

GENERAL FUND REVENUE

Summary of General Fund Forecast

The FY 2008 budget assumes that both the national and Arizona economies will continue the slowdown which began in FY 2007. Growth rates have slowed considerably since the 20.0% base growth seen in FY 2006, which was prior to tax law adjustments. The budget is built on a base revenue growth rate of 6.0% in FY 2008. Base 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.

Total net revenues include one-time financing sources, tax law and other revenue changes, Urban Revenue Sharing, and the balance forward from the previous fiscal year. With a declining balance forward and new tax law reductions in FY 2008, the “bottom line” revenue growth rate in the FY 2008 budget is projected to decrease by (2.7)% in FY 2008 (compared to the base growth of 6.0%). In dollar terms, revenue collections are expected to equal \$10.90 billion in FY 2007, and \$10.61 billion in FY 2008. The detailed enacted budget revenue forecast appears in *Table 8* at the end of this section.

Development of General Fund Revenue Forecast

FY 2007

The original FY 2007 budget was based on total net revenues of \$10.27 billion. Based on the January revisions for the FY 2008 JLBC Baseline, this amount was forecasted to increase to \$10.89 billion. The primary reason for the upward adjustment was a \$415 million increase in the carry-forward funds available from FY 2006.

The Executive revised their FY 2007 revenue estimate in March 2007 to \$10.90 billion, or \$17 million higher than the JLBC estimate. The Legislature ultimately used this revised Executive revenue estimate in developing its FY 2007 revisions.

The \$10.90 billion revenue level reflects a 9.4% growth in base revenues compared to FY 2006. While the base growth rate is 9.4%, the net revenue growth projection is 9.8%. In comparison, the “four-sector” consensus forecast predicted a base growth rate of 8.3% (see FY 2008 section for more information on the four-sector consensus process). See *Table 1* below for FY 2007 consensus estimates. The table includes consensus estimates from December 2006, as well as updated estimates from March 2007.

Table 1

FY 2007 Quartile Forecast Percentages Base Revenue ^{1/}

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales Tax					
December 06	7.9%	4.9%	5.6%	8.8%	6.8%
March 07	7.6%	7.6%	7.8%	8.1%	7.8%
Individual Income Tax					
December 06	7.9%	4.2%	8.1%	9.1%	7.3%
March 07	8.3%	6.1%	7.0%	9.3%	7.7%
Corporate Income Tax					
December 06	8.1%	23.4%	27.9%	15.0%	18.6%
March 07	12.3%	8.8%	16.9%	14.5%	13.1%
Overall ^{2/}					
December 06					8.2%
March 07					8.3%

^{1/} Prior to any tax law or other revenue changes.

^{2/} Includes JLBC Staff estimates for other revenue categories.

FY 2008

The January FY 2008 JLBC Baseline estimated FY 2008 revenue of \$10.47 billion. This amount reflected base growth of 4.7%, and a net revenue decline of (3.9)%. The JLBC’s FY 2008 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 15 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 base 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 2007 table in the prior section, the table includes consensus estimates from December 2006, as well as updated estimates from March 2007. The December 2006 four-sector consensus estimate was the basis of the January JLBC Baseline.

Table 2

**FY 2008 Quartile Forecast Percentages
Base Revenues ^{1/}**

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales Tax					
December 06	5.8%	0.3%	3.8%	8.5%	4.6%
March 07	5.2%	0.2%	2.5%	7.1%	3.8%
Individual Income Tax					
December 06	5.1%	2.7%	6.2%	8.9%	5.7%
March 07	5.5%	2.6%	4.8%	7.9%	5.2%
Corporate Income Tax					
December 06	1.0%	(7.0)%	6.2%	8.0%	2.1%
March 07	0.5%	(8.0)%	11.6%	7.5%	2.9%
Overall ^{2/}					
December 06					4.7%
March 07					4.2%

^{1/} Prior to any tax law or other revenue changes.

^{2/} Includes JLBC Staff estimates for other revenue categories.

The FY 2008 estimate for the remaining revenue categories, which constitute about 5% of the total, was based on JLBC Staff estimates.

In January 2007, the FY 2008 Executive budget included a General Fund revenue estimate of \$10.42 billion. In March, the Executive revised their estimate to \$10.49 billion. This estimate reflected a base growth of 6.0%. Subsequent tax law and other minor revenue adjustments raised this amount to \$10.61 billion, primarily due to a \$108 million increase in the estimated carry forward from FY 2007. (See *Tax Law and Revenue Changes Section*).

Table 3 below summarizes the changing revenue picture for FY 2007 and FY 2008 through the phases of budget development. The growth rates in the table reflect on-going base revenues.

Table 3

Base Revenue Change Assumptions

	<u>Percent Change</u>
<u>FY 2007</u>	
Adopted FY 2007 Budget (June 06)	7.7%
JLBC Estimates (January 07)	9.1%
Executive Budget (January 07)	8.0%
Executive Revised (February 07)	9.1%
Enacted FY 2008 Budget (June 07)	9.4%
<u>FY 2008</u>	
JLBC Consensus Estimates (January 07)	4.7%
Executive Forecast (January 07)	6.4%
JLBC Consensus (March 07)	4.2%
Executive Revised (March 07)	6.0%
Enacted FY 2008 Budget (June 07)	6.0%

Base and Adjusted Revenue Growth

Table 9 at the end of this section provides a summary of FY 2007 and FY 2008 tax law and other revenue changes.

The following table provides an overview of base revenue growth rates for FY 2007 and FY 2008 with tax law changes, revenue adjustments, and one-time financing sources.

Table 4

**Base General Fund Revenue Growth Rates
\$ in Millions**

	<u>FY 2007</u>	<u>%</u>	<u>FY 2008</u>	<u>%</u>
Base Revenue	\$10,591.7	9.4%	\$11,026.5	6.0%
Tax Law and Revenue Changes	(190.7)		(255.4)	
Urban Revenue Sharing	(551.3)		(684.5)	
One-Time Financing Balance Forward	1,046.5		529.0	
Other Revenue	1.3		(10.5)	
Adjusted Revenue	<u>\$10,897.5</u>	9.8%	<u>\$10,605.1</u>	(2.7)%

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 2007

During the 2007 regular session, there was only one revenue change enacted which affected FY 2007. Laws 2007, Chapter 285 provided for the transfer of \$61,300 of Named Claimants monies to the General Fund. See the *FY 2007 Appropriations Report for all other FY 2007 changes*).

FY 2008

In FY 2008, tax law and revenue changes will have a net negative General Fund impact of \$(265.9) million. Of the \$(265.9) million, the on-going General Fund impact will be \$(255.4) million.

Table 5
FY 2008 Tax Law and Revenue Changes
\$ in Millions

	<u>On-Going</u>	<u>One-Time</u>	<u>Total</u>
Revenue Impacts			
New Tax Law Changes (2007 Session)	\$ (1.6)	\$ (0.0)	\$ (1.6)
New Revenue Changes (2007 Session)	<u>(37.9)</u>	<u>45.0</u>	<u>7.1</u>
Annualize Tax Law Changes (Prior Sessions)	<u>(215.9)</u>	<u>(55.5)</u>	<u>(271.4)</u>
Total Revenue Impacts	<u>\$ (255.4)</u>	<u>\$ (10.5)</u>	<u>\$ (265.9)</u>

The amounts in *Table 5* above include tax law and revenue changes enacted in the 2007 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.

On-Going Revenue Changes

On-going revenue changes enacted during this past year as part of the 48th Legislature, First Regular Session, are summarized in *Table 6* below. Following the table are short descriptions of each of the components of the changes.

Table 6
FY 2008 Ongoing Revenue Changes ^{1/}
\$ in Thousands

Ongoing Revenue Changes	
Revenue Generating Program	1,000.0
Capital Postconviction Revenue	240.1
Nuclear Emergency Management Fund	1,367.2
Homeless Shelter Support	(1,000.0)
Disproportionate Share Method Change	<u>(39,557.0)</u>
Total – Ongoing Revenue Changes	<u>(37,949.7)</u>

^{1/} Provisions enacted in 2007.

New Tax Law Changes (2007 Session)

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 2006, including the Tax Increase Prevention and Reconciliation Act, the Pension Protection Act, and the Tax Relief and Health Care Act. Laws 2007,

Chapter 1 conforms Arizona’s tax code to the provisions of the federal tax code. There were a variety of relatively minor provisions included in the 2006 federal tax bills, with a total FY 2008 estimated impact of \$(1.6) million.

New Revenue Changes – Ongoing

In the 2007 Session, the Legislature approved \$(37.9) million in new on-going non-tax revenue changes. These changes are summarized in *Table 6* above. (One-time revenue changes are summarized in the *One-Time Financing Changes Section* below).

Department of Revenue (DOR) Revenue Generating Program – The budget provides an increase of \$1.0 million in FY 2008 for the revenue generating program, which will be used to fill vacant enforcement positions. Filling these vacant positions is expected to result in increased General Fund enforcement revenue by an equivalent \$1.0 million.

Capital Postconviction Fees – Laws 2006, Chapter 369 established the State Capital Postconviction Public Defender Office. Chapter 369 also provides that the State Capital Postconviction Public Defender Office will request reimbursement from counties in which defendants were convicted for 50% of the costs (or \$30,000, whichever is less) incurred from providing representation for that defendant. In FY 2008, reimbursements are estimated to be \$240,100.

Nuclear Emergency Management Fund (NEMF) – The budget provides a total of \$1.3 million in FY 2008 to NEMF. Monies in the fund are used for the development and maintenance of a state plan for off-site responses to an emergency caused by an accident at a commercial nuclear generating station, as well as other expenses such as equipment, training, testing, etc. The appropriation to this fund is offset by revenues from assessments on utilities in the state.

Lottery Fund for Homeless Support – Laws 2007, Chapter 260 adds the Department of Economic Security (DES) to the list of recipients of State Lottery Fund monies. DES will receive \$1.0 million (or the remaining Lottery Fund balance, whichever is less) for homeless emergency and transitional shelters and related support services. This provision will reduce the amount of Lottery Funds which would otherwise have been deposited into the General Fund by up to \$(1.0) million.

Disproportionate Share Method Change – FY 2008 General Fund revenues have been reduced by \$(39.6) million to reflect a change in Disproportionate Share Hospital (DSH) funding methodology. The revision does not affect the amount of DSH funding provided to participating hospitals or the net General Fund impact. There is an offsetting expenditure reduction, resulting in no net change in DSH funding. A detailed explanation of the methodology change can be found in the Arizona

Health Care Cost Containment System section of the FY 2008 Appropriations Report.

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 prior sessions, and will have an impact on FY 2008 revenue collections. *Table 7* below summarizes prior year enactments. Following the table are short descriptions of each of the changes.

Table 7	
FY 2008 On-Going Revenue Changes	
Annualized Prior Session Enactments	
\$ in Thousands	
<u>2005 Tax Law Changes</u>	
IRS Conformity	\$ 1,340.0
Standard Deduction CPI Adjustment	(2,400.0)
Active-Duty Military Pay Exemption ^{1/}	10,300.0
Graywater Tax Credit	(750.0)
Motion Picture Tax Incentives	(1,300.0)
Corporate Sales Factor	<u>(32,000.0)</u>
Subtotal – 2005 Tax Law Changes	(24,810.0)
<u>2006 Tax Law Changes</u>	
IRS Conformity	\$ 1,000.0
Individual Income Tax Rate Reduction	(177,900.0)
Active-Duty Military Pay Exemption ^{1/}	(12,200.0)
Corporate School Tuition Tax Credit	<u>(2,000.0)</u>
Subtotal – 2006 Tax Law Changes	(191,100.0)
Total	<u>\$(215,910.0)</u>

^{1/} Laws 2005, Chapter 303 established a one-time active duty pay exemption for tax year 2006 (FY 2007 impact). Laws 2006, Chapter 342 made the exemption permanent, as well as expanding the exemption to National Guard or Reserves.

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 conformed 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 impact of these provisions in FY 2008 is a net \$1.5 million, which is an incremental change of \$1.3 million compared to FY 2007.

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 2008 over and above the FY 2007 impact is \$(2.4) million. The total FY 2008 impact is estimated to be \$(7.2) million.

Military Active Duty Pay – Laws 2005, Chapter 303 exempted military active duty pay from individual income tax during tax year 2006, which was 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, as well as expanding the exemption to National Guard or Reserves. This will have an estimated impact of \$(12.2) million in FY 2008 (*see 2006 Tax Law Changes below*).

Graywater Tax Credit – Laws 2005, Chapter 292 established 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.

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 were 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 2008 impact of \$(10.5) million reflects projected sales tax exemptions and income tax credits for the fiscal year. This amount is an increase of \$(1.3) million over FY 2007.

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.

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 conformed 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 2008 estimated impact of \$(0.4) million, which is an incremental change of \$1.0 million compared to FY 2007.

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 \$(334.0) million in FY 2008, which is an incremental impact of \$(177.9) million compared to FY 2007.

Military Active Duty Pay – *see 2005 Tax Law Changes Section above.*

Corporate Income Tax School Tuition Credit – Laws 2006, Chapter 14 established 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, capped at \$5 million per year. Laws 2006, Chapter 325 increased the cap to \$10 million, and provided that the cap will increase by 20% annually beginning in FY 2008. The total estimated impact for FY 2008 is \$(12.0) million, which is an incremental change of \$(2.0) million compared to FY 2007.

Tax Law Changes – FY 2009 and Beyond

In addition to the tax law and revenue changes noted above that impact FY 2008, there were several tax law changes enacted that will not have a revenue impact until FY 2009 or later.

Business Property Tax Reduction – Laws 2005, Chapter 302 phased down the assessment ratio for business property from 25% to 20% over 10 years. It also increased 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 were estimated to increase Department of Educations (ADE) expenditures by \$12.3 million in FY 2007 and \$26.5 million in FY 2008. Full implementation in FY 2016 was estimated to cost \$140 million. Laws 2007, Chapter 258 accelerates the phase down of the assessment ratio from the remaining 8 years to 4 years, resulting in full implementation in FY 2012 rather than FY 2016. The provisions of Chapter 258 are expected to result in an incremental increase in ADE expenditures of \$3.1 million in FY 2009 compared to the original estimates, for a total FY 2009 incremental impact of \$42.7 million.

Business Personal Property Accelerated Depreciation – Laws 2007, Chapter 258 provides that personal property initially classified after the 2007 tax year will be subject to a new accelerated depreciation table. This provision is expected to reduce property tax collections by an estimated \$(4.0) million beginning in FY 2009, resulting in increased ADE expenditures.

College Savings Plan – Laws 2007, Chapter 258 provides an individual income tax subtraction for contributions to any college savings plan which is compatible with Internal Revenue Code § 529 (529 plans) beginning in tax year 2008, and continuing through tax year 2012. This provision is expected to result in an estimated reduction in individual income tax collections of \$(2.5) million in FY 2009. Currently, the growth in 529 plans generated by interest income in the account is tax-free, and withdrawals for qualified higher education expenses are federal and state income tax-free. The provisions of Chapter 258 will also make actual 529 contributions eligible for a state income tax deduction of up to \$1,500 for married filing jointly, or \$750 for a single filer or head of household.

Military Relief Fund Credit – Laws 2007, Chapter 258 provides an individual income tax credit for donations to

the Military Relief Fund for the purpose of aiding family members of injured or deceased military personnel. This provision is effective beginning in tax year 2008, with an initial revenue impact beginning in FY 2009. The credits are capped at \$1.0 million per year on a first-come first-serve basis.

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 2007 and FY 2008.

FY 2007

The \$1.048 billion in one-time financing sources for FY 2007 includes:

Balance Forward – The FY 2007 General Fund balance forward is estimated to be \$1.046 billion.

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 11th 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 “11th year” payment in FY 2008 will total about \$(55.5) million.

Revised Estimated Payment Threshold – Laws 2006, Chapter 351 increased 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 in FY 2007.

Liquor License Fees – Laws 2006, Chapter 383 provided 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.

Building Renewal Fund Transfer – In FY 2006, the School Facilities Board (SFB) requested \$130.1 million be transferred to the SFB for building renewal funding. Subsequently, the Legislature approved a building renewal amount for FY 2006 of \$70.0 million. The \$60.1 million difference was to be transferred back into the General Fund. However, the General Accounting Office did not complete this transfer until July 2006, so the \$60.1 million appears as a one-time fund transfer in FY 2007.

FY 2008

The \$518.5 million in one-time financing sources for FY 2008 includes:

Balance Forward – The FY 2008 General Fund balance forward is estimated to be \$529.0 million.

Corporate Consolidated Credit – \$(55.5) million - *see 2007 Section above.*

Unclaimed Property – Laws 2007, Chapter 260 permits the Department of Revenue to liquidate securities in the Unclaimed Property Fund immediately. Chapter 260 also includes session law which provides that the proceeds from the sales of these securities are to be deposited into the General Fund in FY 2008, rather than the statutory split between the General Fund, Department of Housing, and Department of Racing. The sale of securities currently held in the Unclaimed Property Fund is estimated to generate approximately \$45.0 million for the General Fund in FY 2008.

Ladewig and Kerr Settlements

See the Department of Revenue section in the *FY 2008 Appropriations Report* for a discussion of the Ladewig and Kerr settlements.

Table 8

GENERAL FUND REVENUE - FY 2007 - FY 2008

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2006	% CHANGE PRIOR YR	FORECAST FY 2007	% CHANGE PRIOR YR	\$ CHANGE ACTUAL	FORECAST FY 2008	% CHANGE PRIOR YR	\$ CHANGE FORECAST
Taxes:								
Sales and Use	4,273,358.4	16.7%	4,619,500.6	8.1%	346,142.2	4,899,999.9	6.1%	280,499.3
Income								
-Individual	3,689,373.4	27.3%	3,855,669.8	4.5%	166,296.4	4,156,164.6	7.8%	300,494.8
-Corporate	874,219.5	24.6%	1,000,981.3	14.5%	126,761.8	1,027,006.8	2.6%	26,025.5
Property	24,998.8	-1.0%	28,000.0	12.0%	3,001.2	30,000.0	7.1%	2,000.0
Luxury	66,732.5	3.5%	67,500.0	1.2%	767.5	71,000.0	5.2%	3,500.0
Insurance Premium	373,703.8	4.2%	394,356.2	5.5%	20,652.4	414,356.2	5.1%	20,000.0
Estate	11,683.6	-62.6%	200.0	-98.3%	(11,483.6)	0.0	-100.0%	(200.0)
Other Taxes	1,249.9	-51.6%	781.5	-37.5%	(468.4)	781.5	0.0%	0.0
Sub-Total - Taxes	9,315,319.9	20.3%	9,966,989.4	7.0%	651,669.5	10,599,309.0	6.3%	632,319.6
Other Non-Tax Revenues:								
Lottery	45,690.3	26.7%	46,959.1	2.8%	1,268.8	45,691.8	-2.7%	(1,267.3)
Licenses, Fees and Permits	33,947.4	15.1%	39,859.0	17.4%	5,911.6	41,859.0	5.0%	2,000.0
Interest	74,315.2	148.7%	96,000.0	29.2%	21,684.8	101,000.0	5.2%	5,000.0
Sales and Services	59,683.3	21.9%	63,775.0	6.9%	4,091.7	66,775.0	4.7%	3,000.0
Other Miscellaneous	37,280.0	-31.7%	53,730.3	44.1%	16,450.3	38,255.4	-28.8%	(15,474.9)
Transfers and Reimbursements	25,677.9	-32.4%	20,475.2	-20.3%	(5,202.7)	20,513.1	0.2%	37.9
Disproportionate Share Revenue	91,841.5	-18.0%	113,127.3	23.2%	21,285.8	113,127.3	0.0%	0.0
Sub-Total - Non-Tax	368,435.6	5.6%	433,925.9	17.8%	65,490.3	427,221.6	-1.5%	(6,704.3)
Subtotal	9,683,755.5	19.7%	10,400,915.3	7.4% ^{1/}	717,159.8	11,026,530.6	6.0%	625,615.3
FY 2006 Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(24,810.0)	N/A	(24,810.0)
FY 2007 Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(191,100.0)	N/A	(191,100.0)
FY 2007 Named Claimants	0.0	N/A	61.3	N/A	61.3	0.0	-100.0%	(61.3)
FY 2008 Revenue Generating Program	0.0	N/A	0.0	N/A	0.0	1,000.0	N/A	1,000.0
FY 2008 Capital Postconviction Revenue	0.0	N/A	0.0	N/A	0.0	240.1	N/A	240.1
FY 2008 Nuclear Emergency Management	0.0	N/A	0.0	N/A	0.0	1,367.2	N/A	1,367.2
FY 2008 Dispro Share Method Change	0.0	N/A	0.0	N/A	0.0	(39,557.0)	N/A	(39,557.0)
FY 2008 Homeless Shelter/Support	0.0	N/A	0.0	N/A	0.0	(1,000.0)	N/A	(1,000.0)
FY 2008 IRS Conformity	0.0	N/A	0.0	N/A	0.0	(1,600.0)	N/A	(1,600.0)
Subtotal w/Tax Law Changes	9,683,755.5	19.7%	10,400,976.6	7.4%	717,221.1	10,771,070.9	3.6%	370,094.3
Urban Revenue Sharing (URS)	(425,228.9)	14.0%	(551,315.8)	29.7%	(126,086.9)	(684,538.9)	24.2%	(133,223.1)
Subtotal w/Tax Law Changes/URS	9,258,526.6	19.9%	9,849,660.8	6.4%	591,134.2	10,086,532.0	2.4%	236,871.2
One-Time Financing Sources:								
Balance Forward	638,989.0	N/A	1,046,460.1	63.8%	407,471.1	529,029.6	-49.4%	(517,430.5)
FY 2006 Disproportionate Share Revenue	16,162.9	N/A	0.0	-100.0%	(16,162.9)	0.0	N/A	0.0
FY 2006 In-Lieu Fee Transfer	10,000.0	N/A	0.0	-100.0%	(10,000.0)	0.0	N/A	0.0
FY 2007 Liquor License Fees	0.0	N/A	450.0	N/A	450.0	0.0	-100.0%	(450.0)
FY 2007 Revised TPT Threshold	0.0	N/A	(55,200.0)	N/A	(55,200.0)	0.0	-100.0%	55,200.0
FY 2007 Corporate Consolidated Credit	0.0	N/A	(4,000.0)	N/A	(4,000.0)	(55,500.0)	1287.5%	(51,500.0)
FY 2007 Fund Transfer - SFB	0.0	N/A	60,080.5	N/A	60,080.5	0.0	-100.0%	(60,080.5)
FY 2008 Unclaimed Property	0.0	N/A	0.0	N/A	0.0	45,000.0	N/A	45,000.0
Sub-Total - One-Time Financing Sources	665,151.9	N/A	1,047,790.6	57.5%	382,638.7	518,529.6	-50.5%	(529,261.0)
Total Adjusted Revenue	9,923,678.5	28.6%	10,897,451.4	9.8%	973,772.9	10,605,061.6	-2.7%	(292,389.8)

1/ The 7.4% FY 2007 growth rate includes \$(190.7) million in tax law and other revenue changes. Adjusting for these changes, the forecasted FY 2007 growth rate is 9.4%.

Table 9

BASE REVENUE ADJUSTMENTS BY CATEGORY		
(\$ in Thousands)		
Summary By Category:	<u>FY 2007</u> ^{1/}	<u>FY 2008</u> ^{1/}
Tax Law Changes		
Sales & Use Tax	(1,678.6)	(100.0)
Individual Income Tax	(176,090.0)	(185,510.0)
Corporate Income Tax	(10,990.0)	(31,900.0)
Insurance Premium Tax	(5,000.0)	0.0
Subtotal - Tax Law Changes	<u>(193,758.6)</u>	<u>(217,510.0)</u>
Other Revenue Adjustments		
Licenses and Fees	5,947.0	0.0
Disproportionate Share Method Change	0.0	(39,557.0)
Lottery	0.0	(1,000.0)
Other Revenues	(2,920.6)	2,607.3
Subtotal - Other Revenue Adjustments	<u>3,026.4</u>	<u>(37,949.7)</u>
TOTAL REVENUE CHANGES	<u>\$ (190,732.2)</u>	<u>\$ (255,459.7)</u>

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>Revenue Category</u>
<u>48th Legislature - 1st Regular Session:</u>				
1	IRS Conformity	0.0	(1,300.0)	Individual
		<u>0.0</u>	<u>(300.0)</u>	Corporate
	Subtotal - IRS Conformity	0.0	(1,600.0)	
255	Revenue Generating Program	0.0	1,000.0	Other
255	Capital Postconviction Revenue	0.0	240.1	Other
285	Named Claimants	61.3	0.0	Other
255	Nuclear Emergency Management Fund		1,367.2	Other
260	Homeless Shelter Support	0.0	(1,000.0)	Lottery
255	Disproportionate Share Method Change	0.0	(39,557.0)	Dispro Share
	Subtotal - Other Revenue Changes	<u>61.3</u>	<u>(37,949.7)</u>	
	Session Total	<u>61.3</u>	<u>(39,549.7)</u>	

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>Revenue Category</u>
<u>47th Legislature - 2nd Regular Session:</u>				
357	IRS Conformity	(700.0)	1,100.0	Individual
		<u>(700.0)</u>	<u>(100.0)</u>	Corporate
	Subtotal - IRS Conformity	(1,400.0)	1,000.0	
354	Individual Income Tax Rate Reduction	(156,100.0)	(177,900.0)	Individual
342	Active-Duty Military Pay Exemption (permanent) ^{2/}	0.0	(12,200.0)	Individual
333	Solar Energy Devices Credit - Commercial Applications	(500.0)	0.0	Individual
333	Solar Energy Devices Credit - Commercial Applications	(500.0)	0.0	Corporate
333	Solar Energy Devices - Eliminate Sales Tax Exemption Cap	(500.0)	0.0	Sales
378	Health Insurance Premium Tax Credit	(5,000.0)	0.0	IPT
14	Corporate School Tuition Credit	(5,000.0)	0.0	Corporate
325	Increase Cap on Corporate School Tuition Credit	(5,000.0)	(2,000.0)	Corporate
371	Exemption for Purchase of Liquid Natural Gas	(378.6)	0.0	Sales
354	Tax Simplification - Eliminate Sales Tax Categories	<u>(200.0)</u>	<u>0.0</u>	Sales
	Subtotal - Tax Law Changes/IRS Conformity	(174,578.6)	(191,100.0)	
320	Reduced LLC Filing Fees	(53.0)	0.0	License/Fees
NA	Eliminate Pima County Probation Costs Reimbursement	(1,381.9)	0.0	Other
363	Unclaimed Property Fund Shift	<u>(1,600.0)</u>	<u>0.0</u>	Other
	Subtotal - Other Revenue Changes	(3,034.9)	0.0	
	Session Total	<u>(177,613.5)</u>	<u>(191,100.0)</u>	
<u>47th Legislature - 1st Regular Session:</u>				
334	IRS Conformity	310.0	(2,860.0)	Individual
		<u>8,210.0</u>	<u>4,200.0</u>	Corporate
	Subtotal - IRS Conformity	8,520.0	1,340.0	
334	Elimination of "Marriage Penalty"	(6,400.0)	0.0	Individual
334	Adjust Standard Deduction by CPI	(2,400.0)	(2,400.0)	Individual
303	Active-Duty Military Pay Exemption (TY 2006 only) ^{2/}	(10,300.0)	10,300.0	Individual
289	Corporate Sales Factor	0.0	(32,000.0)	Corporate
292	Graywater Tax Credit			
	Individual Income Tax	0.0	(250.0)	Individual
	Corporate Income Tax	0.0	(500.0)	Corporate
317	Motion Picture Tax Incentives	(600.0)	(100.0)	Sales
317	Motion Picture Tax Incentives	<u>(8,000.0)</u>	<u>(1,200.0)</u>	Corporate
	Subtotal - Tax Law Changes/IRS Conformity	(19,180.0)	(24,810.0)	
307	Increased DUI Assessments	<u>6,000.0</u>	<u>0.0</u>	License/Fees
	Session Total	<u>(13,180.0)</u>	<u>(24,810.0)</u>	
	TOTAL - All Sessions	<u>\$ (190,732.2)</u>	<u>\$ (255,459.7)</u>	

^{1/} Adjustments for FY 2007 reflect estimated change from FY 2006 and FY 2008 from FY 2007.

^{2/} Chapter 303 provided 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.