

FY 2005 JLBC BUDGET

The JLBC Staff has been asked to provide an estimate of the FY 2005 budget under the following assumptions:

- Fund K-12 statutory formula growth for both operating and capital expenses,
- Fund statutory Title 19 formula growth for indigent health care in AHCCCS, the Department of Health Services and the Department of Economic Security,
- Fund the Ladewig Lawsuit settlement, and
- Fund all other functions of state government at FY 2004 levels.

As a first step, a FY 2005 General Fund revenue estimate was developed by averaging the results of the following four forecasts:

- The forecast of the Finance Advisory Committee (FAC), an independent 18 member group of public and private sector economists,
- The University of Arizona Economic and Business Research (EBR) General Fund baseline model,
- EBR's conservative forecast model, and
- The JLBC Staff forecast.

Each of these forecasts assumes continued growth in the Arizona economy in FY 2005. This four-sector consensus forecast yields a FY 2005 growth rate of 7.6%. This rate represents underlying growth in state revenues, exclusive of technical changes in urban revenue sharing, federal disproportionate share revenues and other one-time monies.

Overall, the projected increase in FY 2005 General Fund revenues is \$458 million, which would result in total General Fund revenue of \$6.93 billion.

In comparison, the statutory funding formulas and other legal obligations are expected to cost as follows:

- K-12 Operating Aid: \$195 million;
- K-12 Capital Aid: \$194 million. This amount includes \$100 million for the last component of the \$1.3 billion Students FIRST school repair program;
- Title 19 indigent health care caseload and inflation growth, including replacement of one-time federal assistance: \$285 million; and
- Ladewig Lawsuit settlement payments: \$120 million.

After holding all other expenditures at the FY 2004 level with minor adjustments, total spending growth is projected to be \$791 million. Total General Fund spending under the preceding policy assumptions would be \$7.26 billion.

Given forecasted revenues of \$6.93 billion and a spending level of \$7.26 billion, there would be a \$333 million shortfall in the FY 2005 budget. Solutions to bridge this gap will be identified during the legislative session.

The budget can also be viewed from the perspective of its structural shortfall. This concept represents the difference between ongoing 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 approximately \$300 million. This amount is virtually the same as the FY 2004 structural shortfall.

STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	FY 2004 Budget 1/04 Status	FY 2005 Projection
REVENUES		
Base Revenues	\$6,636,127,100	\$7,112,956,500
Urban Revenue Sharing	(365,065,100)	(\$373,074,200)
Net Base Revenues	6,271,062,000	6,739,882,300
One-time Revenues		
Balance Forward	192,185,000	178,667,300
Fund Transfers In	54,500,000	11,700,000
Tax Amnesty (one-time portion)	43,000,000	0
Federal Cash Assistance	87,265,900	0
Judicial Collections	2,644,100	0
Subtotal - One-time Revenues	379,595,000	190,367,300
Total Revenues	\$6,650,657,000	\$6,930,249,600
EXPENDITURES		
Operating Budget	6,548,759,800	7,071,128,100
FY 04 2nd Regular Session Supplementals	48,812,000	0
Capital Outlay	0	0
Administrative Adjustments	23,000,000	23,000,000
Revertments	(51,169,300)	(51,169,300)
Subtotal - Expenditures	6,569,402,500	7,042,958,800
One-time Expenditures		
SFB Deficiencies Corrections	0	100,000,000
Ladewig Payments	0	120,000,000
Federal Medicaid Match Rate Savings	(97,412,800)	0
Subtotal - One-time Expenditures	(97,412,800)	220,000,000
Total Spending	\$6,471,989,700	\$7,262,958,800
ENDING BALANCE	\$178,667,300	(\$332,709,200)
Note: Structural Shortfall (On-going revenues less on-going expenditures)	(\$298,340,500)	(\$303,076,500)