

GENERAL FUND REVENUE

FY 2005

FY 2005 General Fund total resources are projected to be \$7.84 billion. This amount consists of \$7.48 billion of FY 2005 revenue plus a \$360.0 million balance forward from FY 2004. As indicated in *Table 1* below, the revised FY 2005 revenue estimate is \$370.0 million higher than the estimate from the FY 2005 budget enacted in the spring of 2004.

Table 1	
FY 2005 Revenue Forecast (\$ in Millions)	
Adopted FY 2005 Revenue Estimate	\$7,114.8
Revised Revenue Forecast	370.0
Revised FY 2005 Revenue Estimate	\$7,484.8

The revised FY 2005 estimate assumes an increase of 11.1% in on-going revenues (excluding Urban Revenue Sharing) compared to the prior year. Based on preliminary December numbers, year-to-date on-going revenues are \$270 million above the original budget forecast.

As described below in the FY 2006 section, the JLBC Staff has used a consensus forecasting process to develop its FY 2006 General Fund revenue estimates. The JLBC Staff used the forecast consensus as a guide in its FY 2005 revenue projection, but did not adhere strictly to these rates. With six months of the fiscal year completed as of this writing, the FY 2005 estimates rely as heavily on year-to-date actual data as it does on a forecast projection. The JLBC Staff forecast incorporates the latest year-to-date information, while the other forecast components have one to two months less of actual data. *Table 2* below provides the FY 2005 consensus estimates and the rates used by the JLBC Staff in its forecast.

Table 2					
FY 2005 Quartile Forecast Percentages					
	<u>FAC</u>	UA <u>Low</u>	UA <u>Base</u>	<u>JLBC</u> ^{1/}	<u>Avg.</u>
Sales Tax Individual	8.1%	8.2%	8.7%	8.9%	8.5%
Income Tax ^{2/} Corporate	10.1%	8.3%	9.0%	12.5%	10.0%
Income Tax	19.7%	25.0%	25.1%	28.7%	24.6%

^{1/} JLBC estimate used in FY 2005 revenue estimate.
^{2/} Percentages do not include \$76 million withholding adjustment which will begin in January 2006.

The individual revenue detail for FY 2005 is found in *Table 4* at the end of this section.

The FY 2005 General Fund total resource estimate of \$7.84 billion includes permanent revenues of \$7.25 billion and one-time revenues of \$597.7 million. FY 2005 one-time revenues include:

- Balance forward from FY 2004 of \$360.0 million.
- Fund transfers of \$43.7 million – This amount represents the one-time transfer of balances from several funds into the General Fund in FY 2005. This amount includes an \$11.7 million fund transfer originally authorized as part of the FY 2004 fund transfers.
- Vehicle License Tax (VLT) transfer of \$118 million – The FY 2005 budget included the one-time transfer of the first \$118 million of VLT collections from the State Highway Fund to the state’s General Fund.
- Withholding Tax of \$76 million – The FY 2005 budget included an increase to the state’s withholding tax rates effective January 1, 2005. Federal tax reductions in 2003 reduced federal withholding taxes. The state’s withholding tax is a percentage of federal withholding tax. The FY 2004 budget included an increase to the state’s withholding tax to hold the state harmless from the federal tax reductions. However, it was subsequently determined that this increase was not sufficient, and the state’s withholding tax collections were reduced by an estimated \$76 million in FY 2004 due to this under-withholding. The FY 2005 increase was enacted to hold the state harmless from this additional reduction.

FY 2006

Projected FY 2006 General Fund total resources are \$7.88 billion. This amount includes \$7.74 of FY 2006 revenues plus a balance forward amount of \$141.0 million from FY 2005. Total projected resources are 0.5% greater than FY 2005, including the balance forward from the previous fiscal year, and one-time revenues in FY 2005. Adjusting for these one-time revenue sources, on-going revenues are expected to increase by 7.2% over FY 2005 collections (excluding Urban Revenue Sharing).

The JLBC’s FY 2006 estimate growth rates for the “Big 3” revenue categories (sales tax, individual income tax and corporate income tax) were developed through a consensus process. The JLBC revenue estimate is based on averaging the results of the following four forecasts:

- Finance Advisory Committee panel forecast of December 10, 2004. This independent panel consists

of 18 public and private sector economists that meets three times a year to provide the Legislature with guidance on the status of the Arizona economy.

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model. The model is a simultaneous-equation model consisting of over 100 equations which are updated on an ongoing basis to accommodate changes in the economy. The model uses over 200 variables related to Arizona's economy, and is updated quarterly.
- EBR's conservative forecast model, and
- JLBC Staff projections.

The growth rates from each sector of the forecast are detailed in *Table 3* below.

	<u>FAC</u>	UA <u>Low</u>	UA <u>Base</u>	<u>JLBC</u>	<u>Avg</u> ^{1/}
Sales Tax	7.9%	5.6%	6.1%	7.2%	6.7%
Individual Income Tax	7.9%	9.2%	9.3%	7.5%	8.5%
Corporate Income Tax	6.6%	23.9%	28.2%	7.0%	16.5%

^{1/} Consensus average used in FY 2006 revenue estimate.

The FY 2006 forecast for the remaining revenue categories, which constitute about 6% of the total, was based on JLBC Staff estimates. Two of these categories are of special note for FY 2006.

Estate Tax – Federal legislation enacted in FY 2002 phased out the federal estate tax over a period of years, and also reduced the states' death tax credit by 25% a year beginning in FY 2002. The final year of the phase out is FY 2005. The FY 2006 estimate represents the anticipated final estate tax collections on estates which began settlement in the previous fiscal year, and carried over into FY 2006. The estimate of \$10 million is (69.2)% or \$(22.5) million below estimated FY 2005 collections.

Disproportionate Share Revenue – estimated collections of \$91.8 million are (17.6)% or \$(19.6) million below the FY 2005 estimate. This revenue is generated by withholding funds from counties based on appropriations made to the counties for uncompensated care. Due to a reduction in payments to Maricopa Medical Center under federal requirements, Disproportionate Share Hospital Payments are declining in FY 2006. Therefore the state withholding amount is also declining.

The individual revenue detail for FY 2006 is found in *Table 4* at the end of this section.

Ladewig Settlement

See the Department of Revenue section in the FY 2006 JLBC Budget Book for a discussion of the Ladewig Settlement.

Table 4

GENERAL FUND REVENUE FORECAST - FY 2005 & FY 2006

FORECAST REVENUE GROWTH ^{1/}							
(\$ in Thousands)							
	ACTUAL FY 2004	FORECAST FY 2005	% CHANGE FY 2004 ACTUAL	\$ CHANGE FY 2004 ACTUAL	FORECAST FY 2006	% CHANGE FY 2005 FORECAST	\$ CHANGE FY 2005 FORECAST
Taxes:							
Sales and Use	3,294,788.3	3,588,221.0	8.9%	293,432.7	3,828,631.8	6.7%	240,410.8
Income -Individual	2,306,176.3	2,595,370.8	12.5%	289,194.5	2,815,977.3	8.5%	220,606.5
-Corporate	494,044.9	652,161.0	32.0%	158,116.1	759,767.6	16.5%	107,606.6
Tax Amnesty Program	4,000.0	0.0	-100.0%	(4,000.0)	0.0	N/A	0.0
Property	39,587.7	23,000.0	-41.9%	(16,587.7)	21,000.0	-8.7%	(2,000.0)
Luxury	61,301.0	61,461.6	0.3%	160.6	61,284.4	-0.3%	(177.2)
Insurance Premium	308,967.9	356,861.9	15.5%	47,894.0	372,920.7	4.5%	16,058.8
Estate	38,818.4	32,500.0	-16.3%	(6,318.4)	10,000.0	-69.2%	(22,500.0)
Other Taxes	2,781.5	2,781.5	0.0%	(0.0)	2,781.5	0.0%	0.0
Sub-Total - Taxes	6,550,466.2	7,312,357.8	11.6%	761,891.6	7,872,363.3	7.7%	560,005.5
Other Non-Tax Revenues:							
Lottery	31,000.0	34,538.0	11.4%	3,538.0	36,403.2	5.4%	1,865.2
Licenses, Fees and Permits	118,469.9	120,750.0	1.9%	2,280.1	126,834.8	5.0%	6,084.8
Interest	12,337.2	15,176.6	23.0%	2,839.4	15,480.2	2.0%	303.6
Transfers and Reimbursements	10,913.7	25,913.7	137.4%	15,000.0	25,913.7	0.0%	0.0
Disproportionate Share Revenue	132,742.8	111,447.4	-16.0%	(21,295.4)	91,841.5	-17.6%	(19,605.9)
Sub-Total - Non-Tax	305,463.6	307,825.7	0.8%	2,362.1	296,473.4	-3.7%	(11,352.3)
Subtotal Adjusted Revenue	6,855,929.7	7,620,183.5	11.1%	764,253.8	8,168,836.7	7.2%	548,653.2
Urban Revenue Sharing (URS)	(365,065.2)	(373,074.2)	2.2%	(8,009.0)	(425,228.9)	14.0%	(52,154.7)
Adjusted Revenue w/URS	6,490,864.6	7,247,109.3	11.7%	756,244.7	7,743,607.8	6.9%	496,498.5
One-Time Financing Sources:							
Balance Forward	192,185.0	360,000.0	87.3%	167,815.0	141,003.6	-60.8%	(218,996.4)
FY 2004 Judicial Enhancement	5,389.3	0.0	-100.0%	(5,389.3)	0.0	N/A	0.0
FY 2004 Transfers In	54,500.0	11,700.0	-78.5%	(42,800.0)	0.0	-100.0%	(11,700.0)
FY 2004 Tax Amnesty	43,123.5	0.0	-100.0%	(43,123.5)	0.0	N/A	0.0
FY 2004 Federal Cash Assistance	87,265.9	0.0	-100.0%	(87,265.9)	0.0	N/A	0.0
FY 2004 Legal Settlement	9,000.0	0.0	-100.0%	(9,000.0)	0.0	N/A	0.0
FY 2005 Transfers In	0.0	32,034.5	N/A	32,034.5	0.0	-100.0%	(32,034.5)
FY 2005 Vehicle License Tax Transfer	0.0	118,000.0	N/A	118,000.0	0.0	-100.0%	(118,000.0)
FY 2005 Withholding Adjustment	0.0	76,000.0	N/A	76,000.0	0.0	-100.0%	(76,000.0)
Sub-Total - One-Time Financing Sources	391,463.7	597,734.5	52.7%	206,270.8	141,003.6	-76.4%	(456,730.9)
Total Adjusted Revenue	6,882,328.3	7,844,843.8	14.0%	962,515.5	7,884,611.4	0.5%	39,767.6

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