

## HIGHLIGHTS OF THE FY 2008 BUDGET

The First Regular Session of the 48<sup>th</sup> Legislature convened in January 2007. By June, the Legislature had enacted a FY 2008 budget for the year beginning July 1, 2007.

The state's FY 2008 General Fund budget is \$10.60 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$27.5 billion. See page BD-5 for information on appropriated fund spending and page BD-12 for total funds spending by agency.

**Revised FY 2007 Budget** – At the time of the publication of the *FY 2007 Appropriations Report* in July 2006, the projected FY 2007 General Fund ending balance was \$174 million. By the time the First Regular Session adjourned, the projected ending balance was \$529 million. This higher ending balance was due to a \$630 million increase in projected revenues offset by \$275 million in net spending increases. See page 540 for further details on these FY 2007 changes.

The higher revenues resulted from stronger than expected collections in FY 2006 and FY 2007. While the enacted FY 2007 budget assumed that FY 2006 General Fund base revenues (prior to tax law adjustments) would end up 18.2% higher than the prior year, the actual rate of growth was 20.0%. The higher than expected growth in FY 2006 increased the base level of ongoing revenues moving forward into FY 2007. In addition, projected FY 2007 base revenue growth was revised upward from 7.7% in the original budget to 9.4%.

The higher FY 2007 spending was largely due to shifting two FY 2006 appropriations into FY 2007. As part of the enactment of the FY 2007 budget, the \$191 million repayment of the K-12 Rollover and the \$35 million deposit to the 21<sup>st</sup> Century Fund were appropriated as FY 2006 supplementals. The Department of Administration, however, recorded these appropriations in FY 2007. Shifting these appropriations into FY 2007 also caused the FY 2006 ending balance to be higher than anticipated.

**Comparison to the JLBC Baseline** – At the beginning of the First Regular Session, the JLBC Staff calculated the growth in the state's anticipated FY 2008 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$10.42 billion. Based on 9.1% General Fund base revenue growth in FY 2007 and 4.7% growth in FY 2008, General Fund revenues were anticipated to be \$10.47 billion in FY 2008. Under this JLBC "Baseline," \$45 million was determined to be available for legislative initiatives.

By the end of the session, the Legislature adopted the Executive's revised base revenue growth of 9.4% in FY 2007 and 6.0% in FY 2008. See page 456 for more details on the revenue adjustments. The higher base revenue

growth, along with other revenue adjustments, increased the total available resources in FY 2008 to \$10.61 billion, or \$138 million above the JLBC Baseline. Of this \$138 million in additional funding, \$45 million is the result of a one-time deposit from unclaimed property.

Meanwhile, the final FY 2008 budget reduced the JLBC Baseline spending level by \$(180) million, which included:

- \$(42) million in lower AHCCCS caseload growth;
- \$(40) million in lower spending as the result of a reduction in federal disproportionate share payments due to an accounting change. The lower spending is offset by a corresponding reduction in revenues;
- \$(16) million in lower K-12 Basic State Aid and JTED formula funding;
- \$(19) million to continue SFB Building Renewal funding at its FY 2007 level; and
- \$(19) million to provide no funding for University Building Renewal.

Combining the \$45 million from the JLBC Baseline, \$(180) million in spending reductions and the \$138 million in higher revenues, the final FY 2008 budget included \$363 million for legislative initiatives.

The final budget allocated almost all of the available \$363 million, including \$314 million for operating budget increases across state government, and \$48 million in new one-time funding items above the JLBC Baseline. Major agency increases included:

- \$31 million to AHCCCS;
- \$58 million to the Department of Corrections;
- \$49 million to the Department of Economic Security;
- \$58 million to the Department of Education;
- \$15 million to the Department of Health Services; and
- \$64 million to the Universities.

**Comparison to the FY 2007 Budget** – General Fund revenues, including one-time monies, are projected to decrease from \$10.90 billion in FY 2007 to \$10.61 billion in FY 2008. Ongoing revenues are actually projected to increase by \$626 million, from \$10.40 billion in FY 2007 to \$11.03 billion in FY 2008. This 6% increase, however, will be offset by:

- \$(216) million in prior session tax law reductions scheduled to take effect in FY 2008. The primary adjustments include \$178 million for a 5% reduction in individual income tax rates and \$32 million for implementation of the new Corporate Income Tax enhanced sales factor;
- \$(40) million reduction in federal disproportionate share payments. The revenue loss will be offset by a corresponding decline in spending;

- \$(133) million loss due to an increased contribution to Urban Revenue Sharing; and
- \$(529) million loss in one-time revenues. The main reduction is due to the carry forward balance declining from \$1.05 billion at the beginning of FY 2007 to a projected \$529 million at the beginning of FY 2008. In addition, the state is forecast to issue \$56 million in one-time refunds associated with the 1994 Corporate Income Tax consolidated return legislation. This loss, however, will be somewhat offset by \$45 million in one-time revenue associated with a change in the treatment of unclaimed stock property.

General Fund spending is projected to grow by 2.3% from \$10.37 billion in FY 2007 to \$10.60 billion in FY 2008. Excluding one-time adjustments, permanent spending is expected to increase by \$908 million, or 9.4%, in FY 2008. The largest permanent spending increases include:

- \$94 million for AHCCCS caseload growth;
- \$335 million to the Department of Education, including \$165 million for student growth, \$94 million for a 2% per student funding increase, \$80 million in kindergarten funding, and \$46 million in teacher pay;
- \$120 million to provide the School Facilities Board with \$370 million in total school construction funding;
- \$115 million for University initiatives. This includes \$20 million for enrollment growth, \$35 million for the first lease-purchase payment on research infrastructure projects authorized in 2003, \$25 million for biomedicine initiatives, and \$30 million for student and faculty retention; and
- \$105 million for state employee salary and benefit issues. This includes \$69 million for a 3.25% pay raise, \$20 million for an increase in the cost of employee health insurance, and \$16 million for an increase in the employer share of retirement costs.

One-time adjustments include the following reductions:

- \$(245) million to eliminate the General Fund deposit to the Statewide Transportation Acceleration Needs (STAN) account;
- \$(191) million to eliminate the K-12 rollover payment; and
- \$(110) million to eliminate the Kerr and Ladewig litigation payments.

The FY 2008 budget also authorizes the Department of Corrections to lease-purchase finance 4,000 public prison beds at a cost of \$200 million and authorizes the Department of Transportation to increase the term of highway bonds from 20 to 30 years, which is expected to generate about \$500 million for the Highway Fund over the next several years.

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

**Tax Reductions** – The FY 2008 budget includes \$(10.5) million in new tax reductions that will become effective in FY 2009. This includes business property tax reductions, a “529” plan college savings plan individual income tax deduction, and a military families relief tax credit. The budget also includes a sales tax exemption for the 2009 NBA All-Star game. *See page 457 for more details.*

**General Fund Balance** – The FY 2008 General Fund cash balance is projected to be \$764,300. Beyond its cash balance, a budget is also evaluated by the difference between ongoing revenues and expenditures. The state can have a cash balance but a shortfall in ongoing funds through the use of one-time revenue and/or expenditure savings. Ongoing revenues are projected to fall short of ongoing spending by \$(429) million in FY 2008. *See page BH-4 for more details.*

### STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	<b>FY 2007 Estimate</b>	<b>FY 2008 Approved</b>
<b>REVENUES</b>		
Balance Forward	1,046,460,100	529,029,600
Ongoing Revenues	9,849,660,800	10,086,532,000
One-Time Revenue Adjustments	1,330,500	(10,500,000)
<b>Total Revenues</b>	<b>\$10,897,451,400</b>	<b>\$10,605,061,600</b>
<b>EXPENDITURES</b>		
Operating Budget Appropriations	9,716,475,400	10,619,482,900
Capital Outlay	325,354,200	19,934,500
Litigation Payments	109,800,100	0
Payoff K-12 Rollover	191,000,000	0
Budget Stabilization Fund Deposits	9,808,600	0
Other General Fund Transfers	56,350,000	25,000,000
Maximizing Federal Fund Savings	(5,000,000)	0
Administrative Adjustments	77,384,300	65,163,000
Revertments	(112,750,800)	(125,283,100)
<b>Total Spending</b>	<b>\$10,368,421,800</b>	<b>\$10,604,297,300</b>
<b>ENDING BALANCE</b>	<b>\$529,029,600</b>	<b>\$764,300</b>

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

	<b>FY 2007 Enacted</b>	<b>FY 2008 Enacted</b>
<b>REVENUES</b>		
Ongoing Revenues	\$10,400,915,300	\$11,026,530,600
Enacted Tax Law Changes	0	(215,910,000)
IRS Conformity	0	(1,600,000)
Other Revenue Changes	61,300	1,607,300
Disproportionate Share Method Change	0	(39,557,000)
Urban Revenue Sharing	(551,315,800)	(684,538,900)
Revised On-going Revenues	9,849,660,800	10,086,532,000
One-time Revenues		
Balance Forward	1,046,460,100	529,029,600
Corporate Consolidated Returns	(4,000,000)	(55,500,000)
Revised June Estimated TPT Threshold	(55,200,000)	0
Other Bills - Revenue	450,000	45,000,000
Fund Transfers	60,080,500	0
Subtotal One-time Revenues	1,047,790,600	518,529,600
<b>Total Revenues <sup>3/</sup></b>	<b>\$10,897,451,400</b>	<b>\$10,605,061,600</b>
<b>EXPENDITURES</b>		
Operating Budget Appropriations	9,616,886,400	10,575,582,200
FY 2007 Supplementals	31,317,500	0
Maximizing Federal Fund Savings <sup>4/</sup>	(5,000,000)	0
Administrative Adjustments	77,384,300	65,163,000
Revertments	(112,750,800)	(125,283,100)
Subtotal Ongoing Expenditures	9,607,837,400	10,515,462,100
One-time Expenditures		
Capital Outlay	325,354,200	19,934,500
Litigation Payments	109,800,100	0
Payoff K-12 Rollover	191,000,000	0
Budget Stabilization Fund Deposits	9,808,600	0
Other General Fund Transfers <sup>5/</sup>	56,350,000	25,000,000
Other Major One-time Expenditures <sup>5/</sup>	68,271,500	43,900,700
Subtotal One-time Expenditures	760,584,400	88,835,200
<b>Total Expenditures</b>	<b>\$10,368,421,800</b>	<b>\$10,604,297,300</b>
<b>Ending Balance <sup>6/</sup></b>	<b>\$529,029,600</b>	<b>\$764,300</b>
Ongoing Fund Balance <sup>7/</sup>	\$241,823,400	(\$428,930,100)

<sup>1/</sup> This statement reflects the summary statement used to brief legislators during the course of the session. Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

<sup>2/</sup> Reflects status at the adjournment of the 1st Regular Session.

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

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

<sup>5/</sup> 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.

<sup>6/</sup> This calculation reflects the difference between total revenues and total expenditures.

<sup>7/</sup> This calculation reflects the difference between ongoing revenues and expenditures.

## SUMMARY OF ONE-TIME OPERATING BUDGET EXPENDITURES

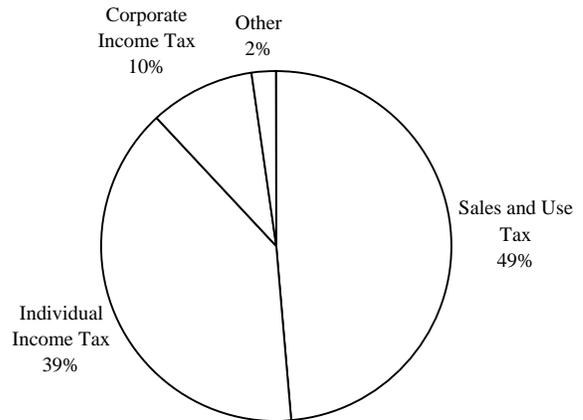
<u>One-time Operating Budget Expenditures</u>	<u>FY 2007</u> <sup>1/</sup>	<u>FY 2008</u> <sup>2/</sup>	<u>Comments</u>
Administration, Arizona Department of	500,000	0	Employee Wellness Program
AHCCCS	350,000	0	Automation (standardize electronic data exchanges)
AHCCCS	200,000	0	Computer System Replacement
AHCCCS	3,400,000	0	Citizenship Verification
AHCCCS	0	9,965,400	KidsCare Parents
AHCCCS	0	2,685,300	HPV Vaccines
AHCCCS	0	8,000,000	Healthcare Group
AHCCCS	0	600,000	211 Funding
Attorney General - Department of Law	1,000,000	0	Case Management System
Auditor General	150,000	0	Homeland Security Audits
Commerce, Department of	250,000	0	Military Base Study
Community Colleges, Arizona	1,000,000	0	Out of County Tuition - Continued in '08 at \$1.2 M
Commerce, Department of	0	2,000,000	GADA Deposit
Community Colleges, Arizona	3,000,000	0	Law Enforcement/Fire Training Facility
Community Colleges, Arizona	0	1,000,000	NCCD Public Safety Training Facility
Corrections, State Department of	1,000,000	0	Equipment
Corrections, State Department of	1,500,000	900,000	Carpool vans
Corrections, State Department of	(2,238,600)	0	Delay Beds
Criminal Justice Commission, AZ	3,000,000	0	Meth Legislation - Increase Interdiction Efforts
Deaf and the Blind, Arizona State Schools for the	300,000	0	HVAC @ Tucson
Deaf and the Blind, Arizona State Schools for the	110,000	0	Assistive Technology
Economic Security, Department of	1,000,000	0	Kinship Program - Continued in '08
Economic Security, Department of	1,000,000	0	DD Dental Services - Continued in '08
Criminal Justice Commission, AZ	0	900,000	Criminal Justice Information System
Economic Security, Department of	2,000,000	0	Meth Grants - Arizona Families FIRST - Cont. in '08
Education, Department of	0	1,000,000	Tech Grants
Education, Department of	2,000,000	1,000,000	Teach America
Education, Department of	0	1,000,000	Non-Title I Reading Grant Pilot Program
Education, Department of	3,000,000	0	E-Learning
Education, Department of	2,500,000	0	Info Technology (Contracted)
Education, Department of	600,000	0	Physical Education - Continued in '08 at \$110,000
Emergency and Military Affairs, Department of	500,000	0	Project Challenge (Queen Creek building)
Environmental Quality, Department of	750,000	0	Small, Rural Water Systems
Environmental Quality, Department of	200,000	0	Water quality permit contractors
Health Services, Department of	2,500,000	0	SMI Housing
Health Services, Department of	1,000,000	0	Diabetes Education - Continued in '08 at \$300,000
Health Services, Department of	3,000,000	0	Alzheimer's Research - Continued in '08 at \$2 M
Health Services, Department of	7,100,000	0	Autism Research
Health Services, Department of	30,000	0	Umbilical Cord Pamphlet
Health Services, Department of	2,500,000	0	Meth Legislation - Rural Detoxification
Health Services, Department of	500,000	0	Meth Legislation - Child Prevention - Cont. in '08
Game and Fish Department, Arizona	3,500,000	0	Wildlife Habitat Development
Judiciary	63,500	0	Court of Appeals equipment
Judiciary	850,000	0	Integrated Family Courts
Land Department, State	500,000	0	Due Diligence Revolving Fund Deposit
Land Department, State	0	1,000,000	Forest Grants
Land Department, State	1,500,000	0	Fire Suppression
Legislative Council	2,500,000	0	Arizona Centennial
Navigable Stream Adjudication Commission, AZ	92,000	0	Report Funding
Revenue, Department of	850,000	850,000	Small City Grants
School Facilities Board	0	2,500,000	Utilities Grants
Universities	1,500,000	0	Water Institute - Continued in '08 at \$1.2 M
Universities	1,200,000	0	U of A South - Continued in '08
Universities	529,000	0	Barry Goldwater Papers
Universities - ASU	0	5,250,000	Schematic Design - Downtown Med School
Universities - UofA	0	5,250,000	Schematic Design - Downtown Med School
Veterans' Services, Department of	69,000	0	Pearl Harbor Memorial
Water Resources, Department of	1,700,000	0	Assured and Adequate Water Supply - Cont. in '08
Water Resources, Department of	500,000	0	Gila/Colorado River Adjudications
Weights and Measures, Department of	22,000	0	Laptops
Employee Health Insurance	3,000,000	0	Additional FY 2007 Funding
AZNET Telecommunications	6,194,600	0	Distributed to Agencies - Continued in '08
<b>Subtotal One-time Expenditures</b>	<b>68,271,500</b>	<b>\$43,900,700</b>	
<u>Other General Fund Transfers</u>			
Arts Endowment Fund	7,000,000	0	
21st Century Fund	35,000,000	25,000,000	
Commission for the Deaf Fund	850,000	0	
Water Banking Fund	13,500,000	0	
<b>Subtotal Other General Fund Transfers</b>	<b>56,350,000</b>	<b>25,000,000</b>	

<sup>1/</sup> Reflects the original classification of FY 2007 spending during the FY 2006 session. The Legislature may have decided in the 2007 session to continue funding. See the comments column.

<sup>2/</sup> Represents only major items of \$500,000 or above. Agency budgets may also include other one-time expenditures, especially for equipment.

## FY 2008 General Fund Revenue - Where it Comes From

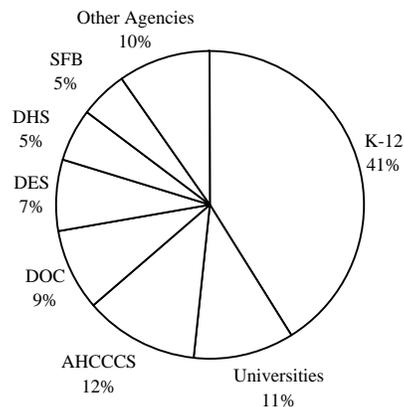
<u>Source</u>	<u>Revenue (Millions)</u>
Sales and Use Tax	\$ 4,899.9
Individual Income Tax	3,970.7
Corporate Income Tax	995.1
Other	220.9
<b>TOTAL REVENUE</b>	<b><u>\$ 10,086.5</u></b> <sup>1/</sup>



1/ Includes all legislative revenue changes, but does not include beginning balance or other one-time revenue adjustments. The projected beginning balance is \$529.0 million. Other one-time revenues adjustments equal \$(10.5) million.

## FY 2008 General Fund Appropriations - Where it Goes

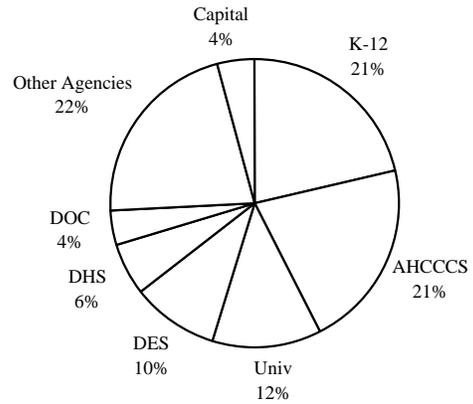
<u>Budget Unit</u>	<u>Appropriation (Millions)</u>
Education (K-12)	\$ 4,363.5
AHCCCS	1,269.1
Universities	1,121.1
Corrections	910.3
Economic Security	794.3
Health Services	583.4
School Facilities Bd	532.7
Other Agencies	1,045.1
<b>TOTAL OPERATING BUDGET</b>	<b><u>\$ 10,619.5</u></b> <sup>1/</sup>



1/ Does not include administrative adjustments, revertments, capital, and fund transfers.

## FY 2008 Total Spending - All Sources <sup>1/</sup>

<u>Budget Unit</u>	<u>Spending (Millions)</u>
Education (K-12)	\$ 5,913.0
AHCCCS	5,759.0
Universities	3,400.9
Economic Security	2,625.4
Health Services	1,656.8
Corrections	1,023.3
Other Agencies	5,984.2
Capital	1,145.2
<b>TOTAL</b>	<b><u>\$ 27,507.8</u></b> <sup>2/</sup>

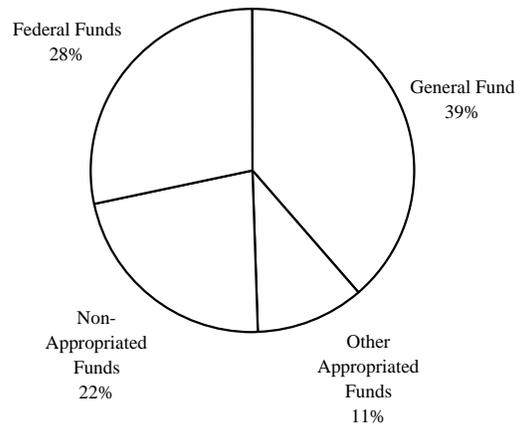


<sup>1/</sup> Does not include administrative adjustments, revertments, and fund transfers.

<sup>2/</sup> The same chart in prior Appropriations Reports excluded capital.

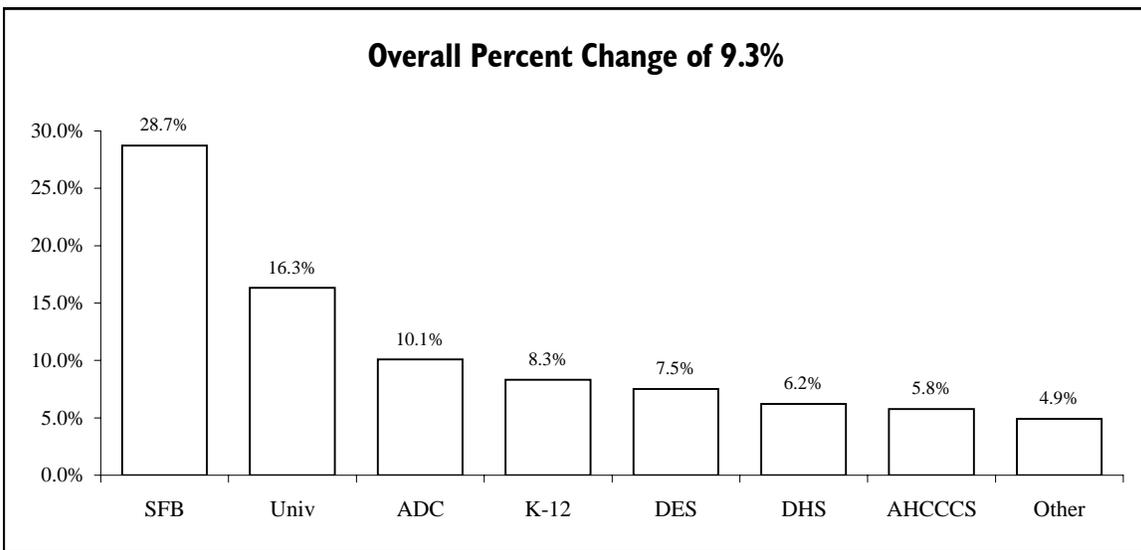
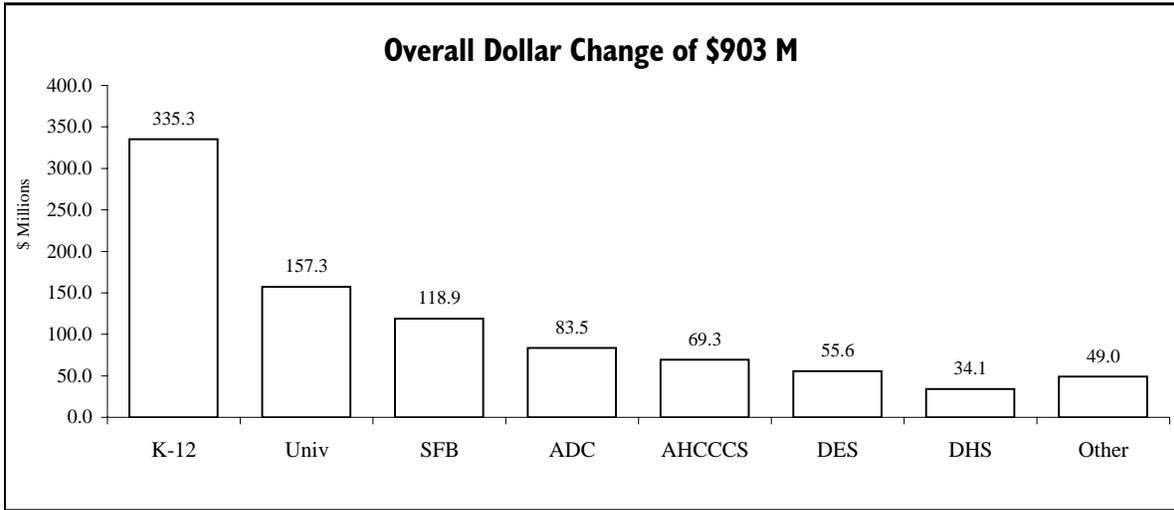
## FY 2008 Total Spending by Fund Source

<u>Fund Source</u>	<u>Spending (Millions)</u>
General Fund	\$ 10,639.4
Other Appropriated Funds	2,948.6
Non-Appropriated Funds	6,120.1
Federal Funds	7,799.7
<b>TOTAL</b>	<b><u>\$ 27,507.8</u></b> <sup>1/</sup>

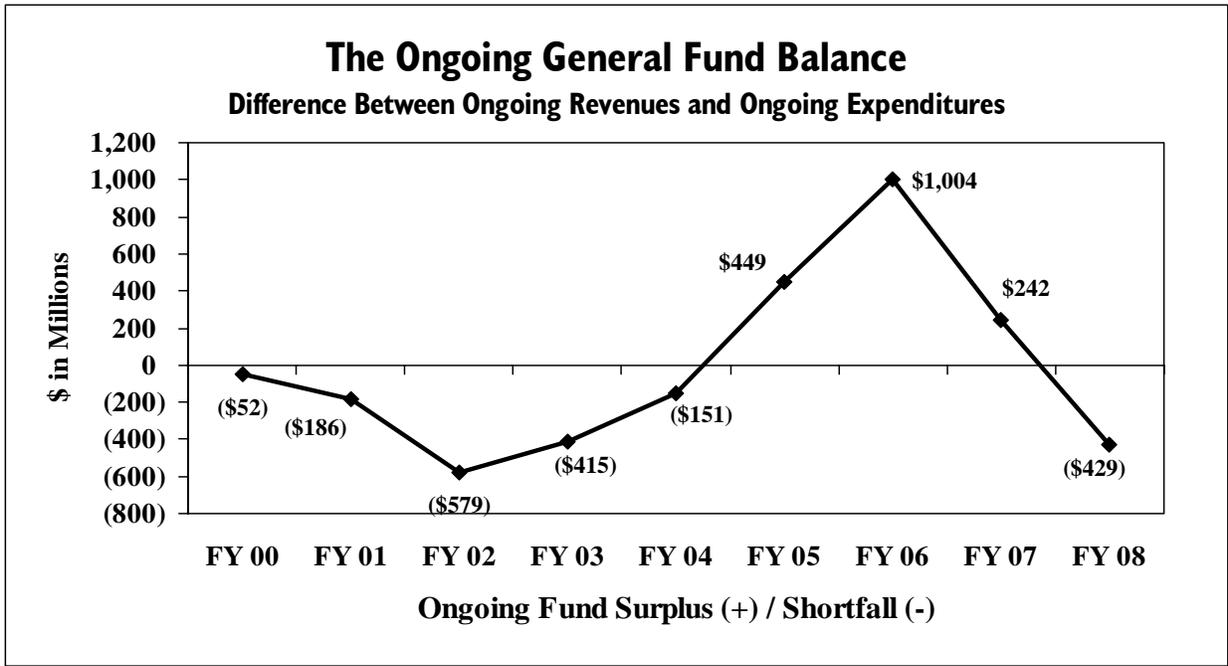


<sup>1/</sup> The same chart in prior Appropriations Reports excluded capital.

**MAJOR CHANGES TO STATE GENERAL FUND BUDGET**  
**Ongoing Operating Budget Expenditures <sup>1/</sup>**  
**FY 2007 to FY 2008**



<sup>1/</sup> Represents growth in operating budget appropriations from FY 2007 (including supplementals) to FY 2008. See pg. BH-3



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

(\$ in Millions)

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	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	9,258	8,255	1,004
2007	9,850	9,608	242
2008	10,087	10,515	(429)

<sup>1/</sup> Excludes one-time revenues and expenditures. In comparison to years FY 2006 and before, the Legislature classified all revenue and expenditures in the FY 2008 budget as permanent or one-time.

# FY 2008 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

## General Fund Spending

- The FY 2008 General Fund is \$10.6 billion.
- FY 2008 General Fund spending is growing by \$236 million above FY 2007, an increase of 2.3%. Excluding one-time items in both years, ongoing spending grows by \$908 million, or 9.4%.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be \$27.5 billion.

## General Fund Revenues/Taxes

- General Fund revenues are projected to grow by 6.0% in FY 2008, prior to any tax law changes.
- The budget includes \$45 million in one-time revenues from the sale of unclaimed securities.
- The budget includes previously enacted tax law reductions of \$216 million above FY 2007, primarily from an additional 5% individual income tax reduction.
- The budget also includes new FY 2009 tax reductions of \$10.5 million, including business property tax reductions, a “529” college savings plan deduction, and a military families relief tax credit. There is also a sales tax exemption for the 2009 NBA All-Star Game.

## General Fund Balances

- The FY 2008 cash balance would be \$764,300. After adjustments for one-time spending, FY 2008 ongoing revenues fall short of ongoing revenues by approximately \$(429) million.

## Budget Stabilization Fund

- In FY 2007, the fund will have a balance of \$687 million. In FY 2008, the 7% cap increases to \$705 million. The cap will be reached in that year with additional interest earnings.

## Education

### **Department of Education**

- Direct state assistance to the operations and maintenance of K-12 schools will grow by \$335 million, or 8.3%, including:
  - ⇒ An increase of 30,900 students, or 3.0%, for a total of 1,062,000.
  - ⇒ An across-the-board 2.0% inflation adjustment in state assistance.
  - ⇒ \$80 million in previously enacted additional kindergarten funding as part of a two year phase-in.
  - ⇒ \$46 million for additional teacher salary increases.
  - ⇒ \$3 million for additional charter school increases.
  - ⇒ \$2.5 million for math and science and \$2.0 million for master teacher programs.
  - ⇒ \$27 million for additional Joint Technological Education District (JTED) funding.
  - ⇒ \$(7.0) million to reflect one-time FY 2007 funding.

### **School Facilities Board**

- The budget provides \$370 million in cash for new schools in FY 2008, a \$120 million increase above FY 2007. The budget also adds \$2.5 million for an energy and water savings pilot program.
- School facility building renewal continues to be funded at \$86 million.

### **Universities**

- The Universities’ General Fund spending will increase by \$157 million, or 16.3%. This amount includes:
  - ⇒ \$20 million to fund university enrollment growth, including a reduction for students who have over 150 credit hours.
  - ⇒ \$34.6 million to make the first lease-purchase payment for research infrastructure projects that were initially authorized in 2003. These payments will continue through FY 2031.
  - ⇒ \$25 million for biomedicine initiatives. The funding would accelerate expansion of the Phoenix medical school to 48 students (\$6 million), provide monies for the design the Phoenix biomedical campus (\$10.5 million), expand biomedical informatics (\$2 million) and allied health programs (\$4 million), and develop both a telemedicine (\$1 million) and doctorate of pharmacy program (\$1.5 million) in Phoenix.
  - ⇒ \$29.8 million to increase student and faculty retention.
  - ⇒ \$2.3 million to increase the number of math and science teachers in the state.
  - ⇒ \$3.4 million for additional financial aid and subsidies.
  - ⇒ \$1 million to expand the School of Criminal Justice and Criminology at ASU-West.
- The Universities’ \$1.1 billion General Fund spending level would fund 110,300 full-time equivalent students in FY 2008.

## Health and Welfare

### **AHCCCS**

- AHCCCS' General Fund spending will increase by \$69 million, or 5.8%, to a level of \$1.3 billion. Of this amount, \$94 million is for caseload and inflation increases in Title 19 indigent health care services.
- Caseloads are projected to increase 1.9%. Total caseload is estimated to be 1.09 million by June 2008. Healthcare provider payments would increase by 6% for inflation and utilization.
- The KidsCare Parents program is continued until July 1, 2008 at a General Fund cost of \$9.2 million.
- The budget also adds:
  - ⇒ \$1.8 million to increase the eligibility limit for pregnant women to 150% of the federal poverty level.
  - ⇒ \$3.0 million to expand medical residency programs.
  - ⇒ \$1.0 million to provide routine dental care to elderly and physically disabled clients in the long term care system.
  - ⇒ \$2.9 million to provide the HPV vaccine for cervical cancer to women aged 21 to 26.
  - ⇒ \$(5.6) million savings to change the methodology for reimbursing hospital "outlier" costs.
  - ⇒ \$8 million subsidy for Healthcare Group.
  - ⇒ \$1.5 million and 6.2 FTE's to expand state infrastructure for the 2-1-1 phone information system.
  - ⇒ \$1.8 million and 6.1 FTE's to replace the claims computer system, and begin to replace the eligibility system.
  - ⇒ \$(39.6) million in savings as a technical adjustment in the state's Disproportionate Share Hospital (DSH) Program. General Fund revenue will decline by a corresponding amount.

### **Biomedical Research Commission**

- Adds \$1 million General Fund for the "cord blood bank," a non-embryonic stem cell repository.

### **Department of Health Services**

- DHS' General Fund spending will increase by \$34 million, or 6.2%. This amount includes:
  - ⇒ \$36.7 million for Title 19 increases in Behavioral Health and Children's Rehabilitative Services programs. Caseloads are projected to increase by 1.6% while provider rates would grow by 12.8% for inflation and utilization. Contract compliance will also increase by \$2.5 million.
  - ⇒ \$4 million for backfills in various DHS programs. This includes \$2 million for declining revenues at the Arizona State Hospital and \$2 million for the loss of federal reimbursement associated with Institutions for Mental Disease.
  - ⇒ \$2.2 million for vaccines, \$600,000 for senior food programs, \$400,000 for county tuberculosis, \$300,000 for valley fever, \$250,000 for breast and cervical cancer screening, and \$250,000 for crisis intervention training grants. The budget maintains \$500,000 for youth anti-meth programs.
  - ⇒ \$(13.9) million to reflect one-time funding.

### **Department of Economic Security**

- DES funding will increase by \$56 million, or 7.5%. This amount includes:
  - ⇒ \$29 million for 987 new clients in the Title 19 Developmental Disabilities Long Term Care program, a 5.4% increase in client caseload. Total caseload would equal 19,600.
  - ⇒ \$8.1 million for caseload growth in Permanent Guardianship and Adoption Services.
  - ⇒ \$6.9 million for CPS placements and services. The amount consists of \$2 million for foster care placements, \$(7) million for decreased residential placements, and \$12 million for in-home and out-of-home services.
  - ⇒ \$1 million to increase independent living support payments to former foster children ages 18-21.
  - ⇒ \$16.7 million to backfill lost Federal Funds in the CPS and Child Support Enforcement programs.
  - ⇒ \$(11.7) million due to TANF and General Assistance caseload declines. The TANF Program is projected to serve 84,300 individuals while General Assistance caseloads would be 2,440.
  - ⇒ \$9 million to increase the maximum reimbursement rate for child care subsidies in all counties and settings by 5%.
  - ⇒ \$2.2 million and 2 FTE Positions to expand senior services and respite care, and increase food distribution capacity.
  - ⇒ \$3 million to fund approximately 257 additional beds for domestic violence victims.

## Criminal Justice

### **Attorney General**

- The budget provides \$2.6 million for attorney salary increases.

### **Department of Corrections**

- ADC funding will increase by \$83 million General Fund, or 10.1%. This amount includes:
  - ⇒ \$39.2 million to fund 2,060 new rented provisional beds and to fund higher per diem rates.
  - ⇒ \$13.8 million for health care inflation.

- ⇒ \$9.4 million to annualize funding for 1,000 previously authorized private beds.
- ⇒ \$3.3 million for inmate population growth and \$3 million for Correctional Officer supervisor pay increases.
- ⇒ \$3 million to provide a 4.6% per diem increases to private prison contractors.
- ⇒ \$(10.6) million for one-time reductions.
- Funds 160 net new inmates per month and a FY 2008 year-end inmate population of 38,801.
- The budget authorizes 4,000 new public and 2,000 new private beds to begin opening in FY 2009.

### **Department of Public Safety**

- DPS General Fund spending would increase by a net of \$11.5 million, or 6.9%, including:
  - ⇒ \$4.5 million to fund additional GIITEM anti-gang and border security personnel and initiatives.
  - ⇒ \$2.5 million for sworn officer salary adjustments and officer pay plan promotions.
  - ⇒ \$1.6 million to add new staff in several areas.
  - ⇒ \$(5.0) million for one-time reductions.

### **Illegal Immigration**

- Adds \$2.6 million in a separate bill to investigate and sanction employers who hire illegal immigrants.

## **Natural Resources**

### **Department of Water Resources**

- DWR funding will increase by \$3.2 million, or 15.3%, including \$1.5 million for adjudication support and conservation and drought programs, and a \$1.0 million deposit into the Water Protection Fund. (Plus a \$2 million deposit in FY 2009.)

### **Parks Board**

- General Fund Parks Board spending will increase by a net of \$1.2 million, or 4.3%, including a \$1.0 million increase for the agency's operating budget in FY 2008, which would free up monies from park fees for capital projects.

## **General Government**

### **Commerce**

- General Fund spending will increase by \$3.9 million, including:
  - ⇒ \$2 million to the Greater Arizona Development Authority and a \$750,000 shift of operating funds from the Commerce and Economic Development Commission (CEDC) Fund to the General Fund, freeing up CEDC monies for grants.
- The budget includes \$25 million per year for 4 years to the 21st Century Fund to promote bioscience programs and research. (This funding is separate from the Commerce operating budget).

### **Department of Veterans' Services**

- The budget provides \$3.5 million of new General Fund support for the Veterans' Nursing Home.

## **Capital Outlay**

- Funds \$19.9 million in General Fund capital projects including:
  - ⇒ \$5.2 million for lock and door replacement at the Department of Corrections.
  - ⇒ \$4.2 million in FY 2008 and FY 2009 to build the Yuma Welcome Center and the Navajo Multipurpose Center, and to renovate the old state health laboratory.
  - ⇒ Previously enacted \$8 million to complete construction of a new state Archives and History building.
- Authorizes lease-purchase financing for the following items (with debt service to begin in FY 2009):
  - ⇒ \$200 million for 4,000 public prison beds
  - ⇒ \$6.8 million for prison water and wastewater projects.
  - ⇒ \$32 million for a new forensic unit and infrastructure improvements at the Arizona State Hospital (ASH).
- Authorizes increase in highway bonding from 20 to 30 years, which would generate about \$500 million in new Highway Fund proceeds over the next several years.
- Deposits a net of \$42 million from the Highway Fund into the STAN account after adjusting for other allocations.

## **State Employee Issues**

- The budget will add \$105 million from the General Fund for state employee issues including:
  - ⇒ \$68.8 million for a 3.0% state employee pay increase and a 0.25% performance pay increase, as of July 1, 2007.
  - ⇒ \$20.2 million for an 9.2% increase in the cost of state employee health insurance. The employee share of premiums would not change.
  - ⇒ \$16 million from the General Fund for increases in the state employer share of employee retirement costs. Arizona State Retirement System (ASRS) employer and employee rates will each increase by 0.5%.