6	254,419.2	-28.7%	(102,437.4)	276,432.8	8.7%	22,013.6
Subtotal Adjusted Revenue	6,170,029.4	6,010,589.6	-2.6%	(159,439.8)	6,420,975.2	6.8%	410,385.6
Urban Revenue Sharing (URS)	(421,876.6)	(430,564.9)	2.1%	(8,688.3)	(365,065.1)	-15.2%	65,499.8
Litigation/Other Set-Aside	0.0	(15,000.0)	N/A	(15,000.0)	(75,000.0)	400.0%	(60,000.0)
Adjusted Revenue w/URS/Litigation	5,748,152.8	5,565,024.7	-3.2%	(183,128.1)	5,980,910.1	7.5%	415,885.4
One-Time Financing Sources:							
FY 2002 Transfers/Other One-Time	491,172.3	0.0	-100.0%	(491,172.3)	0.0	-100.0%	(0.0)
FY 2003 Disproportionate Share	0.0	61,677.2	N/A	61,677.2	0.0	-100.0%	(61,677.2)
FY 2003 Prison Funding	0.0	3,800.0	N/A	3,800.0	0.0	-100.0%	(3,800.0)
FY 2003 Transfers - 2nd RS/6th SS/1st SS	0.0	348,843.9	N/A	348,843.9	0.0	-100.0%	(348,843.9)
FY 2003 Asset Sales - 1st SS	0.0	50,900.0	N/A	50,900.0	0.0	-100.0%	(50,900.0)
FY 2004 Transfers - 1st RS	0.0	0.0	N/A	0.0	49,500.0	N/A	49,500.0
FY 2004 Disproportionate Share - 1st RS	0.0	0.0	N/A	0.0	18,857.0	N/A	18,857.0
FY 2004 Tax Amnesty - 1st RS	0.0	0.0	N/A	0.0	7,000.0	N/A	7,000.0
FY 2004 Federal Cash Assistance	0.0	0.0	N/A	0.0	174,500.0	N/A	174,500.0
FY 2004 Use of Ladewig Reserve	0.0	0.0	N/A	0.0	75,000.0	N/A	75,000.0
Sub-Total - One-Time Financing Sources	491,172.3	465,221.1	-5.3%	(25,951.2)	324,857.0	-30.2%	(140,364.1)
Total Adjusted Revenue	6,239,325.1	6,030,245.8	-3.4%	(209,079.3)	6,305,767.1	4.6%	275,521.3

^{1/} The adjusted revenue forecast includes tax law and other one-time changes and represents a "bottom line" revenue growth estimate.

Table 7

FY 2004 GENERAL FUND REVENUES COMPARED TO FY 2003 PRELIMINARY ACTUAL

BASELINE REVENUE GROWTH ^{1/}							
(\$ in Thousands)							
	BASELINE ESTIMATE FY 2002	PRELIMINARY BASELINE FY 2003	% CHANGE FY 2002 ACTUAL	\$ CHANGE FY 2002 ACTUAL	BASELINE FORECAST FY 2004	% CHANGE FY 2003 ADJUSTED	\$ CHANGE FY 2003 ADJUSTED
Taxes:							
Sales and Use	3,002,148.4	3,032,839.2	1.1%	32,455.4	3,104,511.0	2.3%	68,543.8
Income							
-Individual	2,066,823.4	2,091,368.4	0.2%	4,719.7	2,124,333.3	1.3%	26,578.4
-Corporate	383,740.0	369,121.3	6.6%	22,840.9	387,853.0	-0.4%	(1,553.3)
Property	37,916.5	27,428.1	-23.1%	(8,253.5)	32,000.0	24.6%	6,310.2
Luxury	66,069.6	64,587.0	-2.2%	(1,482.6)	66,427.0	2.8%	1,840.0
Insurance Premium	195,333.0	226,648.8	16.0%	31,315.8	217,656.2	-4.0%	(8,992.6)
Estate	80,552.2	113,047.9	40.3%	32,495.7	86,170.0	-8.5%	(8,047.9)
Other Taxes	2,223.5	8,689.4	290.8%	6,465.9	4,762.8	-45.2%	(3,926.6)
Sub-Total - Taxes	5,834,806.6	5,933,730.1	2.1%	120,557.3	6,023,713.3	1.4%	80,752.0
Other Non-Tax Revenues:							
Lottery	21,000.0	31,000.0	0.0%	0.0	30,000.0	-3.2%	(1,000.0)
Licenses, Fees and Permits	128,751.5	96,610.4	-11.2%	(12,141.1)	100,295.2	4.0%	3,884.8
Interest	33,023.7	12,855.3	-61.1%	(20,168.4)	20,000.0	55.6%	7,144.7
Transfers and Reimbursements	95,056.8	49,686.7	-48.5%	(46,769.8)	24,382.6	2.0%	480.1
Disproportionate Share Revenue	64,200.7	87,623.9	0.0%	(1.0)	87,623.9	0.0%	0.0
Sub-Total - Non-Tax	342,032.7	277,776.3	-22.2%	(79,080.3)	262,301.7	4.2%	10,509.6
Subtotal Base Revenue	6,176,839.3	6,211,506.4	0.7%	41,477.0	6,286,015.0	1.5%	91,261.6
Urban Revenue Sharing (URS)	(421,876.6)	(426,283.0)	1.0%	(4,406.4)	(369,215.5)	-14.2%	61,343.6
Litigation/Other Set-Aside	0.0	0.0	N/A	0.0	(15,000.0)	0.0%	0.0
Base Revenue w/URS/Litigation	5,754,962.7	5,785,223.4	0.6%	37,070.6	5,901,799.5	2.7%	152,605.2
One-Time Financing Sources:							
FY 2002 Transfers/Other One-Time	0.0	521,672.3	6.2%	30,500.0	0.0	N/A	0.0
FY 2003 Disproportionate Share	0.0	(28,687.6)	N/A	(28,687.6)	61,677.2	87.0%	28,687.6
FY 2003 Prison Funding	0.0	0.0	N/A	0.0	3,800.0	0.0%	0.0
FY 2003 Transfers - 2nd RS/6th SS/1st SS	0.0	(3,980.7)	N/A	(3,980.7)	348,843.9	1.2%	3,980.7
FY 2003 Asset Sales - 1st SS	0.0	(50,900.0)	N/A	(50,900.0)	50,900.0	N/A	50,900.0
FY 2004 Transfers - 1st RS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Disproportionate Share - 1st RS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Tax Amnesty - 1st RS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Federal Cash Assistance	0.0	87,234.1	N/A	87,234.1	0.0	-100.0%	(87,234.1)
FY 2004 Use of Ladewig Reserve	0.0	0.0	N/A	0.0	0.0	N/A	0.0
Sub-Total - One-Time Financing Sources	0.0	525,338.1	7.0%	34,165.8	465,221.1	-0.8%	(3,665.8)
Total Base Revenue	5,754,962.7	6,310,561.5	1.1%	71,236.4	6,367,020.6	2.4%	148,939.4

1/ The baseline forecast represents revenue growth prior to accounting for tax law and other one-time changes.

Table 8

FY 2004 GENERAL FUND REVENUES COMPARED TO FY 2003 PRELIMINARY ACTUAL

ADJUSTED REVENUE GROWTH ^{1/}							
(\$ in Thousands)							
	ACTUAL FY 2002	PRELIMINARY ACTUAL FY 2003	% CHANGE FY 2002 ACTUAL	\$ CHANGE FY 2002 ACTUAL	ADJUSTED FORECAST FY 2004	% CHANGE FY 2003 ADJUSTED	\$ CHANGE FY 2003 ADJUSTED
Taxes:							
Sales and Use	3,000,383.8	3,035,967.2	1.2%	35,583.4	3,135,795.0	3.3%	99,827.8
Income	2,086,648.7	2,097,754.9	0.5%	11,106.2	2,150,248.3	2.5%	52,493.4
-Individual	346,280.4	389,406.3	12.5%	43,125.9	401,065.0	3.0%	11,658.7
-Corporate	35,681.6	25,689.8	-28.0%	(9,991.8)	32,000.0	24.6%	6,310.2
Property	66,069.6	64,587.0	-2.2%	(1,482.6)	66,427.0	2.8%	1,840.0
Luxury	195,333.0	226,648.8	16.0%	31,315.8	287,384.3	26.8%	60,735.5
Insurance Premium	80,552.2	94,217.9	17.0%	13,665.7	66,860.0	-29.0%	(27,357.9)
Estate	2,223.5	8,689.4	290.8%	6,465.9	4,762.8	-45.2%	(3,926.6)
Other Taxes	5,813,172.8	5,942,961.3	2.2%	129,788.5	6,144,542.4	3.4%	201,581.1
Sub-Total - Taxes							
Other Non-Tax Revenues:							
Lottery	31,000.0	31,000.0	0.0%	0.0	30,000.0	-3.2%	(1,000.0)
Licenses, Fees and Permits	108,751.5	96,410.4	-11.3%	(12,341.1)	100,728.6	4.5%	4,318.2
Interest	33,023.7	12,855.3	-61.1%	(20,168.4)	20,000.0	55.6%	7,144.7
Transfers and Reimbursements	96,456.5	23,902.5	-75.2%	(72,554.0)	38,080.3	59.3%	14,177.8
Disproportionate Share Revenue	87,624.9	87,623.9	0.0%	(1.0)	87,623.9	0.0%	0.0
Sub-Total - Non-Tax	356,856.6	251,792.1	-29.4%	(105,064.5)	276,432.8	9.8%	24,640.7
Subtotal Adjusted Revenue	6,170,029.4	6,194,753.4	0.4%	24,724.0	6,420,975.2	3.7%	226,221.8
Urban Revenue Sharing (URS)	(421,876.6)	(430,559.1)	2.1%	(8,682.5)	(365,065.1)	-15.2%	65,494.0
Litigation/Other Set-Aside	0.0	(15,000.0)	N/A	(15,000.0)	(75,000.0)	400.0%	(60,000.0)
Adjusted Revenue w/URS/Litigation	5,748,152.8	5,749,194.3	0.0%	1,041.5	5,980,910.1	4.0%	231,715.8
One-Time Financing Sources:							
FY 2002 Transfers/Other One-Time	491,172.3	0.0	-100.0%	(491,172.3)	0.0	N/A	0.0
FY 2003 Disproportionate Share	0.0	32,989.6	N/A	32,989.6	0.0	-100.0%	(32,989.6)
FY 2003 Prison Funding	0.0	3,800.0	N/A	3,800.0	0.0	-100.0%	(3,800.0)
FY 2003 Transfers - 2nd RS/6th SS/1st SS	0.0	344,863.2	N/A	344,863.2	0.0	-100.0%	(344,863.2)
FY 2003 Asset Sales - 1st SS	0.0	0.0	N/A	0.0	0.0	N/A	0.0
FY 2004 Transfers - 1st RS	0.0	0.0	N/A	0.0	49,500.0	N/A	49,500.0
FY 2004 Disproportionate Share - 1st RS	0.0	0.0	N/A	0.0	18,857.0	N/A	18,857.0
FY 2004 Tax Amnesty - 1st RS	0.0	0.0	N/A	0.0	7,000.0	N/A	7,000.0
FY 2004 Federal Cash Assistance	0.0	87,234.1	N/A	87,234.1	87,265.9	0.0%	31.8
FY 2004 Use of Ladewig Reserve	0.0	0.0	N/A	0.0	75,000.0	N/A	75,000.0
Sub-Total - One-Time Financing Sources	491,172.3	468,886.9	-4.5%	(22,285.4)	237,622.9	-49.3%	(231,264.0)
Total Adjusted Revenue	6,239,325.1	6,218,081.2	-0.3%	(21,243.9)	6,218,533.0	0.0%	451.8

^{1/} The adjusted revenue forecast includes tax law and other one-time changes and represents a "bottom line" revenue growth estimate.

Table 9

BASELINE REVENUE ADJUSTMENTS BY CATEGORY		
(\$ in Thousands)		
Summary By Category:	<u>FY 2003</u> ^{1/}	<u>FY 2004</u> ^{1/}
Tax Law Changes		
Sales & Use Tax	3,128.0	31,284.0
Individual Income Tax	6,386.5	25,915.0
Corporate Income Tax	20,285.0	13,212.0
Property Tax	(1,738.3)	0.0
Estate Tax	(18,830.0)	(19,310.0)
Insurance Premium Tax	0.0	69,728.1
Subtotal - Tax Law Changes	<u>9,231.2</u>	<u>120,829.1</u>
Other Revenue Adjustments		
Litigation/Other Set-Aside	(15,000.0)	(60,000.0)
Licenses and Fees	(200.0)	433.4
Transfers and Reimbursements	(25,784.2)	13,697.7
URS Hold Harmless ^{2/}	(9,960.0)	4,968.4
URS Reduction ^{3/}	5,683.9	(818.0)
Subtotal - Other Revenue Adjustments	<u>(45,260.3)</u>	<u>(41,718.5)</u>
One-Time Financing Sources		
FY 02 Balance Transfers (2nd Special Session)	(337,911.2)	0.0
FY 02 Balance Transfers (3rd Special Session)	(153,261.1)	0.0
FY 02 Misc One-Time Financing Sources	(30,500.0)	0.0
FY 03 Disproportionate Share (2nd Regular Session)	61,677.2	(61,677.2)
FY 03 Prison Funding (2nd Regular Session)	3,800.0	(3,800.0)
FY 03 Balance Transfers (2nd Regular Session)	143,624.4	(143,624.4)
FY 03 Balance Transfer Adjustment ^{4/}	(25,000.0)	25,000.0
FY 03 Balance Transfers (6th Special Session)	51,228.0	(51,228.0)
FY 03 Balance Transfers (1st Special Session)	178,991.5	(178,991.5)
FY 03 Asset Sales (1st Special Session)	50,900.0	(50,900.0)
FY 04 Disproportionate Share (1st Regular Session)	0.0	18,857.0
FY 04 Balance Transfers (1st Regular Session)	0.0	49,500.0
FY 04 Tax Amnesty - One-Time (1st Regular Session)	0.0	7,000.0
FY 04 Federal Cash Assistance (1st Regular Session)	0.0	174,500.0
FY 04 Use of Ladewig Reserve ^{5/}	0.0	75,000.0
Subtotal - One-Time Financing Sources	<u>(56,451.2)</u>	<u>(140,364.1)</u>
TOTAL REVENUE CHANGES	<u>(92,480.3)</u>	<u>(61,253.5)</u>

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>Revenue Category</u>
<u>46th Legislature - 1st Regular Session:</u>				
136	Medicaid Exemption/Premium Tax	0.0	69,728.1	IPT
262	DOR Revenue Generating Proposal	0.0	25,452.0	Sales
262	DOR Revenue Generating Proposal	0.0	18,667.0	Individual
262	DOR Revenue Generating Proposal	0.0	9,130.0	Corporate
263	Tax Amnesty	0.0	9,000.0	Sales
263	Tax Amnesty	0.0	4,500.0	Individual
263	Tax Amnesty	0.0	4,500.0	Corporate
263	Minimum Withholding	0.0	5,000.0	Individual
263	Federal Tax Bill/Withholding ^{6/}	0.0	0.0	Individual
263	Other Revenue Adjustments (see <u>Table 3</u> in narrative)			
	Property Tax ^{7/}	0.0	7,000.0	Property
	Licenses and Fees	0.0	433.4	Licenses/Fees
	Other Revenues	0.0	13,697.7	Other
	Subtotal - Other Revenue Adjustments	<u>0.0</u>	<u>21,131.1</u>	
na	One-Time Financing Sources			
	Disproportionate Share Revenue	0.0	18,857.0	FY 04 One-Time
	Fund Transfers - Feed Bill	0.0	49,500.0	FY 04 One-Time
	Tax Amnesty - Public Finance ORB	0.0	7,000.0	FY 04 One-Time
	Federal Cash Assistance - Public Finance ORB	0.0	174,500.0	FY 04 One-Time
	Use of Ladewig Reserve - Public Finance ORB ^{5/}	0.0	75,000.0	FY 04 One-Time
	Subtotal - One-Time Financing Sources	<u>0.0</u>	<u>324,857.0</u>	
	Session Total	<u>0.0</u>	<u>491,965.2</u>	
<u>46th Legislature - 1st Special Session:</u>				
1	One-Time FY 03 Fund Transfers	178,991.5	(178,991.5)	FY 03 One-Time
2	One-Time FY 03 Asset Sales	50,900.0	(50,900.0)	FY 03 One-Time
1	DOR Revenue Generating Proposal	3,168.0	(3,168.0)	Sales
1	DOR Revenue Generating Proposal	2,252.0	(2,252.0)	Individual
1	DOR Revenue Generating Proposal	418.0	(418.0)	Corporate
	Session Total	<u>235,729.5</u>	<u>(235,729.5)</u>	
<u>45th Legislature - 6th Special Session:</u>				
1	One-Time Fund Transfers/ASH	51,228.0	(51,228.0)	FY 03 One-Time
	Session Total	<u>51,228.0</u>	<u>(51,228.0)</u>	

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>Revenue Category</u>
<u>45th Legislature - 2nd Regular Session</u>				
327	One-Time Fund Transfers/BSF	143,624.4	(143,624.4)	FY 03 One-Time
	Balance Transfer Adjustment ^{4/}	(25,000.0)	25,000.0	FY 03 One-Time
na	One-Time FY 03 Prison Funding	3,800.0	(3,800.0)	FY 03 One-Time
328	Equine Fees	(200.0)	0.0	Licenses/Fees
328	VLT Enforcement	3,500.0	0.0	Other
329	One-Time FY 03 Disproportionate Share Revenue	61,677.2	(61,677.2)	FY 03 One-Time
50	Repeal Dividends Income Tax Subtraction	11,200.0	0.0	Corporate
344	IRC Conformity	5,610.0	0.0	Corporate
		(14,480.0)	0.0	Individual
		(18,830.0)	(19,310.0)	Estate
344	Urban Revenue Sharing ^{3/}	5,683.9	(818.0)	URS
	Subtotal - Chapter 344	(22,016.1)	(20,128.0)	
	Session Total	<u>176,585.5</u>	<u>(204,229.6)</u>	
<u>45th Legislature - 3rd Special Session:</u>				
327	One-Time FY 02 Fund Transfers/BSF	(153,261.1)	0.0	FY 02 One-Time
na	Litigation/Other Set-Aside	(15,000.0)	(60,000.0)	Other
	Session Total	<u>(168,261.1)</u>	<u>(60,000.0)</u>	
<u>45th Legislature - 2nd Special Session:</u>				
2	ORB-Finance; Withholding ^{8/}	0.0	0.0	Individual
2	ORB-Finance; Tax Amnesty (One-Time FY 02 Revenue)	(10,000.0)	0.0	Individual
328	Sale of Airplane (One-Time FY 02 Revenue)	(500.0)	0.0	FY 02 One-Time
327	Fund Transfers/BSF (One-Time FY 02 Revenue)	(337,911.2)	0.0	FY 02 One-Time
	Session Total	<u>(348,411.2)</u>	<u>0.0</u>	
<u>45th Legislature - 1st Regular Session:</u>				
232	Supplemental Appropriations; (One-Time Corrections Fund Transfer)	(15,000.0)	0.0	FY 02 One-Time
261	Department of Revenue; Confidentiality	(100.0)	0.0	Individual
277	Nuclear Emergency Appropriation/Assessment	15.8	0.0	Other
286	Flight Property Tax Revenues ^{7/}	0.0	(7,000.0)	Property
296	Internal Revenue Code Conformity	(217.0)	0.0	Corporate
		(105.0)	0.0	Individual
	Subtotal - Chapter 296	(322.0)	0.0	
370	Enterprise Zone Program; Extension	cannot be determined		Corporate
na	Water Banking Fees	700.0	0.0	Other
na	Sale of Assets (One-Time FY 02 Revenue)	(15,000.0)	0.0	FY 02 One-Time
na	Alt Fuel Refunds (Individual Income Tax) ^{9/}	26,700.0	0.0	Individual
na	Alt Fuel Refunds (Corporate Income Tax) ^{9/}	3,300.0	0.0	Corporate
na	BSF Alt Fuel Reimbursement ^{9/}	(30,000.0)	0.0	Other
na	Federal Tax Bill/Withholding ^{8/}	0.0	0.0	Individual
	Session Total	<u>(29,706.2)</u>	<u>(7,000.0)</u>	

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>Revenue Category</u>
<u>44th Legislature - 7th Special Session:</u>				
1	URS Hold Harmless ^{3/}	(9,960.0)	4,968.4	URS
<u>44th Legislature - 5th Special Session:</u>				
1	Tuition Tax Credit	(97.5)	0.0	Individual
<u>44th Legislature - 2nd Regular Session:</u>				
214	Renewable Energy; Tax Incentive	(2.2)	0.0	Sales
		(57.0)	0.0	Individual
		(8.8)	0.0	Property
	Subtotal - Chapter 214	<u>(68.0)</u>	<u>0.0</u>	
252	Internal Revenue Code Conformity	2,624.0	0.0	Individual
		(26.0)	0.0	Corporate
	Subtotal - Chapter 252	<u>2,598.0</u>	<u>0.0</u>	
258	Cemeteries; Property Tax Exemption Process	(7.3)	0.0	Property
372	Tourism and Sports Authority	(350.0)	0.0	Individual
		(37.8)	0.0	Sales
	Subtotal - Chapter 372	<u>(387.8)</u>	<u>0.0</u>	
384	Property Tax; Electrical Generation Facilities	(1,722.2)	0.0	Property
	Session Total	<u><u>412.7</u></u>	<u><u>0.0</u></u>	
TOTAL - All Sessions		<u><u>(92,480.3)</u></u>	<u><u>(61,253.5)</u></u>	

1/ Adjustments for FY 2003 reflect estimated change from FY 2002 and FY 2004 from FY 2003.

2/ The URS hold harmless amounts for FY 2003 and FY 2004 are \$(9,960,000) and \$(4,991,600) respectively. The FY 2004 amount noted on the table of \$4,968,400 reflects the incremental difference between these amounts.

3/ The URS reduction amounts (gain to the General Fund) for FY 2003 and FY 2004 are \$5,683,900 and \$4,865,900 respectively. The FY 2004 amount noted on the table of \$(818,000) reflects the incremental difference between these amounts.

4/ The adopted FY 2003 budget included a \$50 million transfer from the BSF. This adjustment reflects a reduction of \$20 million in the amount that is available to be transferred from the BSF, plus \$5 million for a contingency for other transfer shortfalls

5/ The FY 2004 budget adopted by the Legislature allocated \$75 million for the Ladewig v. State of Arizona settlement. The Governor line item vetoed this provision.

6/ The \$(14.0) million impact of reduced federal withholding rates resulting from the Jobs and Growth Tax Relief Reconciliation Act of 2003 are offset by an increase in state withholding rates approved by the Legislature.

7/ Through FY 2003, 50% of flight property tax was deposited into the General Fund, and 50% into the Aviation Fund. Laws 2001, Chapter 286 provided that, beginning in FY 2004, 100% of flight property tax would be deposited into the Aviation Fund. Laws 2003, Chapter 263 (the Public Finance ORB) defers that change until FY 2005.

8/ The \$(60.0) million impact of reduced federal withholding rates included with the 2001 Federal Tax Bill are offset by an increase in state withholding rates approved by the Legislature.

9/ Alternative Fuel refunds, which are reimbursed from the Budget Stabilization Fund, were estimated to be \$(30.0) million in FY 2002, and \$0 in FY 2003. The amounts indicated reflect the \$30.0 million incremental net gain in the income tax categories, and the corresponding net reduction in the BSF for FY 2003.