

## HIGHLIGHTS OF THE FY 2007 BUDGET

The Second Regular Session of the 47<sup>th</sup> Legislature convened in January 2006. By June, the Legislature had enacted a Fiscal Year (FY) 2007 budget for the year beginning July 1, 2006.

The state's FY 2007 General Fund budget is \$10.09 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$26.1 billion. *See page BD-6 for information on appropriated fund spending and page BD-13 for total funds spending by agency.*

**Revised FY 2006 Budget** – At the time of the publication of the *FY 2006 Appropriations Report* in July 2005, the projected FY 2006 General Fund ending balance was \$31.5 million. By the time the Second Regular Session adjourned, the projected ending balance was \$789.1 million. This higher ending balance was due to a \$1,547.0 million increase in projected revenues offset by \$789.4 million in net spending increases. *See page 480 for further details on these FY 2006 changes.*

The higher revenues resulted from stronger than expected economic conditions. While the budget assumed a FY 2006 General Fund baseline revenue growth rate of 7.4% when enacted in May 2005, the revised budgeted growth rate is 18.2%. The higher FY 2006 spending was due primarily to \$474.5 million in a conditional, or "triggered," appropriation to the Budget Stabilization Fund (BSF). Laws 2005, Chapter 286 dedicated General Fund revenues above forecast to the BSF. The dollar level of the deposit was limited, however, by a statutory requirement that the Fund's balance not exceed 7% of General Fund revenue. With prior year reserves, the total Fund balance is projected to be \$663 million by the end of FY 2007.

Other major components of the higher FY 2006 spending included \$191.0 million to pay off the K-12 "rollover," \$45 million in fund transfers, \$39.9 million for a state employee pay raise, and \$39.1 million for on-going and one-time supplementals.

Laws 2006, Chapter 1 raised state employee salaries by \$1,650 per FTE plus an average 2.5% performance adjustment. The overall average state employee increase was 6.3%. The salary adjustment went into effect on March 11, 2006.

**Comparison to the JLBC Baseline** – At the beginning of the Second Regular Session, the JLBC Staff calculated a projection of available FY 2007 General Fund resources after accounting for revenue growth and statutory and other spending requirements. Under this JLBC "Baseline," \$850 million was determined to be available for legislative initiatives.

This estimate assumed General Fund baseline revenue growth of 12.3% in FY 2006 and 7.0% in FY 2007. During the course of the legislative session, revenue growth proved to be much stronger than expected. By the end of the session, the FY 2006 revenue growth estimate was revised to 18.2% and the FY 2007 rate was raised to 7.7%. *See page 406 for more details on the revenue adjustments.* This additional revenue increased the total available resources to \$1.91 billion. The final budget allocated \$1.74 billion of this amount and retained an ending balance of \$174 million. The \$1.74 billion in adjustments to the revised baseline were allocated as follows:

- \$448 million for tax reductions.
- \$170 million for the March 2006 state employee pay raise, which includes \$130 million for the FY 2007 cost.
- \$310 million in capital projects, including \$245 million to accelerate highway construction. *See page 384 for more details on Capital Outlay.*
- \$216 million in new Department of Education spending above the JLBC Baseline.
- \$191 million to eliminate use of the K-12 rollover, which had been used since FY 2003 to defer a portion of the current year funding obligation to the next year.
- \$106 million to increase Department of Public Safety (DPS) General Fund spending. Of this amount, \$99 million shifted expenses from the Highway Fund and Highway User Revenue Fund (HURF) to the General Fund. This shift permitted using the freed up funds to supplement the \$245 million in direct General Fund contributions for highway construction.
- \$66 million in General Fund transfers to other funds, including \$35 million to create the new 21<sup>st</sup> Century Fund in the Department of Commerce to enhance the promotion of emerging technologies.
- \$235 million in all other operating budget increases across state government.

**Comparison to the FY 2006 Budget** – General Fund revenues, including one-time monies, are projected to increase from \$9.79 billion in FY 2006 to \$10.27 billion in FY 2007. Of the overall \$474 million net increase in revenues, \$409 million is from permanent revenues.

General Fund spending is projected to grow by 12.1% from \$9.0 billion in FY 2006 to \$10.09 billion in FY 2007. Excluding the one-time adjustments in both years, permanent spending is expected to increase by \$1.25 billion, or 15.2%, in FY 2007.

Several tax provisions in the budget take the form of increased state spending. The 3-year elimination of the County Equalization Tax and the state's annual Truth in Taxation adjustments both lower local K-12 resources and

correspondingly increase Department of Education spending. After adjusting for these items, permanent spending increases by \$965 million, or 11.8%.

The largest spending increases are:

- \$452 million for the Department of Education, after adjusting for the K-12 rollover and the County Equalization Tax rate. The budget includes \$184 million for student growth, \$195 million for a 4.4% increase in per student funding and other adjustments and \$80 million to increase kindergarten funding;
- \$163 million for AHCCCS, primarily driven by caseload and inflation growth.
- \$104 million for the Universities and \$101 million for the Department of Corrections. The state employee pay raise and other statewide adjustments, such as employee health insurance and retirement expenses, are a primary reason for the growth in these two budgets.

*The Budget Units section has more information on individual agency budgets.*

**Tax Reductions** – The FY 2007 budget includes \$(448) million in new tax reductions. *See page 408 for more details.* This tax reduction package, measured by total dollars, is the largest in the state’s history. The two main reductions are:

- A 5% reduction in individual income tax rates for FY 2007 and an additional 5% reduction in FY 2008 (for a total 10% reduction). The impact is \$(156) million in FY 2007 and \$(334) million in FY 2008.
- A 3-year elimination of a 42-cent property tax, the County Equalization Tax, used to fund K-12 schools. The FY 2007 impact is \$(215) million.

**Structural and Cash Balance** – The structural balance is the difference between permanent revenues and permanent spending. The state can have a balanced budget, but a structural shortfall, if it uses one-time revenues and/or one-time spending reductions in its budget plan.

Under the enacted budget, the state’s structural FY 2006 surplus is \$915 million. As a result of the state’s 18% revenue growth, this amount is significantly higher than the projected \$(258) million structural shortfall when the FY 2006 budget was originally enacted in May 2005. The FY 2007 budget has a projected structural surplus of \$76 million.

The one-time nature of certain expenditures was determined by the Legislature during the budget process. The calculation of the structural balance is explained in more detail on the following two pages. The one-time funding includes \$99 million for a General Fund shift to comply with statutory Highway Fund/HURF caps on the use of those funds for DPS operating expenses. Statute would need to be amended to reverse this shift in FY 2008.

In comparison to the structural balance of \$76 million, the enacted budget’s FY 2007 ending cash balance is \$174.0 million. Of this amount, the Legislative budget proposal had set aside \$107 million for separate legislation addressing immigration and border enforcement. This bill was vetoed.

**Veto**s – Besides the border enforcement bill, the Governor vetoed the School Facilities Board (SFB) Budget Reconciliation Bill (BRB). With one exception, the bill’s provisions also appeared in the K-12 BRB. As a result, only the proposed change in the SFB building renewal formula was not enacted into law. *See page BD-5 for more details on vetoes.*

**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES**

	<b>FY 2006 Estimate</b>	<b>FY 2007 Approved</b>
<b>REVENUES</b>		
On-going Revenues	9,143,726,500	9,536,656,800
One-time Revenues, including Balance Forward	648,989,000	730,357,100
<b>Total Revenues</b>	<b>\$9,792,715,500</b>	<b>\$10,267,013,900</b>
<b>EXPENDITURES</b>		
Operating Budget Appropriations	8,466,794,400	9,684,908,100
Capital Outlay	17,150,000	325,354,200
Litigation Payments	58,300,000	109,800,100
Budget Stabilization Fund Deposits	474,533,300	9,808,600
Other General Fund Transfers	45,000,000	21,350,000
Maximizing Federal Fund Savings	(15,000,000)	(5,000,000)
Administrative Adjustments	57,000,000	48,000,000
Reversions	(100,169,300)	(101,169,300)
<b>Total Spending</b>	<b>\$9,003,608,400</b>	<b>\$10,093,051,700</b>
<b>ENDING BALANCE</b>	<b>\$789,107,100</b>	<b>\$173,962,200</b>

**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 1/2/  
WITH ONE-TIME FINANCING SOURCES**

	<b>FY 2006 Enacted</b>	<b>FY 2007 Enacted</b>
<b>REVENUES</b>		
On-going Revenues	\$9,564,480,500	\$10,296,816,100
Enacted Revenue Adjustments	6,362,000	6,000,000
Enacted Tax Law Changes	(18,050,000)	(37,230,000)
Tax Reductions	0	(174,578,600)
Other Revenue Bills	0	(3,034,900)
Urban Revenue Sharing	(425,228,900)	(551,315,800)
Revised On-going Revenues	9,127,563,600	9,536,656,800
One-time Revenues		
Balance Forward	638,989,000	789,107,100
Corporate Consolidated Returns	0	(4,000,000)
Revised June Estimated TPT Threshold	0	(55,200,000)
Other Revenue Bills	0	450,000
Disproportionate Share Increase	16,162,900	0
FY 2006 Fund Transfers	10,000,000	0
Subtotal One-time Revenues	665,151,900	730,357,100
<b>Total Revenues 3/</b>	\$9,792,715,500	\$10,267,013,900
<b>EXPENDITURES</b>		
Operating Budget Appropriations	8,236,667,500	9,518,896,100
FY 2006 Supplementals	33,633,700	0
Maximizing Federal Fund Savings 4/	(15,000,000)	(5,000,000)
Administrative Adjustments	57,000,000	48,000,000
Revertments	(100,169,300)	(101,169,300)
Subtotal Permanent Expenditures	8,212,131,900	9,460,726,800
One-time Expenditures		
Capital Outlay	17,150,000	325,354,200
Litigation Payments	58,300,000	109,800,100
Pay off K-12 Rollover	191,000,000	0
Budget Stabilization Fund Deposits	474,533,300	9,808,600
Other General Fund Transfers 5/	45,000,000	21,350,000
New One-time Expenditures 5/	5,493,200	166,012,000
Subtotal One-time Expenditures	791,476,500	632,324,900
<b>Total Expenditures</b>	\$9,003,608,400	\$10,093,051,700
<b>Ending Balance</b>	\$789,107,100	\$173,962,200 6/
Structural Balance 7/	\$915,431,700	\$75,930,000

1/ This statement reflects the summary statement used to brief legislators during the course of the session. Significant one-time revenues and expenditures have been separately detailed so as to permit the calculation of the structural balance.

2/ Reflects status at the adjournment of the 2nd Regular Session.

3/ Details can be found in the Economic and Revenue Forecast section.

4/ Savings related to maximizing the use of Federal Funds. Savings will take the form of a revertment of appropriated funds.

5/ Please see the Summary of One-time Operating Budget Items for detailed list of the individual items. The one-time nature of certain expenditures was determined by the Legislature during the budget process.

6/ Of this amount, the Legislative budget proposal set aside \$107 million for separate legislation addressing immigration and border enforcement. That legislation was vetoed.

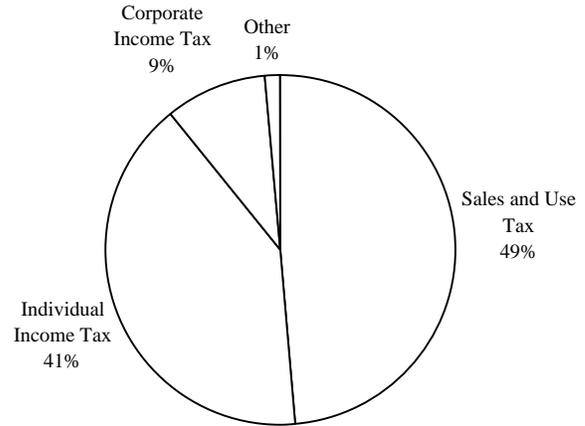
7/ The structural balance in this calculation reflects the difference between permanent on-going revenues and permanent expenditures. A positive number represents a surplus.

## SUMMARY OF ONE-TIME OPERATING BUDGET ITEMS

New One-time Expenditures	<u>FY 2006</u>	<u>FY 2007</u>	
Administration, Arizona Department of	0	500,000	Employee Wellness Program
AHCCCS	0	350,000	Automation (standardize electronic data exchanges)
AHCCCS	0	200,000	Computer System Replacement
AHCCCS	0	3,400,000	Citizenship Verification
Attorney General - Department of Law	0	1,000,000	Case Management System
Auditor General	0	150,000	Homeland Security Audits
Commerce, Department of	0	250,000	Military Base Study
Community Colleges, Arizona	0	1,000,000	Out of County Tuition
Community Colleges, Arizona	0	3,000,000	Law Enforcement/Fire training facility
Corrections, State Department of	0	1,000,000	Equipment
Corrections, State Department of	0	1,500,000	Carpool vans
Corrections, State Department of	0	(2,238,600)	Delay Beds
Criminal Justice Commission, AZ	0	3,000,000	Meth Legislation - Increase Interdiction Efforts
Deaf and the Blind, Arizona State Schools for the	0	300,000	HVAC @ Tucson
Deaf and the Blind, Arizona State Schools for the	0	110,000	Assistive Technology
Economic Security, Department of	0	1,000,000	Kinship Program
Economic Security, Department of	0	1,000,000	DD Dental Services
Economic Security, Department of	0	2,000,000	Meth Legislation - Arizona Families FIRST
Education, Department of	0	2,000,000	Teach America
Education, Department of	0	3,000,000	E-Learning
Education, Department of	0	2,500,000	Info Technology (Contracted)
Education, Department of	0	600,000	Physical Education
Equalization, State Board of	323,300	0	Information Technology Equipment
Emergency and Military Affairs, Department of	0	500,000	Project Challenge (Queen Creek building)
Environmental Quality, Department of	0	750,000	Small, Rural Water Systems
Environmental Quality, Department of	0	200,000	Water quality permit contractors
Health Services, Department of	0	2,500,000	SMI Housing
Health Services, Department of	0	1,000,000	Diabetes Education
Health Services, Department of	0	3,000,000	Alzheimer's Research
Health Services, Department of	0	7,100,000	Autism Research
Health Services, Department of	0	30,000	Umbilical Cord Pamphlet
Health Services, Department of	0	2,500,000	Meth Legislation - Rural Detoxification
Health Services, Department of	0	500,000	Meth Legislation - Child Prevention
Game and Fish Department, Arizona	0	3,500,000	Wildlife Habitat Development
Judiciary	0	63,500	Court of Appeals equipment
Judiciary	0	850,000	Integrated Family Courts
Land Department, State	6,200,000	0	Fire Suppression
Land Department, State	0	500,000	Due Diligence Revolving Fund Deposit
Land Department, State	0	1,500,000	Fire suppression
Legislative Council	0	2,500,000	Arizona Centennial
Navigable Stream Adjudication Commission, AZ	0	92,000	Report Funding
Public Safety, Department of	0	56,734,600	HURF shift
Public Safety, Department of	0	31,531,800	Highway Fund shift
Public Safety, Department of	0	9,474,100	Pay/Retirement Shifts
Revenue, Department of	975,000	0	Kerr Litigation Administration Expenses
Revenue, Department of	0	850,000	Small City Grants
School Facilities Board	20,000,000	0	Deficiencies Corrections
School Facilities Board	(22,005,100)	0	Payment Holiday
Universities	0	1,500,000	Water Institute
Universities	0	1,200,000	U of A South
Universities	0	529,000	Barry Goldwater Papers
Veterans' Services, Department of	0	69,000	Pearl Harbor Memorial
Water Resources, Department of	0	1,700,000	Assured and Adequate Water Supply
Water Resources, Department of	0	500,000	Gila/Colorado River Adjudications
Weights and Measures, Department of	0	22,000	Laptops
Employee Health Insurance	0	3,000,000	Additional FY 2007 Funding
AZNET Telecommunications	0	6,194,600	Distributed to Agencies
<b>Subtotal FY 2007 Operating Budget</b>	<u>5,493,200</u>	<u>166,012,000</u>	
<u>Other General Fund Transfers</u>			
ADOA Health Insurance Trust Fund	10,000,000	0	
Arts Endowment Fund	0	7,000,000	
21st Century Fund	35,000,000	0	
Commission for the Deaf Fund	0	850,000	
Water Banking Fund	0	13,500,000	
<b>Subtotal FY 2007 Fund Transfers</b>	<u>45,000,000</u>	<u>21,350,000</u>	

## FY 2007 General Fund Revenue - Where it Comes From

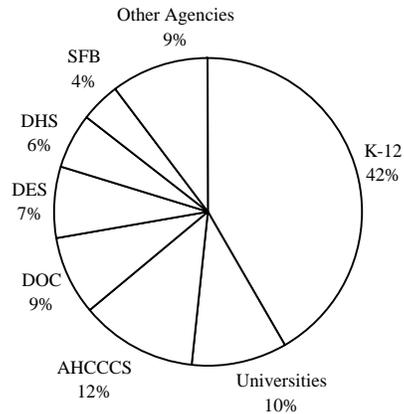
Source	Revenue (Millions)
Sales and Use Tax	\$ 4,628.6
Individual Income Tax	3,879.2
Corporate Income Tax	901.7
Other	127.2
<b>TOTAL REVENUE</b>	<b>\$ 9,536.7 <sup>1/</sup></b>



<sup>1/</sup> Includes all legislative revenue changes, but does not include beginning balance or other one-time revenue adjustments. The projected beginning balance is \$789.1 million. Other one-time revenues adjustments equal \$(58.8) million.

## FY 2007 General Fund Appropriations - Where it Goes

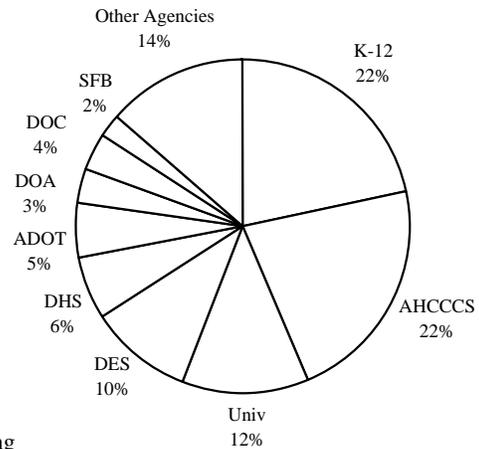
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 4,028.2
AHCCCS	1,199.8
Universities	963.9
Corrections	817.2
Economic Security	719.0
Health Services	549.2
School Facilities Bd	413.8
Other Agencies	995.8
<b>TOTAL OPERATING BUDGET</b>	<b>\$ 9,686.9 <sup>1/</sup></b>



<sup>1/</sup> Does not include administrative adjustments, revertsments, maximizing federal funds adjustment, capital, litigation settlements, and fund transfers.

## FY 2007 Total Operating Spending - All Sources <sup>1/</sup>

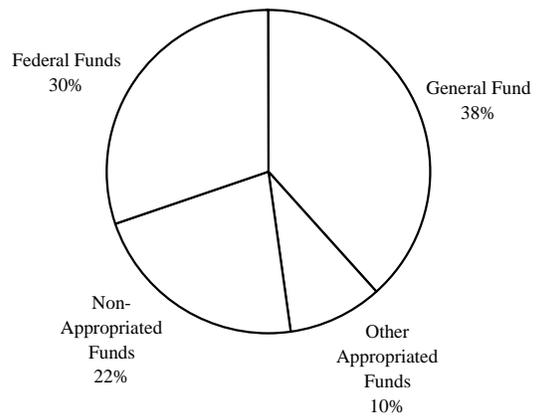
<u>Budget Unit</u>	Spending (Millions)
AHCCCS	\$ 5,545.4
Education (K-12)	5,483.0
Universities	3,120.5
Economic Security	2,512.3
Health Services	1,604.5
Transportation	1,321.1
Corrections	919.3
School Facilities Board	567.5
Administration	848.5
Other Agencies	3,438.8
<b>TOTAL</b>	<b>\$ 25,360.9</b>



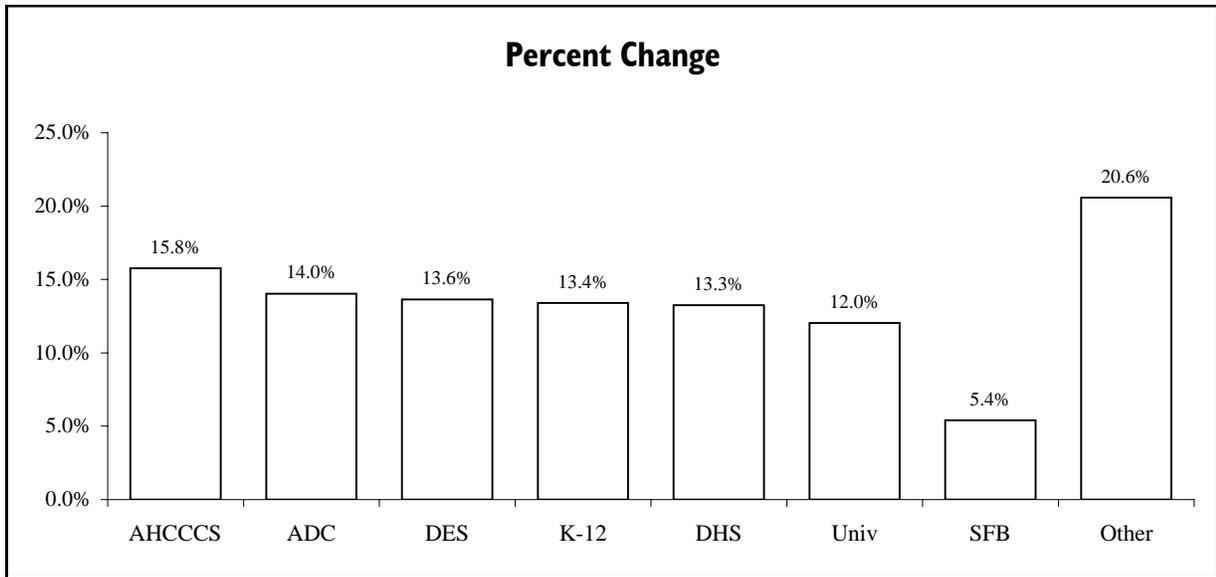
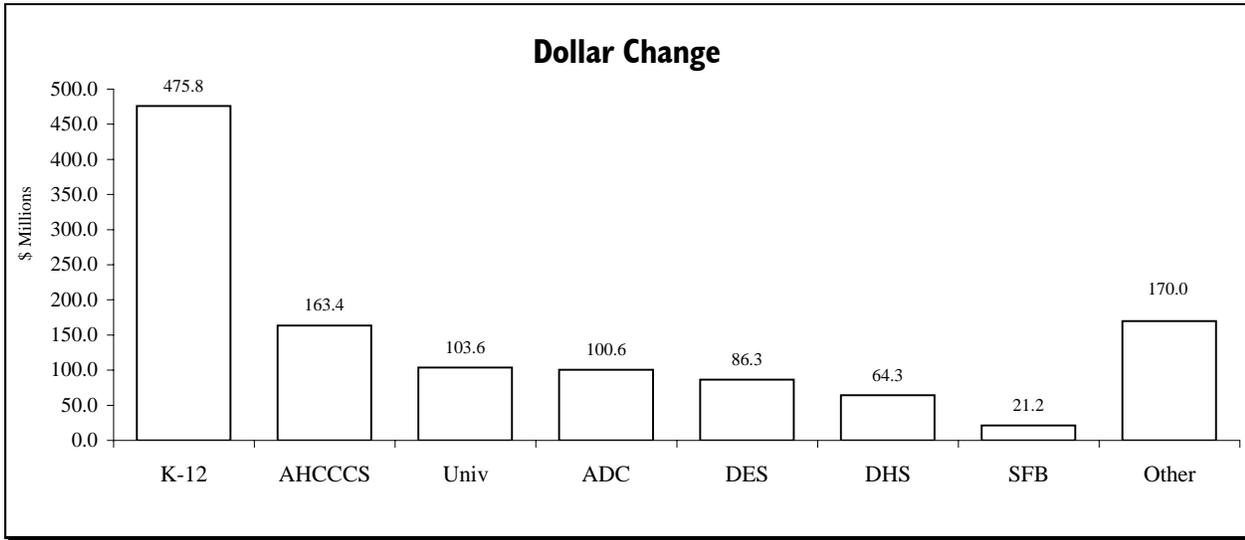
<sup>1/</sup> Does not include administrative adjustments, revertsments, maximizing federal funds adjustment, most capital, litigation settlements, and fund transfers.

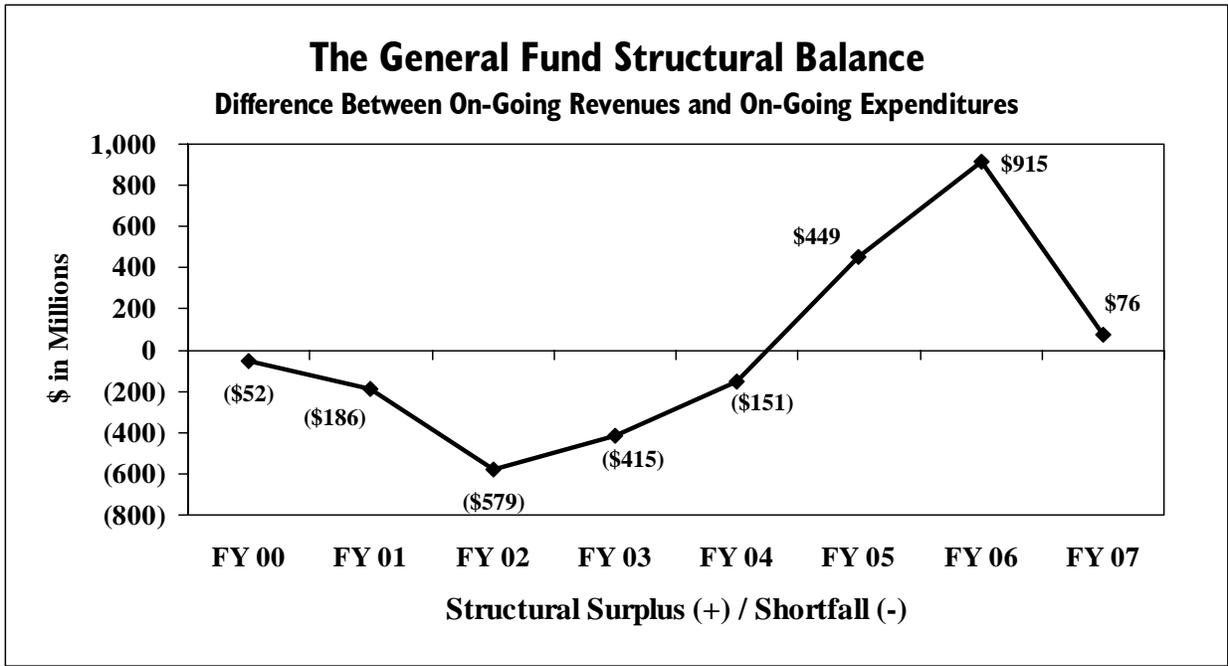
## FY 2007 Total Operating Spending by Fund Source

<u>Fund Source</u>	Spending (Millions)
General Fund	\$ 9,686.9
Other Appropriated Funds	2,436.7
Non-Appropriated Funds	5,590.9
Federal Funds	7,646.4
<b>TOTAL</b>	<b>\$ 25,360.9</b>



**MAJOR CHANGES TO STATE GENERAL FUND BUDGET  
FY 2006 to FY 2007**





#### Recent History of General Fund Structural Balance <sup>1/</sup>

(\$ in Millions)

Fiscal Year	On-Going Revenues	On-Going Expenditures	Structural Surplus/ (Shortfall)
2000	\$5,960	\$6,012	(\$52)
2001	6,182	6,368	(186)
2002	5,760	6,339	(579)
2003	5,801	6,216	(415)
2004	6,462	6,613	(151)
2005	7,719	7,270	449
2006	9,127	8,212	915
2007	9,537	9,461	76

<sup>1/</sup> Excludes one-time revenues and expenditures. In comparison to prior years, the Legislature classified all revenue and expenditures in the FY 2007 budget as permanent or one-time.

# FY 2007 STATE GENERAL FUND BUDGET - A NARRATIVE SUMMARY

## General Fund Spending

- As enacted, the FY 2007 General Fund budget is \$10.09 billion. Of this amount, \$9.46 billion represents on-going spending and another \$632 million reflects one-time adjustments.
- FY 2007 General Fund spending is growing by \$1.09 billion above FY 2006, an increase of 12.1%. Excluding one-time items in both years, permanent spending grows by \$1.25 billion, or 15.2%.
- Several tax reductions take the form of increased state spending. The elimination of the County Equalization Tax Rate and the state's annual Truth in Taxation (TNT) adjustments both increase Department of Education spending. After adjusting for these items, permanent spending increases by \$965 million, or 11.7%.
- The FY 2007 ending balance is projected to be \$174 million. Of that amount, the Legislative budget proposal had set aside \$107 million for separate border enforcement legislation. The Governor, however, vetoed that bill.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be \$26.1 billion.

## General Fund Revenues

- The FY 2007 General Fund revenue forecast is \$10.27 billion. This amount includes \$730 million in one-time revenues. FY 2007 permanent base revenues are projected to increase 7.7% over the current FY 2006 forecast. FY 2006 permanent revenues were expected to increase by 18.2% above FY 2005.

## Structural Balance

- The structural balance is the difference between permanent revenues and permanent spending. The state can have a balanced budget, but a structural shortfall, if it uses one-time revenues and/or one-time spending reductions in its budget plan.
- The FY 2007 budget is expected to have a \$76 million structural surplus, compared to a \$915 million surplus in FY 2006.

## Budget Stabilization Fund

- In FY 2006, the Budget Stabilization Fund will receive any excess General Fund revenues above the original budget forecast for FY 2006 (from May 2005). The deposit is limited, however, as statute prevents the Fund balance from exceeding 7% of General Fund revenues. The Fund is expected to receive \$475 million in FY 2006 excess revenues. The Fund will have a balance of \$641 million, which is 7% of General Fund revenues.
- In FY 2007, the 7% cap increases to \$663 million. The budget funds this level through a combination of \$13 million in interest earnings and \$10 million in a General Fund appropriation.

## Tax Reductions

- The budget includes total tax and other revenue reductions of \$(483) million, including \$(448) million of reductions approved during the Second Regular Session and \$(35) million of reductions approved in prior legislative sessions. The \$(448) million in new changes include:
  - ⇒ A 5% reduction in individual income tax rates for FY 2007 and an additional 5% reduction in FY 2008. The impact is \$(156) million in FY 2007 and \$(334) million in FY 2008.
  - ⇒ A 3-year elimination of a 42-cent property tax, the County Equalization Tax. The FY 2007 impact is \$(215) million. As this tax currently offsets the cost of K-12 school expenses at the local level, the Department of Education budget will increase by \$215 million to compensate for this loss.
  - ⇒ An increase in the threshold for businesses to pay Transaction Privilege Tax estimated payments, which are made in June of each year (rather than after the end of the month as is normally the case). Raising the threshold from \$100,000 to \$1 million will result in a one-time revenue loss of \$(55) million.
  - ⇒ Other new tax reductions of \$(18) million. The main changes are a \$(10) million corporate income tax credit for donations to private school tuition organizations, a \$(5) million health insurance premium tax credit, and a \$(1.5) million solar energy tax incentive.

## State Employee Salary Adjustments

- The budget provides \$39.9 million in FY 2006 and \$129.7 million in FY 2007 for a \$1,650 per FTE salary adjustment and a 2.5% performance adjustment for state employees. The salary adjustment went into effect on March 11, 2006.

## Education

### **Department of Education**

- Direct state assistance to the operations and maintenance of K-12 schools will grow by \$451.6 million, or 12.7%. This total excludes \$215.2 million appropriated to replace County Equalization Tax Rate (CETR) monies and a \$(191.0) million reduction to eliminate one-time K-12 Rollover pay off monies.
- The budget adds \$184.4 million for 3.25% enrollment growth. The total student count is expected to reach 1,035,000. This cost is largely offset by \$(154.5) million in savings from the local share increasing due to property value growth.
- The budget includes \$118.1 million for a new Kindergarten Group B weight, including \$38.1 million transferred from the former Full-Day Kindergarten Special Line Item. Schools are required to provide capital funding if they choose to institute Full-Day Kindergarten programs.
- The budget adds \$194.8 million for inflation adjustments, including a 4.4% “Base Level” increase, a 4.3% increase in charter school Additional Assistance funding, and a \$5.0 million increase in Special Education weight funding.
- Laws 2006, Chapter 4 added \$28.9 million for English learner spending to address the *Flores* legislation. The Auditor General also received \$2.5 million for its responsibilities under Chapter 4.
- The budget adds \$8.6 million for separate bills on Gifted Education, E-Learning, Teacher Training and Physical Education programs.
- The budget adds \$5.0 million in private school grants for the disabled and foster care children. In addition, up to \$10.0 million in corporate income tax credits were authorized for donations to private school tuition organizations.
- The adjustments to the FY 2006 budget include a \$23.3 million FY 2006 supplemental due to higher-than-expected student counts and \$191.0 million to eliminate the rollover of state aid to the next fiscal year.

### **School Facilities Board**

- The budget provides \$250 million in cash for new schools in FY 2007, the same level as in FY 2006. This will fund 45 new school projects that will house 38,000 students along with the continuation of 30 projects approved in prior years.
- School facility building renewal funding will increase by \$16 million to \$86 million. This dollar level would have fully funded a revised building renewal formula, but the Governor vetoed the statutory formula change (but retained the funding).

### **Universities**

- The Universities’ General Fund spending will grow by \$103.6 million, or 12.0%. The Universities’ \$964 million spending level would fund 107,600 students in FY 2007. The amount includes the following adjustments:
  - ⇒ \$17.9 million to fully fund enrollment growth, plus \$39.2 million for the Laws 2006, Chapter 1 state employee pay raises. The enrollment growth funding includes savings of \$(1.9) million to eliminate funding for most students who have over 155 credit hours.
  - ⇒ \$16.0 million for other statewide adjustments, including state employee health and retirement expenses.
  - ⇒ \$5.7 million for University financial aid programs. In addition, the Commission on Postsecondary Education will receive \$5 million for a new program of private school student financial aid.
  - ⇒ \$2.7 million to expand agriculture outreach and Sierra Vista campus programs at UA.
  - ⇒ \$1.5 million to study state water issues.
  - ⇒ \$20.0 million to be spent at the universities’ discretion.
  - ⇒ \$20.0 million for university building renewal, which is not included above.

### **Community Colleges**

- Community College General Fund spending will grow by \$11.5 million, or 7.4%, to fund 100% of the statutory funding formula.
- This budget would fund an additional 4,200 full-time equivalent students and bring total full-time student equivalent enrollment to 120,000.
- The budget also includes \$3 million for law enforcement and firefighting training facilities located at Pinal Community College.

## Health and Welfare

### **AHCCCS**

- AHCCCS' General Fund spending will increase by \$163.4 million, or 15.8%, to a level of \$1.2 billion. Of this amount, \$127.2 million is for caseload and inflation increases in Title 19 indigent health care services. AHCCCS is expected to save approximately \$7.8 million due to the new Medicare Part D prescription drug program that shifts costs to the federal government. The state will bear the cost of participants’ co-pays.

- Based on a consensus forecast model, AHCCCS caseload is projected to increase by 2.25%. Total caseload is estimated to be 1,080,000 by June 2007. Health care provider payments will increase by an average of 6.5% for inflation.
- The KidsCare Parents program is continued until July 1, 2007 at a General Fund cost of \$9.9 million. New tiered premiums, ranging between 3% and 5% of household income, will be implemented for persons participating in the KidsCare Parents program.
- The budget also adds:
  - ⇒ \$5.0 million to expand medical residency programs.
  - ⇒ \$6.5 million for federal disability recipients who may have a 24-month gap in health coverage until they are eligible for Medicare.
  - ⇒ \$9.3 million for county relief on long term care expenses.
  - ⇒ \$5.2 million and 28.8 FTE positions for additional eligibility workers to implement the citizenship verification requirements of the federal Deficit Reduction Act.
  - ⇒ \$1.9 million to establish a phone line for the 2-1-1 information system.

### **Department of Economic Security**

- DES General Fund spending will increase by \$86.3 million, or 13.6%. This amount includes:
  - ⇒ \$17.4 million for 1,099, or 6.0%, new clients in the Title 19 Developmental Disabilities Long Term Care program. Total caseload would equal 18,513.
  - ⇒ \$8.2 million to raise Developmental Disabilities provider rates by 4.1%, which equals 99.7% of the FY 2006 benchmarks.
  - ⇒ \$26.4 million for caseload growth in Children Protective Service, Foster Care, Adoption, and other placements. This amount also funds the second year of a 2-year 25% increase in Foster Care and Adoption Subsidy rates. The budget adds \$2 million to provide substance abuse treatment to mostly CPS families.
  - ⇒ Level funding of Child Care caseloads which may generate a 1,800-person waiting list, depending on how implementation of 2005 statutory changes affects caseloads. The federal Child Care funds may be overcommitted by \$14 million in FY 2007. Future changes in TANF and Child Care caseloads may affect these shortfall estimates.
  - ⇒ \$7.9 million to increase Child Care provider rates to the 75<sup>th</sup> percentile of the 2000 Market Rate Survey.
  - ⇒ \$2.9 million to eliminate the 500-client waitlist in Vocational Rehabilitation and provide services to an additional 3,800 clients.
  - ⇒ \$2.8 million for 243 additional Domestic Shelter beds.
  - ⇒ \$7.8 million to investigate 100% of Adult Protective Service referrals and expand services for 3,460 seniors.
  - ⇒ \$(17.3) million reduction from the federal TANF Block Grant due to welfare caseload declines. The budget would fund 92,000 clients per month. Due to the elimination of one-time surpluses, the TANF federal block grant may be overcommitted by \$4.4 million.

### **Department of Health Services**

- DHS' General Fund spending will increase by \$64.3 million, or 13.3%. Of this amount, \$23.6 million is for Title 19 increases in the department's Behavioral Health and Children's Rehabilitative Services programs. Caseloads are projected to increase 2.25% while capitation rates would grow by a weighted average of 5.5%. The budget also adds:
  - ⇒ \$4.4 million to provide additional vaccines to underinsured children and adults.
  - ⇒ \$5.0 million in Tobacco Tax funding for trauma services in Tucson and statewide community health centers.
  - ⇒ \$3.1 million for salary increases of direct care workers at the State Hospital.
  - ⇒ \$3.0 million for methamphetamine treatment as part of an overall \$8 million initiative.
  - ⇒ \$2.5 million for housing costs of the seriously mentally ill in Maricopa County
  - ⇒ \$3.0 million for Alzheimer's Disease research
  - ⇒ \$7.1 million for Autism Research and \$2.5 million from the Tobacco Tax for Autism services, including \$200,000 for DES.

### **Criminal Justice**

#### **Department of Corrections**

- ADC General Fund spending will increase by \$100.6 million, or 14.0%. This amount adds:
  - ⇒ \$29.7 million for pay increases, including \$21.0 million for the Chapter 1 statewide adjustment. These adjustments raise the entry-level salary, including performance pay, in the Correctional Officer 2 series by \$5,300 to \$32,600. This pay increase is also funded by a shift of \$17.0 million from overtime.
  - ⇒ \$20.5 million for other statewide adjustments, including state employee health and retirement expenses.
  - ⇒ \$15.6 million for the replacement of one-time federal monies.
  - ⇒ \$2.0 million for inmate population growth.

- ⇒ \$13.0 million for 1,000 previously-authorized private beds that will open in FY 2007.
- ⇒ \$12.2 million for private and provisional bed cost adjustments.
- The budget funds 100 net new inmates per month and a FY 2007 year-end inmate population of 35,900.
- ADC is expected to have a 3,000 bed shortfall by the end of FY 2007. To address this issue, the budget adds a total of 3,000 new private beds in FY 2008 at an FY 2008 cost of \$11.2 million. The JLBC would review the relevant RFPs.

#### **Department of Juvenile Corrections**

- DJC General Fund spending will increase by \$8.9 million, or 12.6%, including:
  - ⇒ \$818,000 from the General Fund plus other funds to add 32 beds for a total of 655 beds.
  - ⇒ \$4.1 million for pay increases, including \$2.6 million for the Chapter 1 statewide adjustment, raising the entry-level salary, including performance pay, in the Youth Correctional Officer 2 series by \$4,100 to \$32,500.
  - ⇒ \$2.3 million due to a reduction of State Trust Land revenue.
  - ⇒ \$495,000 of one-time funding to complete suicide renovations related to a federal civil rights audit.

#### **Department of Public Safety**

- DPS General Fund spending will increase by \$121.1 million, or 268.4%, including:
  - ⇒ \$97.8 million in one-time monies from the General Fund to reduce the Highway User Revenue Fund and State Highway Fund monies for Highway Patrol to their respective \$10 million statutory caps.
  - ⇒ \$4.6 million for pay increases, including \$2.8 million from the Parity Compensation Fund, raising the entry-level salary in the Highway Patrol by \$3,700 to \$42,800.
  - ⇒ \$6.1 million from the General Fund for 41 Highway Patrol Officers, 10 Support Staff and 4 Call Takers
  - ⇒ \$10.0 million from the General Fund to expand multi-jurisdiction immigration control efforts, including local law enforcement grants.
  - ⇒ \$7.0 million from the General Fund for an additional 100 sworn officer positions in the Gang and Immigration Intelligence Team Enforcement Mission (GITEM), of which 50 are for border security and immigration.

#### **Judiciary**

- Judiciary General Fund spending will increase by \$5.6 million, or 4.7%, including:
  - ⇒ \$2.2 million for enacted judges' salary adjustments, 3 new Superior Court judgeships and new drug court support.
  - ⇒ \$2.0 million from the General Fund to backfill JCEF and free up monies to assist local courts in improving automation of their case and cash management system.
- Legislation was enacted to require Maricopa County to assume responsibility for juvenile probation costs in FY 2007 in exchange for a dollar-for-dollar reduction in their contributions to the AHCCCS budget. The budget includes a \$7.4 million reduction in the Judiciary budget and a matching \$7.4 million increase in the AHCCCS budget.

### **Natural Resources**

#### **Department of Environmental Quality**

- State funding of the clean-up of chemically contaminated sites, the Water Quality Assurance Revolving Fund (WQARF), is allocated \$15 million, an increase of \$4 million over the FY 2006 level.

#### **State Land Department**

- Land Department General Fund spending will increase by \$3.4 million, or 14.8%, excluding a one-time FY 2006 supplemental. The budget adds:
  - ⇒ \$1.3 million for additional trust land management funding.
  - ⇒ \$1.6 million for fire suppression support.
- The department received a \$6.2 million FY 2006 supplemental to pay existing fire suppression expenses and for additional expenses incurred fighting fires during the 2006 fire season.

#### **State Parks Board**

- The budget provides an additional \$4.4 million from the General Fund, or 19.4%, in FY 2007. This amount includes:
  - ⇒ \$2.6 million to shift a portion of the cost for operating State Parks from the State Parks Enhancement Fund (park fees) to the General Fund to offset projected shortfalls in park fee revenues.
  - ⇒ \$700,000 to shift in a portion of the cost of operating Kartchner Caverns State Park from the State Lake Improvement Fund to the General Fund.

## **Department of Water Resources**

- The budget provides an increase of \$1.9 million from the General Fund, or 10.0%, including:
  - ⇒ \$500,000 from the General Fund for technical support in general stream adjudications.
  - ⇒ \$500,000 from the General Fund for automated groundwater monitoring to expedite analysis for various program activities.
- The budget adds \$1.1 million from new Assured and Adequate Water Supply fees to ensure timely processing of water adequacy reports. The department would also retain \$1.7 million from the General Fund for this purpose.
- Apart from the DWR operating appropriation, the budget also provides a \$13.5 million deposit into the Arizona Water Banking Fund for Indian water right issues.

## **Other**

### **Commission on the Arts**

- The budget provides \$7 million to the Arts Endowment Fund, leaving the Fund with total General Fund contributions of \$20 million at the end of FY 2007. This funding completes the state's contribution to the Fund.

### **Attorney General**

- Attorney General spending from the General Fund will decrease by \$(2.8) million, or (11.2)%. Excluding a fund shift, Attorney General spending from the General Fund will increase by \$3 million, or 13%. The budget includes:
  - ⇒ A General Fund decrease of \$(6.0) million and a corresponding increase of Other Funds to cost allocate Civil Division expenses to client agency special funds. State agencies received General Fund and Other Fund appropriations to pay their share of the cost allocation. The net statewide General Fund savings is \$(1.4) million.
  - ⇒ \$1.3 million for the prosecution of crimes related to drug trafficking, human trafficking, and identity theft.
  - ⇒ \$1.0 million for one-time funding of the third year of case management system redesign.

### **Capital Outlay**

- The budget provides \$80.4 million from the General Fund in non-transportation capital funding, including:
  - ⇒ \$20.0 million to fund 29% of the University Building Renewal formula.
  - ⇒ \$3.8 million (plus \$3.4 million of Other Funds) to fund 29% of the ADOA Building Renewal formula.
  - ⇒ \$5.2 million to replace prison cell doors and locks.
  - ⇒ \$1.5 million plus other funds for a DPS microwave communications system in southern Arizona.
  - ⇒ \$19.0 million for ASDB capital projects.
  - ⇒ \$800,000 for a Navajo Senior Center and multipurpose buildings.
  - ⇒ \$400,000 for a Prescott Historical Society maintenance facility.
  - ⇒ \$1.1 million for Williams Gateway grants.
  - ⇒ \$1.5 million for a City of Williams dam repair.
  - ⇒ \$2.0 million for a Yuma welcome center.
  - ⇒ \$10.0 million for a southern Arizona veterans' home.
  - ⇒ \$15.0 million for the new Archives and History Building (2005 session legislation funded the building at \$30 million, with \$15 million a piece in FY 2006 and FY 2007). The budget also adds \$8 million in FY 2008 to complete the project.

### **Department of Commerce**

- The budget provides \$35.0 million from the General Fund in FY 2006 for the Arizona 21<sup>st</sup> Century Fund.

### **Methamphetamine Abuse Services**

- The budget provides \$8.0 million from the General Fund to address issues related to methamphetamine abuse treatment and interdiction efforts. Funding will be distributed to the Department of Health Services (\$3.0 million), the Arizona Criminal Justice Commission (\$3.0 million), and the Department of Economic Security (\$2.0 million).

### **Tax Litigation**

- The budget allocates \$94.8 million for the final year of the *Ladewig v. State of Arizona* settlement.
- The budget allocates \$15 million for payments associated with a *Kerr v. State of Arizona* settlement.

## **Secretary of State**

- Secretary of State General Fund spending will increase by \$3.4 million to finance the 2006 state primary and general elections.

## **Department of Transportation**

- ADOT's appropriated fund spending will increase by \$25.8 million, or 6.2%, including:
  - ⇒ \$1.3 million and 29 FTE Positions from the State Highway Fund for customer service and call center staff to address waiting times at Motor Vehicle Division offices.
  - ⇒ \$2.8 million from the State Highway Fund for increased Highway Maintenance workload related to additional miles of roadway.
  - ⇒ \$24.6 million for statewide adjustments, including state employee pay, health and retirement costs.

## **Transportation Capital**

- The budget increases transportation spending by \$345 million, including:
  - ⇒ \$245 million from the General Fund deposited to the Statewide Transportation Acceleration Needs (STAN) Account.
  - ⇒ \$62 million from the State Highway Fund deposited to the STAN.
  - ⇒ \$38 million in additional HURF monies distributed to local jurisdictions.
- The Capital Outlay Bill establishes the STAN Account as a separate account in the State Highway Fund for the State Transportation Board to accelerate the construction or reconstruction of freeways, state highways, bridges and interchanges that are in a county's regional transportation plan or ADOT's long-range statewide transportation plan.
- STAN Account monies are divided 60% for Maricopa County, 16% for Pima County and 24% for all other counties.

## **Urban Revenue Sharing**

- Urban Revenue Sharing (URS) distributions, based on income tax collections 2 years prior, would be \$551 million in FY 2007. This amount is \$126 million, or 30% greater than the FY 2006 distribution of \$425 million, due to extraordinarily high income tax collections by the state during FY 2005.
- The budget adds \$850,000 in FY 2007 to supplement the URS distribution for towns with a population of less than 1,500.
- In lieu of the statutory distribution of URS to cities and towns, \$717 million was appropriated in FY 2009 to hold the cities harmless from the individual income tax rate reductions implemented in FY 2007. In addition, \$10.5 million was appropriated in FY 2009 to repay reductions in the regular 15% distribution percentage in FY 2003 and FY 2004.

## **Department of Veterans' Services**

- The Department of Veterans' Services' General Fund spending will increase by \$1.8 million, or 74.0%, including:
  - ⇒ \$1.3 million for 24 additional Veterans' Benefit Counseling staff.
  - ⇒ \$182,700 for Northern Arizona Cemetery preconstruction costs.
  - ⇒ \$135,200 for Southern Arizona Cemetery maintenance and operation costs.
  - ⇒ \$119,000 for rural veteran outreach and a donation for construction of the Pearl Harbor Memorial in Hawaii.

## **Statewide Issues**

### **FTE Positions**

- The budget would fund an increase of 731.9 Full-Time Equivalent (FTE) Positions. This 1.5% increase would bring total appropriated FTEs to 50,811.

### **State Employee Retirement and Insurance**

- The budget includes \$28.7 million from the General Fund for a 12.5% increase in the cost of state employee health insurance and eliminating the \$10 differential for integrated plans.
- The budget includes \$27.6 million from the General Fund for increases in the state employer share of employee retirement costs. Arizona State Retirement System employer and employee rates will each increase by 1.7%.