

COMPARISON OF JLBC BASELINE AND EXECUTIVE BUDGET PROPOSAL

The JLBC Book II supplements information on the FY 2007 Baseline budget in JLBC Book I. As required by A.R.S. § 41-1273, the JLBC Staff is providing information on the Executive budget proposal. Book II compares the FY 2007 JLBC Baseline and Executive budget changes to the FY 2006 budget for each state agency. This comparison also includes the line item detail for both the JLBC and Executive budget estimates. In addition, the JLBC Baseline displays the line item detail for non-appropriated funds.

The Baseline Budget

The JLBC has already released its FY 2007 General Fund Baseline estimates (*see JLBC Book I*). This General Fund Baseline provides an estimate of the cost of statutory funding formulas and other obligations in comparison to a projection of available revenues. The Baseline does not represent a complete budget as it does not address program expansions or program reductions. These types of policy issues will be considered by the full Legislature during the Legislative session.

The FY 2007 JLBC General Fund Baseline spending estimate is \$8.90 billion. When compared to projected FY 2007 General Fund revenues of \$9.75 billion, the Baseline has \$850 million in net available resources. This amount would be reserved for the following legislative initiatives:

- Tax Relief
- State Employee Pay
- Border Enforcement
- Truth in Budgeting (repayment of fund sweeps and shifts, rollover)
- New Capital Projects
- Education Reform, and
- Ending Balance

The FY 2007 JLBC Baseline includes recommended Other Appropriated Fund spending levels for operating and capital expenditures. Unlike the General Fund Baseline, these Other Fund estimates may include program expansions and reductions.

On a comparable basis to the \$850 million, the Executive Budget would have \$1.27 billion in net available resources, or \$419 million above the JLBC Baseline. This difference is due to:

- The Executive budget includes \$180 million more in General Fund Baseline revenue across both FY 2006 and FY 2007, excluding any policy changes. *See General Fund Revenue section below.*
- The Executive proposes to deposit \$269 million less into the Budget Stabilization Fund than the JLBC Baseline. *See Budget Stabilization Fund section below.*
- The Executive budget includes \$20 million more in net revertments across both FY 2006 and FY 2007.
- Offsetting these gains, the Executive budget's estimated statutory formula growth is \$51 million higher than the JLBC Baseline. *See General Fund Spending section below.*

Of the \$1.27 billion, the Executive is proposing to allocate \$879 million of this amount for on-going purposes with the remainder set aside for one-time projects. As described in the *Ending Balance and Structural Balance* section below, the JLBC recommends that no more than \$368 million of its \$850 million Baseline be allocated to on-going initiatives so as to avoid a structural shortfall.

The Executive Budget Proposal

General Fund Revenues

Revised FY 2006 - The Executive budget proposal includes a revised FY 2006 General Fund revenue estimate of \$9.36 billion due to higher-than-expected collections. This amount is \$1.11 billion higher than the enacted FY 2006 budget revenues and \$64 million higher than the revised JLBC Baseline estimate. The Executive proposal would result in 13.0% growth in on-going revenues compared to the JLBC's estimated 12.3% growth. (The Executive estimates have been adjusted to display Ladewig Litigation expenses as spending for comparability with the JLBC Baseline.)

Proposed FY 2007 - The FY 2007 Executive proposal includes a General Fund revenue estimate of \$10.22 billion. This amount consists of \$9.19 billion in on-going revenue and \$1.02 billion in one-time revenues.

The Executive's revenue estimates reflect a 7.5% growth rate in current revenues. In comparison, the JLBC Baseline revenues would grow by 7.0%. The higher Executive growth rate generates \$116 million more in higher FY 2007 base revenues than the JLBC. Between FY 2006 and FY 2007, Executive revenues are \$180 million higher than the JLBC Baseline.

In addition, the Executive proposes several adjustments to base revenue. The Executive proposal has \$40 million in revenue enhancement proposals, including \$20 million for “Revenue Maximization.” The Executive has not yet released any details on this proposal. Another \$20 million would be generated through rental property tax enforcement. There may be owners of rental property who are receiving the Homeowner’s Rebate, which reduces residential property taxes by 36%. Taxpayers may claim this rebate, however, only for their place of residence.

The Executive also proposes \$100 million in tax reductions, including:

- a \$25 million 3-day sales tax holiday
- a \$20 million vehicle license tax reduction for owners of fuel efficient vehicles
- a \$20 million research and development tax credit and
- a \$35 million small business tax credit up to \$1000 for companies offering employee health insurance. Of this amount, \$24 million would be offered as a one-time credit for businesses already providing health insurance.

The JLBC Staff is reviewing the cost estimates of each of these credits. In particular, the JLBC recommends further review of the size of the \$1,000 health insurance tax credit to determine whether it would be sufficient to influence business behavior, especially at the upper end of the eligibility range of 2 to 24 employees.

As a technical issue, the Executive allows the Arizona State Hospital to retain \$28 million in federal Disproportionate Share Hospital revenue that is currently deposited to the General Fund. The proposal has no net impact, however, as the ASH General Fund budget is reduced by \$28 million.

In summary, the Executive’s General Fund revenues of \$10.22 billion are \$467 million higher than the JLBC Baseline for the following reasons:

	<u>\$ in Millions</u>
• Higher FY 2006 Carry Forward	\$437
• Higher Baseline Revenues	116
• Rental Property Enforcement and Revenue Maximization	40
• Tax Reductions	(100)
• Disproportionate Share Shift	28
• Other	<u>4</u>
Total	\$467

See page S-59 for the detailed revenue category comparison.

General Fund Spending

Revised FY 2006 - The FY 2007 Executive budget includes a revised FY 2006 General Fund spending estimate of \$8.31 billion. In comparison, the JLBC Baseline is \$8.69 billion. There are 3 reasons for this \$372 million difference:

- The main reason for higher JLBC spending is that the Executive would repeal the scheduled \$440 million General Fund deposit into the Budget Stabilization Fund (BSF). Laws 2005, Chapter 286 requires revenues above the enacted budget to be deposited into the BSF. While the Executive would make no deposit in FY 2006, they would provide \$180 million in FY 2007. *See Budget Stabilization Fund section for more information.*
- This lower BSF deposit is offset by the Executive having \$12 million less in savings from “net revertsments.” These revertsments reflect an estimate of unspent appropriations at the end of the fiscal year.
- The Executive is also proposing \$56 million in higher supplemental funding. While the JLBC Baseline includes \$32 million for the Department of Education (ADE), the Executive is proposing \$88 million in supplementals. Their main adjustments are \$31 million for the Department of Corrections, \$21 million for ADE, \$15 million for AHCCCS, and \$11 million for the Department of Health Services.

Proposed FY 2007 - In FY 2007, the Executive is proposing a General Fund spending level of \$10.19 billion. In comparison, the JLBC Baseline spending estimate is \$8.90 billion, which is \$1.29 billion less than the Executive.

The Executive budget would increase spending by \$1.88 billion, or 22.6%, above FY 2006. Of this amount, \$1.49 billion, or 17.9%, is for permanent or on-going issues and \$484 million, or 5.8%, is for one-time issues. There are also net negative adjustments of \$(94) million, or (1.1)%.

On-going Increases - The primary components of the permanent or on-going increases are as follows:

- \$682 million for statutory funding formulas and other obligations. This estimate is comparable to the \$631 million increase in the JLBC Baseline. By itself, baseline spending increases the Executive budget by 8.2%.
- \$541 million to expand existing programs and start 40 new programs. By themselves, these adjustments increase spending 6.5% above FY 2006. This category represents 29% of the overall increase in spending.
- \$215 million for state employee pay increases.
- \$46 million to shift the cost of existing programs to the General Fund. The primary proposal would shift \$38 million of the cost of the Department of

Public Safety from the Highway User Revenue Fund (HURF) to the General Fund.

The Executive budget's \$541 million of new and expanded programs includes:

- \$115 million for expansion of full-day kindergarten statewide, including capital costs;
- \$91 million for teacher salary increases;
- \$38 million for border enforcement issues. As described below, the Executive proposes another \$50 million in one-time spending for a total of \$88 million. The Executive has represented this issue as costing \$101 million in FY 2007. That estimate, however, includes \$14 million in capital construction costs that are being debt financed over 15 years. (*See the Border Enforcement section below for more information.*)
- \$66 million in new and expanded programs in the Department of Economic Security;
- \$40 million in new and expanded programs in the Arizona University system;
- \$30 million for health care costs in the Department of Corrections;
- \$28 million in new and expanded programs in AHCCCS;
- \$25 million for establishment of a new economic development program in the Department of Commerce called Innovation Arizona;
- \$24 million in new and expanded programs in the Department of Health Services;
- \$19 million for rural water supply development grants through the Water Infrastructure Finance Authority plus WQARF funding;
- \$10 million for AZNet, the statewide telecommunications network

Beyond these program expansions and reductions, the Executive funding formula estimates are similar to the JLBC Baseline. Among the differences:

- The Executive's estimate for growth in AHCCCS and the Department of Health Services (primarily in Title 19 low-income health programs) is \$13 million higher than the JLBC Baseline; much of that difference results from the Executive's continuation of the KidsCare Parents program, which expires pursuant to statute on June 30, 2006.
- University enrollment funding is \$9 million higher than the JLBC Baseline. The Executive estimates do not reflect the adjustment relative to the 155 credit hour cap as enacted in Laws 2005, Chapter 330.
- The Executive would provide an additional \$13 million to the Department of Corrections due primarily to 1,900 new contracted beds versus 1,000 in the JLBC Baseline. The resulting bed shortfall at the end of FY 2007 ranges between (2,500) and (3,200). The Executive has not yet provided its plan to alleviate bed deficits in FY 2008; the JLBC Baseline proposes adding 3,000 private beds in that year.

- The Executive's proposed *Flores* plan would appropriate \$16 million more than the JLBC Baseline in FY 2007.

One-Time Increases - In addition to on-going adjustments, the Executive is proposing \$484 million in major one-time initiatives:

- \$180 million deposit to the Budget Stabilization Fund. (*See Budget Stabilization Fund section below for more information.*)
- \$118 million deposit to the State Highway Fund to replace vehicle license tax funds that were diverted to the General Fund in FY 2005 and a \$40 million deposit to the Highway User Revenue Fund (HURF) to offset prior year use of these monies for Highway Patrol expenses.
- \$96 million to repay 50% of the Department of Education "rollover", which defers \$191 million of current year school payments to the first day of the following fiscal year.
- \$50 million of the Executive's Border Enforcement initiative, which has been described as a one-time deposit to the Border Security Mobilization Reserve Fund. The Executive has informally indicated that as much as another \$25 million of the initiative may be one-time.

Ending Balance and Structural Shortfall Estimates

After comparing the Executive's projected General Fund revenues and spending, the FY 2007 Executive budget has a \$25 million ending cash balance. The budget can also be viewed from the perspective of its "structural balance." This concept represents the difference between on-going permanent revenues and expenditures. The state can have a structural shortfall but have a balanced budget through the use of one-time revenue increases and/or expenditure savings.

In the JLBC Staff calculation, permanent revenues only include on-going revenues and exclude any one-time monies, including any carry forward balance of funds from the prior year. This "balance forward" has varied widely in the last several years, from \$1 million at the beginning of FY 2003 to \$639 million at the beginning of FY 2006. This variability demonstrates the difficulty in making these monies part of any "on-going" revenue calculation.

Due to a downturn in the state's economy, the General Fund had a structural shortfall of \$(579) million in FY 2002. As economic conditions improved, the state finally returned to a structural surplus in FY 2005 at a level of \$449 million. In FY 2006, the structural surplus is projected to improve slightly to \$470 million to \$475 million. (The cash balance will be even higher due to the availability of one-time monies.)

As noted earlier, the JLBC Baseline has a projected \$850 million in net available resources prior to the allocation of legislative initiatives. The structural balance,

however, is only \$368 million due to the availability of one-time monies. To prevent the FY 2007 budget from incurring a structural shortfall, the JLBC recommends that no more than \$368 million of the \$850 million in legislative initiatives be allocated to permanent revenue or spending changes.

In comparison, the Executive is proposing a FY 2007 budget with on-going revenues of \$9.19 billion and on-going expenditures of \$9.57 billion. This difference results in a structural shortfall of \$(375) million. The structural shortfall results largely from the Executive's allocation of 69% of its net available resources for on-going projects.

The Executive has indicated that its \$263 million in School Facilities Board (SFB) new construction costs are a one-time expenditure since these expenses could be converted to debt financing in future years. Since the existing policy is to pay cash for construction, the JLBC Staff's calculations display the SFB spending as on-going. Other state capital projects such as the new Library and Archives building are displayed as one-time, since the expenditure will occur only once. SFB new school construction, however, represents an on-going obligation of the state.

FY 2008 and FY 2009

The JLBC has already provided General Fund Baseline estimates through FY 2009 to assist the Legislature in evaluating the state's long-run fiscal condition (*see page 57 of the JLBC Summary Book*). These projections include estimates of both the ending cash balance as well as the structural balance.

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 2007 through FY 2009 would change the ending balance calculations by almost \$600 million. As a result, the following projections are subject to considerable change.

Under the JLBC Baseline, the projected FY 2008 and FY 2009 structural balances are a product of both Baseline revenue and spending projections for those 2 years as well as legislative decisions in allocating the \$850 million in available FY 2007 resources. Depending on the allocation between on-going and one-time initiatives, the structural balance would range between a surplus of \$136 million to a shortfall of \$(232) million in FY 2008. The FY 2009 amounts are comparable.

In developing estimates of the FY 2008 and FY 2009 impacts of the Executive budget proposal, the JLBC Staff first reviewed their estimates to determine if any of their proposed expansions would require added funding in those years. Two primary adjustments would add another \$116 million to the FY 2008 budget:

- The Executive's *Flores* proposal phases in funding through FY 2009. Beyond the \$45 million appropriation in FY 2007, the JLBC Staff estimates that the Executive proposal would cost \$120 million in FY 2008 and \$185 million in FY 2009.
- The Executive proposes to build additional school facilities due to the statewide expansion of the Full Day Kindergarten program. While the 5 year construction cost is \$180 million, the Executive budget sets aside \$9 million in FY 2007. In FY 2008 and FY 2009, the costs are expected to be \$50 million and \$66 million, respectively.

As the next step in determining the FY 2008 and FY 2009 impacts of the Executive proposal, the JLBC Staff applied long-run revenue and spending growth rates to the Executive's FY 2007 budget. These are the same rates used to project the FY 2008 and FY 2009 impact of the JLBC Baseline. (*See page 57 of the Summary Book for further details on these long-term assumptions.*)

As noted earlier, the Executive has a projected structural shortfall of \$(375) million in FY 2007. After applying the long-run growth rates, the Executive's structural shortfall is expected to grow to \$(755) million in FY 2008 and \$(832) million in FY 2009.

Other Possible Executive Impacts

The Executive budget includes other proposals that may have future cost impacts that are not factored into the current long-run estimates:

- The Executive is proposing to expend \$79 million on School Facilities Board building renewal, compared to the estimated formula cost of \$161 million. The state is currently in litigation over its level of contributions to building renewal. The Executive underfunds that formula by \$(82) million. In comparison, the JLBC Baseline includes \$86 million in building renewal funding and proposes changes to the formula that are consistent with this level.
- The Executive adds \$105 million in operating expenses to expand the Full Day Kindergarten program statewide. This dollar estimate, however, assumes that each student will receive \$4,300 of support. While that dollar amount is equivalent to the FDK per student funding to date, the Basic State Aid support level is closer to \$5,000 per student. If this higher Basic State Aid support level is applied to the FDK program, the full cost of implementation would be \$60 million higher than the Executive budget.
- The Executive budget may overstate expected savings from unexpended appropriations, otherwise known as net reverts, by over \$20 million. If funds are not spent by the end of a fiscal year, a state agency has up to another year to expend those monies for a prior year claim. While the Executive's net reverts are \$12 million less than JLBC in FY 2006, they

are \$32 million higher than the JLBC Baseline in FY 2007 for a gain of \$20 million across the 2 fiscal years. In FY 2007, the Executive is assuming that state agencies will only expend \$25 million of the \$91 million of prior year revertsments, or about 27%. The 5-year average is 57%.

- Several Executive proposals require more details in order to be evaluated. For example, the Executive is proposing \$20 million in Revenue Maximization, but has not yet released the details of its proposal.

Budget Stabilization Fund

Laws 2005, Chapter 286 requires the transfer of any excess FY 2006 General Fund revenue above the enacted budget forecast to the Budget Stabilization Fund. (See page 55 of the JLBC Summary for more information.) As a result, the JLBC Baseline budget transfers \$440 million into the fund in FY 2006. Excess revenue are projected to be greater than \$440 million, but the transfer is limited to keep the overall fund balance at the current statutory cap of 7% of General Fund revenue. In combination with prior year contributions, the overall fund balance would be \$606 million at the end of FY 2006.

In comparison, the Executive is proposing no BSF deposit in FY 2006.

In FY 2007, the JLBC would continue to deposit sufficient revenues to keep the fund at 7% of General Fund revenues. Due to the growth in revenues, the new cap would be \$640 million. This additional \$34 million would be generated through \$24 million in interest earnings and a new \$10 million deposit from the General Fund.

In comparison, the Executive is proposing a \$180 million BSF deposit in FY 2007. This would bring the fund balance to \$348 million, or approximately 3.8% of General Fund revenues.

Across FY 2006 and FY 2007, the JLBC Baseline has \$449.4 million in BSF deposits, which is \$269.4 million higher than the Executive proposal.

Budget Stabilization Fund				
(\$ in Millions)				
	<u>FY 2006</u>		<u>FY 2007</u>	
	<u>Executive</u>	<u>JLBC</u>	<u>Executive</u>	<u>JLBC</u>
Beginning Balance	\$ 160.9	\$160.9	\$ 163.8	\$ 606.0
Interest /Other	2.9	5.4	3.9	24.2
Transfers	<u>0</u>	<u>439.8</u>	<u>180.0</u>	<u>9.6</u>
Ending Balance	\$ 163.8	\$ 606.0	\$ 347.7	\$ 639.8

Border Enforcement Proposal

The details of the Executive's Border Enforcement proposal are as follows:

<u>Attorney General</u>		<u>GF Cost</u>
• Border Security Prosecutors (18 FTE's)		\$1,320,200
<u>Department of Corrections</u>		
• Inmate Clean-up Crews (up to 9 FTE's)		729,700
<u>Department of Environmental Quality</u>		
• Hazardous Waste Inspectors (3 FTE's)		275,000
<u>Department of Emergency Management and Military Affairs</u>		
• Border Action Grants to Local Jurisdictions		9,980,000
<u>Department of Liquor Licenses and Control</u>		
• Fraudulent I.D. Task Force		1,634,100
<u>Department of Public Safety</u>		
• Gang Intelligence Team Enforcement Mission (16 FTE's)		2,052,700
• Human Trafficking/Smuggling Squads (16 FTE's)		1,773,100
• Domestic Terrorism Squad (12 FTE's)		1,984,400
• Border Region Block Grants – Equipment		7,960,000
• Border City Cops Grants		5,100,000
• Microwave Communication System Upgrade		1,863,000
• Missing Persons Database		596,000
• Southern Region Auto Theft Details		1,420,500
• Southern Regional Crime Lab Construction ^{1/}		1,430,000
• Border Security Reserve Fund		<u>50,000,000</u>
DPS Subtotal		74,179,700
<u>Department of Transportation</u>		
• Port-of-Entry Personnel (2 FTE's)		<u>163,800</u> ^{2/}
Border Enforcement Total		\$88,282,500 ^{1/}

^{1/} Total cost of construction is estimated to be \$14.3 million funded through a 15-year lease-purchase agreement. Annual payments estimated to be \$1.4 million. The Executive has included the construction expense in its \$101 million overall cost estimate of the Border Enforcement plan.

^{2/} Safety Enforcement and Transportation Fund.

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

	FY 2006 Executive	FY 2006 JLBC ^{1/}	FY 2007 Executive	FY 2007 JLBC
REVENUES				
On-going Revenues	\$9,148,549,500	\$9,084,056,100	\$9,836,501,500	\$9,720,707,700
Enacted Revenue Adjustments	6,362,000	6,362,000	12,362,000	12,362,000
Enacted Tax Law Changes	(18,050,000)	(18,050,000)	(37,230,000)	(37,230,000)
ASH Dispro Share Fund Shift	0	0	(28,474,900)	0
On-going Tax Reductions	0	0	(76,000,000)	0
Rental Property Tax Enforcement	0	0	20,000,000	0
Revenue Maximization	0	0	20,000,000	0
Judicial Collections Adjustment	0	0	(1,400,000)	0
Urban Revenue Sharing	(425,228,900)	(425,228,900)	(551,230,900)	(551,315,800)
Revised On-going Revenues	8,711,632,600	8,647,139,200	9,194,527,700	9,144,523,900
One-time Revenues				
Balance Forward	638,989,000	638,989,000	1,046,966,700	610,152,600
Employer Health Care One-time Tax Credit	0	0	(24,000,000)	0
Corporate Consolidated Returns	0	0	0	(4,000,000)
New FY 2006 Fund Transfers	10,000,000	10,000,000	0	0
Subtotal One-time Revenues	648,989,000	648,989,000	1,022,966,700	606,152,600
Total Revenues	\$9,360,621,600	\$9,296,128,200	\$10,217,494,400	\$9,750,676,500
EXPENDITURES				
Operating Budget Appropriations	8,193,957,900	8,194,258,600	9,609,550,500	8,799,992,400
FY 06 Supplementals	87,628,300	31,669,300	0	0
Flores Litigation	0	0	45,180,000	29,610,000
Maximizing Federal Fund Savings	0	(25,000,000)	0	(25,000,000)
Administrative Adjustments	50,000,000	23,000,000	25,000,000	23,000,000
Revertments	(91,150,000)	(51,169,300)	(110,500,000)	(51,169,300)
Subtotal Permanent Expenditures	8,240,436,200	8,172,758,600	9,569,230,500	8,776,433,100
One-time Expenditures				
SFB Deficiencies Corrections	20,000,000	20,000,000	0	0
SFB Payment Holiday	(22,190,200)	(22,005,100)	0	0
Capital Outlay	17,150,000	17,150,000	32,426,500	15,000,000

Ladewig Litigation Payments	58,258,900	58,300,000	92,646,400	99,200,000
Kerr Lawsuit	0	0	15,000,000	0
Pay off 50% K-12 Rollover	0	0	95,500,000	0
Budget Stabilization Fund Deposits	0	439,772,100	180,000,000	9,597,000
Payback '05 VLT Transfer	0	0	118,000,000	0
Payback of HURF for Prior DPS Use	0	0	40,000,000	0
Border Security Reserve Fund	0	0	50,000,000	0
Subtotal One-time Expenditures	73,218,700	513,217,000	623,572,900	123,797,000
Total Expenditures	\$8,313,654,900	\$8,685,975,600	\$10,192,803,400	\$8,900,230,100
NET AVAILABLE RESOURCES ^{2/}	\$1,046,966,700	\$610,152,600	\$24,691,000	\$850,446,400
Legislative Initiatives: On-going				Up to 368,090,800 ^{3/}
Legislative Initiatives: One-time				At least 481,355,600 ^{3/}
Ending Balance	\$1,046,966,700	\$610,152,600	\$24,691,000	\$1,000,000
Structural Balance ^{4/}	\$471,196,400	\$474,380,600	(\$374,702,800)	\$0 ^{5/} 368,090,800 ^{6/}
<p>^{1/} Reflects current status of FY 2006, including updated revenues.</p> <p>^{2/} Revenues less expenditures.</p> <p>^{3/} JLBC recommends allocating up to \$368.1 million of the net available resources to on-going initiatives and at least \$481.4 million to one-time initiatives, so as to avoid a structural shortfall.</p> <p>^{4/} The structural balance in this calculation reflects the difference between permanent on-going revenues and permanent expenditures. The structural balance will depend on the allocation of legislative initiatives.</p> <p>^{5/} If \$368.1 million of the \$850 million in net available FY 2007 resources is allocated to on-going initiatives.</p> <p>^{6/} If none of the \$850 million in net available FY 2007 resources is allocated to on-going initiatives.</p>				

**STATEWIDE ISSUES
JLBC - Executive Comparison**

	JLBC BASELINE	EXECUTIVE
<i>Overall Budget</i>		
Total General Fund Spending	<ul style="list-style-type: none"> • \$8.90 B (prior to legislative initiatives) 	<ul style="list-style-type: none"> • \$10.19 B
FY 2006 Supplementals	<ul style="list-style-type: none"> • \$32.0 M 	<ul style="list-style-type: none"> • \$88.0 M
<i>Legislative Initiatives</i>		
Legislative Initiatives	<ul style="list-style-type: none"> • Sets aside \$850 million in net available resources for: <ul style="list-style-type: none"> - Tax Relief - State Employee Pay - Border Enforcement - Truth in Budgeting (repayment of fund sweeps, shifts, and rollover) - New Capital Projects - Education Reform - Ending Balance 	<ul style="list-style-type: none"> • Allocates net available resources to specific projects
<i>Statewide Expenditures</i>		
State Employer Health Insurance	<ul style="list-style-type: none"> • \$25.0 M for 12.0% increase in the state employer share of employee health insurance costs 	<ul style="list-style-type: none"> • \$33.0 M for 15.7% increase in the state employer share of employee health insurance costs
State Employer Retirement	<ul style="list-style-type: none"> • \$23.6 M for increases in the state employer share of employee retirement costs 	<ul style="list-style-type: none"> • \$22.8 M for increases in the state employer share of employee retirement costs
Statewide Employee Pay Increase	<ul style="list-style-type: none"> • Does not include in Baseline; State Employee Pay is part of Legislative Initiatives 	<ul style="list-style-type: none"> • \$142.8 M General Fund (GF) for 7.5% increase for each employee. Agency budgets also include \$72.5 million in pay adjustments for specific positions.
Net Revertments	<ul style="list-style-type: none"> • Net revertments of \$(28.2) M in both FY 06 and FY 07 • Executive FY 07 net revertments are \$27 M greater than projection based on historical average 	<ul style="list-style-type: none"> • Net revertments of \$(41.2) M in FY 06 and \$(85.5) M in FY 07
Maximize Federal Fund Savings	<ul style="list-style-type: none"> • \$(25.0) M Savings as assumed in prior year budgets 	<ul style="list-style-type: none"> • Does not include
<i>Revenues</i>		
Baseline Growth Rate	<ul style="list-style-type: none"> • 7.0% 	<ul style="list-style-type: none"> • 7.5%
Rental Property Tax Enforcement	<ul style="list-style-type: none"> • Does not include. 	<ul style="list-style-type: none"> • \$20 M from rental property tax enforcement plan
Revenue Maximization	<ul style="list-style-type: none"> • Does not include. Executive has not yet provided details. 	<ul style="list-style-type: none"> • \$20 M from unspecified revenue maximization effort
<i>Revenue Offsets</i>		

	JLBC BASELINE	EXECUTIVE
Tax Reductions	<ul style="list-style-type: none"> Does not include in Baseline; Tax Relief is part of Legislative Initiatives 	<ul style="list-style-type: none"> \$(100) M for 4 specific tax reductions
Judicial Collections Adjustment	<ul style="list-style-type: none"> Does not include 	<ul style="list-style-type: none"> \$(1.4) M to eliminate Pima County reimbursement of probation costs
<i>Other Expenditures</i>		
New Capital Facilities	<ul style="list-style-type: none"> Does not include in Baseline; New Capital Projects are part of Legislative Initiatives 	<ul style="list-style-type: none"> \$5.5 M for debt service payments for \$55 M in new construction at Arizona State Hospital Forensic Unit, Southern Arizona State Veteran Home, and DPS Southern Regional Crime Lab
Payback Fund Transfers	<ul style="list-style-type: none"> Does not include in Baseline; Fund paybacks are part of Legislative Initiatives Does not include in Baseline 	<ul style="list-style-type: none"> \$118 M to pay back FY 05 Vehicle License Tax transfer \$40 M to partially pay back prior use of Highway User Revenue Fund monies in DPS
AZNet	<ul style="list-style-type: none"> Does not include 	<ul style="list-style-type: none"> \$10 M for AZNet telecommunications system
Ladewig Litigation	<ul style="list-style-type: none"> \$99.2 M for final Ladewig payment 	<ul style="list-style-type: none"> \$92.6 M for final Ladewig payment
Kerr Litigation	<ul style="list-style-type: none"> Does not include 	<ul style="list-style-type: none"> \$15 M for payments and administration
<i>Budget Stabilization Fund</i>		
FY 06 Deposit	<ul style="list-style-type: none"> Estimated \$440 M FY 06 General Fund deposit from provision in FY 06 General Appropriation Act requiring transfer of all surplus FY 06 revenues 	<ul style="list-style-type: none"> Does not include. Would repeal FY 06 provision.
FY 07 Deposit	<ul style="list-style-type: none"> \$10 M FY 07 General Fund deposit. Would result in total fund balance of \$640 M, which is 7% of adjusted GF revenues, the statutory limit 	<ul style="list-style-type: none"> \$180 M FY General Fund deposit. Would result in total fund balance of \$347 M, which is 3.8% of GF revenues