

LONG-TERM GENERAL FUND ESTIMATES

The JLBC Staff has developed General Fund budget estimates through FY 2008 to assist the Legislature in evaluating the state's long-run fiscal condition. Given the multiple years involved in these calculations, long-run estimates are especially sensitive to small percent changes in revenue and spending growth. For example, a 1% change in the growth rate of either revenue or spending in FY 2006 through FY 2008 would change the ending balance calculations by over \$400 million. As a result, the following projections are subject to considerable change.

Revenues

The JLBC revenue estimates are based on a consensus forecasting process. As with FY 2006 revenues, the long-run estimates are based on the average of four different forecasts. This process is described in more detail in the *General Fund Revenue* section.

The projected overall General Fund growth is 6.3% in FY 2007 and 5.4% in FY 2008. *Table 1* includes the individual forecast components. These estimates are relatively cautious compared to typical revenue gains in Arizona during an economic expansion. While potentially cautious, these estimates also do not reflect a recession during the forecast period. If a recession were to occur, the growth rates could be overstated. In general, economic forecasts become more conservative further out in the future.

	Consensus Forecast Percentages				
	FAC	UA Low	UA Base	JLBC	Avg
<u>FY 2007</u>					
Sales Tax Individual	6.7%	4.5%	4.4%	5.9%	5.4%
Income Tax Corporate	6.7%	7.5%	7.2%	6.5%	7.0%
Income Tax Total	5.2%	10.8%	13.5%	4.4%	8.5%
					6.3%
<u>FY 2008</u>					
Sales Tax Individual	6.3%	4.5%	4.2%	5.4%	5.1%
Income Tax Corporate	5.8%	6.7%	6.5%	6.0%	6.3%
Income Tax Total	5.7%	1.9%	2.9%	3.1%	3.4%
					5.7%

The FY 2008 estimate includes a one-time adjustment for the payment of tax refunds associated

with corporate consolidated returns. Laws 1994, Chapter 41 permitted a corporation to file an amended return back to 1986 to reflect a consolidated return rather than separately filing for its various related entities. Any refunds generated by these amended returns, which have not offset existing liability, are to be paid back by FY 2008. The projected one-time FY 2008 refund cost is \$55 million.

The projected level of General Fund revenue is \$8.20 billion in FY 2007 and \$8.56 billion in FY 2008. These estimates assume that any prior year shortfall is eliminated before the beginning of the following fiscal year.

Spending

The long-term General Fund expenditures reflect the requirements of existing statutory funding formulas and other obligations. Excluding one-time items, permanent spending is projected to increase 5.3% in FY 2007 and 5.8% in FY 2008. In addition to statutory formula growth, the long-term projections include:

- An additional \$27 million each year for state employer health insurance expenses.
- An additional \$14 million in FY 2008 for a further increase in state employer retirement rates (over and above the \$30 million increase in FY 2006 that will remain through FY 2007).
- A \$35 million increase in FY 2008 for the first General Fund debt service payment on university technology infrastructure projects, as required by Laws 2003, Chapter 267.

The health and retirement increases are consistent with similar adjustments in the FY 2006 JLBC estimate.

The projections also include the following one-time adjustments:

- \$99 million for the third and final payment for the Ladewig litigation settlement in FY 2007. This expense is then eliminated in FY 2008. *See Department of Revenue section in JLBC Budget Book for more information.*
- General Fund deposits of \$28 million in FY 2007 and \$29 million in FY 2008 to the Budget Stabilization Fund. *See Budget Stabilization Fund section of this volume for more information.*

Overall spending, including one-time adjustments, would be \$8.65 billion in FY 2007 and \$9.04 billion in FY 2008. These estimates may be conservative as they do not include numerous potential discretionary funding increases. *See page 50 for the projected spending levels of major agencies.*

Ending Balance and Structural Shortfall

Given the JLBC revenue and spending assumptions, the FY 2007 General Fund ending balance would have a projected shortfall of \$(453) million. By the end of FY 2008, the shortfall grows to \$(482) million. In comparison, the projected FY 2006 ending balance shortfall is \$(477) million. *See page 49 for a Statement of General Fund Revenues and Expenditures.*

The structural shortfall, the amount by which permanent revenues falls short of permanent spending, is somewhat smaller. The FY 2007 structural shortfall is \$(326) million and grows to \$(398) million by FY 2008.

As noted above, a 1% change in growth rates between FY 2006 and FY 2008 would change these estimates by over \$400 million.

**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES
WITH ONE-TIME FINANCING SOURCES**

	FY 2005 Adjusted ^{1/}	FY 2006 JLBC	FY 2007 Estimate	FY 2008 Estimate
REVENUES				
On-going Revenues	\$7,620,183,500	\$8,168,836,700	\$8,683,473,400	9,152,381,000
Urban Revenue Sharing	(\$373,074,200)	(425,228,900)	(485,602,600)	(534,704,800)
Revised On-going Revenues	<u>7,247,109,300</u>	<u>7,743,607,800</u>	<u>8,197,870,800</u>	<u>8,617,676,200</u>
One-time Revenues				
Balance Forward ^{2/}	360,000,000	141,003,600	0	0
Fund Transfers (2003 Session)	11,700,000	0	0	0
Corporate Consolidated Returns	0	0	0	(55,000,000)
New FY 2005 Fund Transfers	32,034,500	0	0	0
Vehicle License Tax Transfer	118,000,000	0	0	0
Income Tax Withholding Adjustment	76,000,000	0	0	0
Subtotal One-time Revenues	<u>597,734,500</u>	<u>141,003,600</u>	<u>0</u>	<u>(55,000,000)</u>
Total Revenues	\$7,844,843,800	\$7,884,611,400	\$8,197,870,800	\$8,562,676,200
EXPENDITURES				
Operating Budget Appropriations	7,285,121,200	8,147,553,800	8,577,037,300	9,068,993,000
FY 05 Supplementals	79,756,000	0	0	0
Capital Outlay	0	0	0	0
Maximizing Federal Fund Savings ^{3/}	(25,000,000)	(25,000,000)	(25,000,000)	(25,000,000)
Administrative Adjustments	23,000,000	23,000,000	23,000,000	23,000,000
Revertments	(51,169,300)	(51,169,300)	(51,169,300)	(51,169,300)
Subtotal Permanent Expenditures	<u>7,311,707,900</u>	<u>8,094,384,500</u>	<u>8,523,868,000</u>	<u>9,015,823,700</u>
One-time Expenditures				
SFB Deficiencies Corrections	100,000,000	20,000,000	0	0
Ladewig Litigation Payments	134,300,000	58,300,000	99,200,000	0
Budget Stabilization Fund Deposits	157,832,300	188,618,100	27,877,000	28,692,500
Subtotal One-time Expenditures	<u>392,132,300</u>	<u>266,918,100</u>	<u>127,077,000</u>	<u>28,692,500</u>
Total Spending	\$7,703,840,200	\$8,361,302,600	\$8,650,945,000	\$9,044,516,200
ENDING BALANCE	\$141,003,600	(\$476,691,200)	(\$453,074,200)	(\$481,840,000)
Structural Shortfall ^{4/}	(\$64,598,600) ^{5/}	(\$350,776,700)	(\$325,997,200)	(\$398,147,500)

^{1/} Reflects current status of FY 2005, including updated revenues and "triggered" appropriations.

^{2/} FY 2005 Balance Forward estimate had not been finalized as of this writing.

^{3/} Savings related to maximizing the use of Federal Funds. Savings will take the form of a revertment of appropriated funds.

^{4/} The structural shortfall in this calculation reflects the difference between permanent on-going revenues and permanent expenditures.

^{5/} If K-12 construction cash expenses were included, the FY 2005 shortfall would have been \$(315) million.

MAJOR BUDGET UNITS

EXPENDITURES	Adjusted FY 2005	FY 2006 JLBC	\$ Above FY 05	FY 2007 Projection	\$ Above FY 06	FY 2008 Projection	\$ Above FY 07
Operating Budget							
-- Department of Administration	24,134,800	24,113,800	(21,000)	24,113,800	0	24,113,800	0
-- AHCCCS	860,921,300	1,083,785,500	222,864,200	1,192,164,100	108,378,600	1,311,380,500	119,216,400
-- Attorney General	23,448,500	23,404,700	(43,800)	23,404,700	0	23,404,700	0
-- Department of Commerce	8,864,500	8,864,500	0	8,864,500	0	8,864,500	0
-- Community Colleges	145,690,000	154,075,700	8,385,700	162,775,700	8,700,000	171,875,700	9,100,000
-- Department of Corrections	629,113,900	671,792,600	42,678,700	696,792,600	25,000,000	721,792,600	25,000,000
-- Department of Economic Security	606,123,800	610,427,200	4,303,400	634,589,900	24,162,700	659,709,100	25,119,200
-- Department of Education	3,184,039,500	3,319,567,700	135,528,200	3,485,546,100	165,978,400	3,659,823,400	174,277,300
-- Department of Environmental Quality	23,142,100	23,142,100	0	23,142,100	0	23,142,100	0
-- Department of Health Services	367,491,900	427,448,800	59,956,900	449,889,900	22,441,100	473,509,100	23,619,200
-- Judiciary	114,302,600	114,478,000	175,400	114,478,000	0	114,478,000	0
-- Department of Juvenile Corrections	69,092,000	64,030,900	(5,061,100)	64,030,900	0	64,030,900	0
-- State Land Department	17,600,100	17,906,700	306,600	17,906,700	0	17,906,700	0
-- State Parks Board	22,380,500	22,380,500	0	22,380,500	0	22,380,500	0
-- Department of Public Safety	31,839,000	41,083,800	9,244,800	41,083,800	0	41,083,800	0
-- Department of Revenue	62,846,500	62,698,500	(148,000)	62,698,500	0	62,698,500	0
-- School Facilities Board	118,616,100	444,544,700	325,928,600	484,268,300	39,723,600	516,369,800	32,101,500
-- Office of Tourism	11,963,600	12,844,500	880,900	13,743,600	899,100	14,540,700	797,100
-- Universities	794,617,400	801,311,600	6,694,200	808,511,600	7,200,000	850,536,600	42,025,000
-- Department of Water Resources	14,198,900	14,198,900	0	14,198,900	0	14,198,900	0
-- All Other Budgets	154,085,100	147,953,100	(6,132,000)	147,953,100	0	147,953,100	0
-- FY 05 Pay Adjustments	609,100	0	(609,100)	0	0	0	0
-- State Employee Health Insurance	0	27,000,000	27,000,000	54,000,000	27,000,000	81,000,000	27,000,000
-- State Employer Retirement Increase	0	30,500,000	30,500,000	30,500,000	0	44,200,000	13,700,000
-- Other Bills	0	0	0	0	0	0	0
-- Maximizing Federal Funds	(25,000,000)	(25,000,000)	0	(25,000,000)	0	(25,000,000)	0
Total - Operating Budget	<u>\$7,260,121,200</u>	<u>\$8,122,553,800</u>	<u>\$862,432,600</u>	<u>\$8,552,037,300</u>	<u>\$429,483,500</u>	<u>\$9,043,993,000</u>	<u>\$491,955,700</u>
-- FY 04 Supplementals	79,756,000	0	(79,756,000)	0	0	0	0
-- Ladewig Set-aside	134,300,000	58,300,000	(76,000,000)	99,200,000	40,900,000	0	(99,200,000)
-- Budget Stabilization Fund	157,832,300	188,618,100	30,785,800	27,877,000	(160,741,100)	28,692,500	815,500
-- Administrative Adjustments	23,000,000	23,000,000	0	23,000,000	0	23,000,000	0
-- Revertments	(51,169,300)	(51,169,300)	0	(51,169,300)	0	(51,169,300)	0
-- SFB Deficiencies Corrections	100,000,000	20,000,000	(80,000,000)	0	(20,000,000)	0	0
Total Spending	<u>\$7,703,840,200</u>	<u>\$8,361,302,600</u>	<u>\$657,462,400</u>	<u>\$8,650,945,000</u>	<u>\$289,642,400</u>	<u>\$9,044,516,200</u>	<u>\$393,571,200</u>