

## **COMPARISON OF FY 2005 JLBC AND EXECUTIVE BUDGETS**

This document compares the JLBC and Executive FY 2005 budget proposals. The following information is provided for each state agency: 1) a side by side comparison of the funding changes in the JLBC and Executive budgets; 2) a four-year total funds chart and 3) a table with line item detail of the JLBC and Executive estimates. The JLBC line item detail also includes non-appropriated funds.

### **Comparing Budget Plans**

The JLBC FY 2005 budget provides an initial General Fund spending estimate of \$7.26 billion. When compared to projected FY 2005 General Fund revenues of \$6.93 billion, the budget would have a \$(333) million shortfall. Shortfalls to bridge this gap will be identified during the legislative session. The JLBC spending level includes statutory formula growth for K-12 operating and capital expenses and Title 19 indigent health care. Other than mandatory Ladewig litigation payments, all other General Fund spending is essentially held at the FY 2004 level.

In comparison, the Governor's Office of Strategic Planning and Budgeting has estimated the FY 2005 shortfall at \$(310) million. Unlike the JLBC budget, the Governor's FY 2005 budget proposal includes both discretionary spending increases as well as statutory changes to resolve the shortfall. The Governor's FY 2005 General Fund budget proposal includes a spending level of \$7.17 billion. Revenues are projected to be \$7.23 billion, which would result in a FY 2005 ending balance of \$67 million.

Since each budget proposal has been created using different assumptions, the FY 2005 JLBC and OSPB shortfall estimates are not comparable. The JLBC estimate includes mandatory spending requirements for the Ladewig litigation and \$100 million in previously appropriated K-12 "deficiency correction" school repair costs. The OSPB estimate excludes these costs and assumes they will be funded through debt financing.

Once adjusted for comparable assumptions, the OSPB budget shortfall would be \$555 million. See Graph 1. The Executive solutions to this shortfall are displayed in Graph 2.

### **Comparing Structural Shortfalls**

The budget can also be viewed from the perspective of its structural shortfall. This concept represents the difference between on-going permanent revenues and expenditures. The state can have a structural shortfall but have a balanced budget through the use of one-time revenue and/or expenditure savings.

The FY 2005 JLBC budget has a structural shortfall of \$(303) million. This amount is virtually the same as the FY 2004 structural shortfall. In comparison, the Executive proposal has a structural shortfall of \$503 million. This higher structural shortfall is due to 1) greater discretionary spending in the Executive's proposal and 2) the Executive's use of one-time revenues to finance this additional spending.

The JLBC's permanent level of FY 2005 spending is \$7.04 billion. This level is lower than the overall spending level of \$7.26 billion due to one-time expenditures for Ladewig and K-12 deficiency corrections. In comparison, the Executive permanent spending level is \$7.27 billion (which is lowered by one-time savings of \$100 million for the new K-12 deferral of spending, known as the "rollover").

Overall, the Governor's permanent spending level is \$222 million higher than JLBC. The major differences are outlined in Graph 3.

The structural shortfall estimates do not include future year commitments generated by the FY 2005 budget proposals. These commitments are outlined in the notes to the Statement of Revenues and Expenditures.

## STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	<u>FY 2004 OSPB</u>	<u>FY 2004 JLBC</u>	<u>FY 2005 OSPB</u>	<u>FY 2005 JLBC</u>
<b>REVENUES</b>				
On-going Revenues	6,707,100,000	\$6,636,127,100	\$7,135,200,000	\$7,112,956,500
Urban Revenue Sharing	(365,100,000)	(365,065,100)	(373,400,000)	(\$373,074,200)
Revised On-going Revenues	<u>6,342,000,000</u>	<u>6,271,062,000</u>	<u>6,761,800,000</u>	<u>6,739,882,300</u>
One-time Revenues				
Balance Forward	192,185,000	192,185,000	173,043,200	178,667,300
Fund Transfers In (Enacted)	49,500,000	54,500,000	11,700,000	11,700,000
Tax Amnesty (one-time portion)	43,000,000	43,000,000	0	0
Federal Cash Assistance	87,234,100	87,265,900	0	0
Judicial Collections 1/	0	2,644,100	8,500,000	0
New FY 2005 Fund Transfers	0	0	33,000,000	0
Vehicle License Tax Transfer	0	0	118,000,000	0
State Compensation Fund/Asset Sale	0	0	50,000,000	0
Income Tax Withholding Adjustment	0	0	76,000,000	0
Subtotal One-time Revenues	<u>371,919,100</u>	<u>379,595,000</u>	<u>470,243,200</u>	<u>190,367,300</u>
<b>Total Revenues</b>	<b>\$6,713,919,100</b>	<b>\$6,650,657,000</b>	<b>\$7,232,043,200</b>	<b>\$6,930,249,600</b>
<b>EXPENDITURES</b>				
Operating Budget 2/	6,571,365,700	6,548,759,800	7,208,350,100 3/	7,071,128,100
FY 04 2nd Regular Session Supplementals	81,384,500	48,812,000	0	0
State Employee Pay Adjustment	0	0	53,277,200 4/	0
State Employer Health Insurance	0	0	31,772,200	0
Capital Outlay	0	0	0	0
Administrative Adjustments	40,507,800	23,000,000	23,000,000	23,000,000
Revertments	(54,969,300)	(51,169,300)	(51,169,300)	(51,169,300)
Subtotal Expenditures	<u>6,638,288,700</u>	<u>6,569,402,500</u>	<u>7,265,230,200</u>	<u>7,042,958,800</u>
One-time Expenditures				
SFB Deficiencies Corrections	0	0	0 5/	100,000,000
Ladewig Payments	0	0	0 5/	120,000,000
Increase K-12 Rollover	0	0	(100,000,000) 6/	0
Federal Medicaid Match Rate	(97,412,800)	(97,412,800)	0	0
Subtotal One-time Expenditures	<u>(97,412,800)</u>	<u>(97,412,800)</u>	<u>(100,000,000)</u>	<u>220,000,000</u>
<b>Total Spending</b>	<b>\$6,540,875,900</b>	<b>\$6,471,989,700</b>	<b>\$7,165,230,200</b>	<b>\$7,262,958,800</b>
<b>ENDING BALANCE</b>	<b>\$173,043,200</b>	<b>\$178,667,300</b>	<b>\$66,813,000</b>	<b>(\$332,709,200)</b>
Structural Shortfall 7/	(\$296,288,700)	(\$298,340,500)	(\$503,430,200)	(\$303,076,500)

**Notes to Statement of General Fund Revenues and Expenditures**

1/ Executive includes the FY 2004 Judicial Collections in their budget, but does not display these monies in this statement. These monies will be distributed to state agencies to reimburse them for employer health and retirement expenses. In FY 2005, the Executive proposes to retain all 4th Quarter FY 2004 collections and deposit them to the General Fund.

2/ Difference in FY 2004 Operating Budgets of \$22,605,900 is the result of Executive adding \$25,000,000 to delete the federal funds maximization assumption built into the original FY 2004 budget and adding \$2,000,000 for an Arts Trust Fund appropriation. The JLBC includes \$1,750,000 for the tribal community colleges allocation which appears as a revenue offset in the Executive budget. The JLBC includes \$2,644,100 for judicial collections which are not included as a separate item in the Executive budget.

3/ Includes \$25,500,000 for full day Kindergarten which OSPB displays as a separate line in their statement

4/ Includes \$31,350,400 for non-university adjustments and \$21,926,800 for university adjustments.

5/ Executive proposes to debt finance these expenditures with the debt service beginning in FY 2006

6/ Executive proposes to defer \$100 million of FY 2005 K-12 Basic State expenditures from FY 2005 to FY 2006 (in addition to the existing \$191 million deferral).

7/ The structural shortfall is the difference between permanent on-going revenues and permanent expenditures. The structural shortfall estimate does not include new debt service commitments that would begin in the FY 2006 budget. The following are JLBC Staff estimates of these commitments under each budget proposal. The actual debt service will depend on the interest rate and length of term.

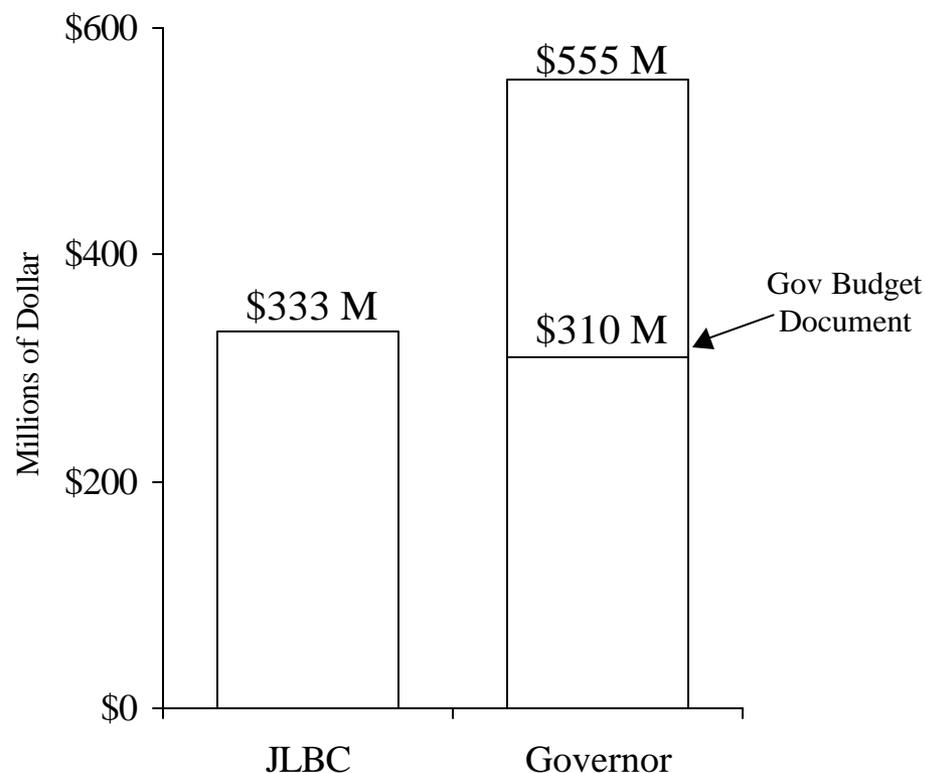
	\$ in Millions	
	OSPB Budget	JLBC Budget
SFB \$250 M New School Construction Lease-Purchase	\$24.1	\$24.1
SFB \$100 M Deficiency Correction Bond	9.6	0
Ladewig \$128 M Asset Sale and Leaseback Proceeds	16.6	0
Total	\$50.3	\$24.1

In addition, ADOT has stated that they intend to increase a planned highway bond issuance to replace revenues lost from the VLT transfer. Approximately \$100,000,000 in additional bonding would increase debt service costs by \$8,000,000 to be paid from highway revenues.

Beyond debt service, the Governor's \$25,500,000 full day kindergarten proposal is described as the first year of a five year phase in. The Executive has estimated the full phase in cost as \$170,000,000 for Basic State Aid operating aid and \$100,000,000 for capital costs.

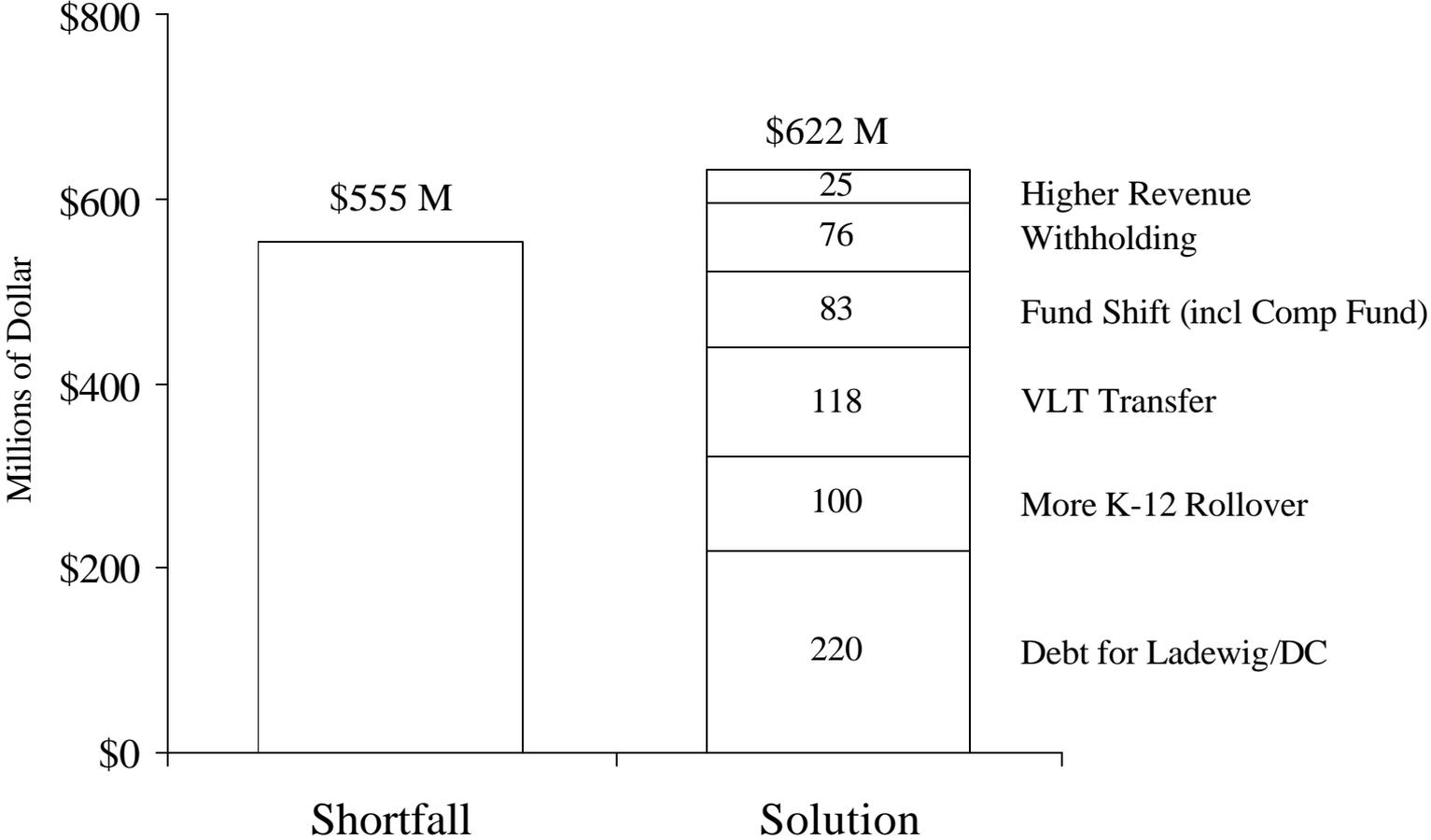
# Creating a Comparable FY 2005 Shortfall Estimate

- JLBC and Gov '05 shortfall estimates use different assumptions.
- Governor's estimate has been restated for comparability by including JLBC Ladewig, school repair and revenue estimates.



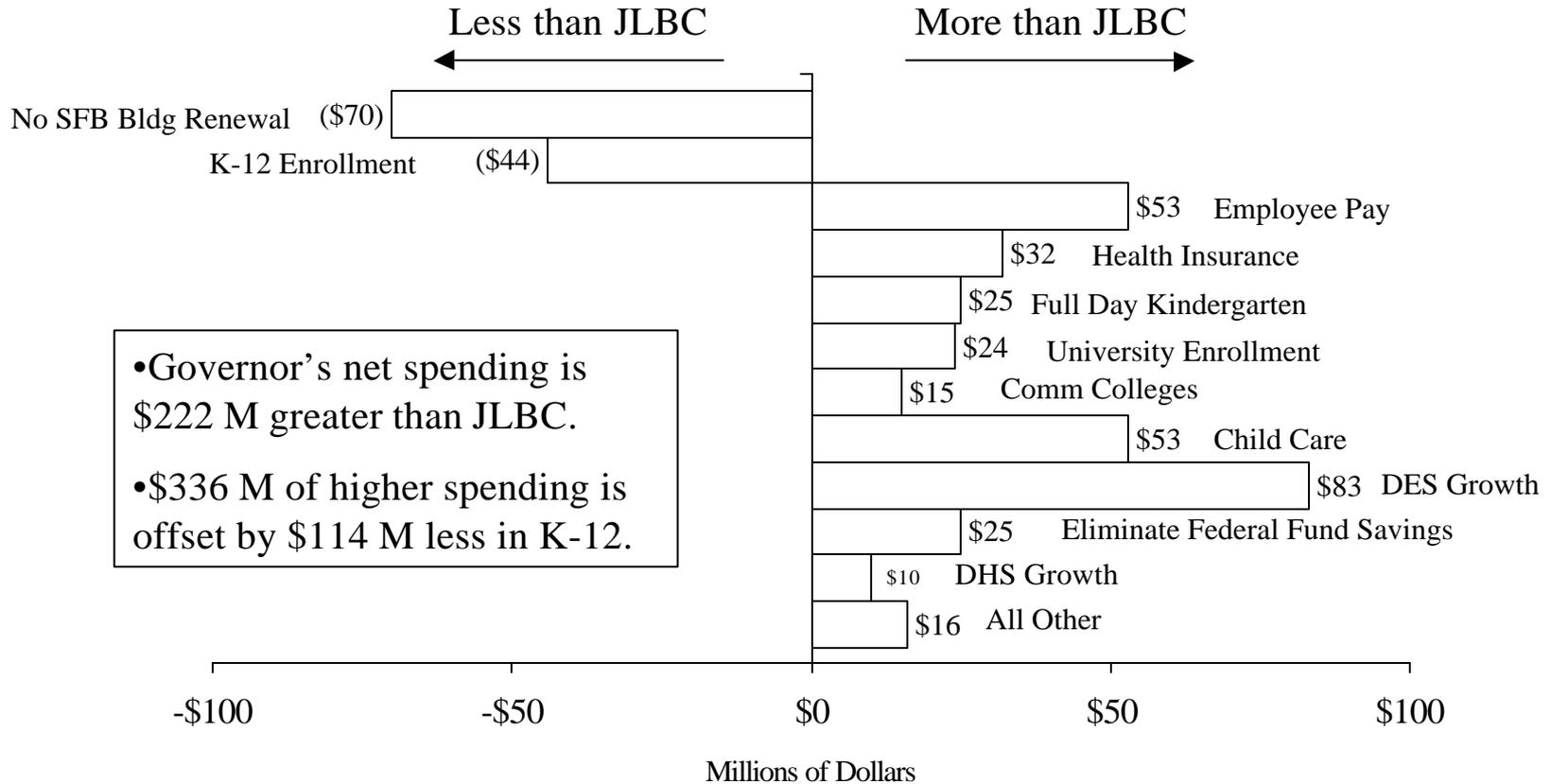
Graph 2

# Governor's Shortfall Solutions



\$67 M of solutions in excess of shortfall represents ending balance.

# Governor's Spending Compared to JLBC



**STATEWIDE ISSUES**  
**JLBC - Executive Comparison**

	<b>JLBC</b>	<b>EXECUTIVE</b>
<i>Statewide Expenditures</i>		
State Employee Pay Increase	<ul style="list-style-type: none"> <li>Does not include</li> </ul>	-- \$53.3 M General Fund (GF) for the following adjustments: <ul style="list-style-type: none"> <li>\$23.8 M GF for non-university employees: 2% increase with a \$1000 minimum</li> <li>\$21.9 M GF for universities (allocation to be determined by Regents)</li> <li>\$3.0 M for DPS sworn officers</li> <li>\$4.6 M for state nurses</li> </ul>
State Employer Health Insurance	<ul style="list-style-type: none"> <li>Does not include</li> </ul>	<ul style="list-style-type: none"> <li>\$ 31.8 M for increases in the state employer share of employee health insurance costs</li> </ul>
<i>Revenue Generating Proposals</i>		
Vehicle License Tax	<ul style="list-style-type: none"> <li>Does not include. ADOT plans to increase planned bond issuance to offset loss of VLT funding for highway construction</li> </ul>	<ul style="list-style-type: none"> <li>\$118 M transfer to the General Fund rather than the Highway Fund</li> </ul>
State Comp Fund	<ul style="list-style-type: none"> <li>Does not include</li> </ul>	<ul style="list-style-type: none"> <li>\$50 M transfer to the General Fund with an agreement to transfer a like amount of state assets to the Comp Fund</li> </ul>
Fund Transfers	<ul style="list-style-type: none"> <li>Does not include. The Budget Stabilization Fund balance had been held in reserve for the payment of alternative fuel claims.</li> </ul>	<ul style="list-style-type: none"> <li>\$33 M transfer of dedicated fund balances to the General Fund. Includes \$8 M remaining in the Budget Stabilization Fund. Other transfers are not specified.</li> </ul>
Income Tax Withholding	<ul style="list-style-type: none"> <li>Does not include. State eventually recoups the lost withholding when taxpayers submits their final return. Due to timing issues, however, the revenue is collected in the following fiscal year.</li> </ul>	<ul style="list-style-type: none"> <li>\$76 M to offset reduction in federal withholding rates. State withholding is a percent of federal withholding and declined when federal withholding rates were adjusted downward in June 2003.</li> </ul>
<i>Debt Financing</i>		
New School Construction	<ul style="list-style-type: none"> <li>\$250 M for new FY 05 school construction</li> </ul>	<ul style="list-style-type: none"> <li>\$250 M for new FY 05 school construction</li> </ul>
1,000 Prison Beds	<ul style="list-style-type: none"> <li>Does not specifically reference. Lease-purchase previously authorized in 2nd Special Session</li> </ul>	<ul style="list-style-type: none"> <li>\$39 M to lease-purchase 1,000 new state prison beds -- 500 at Tucson and 500 at Perryville</li> </ul>
School Repairs	<ul style="list-style-type: none"> <li>Does not use debt finance. \$100 M in cash for the remaining deficiency correction projects</li> </ul>	<ul style="list-style-type: none"> <li>\$100 M in revenues bonds issued to generate financing</li> </ul>
Ladewig Litigation	<ul style="list-style-type: none"> <li>Does not use debt finance. \$120 M in cash to fund payments</li> </ul>	<ul style="list-style-type: none"> <li>\$128 M to make payments is generated through sale and lease-back of state assets.</li> </ul>

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