

## GENERAL FUND REVENUE

### Summary of General Fund Forecast

The FY 2007 budget assumes that both the national and Arizona economies will continue to grow, but at a much more moderate level than the extraordinary growth rates seen in FY 2005 and FY 2006. The budget is built on a baseline revenue growth rate of 7.7% in FY 2007 compared to a forecasted FY 2006 growth rate of 18.2%. Baseline revenues represent on-going General Fund revenues, exclusive of tax law and revenue changes, one-time revenue adjustments, and any balance forward from the previous fiscal year.

Including one-time financing sources, tax law and other revenue changes, Urban Revenue Sharing, and the balance forward from the previous fiscal year, the “bottom line” revenue growth rate in the FY 2007 budget is projected to be 4.8% in FY 2007, compared to 17.8% in FY 2006. In dollar terms, revenue collections are expected to equal \$9.79 billion in FY 2006, and \$10.27 billion in FY 2007. The FY 2007 lower growth rate is the result of the more moderate growth rate in on-going revenues as noted above, enacted tax law changes, and the loss of one-time FY 2006 revenues. The detailed enacted budget revenue forecast appears in *Table 8* at the end of this section.

The forecast for FY 2007 provided in *Table 8* includes an increase in revenues of \$474.3 million, including tax law and other revenue changes, and one time revenue adjustments. The FY 2006 forecast includes an increase of \$1.48 billion in revenue compared to the previous year.

### Development of General Fund Revenue Forecast

#### FY 2006

The original FY 2006 budget was based on baseline revenue growth of 7.4% (exclusive of one-time revenues). The JLBC January revisions in the FY 2007 JLBC Baseline Budget Book Summary increased the FY 2006 forecast to 12.3% growth. The Governor’s January budget proposal included a revenue estimate for FY 2006 with a growth rate of 13.1%. During the budget process, JLBC subsequently revised the estimate for FY 2006 upward to a growth rate of 14.2%, and the Governor’s Office revised their growth rate up to 15.4%. The Governor and legislative leadership agreed on an April compromise forecast of 14.8% for FY 2006.

Subsequent to that agreement, April and May 2006 revenues grew much more quickly than expected. This growth was primarily due to a 37% increase in income tax collections in April and May compared to the prior year. As a result, the final budget further revised the forecast

upward by \$275 million. These increases result in an estimated baseline growth rate for FY 2006 of 18.2%.

The final FY 2006 revised forecast is \$480 million above the January JLBC Staff estimate. There was a “four-sector” consensus forecast for FY 2006 (see FY 2007 section for more information on the four-sector consensus process). These FY 2006 consensus estimates were not used, however, as they did not incorporate the latest monthly actual data at the time of the revised forecasts. See *Table 1* below for FY 2006 consensus estimates. The table includes consensus estimates from December 2005, as well as updated estimates from March 2006.

**Table 1**

**FY 2006 Quartile Forecast Percentages**

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
<b>Sales Tax</b>					
December 05	12.2%	8.9%	9.3%	13.5%	11.0%
March 06	14.5%	12.5%	12.7%	15.8%	13.9%
<b>Individual Income Tax</b>					
December 05	14.1%	15.3%	14.4%	13.1%	14.2%
March 06	16.4%	14.5%	15.0%	16.8%	15.7%
<b>Corporate Income Tax</b>					
December 05	16.6%	19.8%	25.7%	15.8%	19.5%
March 06	19.1%	14.8%	17.1%	11.2%	15.6%

#### FY 2007

The January FY 2007 JLBC Baseline Estimates estimated FY 2007 revenue growth at 7.0% (excluding one-time revenues). The JLBC’s FY 2007 estimated growth rates for the “Big 3” revenue categories (sales tax, individual income tax and corporate income tax) were initially developed and revised using a four-sector consensus process. This process is based on averaging the results of the follow 4 forecasts:

- The Finance Advisory Committee (FAC) panel forecast. This independent panel consists of 16 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 for the Big 3 categories used in the development of the JLBC revenue estimates from each sector of the forecast are detailed in *Table 2* below. As with the FY 2006 table in the prior section, the table includes consensus estimates from December 2005, as well as updated estimates from March 2006. The December 2005 four-sector consensus estimate was the basis of the January JLBC Baseline.

	<u>FAC</u>	<u>UA</u> <u>Low</u>	<u>UA</u> <u>Base</u>	<u>JLBC</u>	<u>Avg</u>
<b>Sales Tax</b>					
December 05	7.8%	4.2%	6.0%	7.2%	6.3%
March 06	8.3%	3.1%	5.2%	6.9%	5.9%
<b>Individual Income Tax</b>					
December 05	9.2%	7.0%	8.5%	7.5%	8.1%
March 06	9.4%	6.6%	9.1%	7.5%	8.2%
<b>Corporate Income Tax</b>					
December 05	8.2%	1.7%	15.0%	8.1%	8.3%
March 06	6.3%	7.9%	19.9%	5.0%	9.8%
<b>Overall <sup>1/</sup></b>					
December 05					7.0%
March 06					7.6%

<sup>1/</sup> Includes JLBC Staff estimates for other revenue categories.

The FY 2007 estimate for remaining revenue categories, which constitute about 6% of the total, was based on JLBC Staff estimates.

As noted in the prior section, during the budget process, both the JLBC and the Governor's revenue estimates for FY 2006 were increased. At the same time, the FY 2007 estimates were also adjusted. Based on updated March numbers from the JLBC four-sector consensus, the FY 2007 estimates were revised upward to a 7.6% growth rate. The Governor's January proposal for FY 2007 was based on a growth rate of 7.5%. The revised Governor's estimates reflected an 8.1% increase for FY 2007. The April compromise forecast agreed on by the Governor's office and the legislative leadership resulted in a 7.6% increase for FY 2007.

As noted in the FY 2006 section, actual April and May 2006 revenues were substantially higher than expected. This surge resulted in a further \$275 million FY 2006 revenue increase. The FY 2006 adjustment was assumed to continue into FY 2007. As a result, the final budget increased the April compromise estimate for FY 2007 by \$296 million. Given the comparable FY 2006 growth adjustment, the FY 2007 baseline growth rate remained essentially unchanged at 7.7%.

*Table 3* below summarizes the changing revenue picture for FY 2006 and FY 2007 through the phases of budget development. The growth rates in the table reflect ongoing baseline revenues.

	<u>Percent Change</u>
<b>FY 2006</b>	
Adopted FY 2006 Budget (May 05)	7.4%
JLBC Estimates (January 06)	12.3%
Governor's Budget (January 06)	13.1%
JLBC Revised (April 06)	14.2%
Governor's Revised (April 06)	15.4%
April Compromise (May 06)	14.8%
Enacted FY 2007 Budget (June 06)	18.2%
<b>FY 2007</b>	
JLBC Consensus Estimates (January 06)	7.0%
Governor's Forecast (January 06)	7.5%
JLBC Consensus (April 06)	7.6%
Governor's Revised (April 06)	8.1%
April Compromise (May 06)	7.6%
Enacted FY 2007 Budget (June 06)	7.7%

### Baseline and Adjusted Revenue Growth

*Table 9* at the end of this section provides a summary of FY 2006 and FY 2007 tax law, revenue, and one-time financing changes.

The following table provides an overview of base revenue growth rates for FY 2006 and FY 2007 with tax law changes, revenue adjustments, and one-time financing sources.

	<u>FY 2006</u>	<u>%</u>	<u>FY 2007</u>	<u>%</u>
Baseline Revenue	\$9,564.5	18.2%	\$10,296.8	7.7%
Tax Law Changes	(18.1)		(211.8) <sup>1/</sup>	
Revenue Changes	<u>6.4</u>		<u>3.0</u>	
Base Revenue	9,552.8	18.1%	10,088.0	5.6%
w/tax law changes				
<b>Urban Revenue</b>				
Sharing	<u>(425.2)</u>		<u>(551.3)</u>	
Adjusted Revenue	9,127.6	18.3%	9,536.7	4.5%
w/URS				
One-Time Financing	<u>665.1</u>		<u>730.3</u>	
Adjusted Revenue	\$9,792.7	17.8%	\$10,267.0	4.8%

<sup>1/</sup> Amount shown does not include the 3-year elimination of the county equalization rate, which will result in a reduction of local jurisdiction revenues, and increased Arizona Department of Education expenditures of \$215.2 million in FY 2007.

## Tax Law and Revenue Changes

Each year there are statutory tax law and other revenue changes that impact the state's revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

### FY 2006

During the second regular session, there were no tax law and revenue changes approved that impacted FY 2006 beyond the original FY 2006 provisions enacted in May 2005 (see the FY 2006 Appropriations Report).

### FY 2007

In FY 2007, tax law and revenue changes will have a net negative General Fund impact of \$(482.8) million. Of the \$(482.8) million, the on-going General Fund impact will be \$(424.0) million. This impact will include both revenue and spending changes. The latter reflects the elimination of the County Equalization Tax rate, which will result in increased replacement of education spending of \$215.2 million. The remaining \$(208.8) million of the negative General Fund impact will occur as a reduction in General Fund revenues.

<b>Table 5</b>			
<b>FY 2007 Tax Law and Revenue Changes</b>			
<b>\$ in Millions</b>			
	<u>On-Going</u>	<u>One-Time</u>	<u>Total</u>
<b><u>Revenue Impacts</u></b>			
New Tax Law Changes (2006 Session)	\$(174.6)	\$ (55.2)	\$(229.8)
Annualize Tax Law Changes (Prior Sessions)	<u>(37.2)</u>	<u>(4.0)</u>	<u>(41.2)</u>
Subtotal: Tax Law Changes	(211.8)	(59.2)	(271.0)
New Other Revenue Changes (2006 Session)	(3.0)	0.4	(2.6)
Annualize Revenue Changes (Prior Sessions)	<u>6.0</u>	<u>----</u>	<u>6.0</u>
Subtotal: Revenue Changes	<u>3.0</u>	<u>0.4</u>	<u>3.4</u>
Subtotal: Revenue Impacts	<u>(208.8)</u>	<u>(58.8)</u>	<u>(267.6)</u>
<b><u>Spending Impacts</u></b>			
Elimination of CETR	<u>(215.2)</u>	<u>----</u>	<u>(215.2)</u>
<b>Total GF Impact</b>	<b><u>\$(424.0)</u></b>	<b><u>\$ (58.8)</u></b>	<b><u>\$(482.8)</u></b>

The amounts in *Table 5* above include tax law and revenue changes enacted in the 2006 legislative session, as well as annualized amounts of various tax changes which were enacted in previous sessions, and were phased in over more than one year. These estimates do not reflect any "dynamic," or secondary impacts. Tax law changes may have an impact beyond the direct impact of the revision if they cause taxpayers to revise their behavior.

Tax law and revenue changes enacted during this past year as part of the 47<sup>th</sup> Legislature, Second Regular Session are summarized in *Table 6* below. Following the table are short descriptions of each of the components of the changes.

<b>Table 6</b>	
<b>FY 2007 On-Going Revenue Changes <sup>1/</sup></b>	
<b>\$ in Thousands</b>	
<b><u>Tax Law Changes</u></b>	
IRS Conformity	\$ (1,400.0)
Individual Income Tax Rate Reduction	(156,100.0)
Solar Energy Devices Credit	(1,500.0)
Health Insurance Premium Tax Credit	(5,000.0)
Corporate School Tuition Credit	(10,000.0)
Liquid Natural Gas Sales Tax Exemption	(378.6)
Eliminate 3 Small Sales Tax Categories	<u>(200.0)</u>
Subtotal – Tax Law Changes	(174,578.6)
<b><u>Revenue Changes</u></b>	
Unclaimed Property Fund Shift	(1,600.0)
Pima County Probation Reimbursement	(1,381.9)
Reduced LLC Filing Fees	<u>(53.0)</u>
Subtotal – Revenue Changes	(3,034.9)
<b>Total</b>	<b><u>\$ (177,613.5)</u></b>

<sup>1/</sup> Provisions enacted in 2006.

### **Tax Law Changes**

**IRS Conformity** – Federal adjusted gross income forms the basis for computation of Arizona income for income tax purposes. Changes to the federal tax code impact the state's income tax collections. The federal government enacted 3 tax bills during 2005, including the Energy Tax Incentives Act, the Katrina Emergency Tax Relief Act, and the Gulf Opportunity Zone Act. Laws 2006, Chapter 357 conforms Arizona's tax code to the provisions of the federal tax code. There were a variety of relatively minor provisions included in the 2005 federal tax bills, with a total FY 2007 estimated impact of \$(1.4) million.

**Individual Income Tax Rate Reduction** – Laws 2006, Chapter 354 provides for a 5% across the board reduction in the individual income tax rate for tax year 2006, and an additional 5% reduction for tax year 2007. This is expected to result in a decrease in collections totaling \$(156.1) million in FY 2007, and \$(334.0) million in FY 2008.

Solar Energy Devices Credit – Laws 2006, Chapter 333 provides individual and corporate income tax credits for the installation of solar energy devices in commercial and industrial applications. This legislation also eliminates the \$5,000 cap on the existing sales tax exemption for the purchase of solar energy devices. The income tax credit portion of this credit is capped at \$1.0 million per calendar year. The elimination of the sales tax cap is expected to result in an additional \$(0.5) million revenue loss. The total estimated impact of provisions of this legislation for FY 2007 is \$(1.5) million.

Health Insurance Premium Tax Credit – Laws 2006, Chapter 378 establishes an insurance premium tax credit for insurers who provide health insurance to previously uninsured individuals, or to small businesses who provide health insurance. The credit is capped at \$5 million per calendar year.

Corporate Income Tax School Tuition Credit – Laws 2006, Chapter 14 establishes a corporate income tax credit for contributions made to a school tuition organization that provides education scholarships and tuition grants to children of low-income families. Chapter 14 establishes a cap on this credit of \$5 million per year. Laws 2006, Chapter 325 increases the cap to \$10 million per year, and provides that the cap will increase by 20% annually beginning in FY 2008.

Liquid Natural Gas Exemption – Laws 2006, Chapter 371 provides an exemption from sales and use tax for natural gas purchased to fuel equipment which is used in the process to convert natural gas to liquefied natural gas. This exemption is expected to result in decreased sales and use tax collections of \$(379,000).

Tax Simplification – Elimination of Sales Tax Categories – Laws 2006, Chapter 354 eliminates 3 small sales tax categories from the sales tax base. Included are membership camping, severance tax on timber, and the rental occupancy tax. The rental occupancy tax applied only to rentals with a pre-existing lease established before December 1, 1967. Sales tax collections are anticipated to be reduced by \$(200,000).

**Other Revenue Changes**

Unclaimed Property Fund Shift – Laws 2006, Chapter 363 increases the amounts of unclaimed property revenues that are distributed to various funds relating to county fairs, the state fair county fair racing, etc. The increases will result in a General Fund revenue reduction of \$(1.6) million.

Pima County Probation Reimbursement – Prior session law requiring Pima County to reimburse the state for probation costs was not included in the enacted FY 2007 budget. This provision will reduce General Fund revenues by \$(1.4) million.

Reduced Filing Fees for LLCs – Laws 2006, Chapter 320 reduces certain filing fees required for Limited Liability Companies to file with the Corporation Commission. The reduction will reduce fee collections by an estimated \$(53,000).

**Prior Year Legislative Enactments**

In addition to the tax law and revenue changes enacted during the past legislative session, the following changes were enacted in 2005, and will have an impact on FY 2007 revenue collections. *Table 7* below summarizes prior year enactments. Following the table are short descriptions of each of the changes.

<b><u>Tax Law Changes</u></b>	
IRS Conformity	\$ 120.0
Elimination of Marriage Penalty	(12,800.0)
Standard Deduction CPI Adjustment	(4,800.0)
Active-Duty Military Pay Exemption	(10,300.0)
National Guard Employment Credit	(250.0)
Motion Picture Tax Incentives	<u>(9,200.0)</u>
Subtotal – Tax Law Changes	(37,230.0)
<b><u>Revenue Changes</u></b>	
Increased DUI Assessments	6,000.0
Total	<u><u>\$ (31,230.0)</u></u>

<sup>1/</sup> Provisions enacted in 2005.

**Tax Law Changes**

IRS Conformity – The federal government enacted 2 tax bills during 2004, including the Working Families Tax Relief Act and the American jobs Creation Act. Laws 2005, Chapter 334 conforms Arizona’s tax code to the provisions of the federal tax code. There were a variety of provisions included in the federal tax bills. The estimated second year impact of these provisions in FY 2007 is a net \$0.1 million, which is an incremental change of \$8.5 million compared to FY 2006.

Elimination of “Marriage Penalty” – Laws 2005, Chapter 334 provides that certain tax credits for married filers will become twice that of single filers. Included are the credits for contributions to charitable organizations, contribution to qualifying school tuition organizations, and contributions to public school extracurricular activities. These changes are phased in over a 2 year period. The estimated incremental impact of this tax law change in FY 2007 over and above the FY 2006 impact is \$(6.4) million. The total FY 2007 impact is estimated to be \$(12.8) million.

Standard Deduction Indexing – Laws 2005, Chapter 334 requires the standard deduction for individual income tax

filers be indexed for annual cost of living changes. The estimated incremental impact of this tax law change in FY 2007 over and above the FY 2006 impact is \$(2.4) million. The total FY 2007 impact is estimated to be \$(4.8) million.

Military Active Duty Pay – Laws 2005, Chapter 303 exempts military active duty pay from individual income tax during tax year 2006. This is estimated to have an impact of \$(10.3) million in FY 2007. Laws 2006, Chapter 342 made the one-time provisions of Chapter 303 permanent.

National Guard Employment Credit – Laws 2005, Chapter 264 provides a \$1,000 per employee income tax credit for businesses that employ Arizona National Guard members that are placed on active duty. The estimated amount of the credit is \$(250,000).

Motion Picture Production Tax Incentives – Laws 2005, Chapter 317 provides sales tax exemptions and individual and corporate income tax credits to encourage motion picture production in the state. The credits are capped at \$30 million in 2006, increasing by \$10 million per year to \$70 million in 2010. Unclaimed credits may be sold or transferred to another claimant. The estimated FY 2007 impact of \$(9.2) million reflects projected sales tax exemptions and income tax credits for the fiscal year. This amount is an increase of \$(8.6) million over FY 2006.

### **Other Revenue Changes**

DUI Assessments – Laws 2005, Chapter 307 establishes additional assessments to individuals found guilty of operating boats, vehicles or aircraft while intoxicated. It is estimated that the \$1.0 million FY 2006 impact will increase to \$7.0 million in FY 2007, an increase of \$6.0 million.

### **Other Tax Law Changes**

#### **Spending Changes**

There are several property tax law changes that will not have a direct state revenue impact, but will result in potentially increased Arizona Department of Education (ADE) expenditures.

County Education Equalization Rate – Laws 2006, Chapter 354 sets the county equalization rate at zero for tax years 2006, 2007 and 2008 (it also changed the name to “State Equalization Assistance Property Tax Rate”). The 3 year elimination of the county equalization rate is expected to result in increased ADE expenditures of \$215.2 million in FY 2007, \$226.0 million in FY 2008, and \$239.6 million in FY 2009.

Nonprofit Hospital Property Tax Exemption – Laws 2006, Chapter 327 provides a property tax exemption for property used for health care services owned by a non-

profit health care provider. This exemption is expected to result in increased ADE expenditures of approximately \$60,000 in FY 2007. Unlike the County Equalization Tax rate, the ADE budget was not specifically adjusted for this issue.

### **Tax Law Changes – FY 2008 and Beyond**

In addition to the tax law and revenue changes noted above that impact FY 2007, there were several tax law changes enacted that will not have a revenue impact until FY 2008 or later.

Corporate Sales Factor – Laws 2005, Chapter 289 provides that corporations may use an enhanced sales factor in computing corporate income tax beginning in tax year 2008. It is estimated that this will have an impact of \$(32.0) million in FY 2008, increasing to \$(120.0) million when fully implemented in FY 2011.

Graywater Tax Credit – Laws 2005, Chapter 292 establishes an income tax credit for the use of residential graywater systems to recycle household water for landscaping purposes. The credit is capped at \$750,000 per year for 5 years beginning in FY 2008.

Business Property Tax Reduction – Laws 2005, Chapter 302 phases down the assessment ratio for business property from the current 25% to 20% over 10 years. It also increases the state’s “buy down” of property taxes, otherwise known as the homeowner’s rebate. By reducing property tax collections, and increasing homeowner’s rebate expenses, these changes are estimated to increase ADE expenditures by \$12.3 million in FY 2007. The estimated FY 2008 increase is \$26.5 million. Full implementation in FY 2016 is estimated to cost \$140 million.

Small Business Investment Credit – Laws 2005, Chapter 316 establishes an individual income tax credit for investments in qualified small businesses from tax years 2007 through 2014. The credit is capped at \$20 million, and is administered by the Department of Commerce. Since it is unknown when these credits would be taken, General Fund revenue estimates have not been adjusted for this legislation.

## **One-Time Financing Changes**

One-time financing sources have been used to help provide a balanced budget. Following is a discussion of one-time financing sources included in the budget for FY 2006 and FY 2007. *Table 9* at the end of this section provides a summary of these one-time financing changes.

**FY 2006**

One-time financing sources of \$665.2 million in FY 2006 include a balance forward from the previous year of \$639.0 million, a \$10.0 million transfer of in-lieu vehicle inspection fees to the General fund, and one-time Disproportionate Share revenues of \$16.2 million.

**FY 2007**

The \$730.4 million in one-time financing sources for FY 2007 includes:

Balance Forward – The FY 2007 General Fund balance forward is estimated to be \$789.1 million.

Liquor License Fees – Laws 2006, Chapter 383 provides for a one-time increase of an estimated \$450,000 in certain liquor license fees for restaurants in order to fund additional auditor staff for Liquor Licenses and Control.

Revised Estimated Payment Threshold – Laws 2006, Chapter 351 increases the cap over which businesses are required to make a June estimated transaction privilege tax payment from \$100,000 to \$1.0 million. This will result in an estimated one-time loss to the General Fund of \$(55.2) million.

Corporate Consolidated Credit – Laws 1994, Chapter 41 changed the methodology under which groups of corporations could file Arizona corporate income tax returns by allowing them to file a consolidated return similar to their federal returns. Eligible corporations could also elect to file amended returns for tax years 1986 through 1993, as long as they were filed by January 1, 1995. These amended returns resulted in tax credits for previous corporate income tax payments, as well as accrued interest. The tax credits totaled about \$115 million, were nonrefundable, and the total was to be spread over 10 years. In the 11<sup>th</sup> year, the Department of Revenue is required to refund all unused credits. It is estimated that the payments for FY 2007 will total about \$(4.0) million. It is currently estimated that the “11<sup>th</sup> year” payment in FY 2008 will total about \$(56) million.

**Ladewig and Kerr Settlements**

See the Department of Revenue section in the *FY 2007 Appropriations Report* for a discussion of the Ladewig and Kerr settlements.

Table 8

## GENERAL FUND REVENUE - FY 2006 - FY 2007

FORECAST REVENUE GROWTH							
(\$ in Thousands)							
	ACTUAL FY 2005	FORECAST FY 2006	% CHANGE ACTUAL	\$ CHANGE ACTUAL	FORECAST FY 2007	% CHANGE FORECAST	\$ CHANGE FORECAST
<b>Taxes:</b>							
Sales and Use	3,661,168.6	4,293,610.6	17.3%	632,442.0	4,628,561.9	7.8%	334,951.3
Income -Individual	2,897,579.1	3,584,625.8	23.7%	687,046.7	3,879,165.1	8.2%	294,539.3
-Corporate	701,859.3	848,223.5	20.9%	146,364.2	901,685.4	6.3%	53,461.9
Property	25,245.6	23,000.0	-8.9%	(2,245.6)	23,000.0	0.0%	0.0
Luxury	64,446.1	66,000.0	2.4%	1,553.9	67,500.0	2.3%	1,500.0
Insurance Premium	358,752.4	372,089.5	3.7%	13,337.1	399,356.2	7.3%	27,266.7
Estate	31,236.1	15,000.0	-52.0%	(16,236.1)	200.0	-98.7%	(14,800.0)
Other Taxes	2,580.2	720.0	-72.1%	(1,860.2)	781.5	8.5%	61.5
Sub-Total - Taxes	7,742,867.4	9,203,269.4	18.9%	1,460,402.0	9,900,250.1	7.6%	696,980.7
<b>Other Non-Tax Revenues:</b>							
Lottery	36,061.8	45,002.6	24.8%	8,940.8	50,073.6	11.3%	5,071.0
Licenses, Fees and Permits	29,493.4	31,000.0	5.1%	1,506.6	38,912.0	25.5%	7,912.0
Interest	29,879.3	50,000.0	67.3%	20,120.7	65,000.0	30.0%	15,000.0
Sales and Services	48,963.1	52,167.0	6.5%	3,203.9	54,775.0	5.0%	2,608.0
Other Miscellaneous	54,577.4	51,300.0	-6.0%	(3,277.4)	44,165.0	-13.9%	(7,135.0)
Transfers and Reimbursements	37,985.0	39,900.0	5.0%	1,915.0	30,513.1	-23.5%	(9,386.9)
Disproportionate Share Revenue	112,005.9	91,841.5	-18.0%	(20,164.4)	113,127.3	23.2%	21,285.8
Sub-Total - Non-Tax	348,965.9	361,211.1	3.5%	12,245.2	396,566.0	9.8%	35,354.9
<b>Subtotal</b>	<b>8,091,833.3</b>	<b>9,564,480.5</b>	<b>18.2%</b>	<b>1,472,647.2</b>	<b>10,296,816.1</b>	<b>7.7%</b>	<b>732,335.6</b>
FY 2006 Fee Increases	0.0	6,362.0	N/A	6,362.0	6,000.0	-5.7%	(362.0)
FY 2006 Tax Law Changes	0.0	(18,050.0)	N/A	(18,050.0)	(37,230.0)	106.3%	(19,180.0)
FY 2007 Tax Law Changes	0.0	0.0	N/A	0.0	(174,578.6)	N/A	(174,578.6)
FY 2007 Other Bills Revenue	0.0	0.0	N/A	0.0	(3,034.9)	N/A	(3,034.9)
<b>Subtotal w/Tax Law Changes</b>	<b>8,091,833.3</b>	<b>9,552,792.5</b>	<b>18.1%</b>	<b>1,460,959.2</b>	<b>10,087,972.6</b>	<b>5.6%</b>	<b>535,180.1</b>
Urban Revenue Sharing (URS)	(373,074.6)	(425,228.9)	14.0%	(52,154.3)	(551,315.8)	29.7%	(126,086.9)
<b>Subtotal w/Tax Law Changes/URS</b>	<b>7,718,758.7</b>	<b>9,127,563.6</b>	<b>18.3%</b>	<b>1,408,804.9</b>	<b>9,536,656.8</b>	<b>4.5%</b>	<b>409,093.2</b>
<b>One-Time Financing Sources:</b>							
Balance Forward	360,388.9	638,989.0	77.3%	278,600.1	789,107.1	23.5%	150,118.1
Judicial Enhancement	2,122.4	0.0	-100.0%	(2,122.4)	0.0	N/A	0.0
Budget Balancing Transfers	35,234.5	0.0	-100.0%	(35,234.5)	0.0	N/A	0.0
VLT Transfer	118,000.0	0.0	-100.0%	(118,000.0)	0.0	N/A	0.0
FY 2005 Withholding Adjustment	76,000.0	0.0	-100.0%	(76,000.0)	0.0	N/A	0.0
FY 2006 Disproportionate Share Revenue	0.0	16,162.9	N/A	16,162.9	0.0	-100.0%	(16,162.9)
FY 2006 In-Lieu Fee Transfer	0.0	10,000.0	N/A	10,000.0	0.0	-100.0%	(10,000.0)
FY 2007 Liquor License Fees	0.0	0.0	N/A	0.0	450.0	N/A	450.0
FY 2007 Revised TPT Threshold	0.0	0.0	N/A	0.0	(55,200.0)	N/A	(55,200.0)
FY 2007 Corporate Consolidated Credit	0.0	0.0	N/A	0.0	(4,000.0)	N/A	(4,000.0)
Sub-Total - One-Time Financing Sources	591,745.8	665,151.9	12.4%	73,406.1	730,357.1	9.8%	65,205.2
<b>Total Adjusted Revenue</b>	<b>8,310,504.5</b>	<b>9,792,715.5</b>	<b>17.8%</b>	<b>1,482,211.0</b>	<b>10,267,013.9</b>	<b>4.8%</b>	<b>474,298.4</b>

Table 9

<b>BASELINE REVENUE ADJUSTMENTS BY CATEGORY</b>			
(\$ in Thousands)			
		<u>FY 2006</u> <sup>1/</sup>	<u>FY 2007</u> <sup>1/</sup>
<b>Summary By Category:</b>			
<b>On-Going Revenue Changes</b>			
<b>Tax Law Changes</b>			
Sales & Use Tax		(600.0)	(1,678.6)
Individual Income Tax		(14,200.0)	(176,090.0)
Corporate Income Tax		(3,250.0)	(10,990.0)
Estate Tax		(19,600.0)	0.0
Insurance Premium Tax		0.0	(5,000.0)
	Subtotal - Tax Law Changes	<u>(37,650.0)</u>	<u>(193,758.6)</u>
<b>Other Revenue Adjustments</b>			
Licenses and Fees		6,362.0	5,947.0
Other Revenues		0.0	(2,981.9)
Lottery/Powerball Cap		6,000.0	0.0
	Subtotal - Other Revenue Adjustments	<u>12,362.0</u>	<u>2,965.1</u>
	<b>Subtotal - On-Going Revenue Changes</b>	<u>(25,288.0)</u>	<u>(190,793.5)</u>
<b>One-Time Financing Sources</b>			
Balance Forward (FY 04)		(360,388.9)	0.0
Balance Forward (FY 05)		638,989.0	(638,989.0)
Balance Forward (FY 06)		0.0	789,205.1
FY 05 Balance Transfer (1st Regular Session/Air Quality)		(11,700.0)	0.0
FY 05 Balance Transfers (2nd Regular Session)		(32,034.5)	0.0
FY 05 Vehicle License Tax Transfer		(118,000.0)	0.0
FY 05 Withholding Tax Adjustment		(76,000.0)	0.0
FY 06 Transfers		10,000.0	0.0
FY 07 Estimated Sales Tax Threshold		0.0	(55,200.0)
FY 07 Liquor License Fees		0.0	450.0
FY 07 Corporate Consolidated Credit		0.0	(4,000.0)
	<b>Subtotal - One-Time Financing Sources</b>	<u>50,865.6</u>	<u>91,466.1</u>
	<b>TOTAL REVENUE CHANGES</b>	<u><u>\$ 25,577.6</u></u>	<u><u>\$ (99,327.4)</u></u>

#### ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Revenue Category</u>
na	FY 2005 Balance Forward from FY 2004	(360,388.9)	0.0	Balance Forward
na	FY 2006 Balance Forward from FY 2005	638,989.0	(638,989.0)	Balance Forward
na	FY 2007 Balance Forward from FY 2006	0.0	789,205.1	Balance Forward

**ADJUSTMENTS BY INDIVIDUAL PROVISION**

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Revenue Category</u>
<u>47th Legislature - 2nd Regular Session:</u>				
357	IRS Conformity	0.0	(700.0)	Individual
		<u>0.0</u>	<u>(700.0)</u>	Corporate
	Subtotal - IRS Conformity	0.0	(1,400.0)	
354	Individual Income Tax Rate Reduction	0.0	(156,100.0)	Individual
333	Solar Energy Devices Credit - Commercial Applications	0.0	(500.0)	Individual
333	Solar Energy Devices Credit - Commercial Applications	0.0	(500.0)	Corporate
333	Solar Energy Devices - Eliminate Sales Tax Exemption Cap	0.0	(500.0)	Sales
378	Health Insurance Premium Tax Credit	0.0	(5,000.0)	IPT
14	Corporate School Tuition Credit	0.0	(5,000.0)	Corporate
325	Increase Cap on Corporate School Tuition Credit	0.0	(5,000.0)	Corporate
371	Exemption for Purchase of Liquid Natural Gas	0.0	(378.6)	Sales
354	Tax Simplification - Eliminate Sales Tax Categories	0.0	(200.0)	Sales
	Subtotal - Tax Law Changes/IRS Conformity	<u>0.0</u>	<u>(174,578.6)</u>	
320	Reduced LLC Filing Fees	0.0	(53.0)	License/Fees
NA	Eliminate Pima County Probation Costs Reimbursement	0.0	(1,381.9)	Other
363	Unclaimed Property Fund Shift	0.0	(1,600.0)	Other
	Subtotal - Other Revenue Changes	<u>0.0</u>	<u>(3,034.9)</u>	
One-Time Financing Sources				
351	Increase Estimated Payment Threshold to \$1 million	0.0	(55,200.0)	FY 07 One-Time
383	Liquor License Fees - Restaurants	0.0	450.0	License/Fees
NA	Corporate Consolidated Credit	0.0	(4,000.0)	FY 07 One-Time
	Subtotal - One-Time Financing Sources	<u>0.0</u>	<u>(58,750.0)</u>	
	<b>Session Total</b>	<b><u>0.0</u></b>	<b><u>(236,363.5)</u></b>	
<u>47th Legislature - 1st Regular Session:</u>				
334	IRS Conformity	(5,400.0)	310.0	Individual
		<u>(3,000.0)</u>	<u>8,210.0</u>	Corporate
	Subtotal - IRS Conformity	(8,400.0)	8,520.0	
334	Elimination of "Marriage Penalty"	(6,400.0)	(6,400.0)	Individual
334	Adjust Standard Deduction by CPI	(2,400.0)	(2,400.0)	Individual
303	Active-Duty Military Pay Exemption (TY 2006 only) <sup>2/</sup>	0.0	(10,300.0)	Individual
264	Arizona National Guard Active Duty Employment Credit	(250.0)	0.0	Corporate
317	Motion Picture Tax Incentives	(600.0)	(600.0)	Sales
317	Motion Picture Tax Incentives	0.0	(8,000.0)	Corporate
	Subtotal - Tax Law Changes/IRS Conformity	<u>(18,050.0)</u>	<u>(19,180.0)</u>	
288	Lottery/Powerball Cap	6,000.0	0.0	Lottery
284	Increased Liquor Licenses	5,362.0	0.0	License/Fees
307	Increased DUI Assessments	1,000.0	6,000.0	License/Fees
	Subtotal - Other Revenue Changes	<u>12,362.0</u>	<u>6,000.0</u>	
One-Time Financing Sources				
332	Vehicle Inspection In-Lieu Fee Transfer	10,000.0	0.0	FY 06 One-Time
	<b>Session Total</b>	<b><u>4,312.0</u></b>	<b><u>(13,180.0)</u></b>	

**ADJUSTMENTS BY INDIVIDUAL PROVISION**

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Revenue Category</u>
<u>46th Legislature - 2nd Regular Session:</u>				
	One-Time Financing Sources			
275	Fund Transfers - FY 2005	(32,034.5)	0.0	FY 05 One-Time
282	Vehicle License Tax Transfer	(118,000.0)	0.0	FY 05 One-Time
284	Withholding Tax Adjustment	(76,000.0)	0.0	FY 05 One-Time
	Subtotal - One-Time Financing Sources	<u>(226,034.5)</u>	<u>0.0</u>	
	<b>Session Total</b>	<b><u>(226,034.5)</u></b>	<b><u>0.0</u></b>	
 <u>46th Legislature - 1st Regular Session:</u>				
	One-Time Financing Sources			
262	Fund Transfer - General Appropriations Act - Air Quality	(11,700.0)	0.0	FY 05 One-Time
 <u>45th Legislature - 2nd Regular Session</u>				
344	IRS Conformity	(19,600.0)	0.0	Estate
	<b>TOTAL - All Sessions</b>	<b><u>\$ 25,577.6</u></b>	<b><u>\$ (99,327.4)</u></b>	

1/ Adjustments for FY 2006 reflect estimated change from FY 2005 and FY 2007 from FY 2006.

2/ Chapter 303 provides a one-time exemption from state income tax for active duty military pay for tax year 2006. Laws 2006, Chapter 342 made the exemption permanent.