

## HIGHLIGHTS OF THE FY 2009 BUDGET

The Second Regular Session of the 48<sup>th</sup> Legislature convened in January 2008. On June 26, the Legislature approved a FY 2009 budget for the year beginning July 1, 2008.

The state's FY 2009 General Fund budget is \$9.91 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$28.1 billion. See page BD-5 for information on appropriated fund spending and page BD-10 for total funds spending by agency.

**Revised FY 2008 Budget** – At the time of the publication of the *FY 2008 Appropriations Report* in July 2007, the projected FY 2008 General Fund ending balance was \$764,300. By the time the Second Regular Session began, the projected ending balance was a shortfall of \$(973) million due primarily to lower-than-expected economic growth. See page 562 for further details on these FY 2008 changes.

By mid-session, the estimate of the FY 2008 budget shortfall grew to \$(1.21) billion as the economy continued to weaken. On April 17, the Legislature approved legislation with \$1.36 billion of shortfall solutions, which left a projected FY 2008 ending balance of \$152 million. Due to a concern that revenue growth would continue to fall, the FY 2008 ending balance was not used to balance the FY 2009 budget. *Laws 2008, Chapter 53 is described in more detail on page 563.*

Subsequent to the passage of that bill, revenue collections continued to fall short of projections and the FY 2008 ending balance is projected to be \$1 million.

**Comparison to the JLBC Baseline** – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2009 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$11.14 billion. Based on 1.5% General Fund base revenue growth in FY 2008 and 1.0% growth in FY 2009, General Fund revenues were anticipated to be \$9.41 billion in FY 2009. Under this JLBC Baseline, the FY 2009 budget was projected to have a \$(1.73) billion deficit.

Based on the ongoing decline in revenues during the first half of calendar year 2008, the Legislature lowered its FY 2008 base revenue growth rate from 1.5% to (0.9)%. The FY 2009 rate was then adjusted from 1.0% to 1.9%. These adjustments increased the estimate of the FY 2009 baseline shortfall to \$(1.87) billion. See page 529 for further details.

In June 2008, the Legislature approved a budget package with \$1.94 billion of budget solutions, including:

- \$324 million in fund transfers;
- \$106 million to shift Department of Public Safety costs off the General Fund and onto the Highway User Revenue Fund and the State Highway Fund;
- \$330 million to increase the size of the K-12 rollover from \$272 million to \$602 million;
- \$20 million in a transfer from the Budget Stabilization Fund;
- \$341 million in net agency reductions;
- \$66 million from reducing School Facilities Board (SFB) building renewal funding;
- \$187 million from a moratorium on new construction by the SFB;
- \$527 million in proceeds from debt financing portions of FY 2007, FY 2008, and FY 2009 SFB construction; and
- \$50 million from counting non-lapsing monies toward the ending balance. See page 542 for more details.

**Comparison to the FY 2008 Budget** – General Fund revenues, including one-time monies, are projected to decrease from \$10.30 billion in FY 2008 to \$9.98 billion in FY 2009. Base ongoing revenues are actually projected to increase by \$189 million, from \$9.83 billion in FY 2008 to \$10.02 billion in FY 2009. This 1.9% increase, however, will be offset by:

- \$(27) million loss due to net tax and fee changes scheduled to take effect in FY 2009. The primary adjustments are a decrease of \$(30) million for the incremental impact of the second year of implementation of the Corporate Income Tax enhanced sales factor and an increase of \$11 million in new defensive driving fees;
- \$(43) million loss due to an increased contribution to Urban Revenue Sharing;
- \$(440) million loss in one-time revenues. The primary losses are the carry-forward balance declining from \$378 million at the beginning of FY 2008 to \$1 million at the beginning of FY 2009 and a reduction in the Budget Stabilization Fund transfer from \$487 million in FY 2008 to \$20 million in FY 2009. These \$(844) million in losses are offset primarily by depositing \$344 million in SFB lease-purchase proceeds to the General Fund. In addition, \$56 million in one-time refunds associated with the 1994 Corporate Income Tax consolidated return legislation budgeted in FY 2008 will not recur in FY 2009.

General Fund spending is projected to decrease by (2.4)% from \$10.15 billion in FY 2008 to \$9.91 billion in FY 2009. Excluding one-time adjustments, permanent spending is expected to increase by \$113 million, or 1.1%, in FY 2009. The largest permanent spending increases include:

- \$221 million for AHCCCS caseload growth;
- \$103 million to the Department of Education for student growth and a 2% per student funding increase;
- \$41 million to the Department of Health Services for Title XIX caseload growth;
- \$12 million to the Department of Economic Security for Title XIX caseload growth; and
- \$52 million to the Department of Corrections for prisoner growth and new beds.

These increases are offset by decreases throughout state agencies including:

- \$(183) million for lease-purchase financing of School Facilities Board new construction financing;
- \$(64) million in additional shifts of DPS funding from the General Fund to the Highway User Revenue Fund and the State Highway Fund;
- \$(35) million in additional lump sum reductions in the University system.
- \$(15) million in additional reductions in the Department of Health Services;

One-time adjustments include the following reductions:

- \$(317) million in additional major one-time expenditure reductions, including \$(179) million for a SFB new construction moratorium, \$(41) million from reducing building renewal funding, \$(58) million from an additional K-12 rollover of \$330 million, \$(39) million from increased county contributions to the AHCCCS program, and \$(20) million from suspending the Community Colleges capital outlay formula.

- \$(37) million in additional statutory reversions. The FY 2008 budget included \$(13) million in specific statutory reversions while the FY 2009 budget counted \$50 million in non-lapsing appropriations toward the ending balance.

*The Budget Units section has more information on individual agency budgets. Some FY 2009 savings proposals relative to the FY 2008 budget have different values under the shortfall reduction plan, which is based on the FY 2009 Baseline.*

**Tax Reductions** – The FY 2009 budget includes \$(1.1) million in new tax reductions to conform the state income tax with federal changes. The Legislature also approved an expansion of the research and development tax credit beginning in FY 2011 at a cost of \$5.7 million. *See page 476 for more details.*

**General Fund Balance** – The FY 2009 General Fund cash balance is projected to be \$74,069,200. 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 \$(1.3) billion in FY 2009. *See page BH-4 for more details.*

**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES<sup>1/</sup>**

	<b>FY 2008 Enacted</b>	<b>FY 2008 Revised</b>	<b>FY 2009 Enacted</b>
<b>REVENUES</b>			
Balance Forward	\$ 377,947,000	\$ 377,947,000	\$ 1,000,000
Net Ongoing Revenues	9,148,865,500	8,764,880,200	9,267,935,700
One-Time Revenue Adjustments	774,272,000	902,259,900	711,347,200
<b>Total Revenues</b>	<b>\$10,301,084,500</b>	<b>\$10,045,087,100</b>	<b>\$9,980,282,900</b>
<b>EXPENDITURES</b>			
Operating Budget Appropriations	\$10,138,287,900	\$10,138,287,900	\$9,984,513,700
Capital Outlay	13,434,500	13,434,500	\$13,500,000
Administrative Adjustments	96,000,000	95,141,400	55,200,000
Reversions	(85,000,000)	(189,356,600)	(97,000,000)
Statutory Reversions	(13,420,100)	(13,420,100)	(50,000,000)
<b>Total Spending</b>	<b>\$10,149,302,300</b>	<b>\$10,044,087,100</b>	<b>\$9,906,213,700</b>
<b>ENDING BALANCE</b>	<b>\$151,782,200</b>	<b>\$1,000,000</b>	<b>\$74,069,200</b>

<sup>1/</sup> The FY 2008 Enacted column reflects the budget as revised in April 2008 by Laws 2008, Chapter 53. The FY 2008 Revised column reflects the preliminary final FY 2008 estimate as of August 2008.

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

	<b>FY 2008 Enacted</b>	<b>FY 2009 Enacted</b>
<b>REVENUES</b>		
Ongoing Revenues	\$9,833,404,400	\$10,022,240,100
Enacted Tax Law Changes 2/	0	(34,550,000)
Other Revenue Changes 2/	0	7,923,000
Urban Revenue Sharing	(684,538,900)	(727,677,400)
Net On-going Revenues	9,148,865,500	9,267,935,700
One-time Revenues		
Balance Forward	\$377,947,000	1,000,000
Corporate Consolidated Returns	(55,500,000)	0
Other Revenue 3/	47,000,000	66,479,500
Prior Year SFB Bond Proceeds	0	344,000,000
Budget Stabilization Fund Transfer	487,000,000	20,000,000
Fund Transfers 4/	295,772,000	280,867,700
Subtotal One-time Revenues	1,152,219,000	712,347,200
<b>Total Revenues</b>	\$10,301,084,500	\$9,980,282,900
<b>EXPENDITURES</b>		
Operating Budget Appropriations	10,403,757,900	10,655,234,600
FY 2008 Supplementals 5/	68,710,000	0
Administrative Adjustments	96,000,000	55,200,000
Revertments	(85,000,000)	(97,000,000)
Subtotal Ongoing Expenditures	10,483,467,900	10,613,434,600
One-time Expenditures		
Capital Outlay	\$13,434,500	13,500,000
Statutory Revertments 6/	(13,420,100)	(50,000,000)
21st Century Fund Transfer	25,000,000	22,500,000
Other Major One-time Expenditures 7/	(359,180,000)	(693,220,900)
Subtotal One-time Expenditures	(334,165,600)	(707,220,900)
<b>Total Expenditures</b>	10,149,302,300	\$9,906,213,700
<b>Ending Balance 8/</b>	151,782,200	74,069,200
Ongoing Fund (Structural) Balance 9/	(\$1,334,602,400)	(\$1,345,498,900)

1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.

2/ See page 481 for details.

3/ See page 478 for details.

4/ See page 541 for details.

5/ See page 564 for details.

6/ See page 575 for details.

7/ See page BH-5 for details.

8/ This calculation reflects the difference between total revenues and total expenditures.

9/ This calculation reflects the difference between ongoing revenues and expenditures.

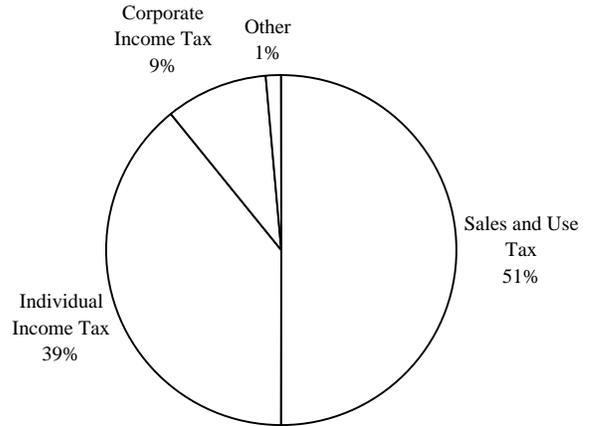
**SUMMARY OF MAJOR ONE-TIME OPERATING BUDGET EXPENDITURES I/**

	<u>FY 2008</u>	<u>FY 2009</u>
<b>AHCCCS</b>		
Freeze Reimbursement Rates		(12,462,500)
HPV Vaccines	2,685,300	
Suspend Temporary Medical Coverage Program		(8,350,000)
Require Extra Maricopa/Pima Contribution	(7,026,800)	(27,962,800)
ALTCS County Reversions - Local Share		(17,830,500)
<b>Department of Commerce</b>		
GADA Deposit	1,000,000	
Suspend Military Airport Funding		(4,800,000)
<b>Arizona Community Colleges</b>		
Community College Reductions		(5,497,600)
NCCD Public Safety Training Facility	1,000,000	500,000
Suspend Capital Outlay		(20,034,000)
<b>Department of Corrections</b>		
Carpool Vans	900,000	
Reduce Unfilled Indiana Beds	(14,757,100)	
Reduce Unused Oklahoma Bed Funding	(1,624,200)	
Education Funding	(1,700,000)	
WIPP Wages	(700,000)	
<b>Department of Economic Security</b>		
DD Provider Rate Freeze		(7,000,000)
<b>Arizona Department of Education</b>		
Rollover	(272,000,000)	(330,000,000)
Suspend Remaining 50% of Rapid Decline		(1,500,000)
Teach America	1,000,000	
Tech Grants	1,000,000	
Non-Title I Reading Grant Pilot Program	1,000,000	
Structured English Immersion	(14,300,000)	
<b>Department of Emergency &amp; Military Affairs</b>		
Reduce Emergency Fund		(500,000)
<b>Department of Environmental Quality</b>		
WQARF		(2,000,000)
<b>Department of Health Services</b>		
Health Crisis Fund Deposit		(500,000)
Federal Fund Match	(6,409,500)	
<b>Land Department</b>		
Forest Grants	1,000,000	
<b>Department of Revenue</b>		
Small City Grants	850,000	
<b>School Facilities Board</b>		
Building Renewal Savings	(43,141,700)	(66,283,500)
Building Renewal Prior Year Reversion	(2,456,000)	
New Construction Moratorium		(187,000,000)
New School Construction Cash Flow Reduction	(8,000,000)	
Utilities Grants	2,500,000	
<b>Department of Water Resources</b>		
Suspend New Water Protection Fund		(2,000,000)
<b>TOTAL - ONE-TIME SPENDING CHANGES</b>	<b>(359,180,000)</b>	<b>(693,220,900)</b>

I/ Includes increases in spending that were not continued. One-time spending decreases represent new reductions in FY 2008 and FY 2009 that would require further legislative authorization to continue.

## FY 2009 General Fund Revenue - Where it Comes From

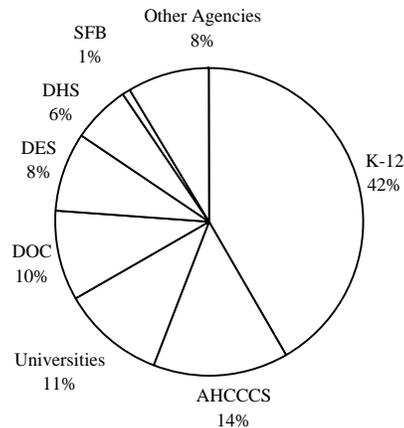
Source	Revenue (Millions)
Sales and Use Tax	\$ 4,643.6
Individual Income Tax	3,619.4
Corporate Income Tax	871.2
Other	133.7
<b>TOTAL REVENUE</b>	<b>\$ 9,267.9 <sup>1/</sup></b>



<sup>1/</sup> Includes all legislative revenue changes, but does not include beginning balance or other one-time revenue adjustments. The projected beginning balance is \$1.0 million. Other one-time revenues adjustments equal \$711.3 million.

## FY 2009 General Fund Appropriations - Where it Goes

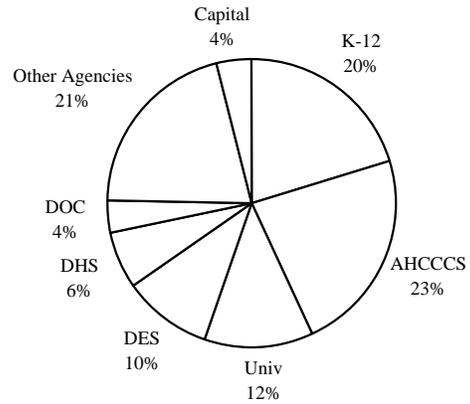
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 4,141.2
AHCCCS	1,425.3
Universities	1,080.4
Corrections	947.5
Economic Security	808.3
Health Services	611.5
School Facilities Bd	101.2
Other Agencies	846.6
<b>TOTAL OPERATING BUDGET</b>	<b>\$ 9,962.0 <sup>1/</sup></b>



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

## FY 2009 Total Spending - All Sources <sup>1/</sup>

<u>Budget Unit</u>	Spending (Millions)
Education (K-12)	\$ 5,738.1
AHCCCS	6,402.2
Universities	3,484.8
Economic Security	2,770.1
Health Services	1,796.0
Corrections	1,076.2
Other Agencies	5,821.1
Capital	1,126.0
<b>TOTAL</b>	<b><u>\$ 28,214.5</u> <sup>2/</sup></b>

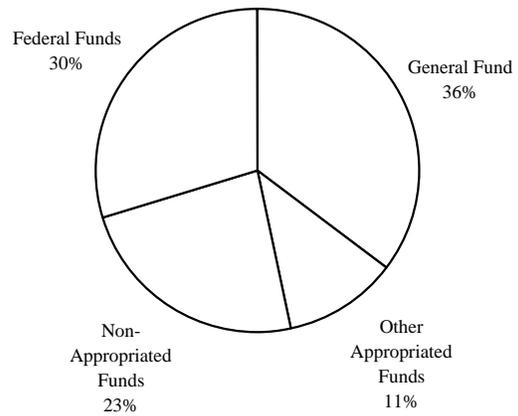


<sup>1/</sup> Does not include administrative adjustments, revertsments, and fund transfers.

<sup>2/</sup> Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

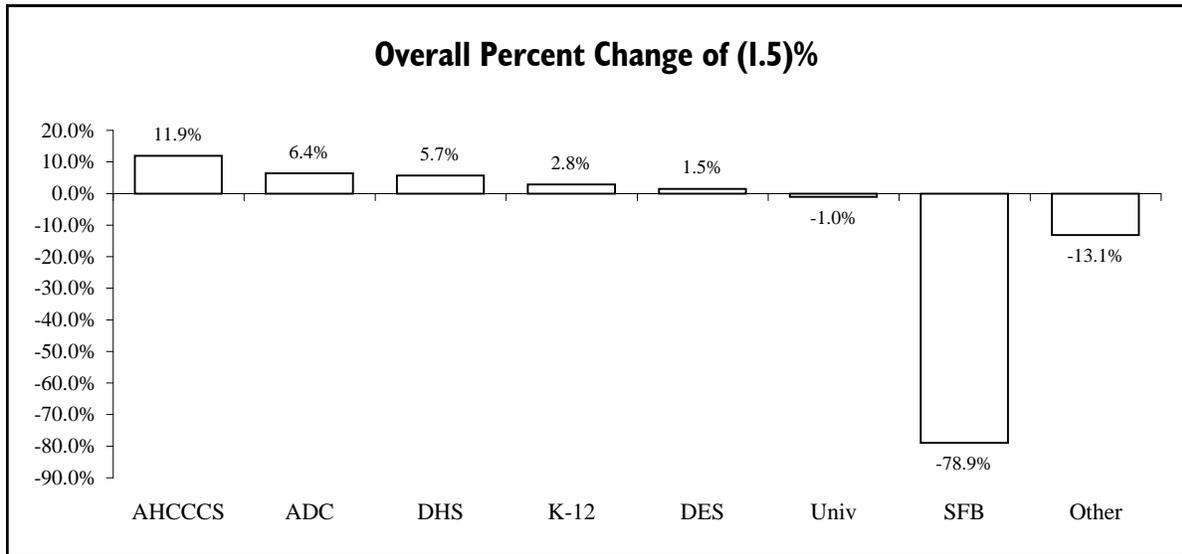
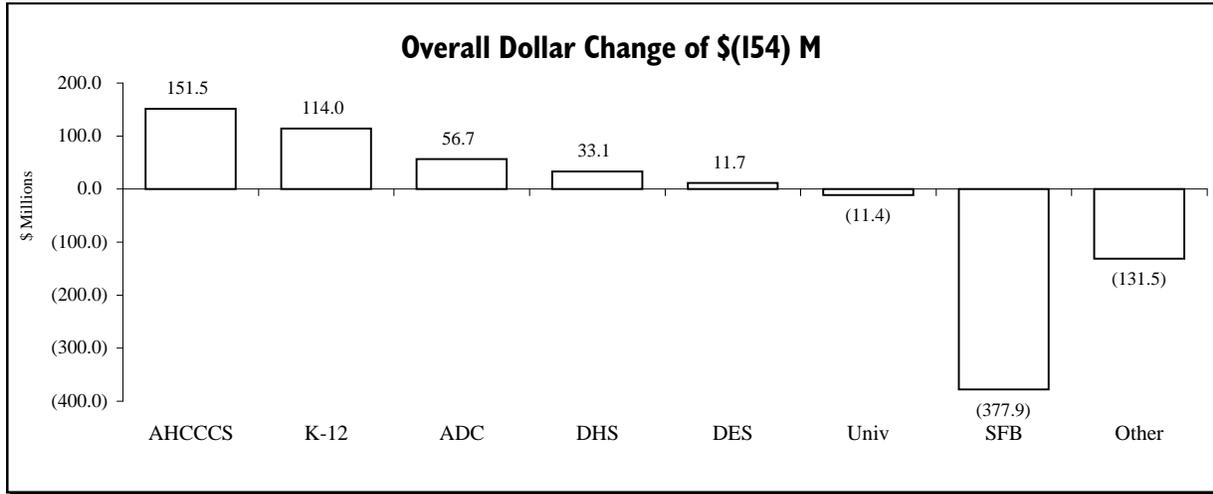
## FY 2009 Total Spending by Fund Source

<u>Fund Source</u>	Spending (Millions)
General Fund	\$ 9,975.6
Other Appropriated Funds	3,201.6
Non-Appropriated Funds	6,617.4
Federal Funds	8,419.9
<b>TOTAL</b>	<b><u>\$ 28,214.5</u> <sup>1/</sup></b>

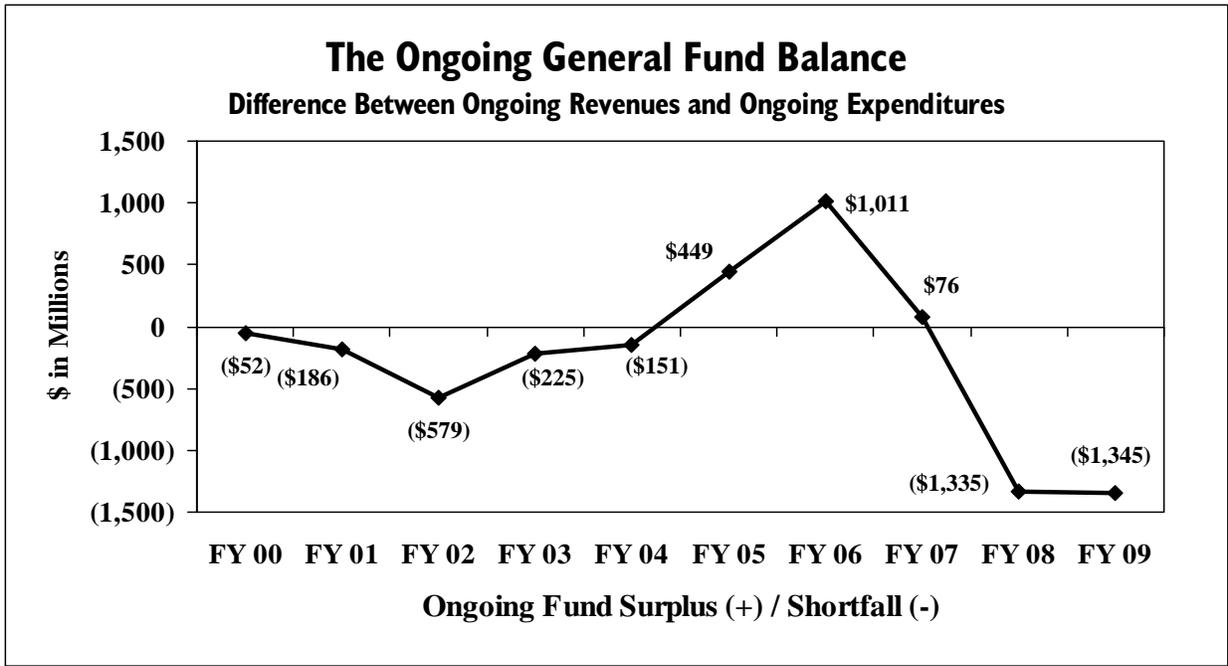


<sup>1/</sup> Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

**MAJOR CHANGES TO STATE GENERAL FUND BUDGET**  
**Ongoing Operating Budget Expenditures <sup>1/</sup>**  
**FY 2008 to FY 2009**



<sup>1/</sup> Represents change in operating budget appropriations from FY 2008 (including supplementals) to FY 2009. 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	6,026	(225)
2004	6,462	6,613	(151)
2005	7,719	7,270	449
2006	9,266	8,255	1,011
2007	9,624	9,548	76
2008	9,149	10,483	(1,335)
2009	9,268	10,613	(1,345)

<sup>1/</sup> Excludes one-time revenues and expenditures.

# FY 2009 STATE GENERAL FUND BUDGET - A NARRATIVE SUMMARY

## General Fund Baseline Spending

- The FY 2009 General Fund budget spends \$9.91 billion.
- FY 2009 General Fund spending will decline by \$(698) million below the original FY 2008 budget from June 2007, a decrease of (6.6)%. Compared to the FY 2008 budget changes from April 2008, FY 2009 spending will decrease by \$(243) million, or (2.4)%.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be \$28 billion.

## General Fund Revenues

- The FY 2009 budget was based on a General Fund revenue forecast of \$9.98 billion. This revenue level represents an increase of 1.9% over the enacted FY 2008 forecast prior to tax law changes. Given that FY 2008 revenues are expected to be less than forecast, General Fund revenues will need to grow by 6.1% to reach the \$9.98 billion level.
- The General Fund revenue forecast includes \$(34.5) million in mostly prior year tax law changes. The budget also includes an expansion of the research and development income tax credits, which is expected to cost \$5.7 million beginning in FY 2011.
- The budget includes \$712 million in one-time revenues and \$8 million in new ongoing revenues. The one-time revenues include \$344 million in prior year debt financing proceeds, \$281 million in fund transfers and \$20 million from the Budget Stabilization Fund.
- The General Fund will also receive photo radar fines after administrative costs are paid. As the expected General Fund deposit is unknown, the budget does not assume any revenues from these fines.

## General Fund Balances

- The projected FY 2009 cash balance is \$74 million.
- The state's fiscal condition is also evaluated by the comparison between the state's permanent ongoing revenues and permanent ongoing spending. The preliminary estimate of the FY 2009 structural shortfall is \$(1.3) billion.

## Budget Stabilization Fund

- The budget transferred \$487 million from the Budget Stabilization Fund (BSF) to the General Fund in FY 2008 and another \$20 million in FY 2009.
- In addition, Laws 2008, Chapter 53 authorized the use of the \$198 million remaining in the BSF, in the event of a FY 2008 budget shortfall.
- JLBC and OSPB have preliminarily determined that approximately \$100 million of the \$198 million will be needed to balance the FY 2008 budget.

## Overall Shortfall Reduction Plan

- Based on forecasted revenue growth and spending formula requirements, the FY 2009 budget initially had a projected shortfall of \$1.87 billion.
- The budget provides a total of \$1.94 billion in solutions to balance the projected FY 2009 cash shortfall, including:
  - ⇒ \$341 million in agency spending reductions.
  - ⇒ \$324 million in fund transfers, including capital reductions.
  - ⇒ \$527 million in debt financing of school construction, including construction from prior years.
  - ⇒ \$330 million to increase the K-12 rollover to the equivalent of 2 months of payments.
  - ⇒ \$106 million to shift the Department of Public Safety costs from the General Fund to the Highway User Revenue Fund and State Highway Fund.
  - ⇒ \$187 million from a K-12 school construction moratorium and \$66 million from reducing building renewal funding for existing schools.
  - ⇒ \$50 million by counting non-lapsing funds in the ending balance.
  - ⇒ \$20 million deposit from the BSF.

## State Agency Changes

The following summary reflects changes in FY 2009 from the revised FY 2008 budget. Some savings proposals have different estimates than the shortfall reduction plan, which was based on the FY 2009 Baseline.

## Education

### **Department of Education**

- Direct state assistance to the operations and maintenance of K-12 schools will grow by \$114.0 million, or 2.8%, including:

- ⇒ \$102.6 million for 21,000 new students (2%); an across-the-board 2.0% inflation adjustment; and 15.7% property value growth.
- ⇒ \$(1.5) million to suspend Rapid Decline funding.
- ⇒ \$40.7 million for the previously enacted Structured English Immersion legislation, which represented a net cost of \$26.4 million after a funding reallocation.
- ⇒ \$(5.0) million to suspend private school funding for disabled students and foster care children.
- ⇒ A continued freeze on state aid costs to Joint Technological Education Districts.
- In addition, the K-12 rollover was increased by \$330.0 million for a total rollover of \$602.6 million. This rollover effectively delays 2 months of FY 2009 school payments to FY 2010.
- The budget also required ADE to fund excess utility spending in FY 2010, at a cost of \$60 million. Proposition 301 in the 2000 election ended the use of local property taxes for this purpose after FY 2009.

### **School Facilities Board**

- SFB funding will decrease by \$(377.9) million. This amount includes:
  - ⇒ Reducing new construction funding from \$362 million to \$183 million for a savings of \$(179) million to reflect a moratorium on projects not yet under construction due to a slowdown in the housing market. This amount would be further reduced to \$0 due to a shift from cash financing to lease-purchase financing.
  - ⇒ Building renewal funding is reduced from \$41 million to \$20 million. The Building Renewal Fund is suspended in FY 2009. The \$20 million will be distributed as need-based grants.
  - ⇒ One-time funding of \$2.5 million for Arizona Energy and Water Savings Grants is eliminated and the debt service payment for FY 2003 - FY 2005 lease-purchase issuances is increased by \$7.3 million.
- The budget authorizes SFB to enter into 15-year lease-purchase financing of \$593 million. This amount includes \$229 million for FY 2009 financing (which was increased from the estimate of \$183 million for new construction). In addition, \$344 million is recouped from FY 2008 and prior year expenditures, \$8 million is for full-day kindergarten capital costs, and \$12 million is loaned to a union high school district that meets certain criteria.
- The budget provides \$117 million in cash for FY 2009 new construction projects until lease-purchase proceeds become available during FY 2009, at which time the \$117 million will be repaid to the state General Fund.

### **Universities**

- The Universities' General Fund spending will decrease by \$(11.4) million, or (1.0)%. This amount includes:
  - ⇒ \$20.7 million to fund university enrollment growth.
  - ⇒ \$(50.0) million in a university-wide reduction to be allocated by the Arizona Board of Regents (ABOR). This lump sum generates \$(35.3) million in greater savings above the FY 2008 reduction.
- The Universities' \$1.1 billion General Fund spending level will fund 113,251 full-time equivalent students in FY 2009.
- The budget also includes a \$1.0 billion debt financing plan which includes \$470 million for the University of Arizona's Phoenix Biomedical Campus. ABOR is to allocate the remainder for new construction and building repair. (*For more information please see the Capital Outlay section.*)

### **Community Colleges**

- Community College General Fund will decrease by \$(20.1) million, or (12.0)%.
- Capital Outlay State Aid is suspended in FY 2009 for a savings of \$(20.6) million.
- Enrollment declined by (198) full-time equivalent students for a total enrollment of 118,308.
- Operating State Aid will decline by \$(3.7) million, while Equalization Assistance to Rural Counties would grow by \$4.4 million. These changes are \$(5.5) million less than the statutory funding formula.

## **Health and Welfare**

### **AHCCCS**

- AHCCCS' General Fund spending will increase by \$151.5 million, or 11.9%. This amount includes:
  - ⇒ \$220.9 million for caseload and inflation increases. Caseloads are projected to grow by 4.5% while provider rates will increase by 6% for inflation and utilization.
  - ⇒ \$(26.9) million in agency reductions including \$(12.5) million for freezing hospital reimbursement rates, \$(9.1) million for reducing the redetermination period to 6 months for childless adults, and \$(1.7) million for eliminating preventive adult dental services.
  - ⇒ \$(8.4) million for suspension of the Temporary Medical Coverage Program.
  - ⇒ Permanent continuation of the KidsCare Parents Program with a decrease of \$(836,400) from FY 2008.
  - ⇒ A \$(1.5) million decrease in the Healthcare Group subsidy, for a total contribution of \$5 million.
  - ⇒ \$(38.8) million in savings as a result of using additional county funds for the ALTCS Program.

### **Department of Health Services**

- DHS' General Fund spending will increase by \$33.1 million, or 5.7%. This amount includes:
  - ⇒ \$40.9 million for Behavioral Health Services. Caseloads are projected to grow by 4.0%, while provider rates will grow by 3.6% for inflation and utilization.
  - ⇒ \$6.3 million for Children's Rehabilitative Services programs. Caseloads are projected to grow by 2.6% while provider rates will grow by 20.9% for inflation and utilization.
  - ⇒ An additional agencywide lump sum reduction of \$(2.8) million, for a total lump sum of \$(8.6) million.
  - ⇒ \$(11.4) million in specific program reductions.
  - ⇒ \$6.4 million to restore funding associated with a one-time FY 2008 fund shift onto Federal Funds.

### **Department of Economic Security**

- DES funding will increase by \$11.7 million, or 1.5%. This amount includes:
  - ⇒ \$12.4 million for 1,113 new clients, or 6.2%, in the Title 19 Developmental Disabilities Long Term Care program. Total caseload will equal 21,073. This amount includes a freeze on Developmental Disabilities Community Provider rates.
  - ⇒ \$3.5 million for the Arizona Early Intervention Program.
  - ⇒ \$4.0 million for additional Temporary Assistance for Needy Families (TANF) funding which will fund 83,000 recipients.
  - ⇒ Specific reductions of \$(5.3) million, including \$(1.6) million to shift day care funding to Federal Funds, \$(950,000) to eliminate the Marriage and Communication Skills program, and decreases of \$(500,000) each to Vocational Rehabilitation Services, Independent Living Rehabilitation Services, and Summer Youth Employment and Training.
  - ⇒ An additional agencywide lump sum reduction of \$(2.1) million, for a total lump sum of \$(5.2) million.
- Federal TANF spending will increase by \$29.6 million, including:
  - ⇒ \$5.5 million to upgrade the department's eligibility determination system.
  - ⇒ \$5.1 million for new Child Protective Services caseworkers.
  - ⇒ \$6.5 million for Adoption Services and Permanent Guardianship caseload growth.
  - ⇒ \$5.5 million to backfill a declining balance in the Child Care Development Block Grant Fund.

### **Criminal Justice**

#### **Department of Corrections**

- ADC General Fund spending will increase by \$56.7 million, or 6.4%. This amount includes:
  - ⇒ \$25.9 million to annualize funding for 2,060 previously authorized "rented" provisional beds (\$11.6 million) and new provisional beds (\$14.3 million).
  - ⇒ \$19.4 million to restore one-time reductions for provisional beds (\$16.4 million) and other items (\$3 million) originally enacted as part of the FY 2008 budget revisions.
  - ⇒ \$10.0 million for 5.5% inmate population growth and 5.7% health care inflation adjustment.
- The budget funds 180 net new inmates per month and a FY 2009 year-end inmate population of 41,139. The budget defers the opening of 6,000 previously authorized beds (4,000 public/2,000 private) until FY 2010 due to construction delays.

#### **Judiciary**

- Judiciary funding will decrease by \$(543,200), or (0.4)%, including:
  - ⇒ \$179,200 for the state share of 2 new Superior Court judgeships.
  - ⇒ \$(672,000) for specific reductions and additional lump sum reductions.

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

- DPS General Fund spending will decrease by \$(71.1) million or (52.8)%. Excluding fund shifts, the DPS budget will increase by \$4.9 million. The \$(71.1) million savings includes:
  - ⇒ \$(64.0) million to shift additional highway patrol expenses to the State Highway Fund and Highway User Revenue Fund.
  - ⇒ \$(7.8) million for the department to charge local law enforcement agencies for crime lab services.
  - ⇒ \$(3.0) million to shift officer safety equipment spending to the new Public Safety Equipment Fund.
  - ⇒ \$(1.2) million to shift the Public Safety Communications Commission to the Government Information Technology Agency.
  - ⇒ \$(600,000) to reduce DNA testing spending.
  - ⇒ \$1.3 million for an increase in sworn officer salaries.
  - ⇒ \$4.2 million for statewide adjustments and one-time funding reductions.

### **Transportation**

- The Arizona Department of Transportation's non-General Fund operating costs would increase by \$1.5 million, or 0.3%, including an increase of \$3.2 million for highway maintenance and a decrease of \$(2) million for one-time equipment.

### **Capital Outlay**

- The budget includes \$13.5 million in General Fund monies for previously approved capital projects. This includes \$10 million for the Southern Arizona's Veterans' Home, which was originally appropriated in FY 2007 but reverted back to the General Fund in FY 2008 and is reappropriated in FY 2009.
- The budget authorizes \$1.6 billion in new debt financing for capital projects, including:
  - ⇒ \$593 million for the School Facilities Board.
  - ⇒ \$1 billion for the universities. Of the debt service payments, 80% is to be paid by State Lottery revenues, and 20% is to be paid by Arizona Board of Regents system revenues. The lottery revenues are to be generated by new games, additional ticket machines, increased prizes and game payouts, and increased advertising.
  - ⇒ \$7.5 million to construct a State Emergency Operations Center.

### **State Employee Issues**

#### **FTE Positions**

- The JLBC Baseline will fund an increase of 516 Full-Time Equivalent (FTE) Positions. This 1.0% increase will bring total appropriated FTE Positions to 52,420.

#### **Employee Pay and Salary Issues**

- The budget provides \$9.0 million for the employer share of retirement costs.
- The budget does not include a state employee pay increase.

### **Local Impacts**

#### **Urban Revenue Sharing**

- Urban Revenue Sharing (URS) distributions for FY 2009 will total \$727.7 million, an increase of \$43.1 million above FY 2008. By statute, URS is normally based on 15% of income tax collections 2 years prior which would equate to \$709.9 million in FY 2009. Statute, however, provides that for FY 2009 only, the URS distribution will consist of a set amount of \$717.1 million, plus a special distribution of \$10.5 million, for a total distribution amount of \$727.7 million.

#### **Cash Contributions**

- Cities and counties will make \$29.7 million of cash contributions to the General Fund.
- Counties will also make an additional \$45.8 million in contributions to fund the AHCCCS program above the regular statutory requirement. This amount is \$38.8 million greater than their "extra" FY 2008 contribution.