

## HIGHLIGHTS OF THE FY 2010 BUDGET

The FY 2010 budget is based upon the actions of the 48<sup>th</sup> Legislature's 1<sup>st</sup> Regular Session (convened in January 2009) and 3<sup>rd</sup> Special Session (convened in July 2009). Three different packages of legislation comprise the FY 2010 budget for the year beginning July 1, 2009.

The state's FY 2010 General Fund budget is \$8.67 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$29.0 billion. (*See the Summary of Appropriated Funds and Summary of Total Spending Authority for more details.*)

**The Budget Process** – The Legislature originally passed a FY 2010 budget on June 4. This budget was not immediately transmitted to the Governor while budget negotiations continued between the Governor and the Legislature. The Governor subsequently sued the Legislature over the failure to transmit the bills immediately. The Supreme Court ruled on June 23 that although the Legislature should have transmitted its bills sooner, it would not compel them to do so with these sets of bills. The set of June 4 bills, along with a set of "trailer bills" modifying some of these bills, was transmitted to the Governor the morning of July 1. The Governor signed the capital and General Appropriation Act bills, but line-item vetoed certain portions, and vetoed the accompanying Budget Reconciliation Bills (BRBs). The latter bills are changes in statutory formulas that permit state agencies to meet the funding levels in the General Appropriation Act. The vetoes were due to the Legislature's decision to exclude the Governor's proposed 3-year 1-cent sales tax increase from the budget package.

As a result, most of state government continued to operate. But the vetoes eliminated most of the Department of Education's funding. In addition, the veto of the BRBs left many other state agencies without the means of achieving their budgeted savings. The Legislature convened in the 3<sup>rd</sup> Special Session on July 6 and passed budget bills concerning the K-12 budget with accompanying language for the K-12 and AHCCCS budgets. The Governor signed the bills on July 8. After these actions, the FY 2010 budget had a direct shortfall of \$(2.34) billion, which would be the shortfall absent any additional legislative action. Because many of the savings in agencies' budgets in the General Appropriation Act required accompanying BRB language, the total impact, assuming agencies would not be required to generate savings without the BRB language to do so, totaled \$(3.35) billion.

The Legislature transmitted a final set of budget bills to the Governor on August 20. These bills included items affected by the line-item vetoes of July 1 as well as a new set of BRBs. The August 20 transmittal would have largely returned the budget to the version transmitted to the Governor on July 1. By September 4, the Governor had

acted on all bills, signing most BRBs, line-item vetoing portions of the General Appropriation Act, and vetoing SB 1025 (the General Revenues BRB) in its entirety. The estimated FY 2010 shortfall after these actions was \$(446) million, or \$(946) million with the FY 2009 shortfall included. Due to technical re-estimates, this number is now estimated at \$(451) million for FY 2010 alone, or \$(951) million when combined with the FY 2009 shortfall.

**Revised FY 2009 Budget** – At the time of the publication of the *FY 2009 Appropriations Report* in August 2008, the projected FY 2009 General Fund ending balance was \$74 million. By January 2009, the projected ending balance was a shortfall of \$(1.58) billion due primarily to lower-than-expected economic growth. The context for both the FY 2009 revisions and the FY 2010 budget was the state's worst economic downturn in at least 50 years. The nationwide collapse of the housing market was felt especially hard in Arizona.

Laws 2009, 1<sup>st</sup> Special Session, Chapter 1 addressed the FY 2009 mid-year shortfall by adopting \$1.69 billion in revenue increases and spending reductions, generating a \$106 million expected ending balance. Laws 2009, 1<sup>st</sup> Regular Session, Chapter 1 increased spending and decreased revenues by \$(56) million in March 2009, resulting in a \$50 million balance.

By mid-session, the estimate of the FY 2009 budget shortfall grew again to \$(650) million as the economy continued to weaken. In May, the Legislature approved legislation with \$650 million of shortfall solutions, which left a projected FY 2009 ending balance of \$0.

Subsequent to the passage of that bill, revenue collections continued to fall short of projections. Incorporating those declines and technical revisions and the FY 2009 ending shortfall is projected to be \$(500) million. While the state is generally thought to have a balanced budget requirement, the Arizona Constitution does permit the state to address any year-end shortfall in the next fiscal year. As a result, the FY 2009 shortfall will need to be resolved during FY 2010.

*See page 545 for further details on these FY 2009 changes.*

**Comparison to the JLBC Baseline** – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2010 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$10.68 billion. Based on a (9.7)% General Fund base revenue decrease in FY 2009 and a (2.8)% decrease in FY 2010, General Fund revenues were anticipated to be \$7.67 billion in FY 2010. Under this JLBC Baseline, the FY 2010 budget was projected to have a \$(3.01) billion deficit.

Based on the ongoing decline in revenues during the first half of calendar year 2009, the Legislature lowered its FY 2009 base revenue growth rate from (9.7)% to (16.7)%. The FY 2010 rate was then adjusted from (2.8)% to (0.9)%. *See page 512 for calculation of the FY 2010 Baseline.* These adjustments increased the estimate of the FY 2010 baseline shortfall to \$(3.16) billion.

Based on 1<sup>st</sup> Regular Session and 3<sup>rd</sup> Special Session action, the Governor's signing, line-item vetoing, and vetoing of the budget the Legislature approved, resulted in \$2.71 billion of budget solutions, including:

- \$228 million in fund transfers;
- \$816 million in Temporary Federal Assistance associated with Medicaid programs;
- \$311 million in Temporary Federal Assistance from State Fiscal Stabilization Fund monies;
- \$835 million in asset sale/lease-back and prison concession revenues;
- \$111 million in net agency reductions;
- \$250 million from reduced K-12 spending resulting from the restoration of the state equalization tax.

*See page 512 for further details on FY 2010 changes.*

Without the Governor's September 4 vetoes, the budget solutions would have been as follows:

- \$228 million in fund transfers;
- \$816 million in Temporary Federal Assistance associated with Medicaid programs;
- \$311 million in Temporary Federal Assistance from stabilization fund monies;
- \$835 million in asset sale/lease-back and prison concession revenues;
- \$630 million in net agency reductions.

**Comparison to the FY 2009 Budget** – General Fund revenues, including one-time monies, are projected to decrease from \$8.44 billion in FY 2009 to \$8.22 billion in FY 2010. Base ongoing revenues are projected to decrease by just \$(74) million, from \$7.83 billion in FY 2009 to \$7.76 billion in FY 2010. This (0.9)% decrease, however, will be further modified by:

- \$(47) million loss due to enacted tax law and other changes. The primary adjustments are \$(34) million in prior-year tax law changes (including a decrease of \$(29) million for the incremental impact of the third year of implementation of the Corporate Income Tax enhanced sales factor), and \$(13) million for enacted tax law changes (*see Tax Reductions below*).
- \$31 million in revenue changes from FY 2010 budget legislation. This primarily consists of \$45 million in additional revenue from temporary collectors to assist in the collection of already established debt, offset by the redirection of some revenue previously given to the General Fund to dedicated funds, including \$(10) million

in defensive driving surcharges. These redirections generally have offsetting General Fund expenditure reductions for no net General Fund impact.

- \$99 million gain due to decreased contributions to Urban Revenue Sharing pursuant to current law.
- \$(230) million loss in one-time revenues, a decrease from \$1.33 billion to \$1.10 billion. The primary losses are the loss of \$(344) million of one-time FY 2009 School Facilities Board (SFB) bond proceeds, a \$(475) million decrease in fund transfers from \$702 million in FY 2009 to \$228 million in FY 2010, and a loss of a \$150 million Budget Stabilization Fund transfer. These losses are partially offset primarily by \$835 million of proceeds from asset sale/lease-back and prison concessions provisions.

General Fund spending is projected to increase from \$8.41 billion in FY 2009 to \$8.67 billion in FY 2010. Excluding one-time adjustments, permanent spending is expected to decrease by \$(86) million, or (0.9)%, in FY 2010. The largest permanent spending increases include:

- \$359 million for AHCCCS caseload and capitation rate growth.
- \$102 million to the Department of Education for student growth and a 2% per student funding increase.
- \$74 million to the Department of Economic Security for additional spending.
- \$52 million to the Arizona Department of Corrections (ADC) for prisoner growth and new beds.
- \$17 million to the Department of Economic Security for Title XIX caseload growth.
- \$15 million to the Department of Health Services for Title XIX caseload growth.

These increases are offset by decreases throughout state agencies including:

- \$(26) million for using AHCCCS reimbursement rates in the Department of Corrections.
- \$(22) million for using local vehicle license tax (VLT) monies to offset state K-12 funding.
- \$(30) million in additional Department of Health Services reductions.
- \$(50) million from assumed savings associated with enforcement of AHCCCS fraud provisions.
- \$(250) million from reduced K-12 spending resulting from the restoration of the state equalization tax.
- \$(126) million from an assumed reversion of ADE funding in excess of current statutory formulas and projected K-12 enrollment.

One-time adjustments include the following reductions:

- \$(316) million in additional Temporary Federal Assistance savings for enhanced Medicaid matching monies. The budget assumes \$(816) million in savings in FY 2010 compared to \$(500) million in FY 2009.

(See Overview of the American Recovery and Reinvestment Act for more details.)

- \$(61) million in additional Temporary Federal Assistance savings for stabilization fund deposits, primarily in K-12 spending, but also in ADC, DES, DHS, and the Universities. (See Overview of the American Recovery and Reinvestment Act for more details.) The FY 2010 budget included a total of \$(472) million of K-12 “cut and backfill” savings, but only \$(222) million of savings are reflected here because it is unclear when the expenditure of all federal monies will occur. In addition to the \$(222) million K-12 savings, the FY 2010 figure also includes \$(89) million of “cut and backfill” savings in ADC, DES, DHS, and the Universities. The \$(311) million in savings in FY 2010 is \$(61) million greater compared to \$(250) million of K-12-related savings in FY 2009.

- A loss of \$(50) million in statutory reversions accounted for in FY 2009 that will not recur in FY 2010.
- A loss of \$(630) million from one-time K-12 rollover savings.

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

**Tax Reductions** – The FY 2010 budget includes \$(13.4) million in new tax reductions consisting of \$(8.4) million to conform the state income tax to federal changes and \$(5.0) million to eliminate the “baseline year” calculation for the contributions to charitable organizations tax credit. See page 468 for more details.

<b>STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES<sup>1/</sup></b>			
	<b>FY 2009 Enacted</b>	<b>FY 2009 Current</b>	<b>FY 2010 Budgeted</b>
<b>REVENUES</b>			
Balance Forward	\$ 1,000,000	\$ 1,000,000	\$ 32,803,100
Net Ongoing Revenues	7,107,633,600	6,966,898,500	7,116,611,200
One-Time Revenue Adjustments	1,333,821,900	1,280,643,100	1,071,584,300
<b>Total Revenues</b>	<b>\$8,442,455,500</b>	<b>\$8,248,541,600</b>	<b>\$8,220,998,600</b>
<b>EXPENDITURES</b>			
Operating Budget Appropriations	\$9,179,704,900	\$9,179,704,900	\$10,254,743,300
Capital Outlay	2,650,000	2,650,000	10,400,000
Administrative Adjustments	136,000,000	136,000,000	72,731,600
Revertments	(103,902,300)	(103,902,300)	(113,241,600)
Statutory Revertments	(54,800,200)	(50,000,000)	(450,000)
Ad Hoc Revertments <sup>2/</sup>	0	0	(425,909,400)
Temporary Federal Assistance <sup>3/</sup>	(750,000,000)	(500,000,000)	(1,126,691,900)
<b>Total Spending</b>	<b>\$8,409,652,400</b>	<b>\$8,659,652,400</b>	<b>\$ 8,671,582,000</b>
<b>Potential Adjustments<sup>4/</sup></b>	<b>0</b>	<b>(56,086,100)</b>	<b>0</b>
<b>ENDING BALANCE</b>	<b>\$32,803,100</b>	<b>\$(467,196,900)</b>	<b>\$(450,583,400)</b>
<b>ENDING BALANCE with FY 2009 Shortfall</b>			<b>\$(950,583,400)</b>
<sup>1/</sup> The FY 2009 Enacted column reflects the budget as revised in by Laws 2009, 1 <sup>st</sup> Special Session, Chapter 1; Laws 2009, 1 <sup>st</sup> Regular Session, Chapter 1; and Laws 2009, 1 <sup>st</sup> Regular Session, Chapter 5. The FY 2009 Current column reflects the preliminary final FY 2009 estimate as of September 2009.			
<sup>2/</sup> Includes \$(50) million for AHCCCS Fraud, \$(250) million for ADE Equalization Tax, and \$(125.9) million for other ADE revertments.			
<sup>3/</sup> The budget, as transmitted on July 1, included a reduction of \$(250) million in FY 2009 and \$(222) million in FY 2010 due to the receipt of the federal government’s State Fiscal Stabilization Fund monies. In the September 4 <sup>th</sup> budget, this amount was modified to \$(472) million since the FY 2009 savings had not been achieved. Only \$(222) million is reflected in this table, however, as it is unclear when the expenditure of Federal monies will occur. The Governor line item vetoed the fiscal year reference for when these monies would be used.			
<sup>4/</sup> These adjustments may include revisions to administrative adjustments, revertments, statutory revertments, fund transfers, unattainable savings or other budget assumptions.			

**General Fund Balance** – The FY 2010 General Fund cash balance is projected to be \$(951) million. This shortfall has 2 components: the \$(451) million shortfall primarily the result of the Governor’s September 4 vetoes and line-item vetoes and a projected shortfall of \$(500) million from FY 2009. The Legislative plan as transmitted to the Governor in August would have resulted in a FY 2010 cash balance of \$(517) million, consisting of a \$(17) million shortfall for FY 2010 alone, plus a \$(500) million FY 2009 shortfall.

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 \$(2.76) billion in FY 2010. *See page BH-6 for more details.*

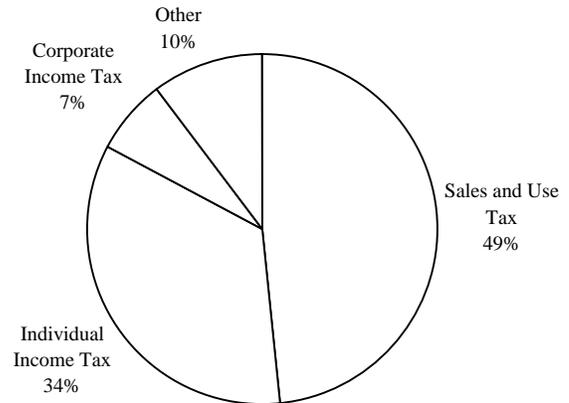
**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 1/  
WITH ONE-TIME FINANCING SOURCES**

	<b>FY 2009 Enacted</b>	<b>FY 2009 Current</b>	<b>FY 2010 Budgeted</b>
<b>REVENUES</b>			
Ongoing Revenues	\$7,835,311,000	\$7,694,575,900	\$7,761,511,300
Enacted Tax Law/Other Changes 2/	0	0	(47,410,000)
Budget Legislation Changes 2/	0	0	31,159,000
Urban Revenue Sharing	(727,677,400)	(727,677,400)	(628,649,100)
Net On-going Revenues	\$7,107,633,600	\$6,966,898,500	\$7,116,611,200
One-time Financing Sources			
Balance Forward	\$1,000,000	\$1,000,000	\$32,803,100
Other Revenue Changes 3/	118,893,300	118,893,300	8,390,600
Prior Year SFB Bond Proceeds	344,000,000	344,000,000	0
Prison Concession Agreement	0	0	100,000,000
State Asset Sale/Lease-Purchase	0	0	735,419,300
Budget Stabilization Fund Transfer	150,000,000	150,000,000	0
Fund Transfers 4/	720,928,600	667,749,800	227,774,400
Subtotal One-time Revenues	\$1,334,821,900	\$1,281,643,100	\$1,104,387,400
<b>Total Revenues</b>	<b>\$8,442,455,500</b>	<b>\$8,248,541,600</b>	<b>\$8,220,998,600</b>
<b>EXPENDITURES</b>			
Operating Budget Appropriations	\$9,761,240,300	\$9,761,240,300	\$10,347,632,400
FY 2009 Supplementals 5/	173,464,600	173,464,600	0
Administrative Adjustments	136,000,000	136,000,000	72,731,600
Revertments	(103,902,300)	(103,902,300)	(113,241,600)
Add'l AHCCCS Fraud Revertment	0	0	(50,000,000)
Add'l ADE Revertment - Equalization Tax Continuation	0	0	(250,000,000)
Add'l ADE Revertment	0	0	(125,909,400)
Subtotal Ongoing Expenditures	\$9,966,802,600	\$9,966,802,600	\$9,881,213,000
One-time Expenditures			
Capital Outlay	\$2,650,000	\$2,650,000	\$10,400,000
Capital Outlay Prior Year Reversions	(4,800,200)	(4,800,200)	(450,000)
Statutory Revertments	(50,000,000)	(50,000,000)	0
Temporary Federal Assistance	(750,000,000)	(500,000,000)	(1,126,691,900) 6/
Payment Deferrals	(125,000,000)	(125,000,000)	(92,889,100)
K-12 Rollover	(630,000,000)	(630,000,000)	0
Subtotal One-time Expenditures	(\$1,557,150,200)	(\$1,307,150,200)	(\$1,209,631,000)
<b>Total Expenditures</b>	<b>\$8,409,652,400</b>	<b>\$8,659,652,400</b>	<b>\$8,671,582,000 6/</b>
<b>Potential Adjustments 7/</b>	\$0	(\$56,086,100)	\$0
<b>Ending Balance 8/</b>	\$32,803,100	(\$467,196,900)	(\$450,583,400)
<b>Ending Balance with FY 2009 Shortfall 9/</b>	--	--	(\$950,583,400)
Ongoing Fund (Structural) Balance 10/	(\$2,859,169,000)	(\$2,999,904,100)	(\$2,764,601,800)

- 1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.
- 2/ See page 468 for details.
- 3/ See page 470 for details.
- 4/ See page 518 for details.
- 5/ See page 545 for details.
- 6/ The budget, as transmitted on July 1, included a reduction of \$(250) million in FY 2009 and \$(222) million in FY 2010 due to the receipt of the federal government's State Fiscal Stabilization Fund monies. In the September 4th budget, this amount was modified to \$(472) million since the FY 2009 savings had not been achieved. Only \$(222) million is reflected in this table, however, as it is unclear when the expenditure of Federal monies will occur. The Governor line item vetoed the fiscal year reference for when these monies would be used.
- 7/ Potential Adjustments may include revisions to administrative adjustments, revertments, statutory revertments, fund transfers, unattainable savings or other budget assumptions.
- 8/ This calculation reflects the difference between total revenues and total expenditures.
- 9/ This calculation reflects the difference between total revenues and total expenditures, including a negative carryover ending balance from FY
- 10/ This calculation reflects the difference between ongoing revenues and expenditures.

## FY 2010 General Fund Revenue - Where it Comes From

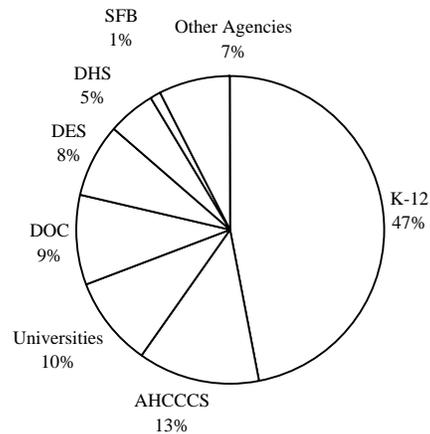
Source	Revenue (Millions)
Sales and Use Tax	\$ 3,744.5
Individual Income Tax	2,656.6
Corporate Income Tax	556.9
Other	787.3
<b>TOTAL REVENUE</b>	<b>\$ 7,745.3 <sup>1/</sup></b>



<sup>1/</sup> Includes all legislative revenue changes, but does not include beginning balance, urban revenue sharing, or other one-time revenue adjustments.

## FY 2010 General Fund Appropriations - Where it Goes

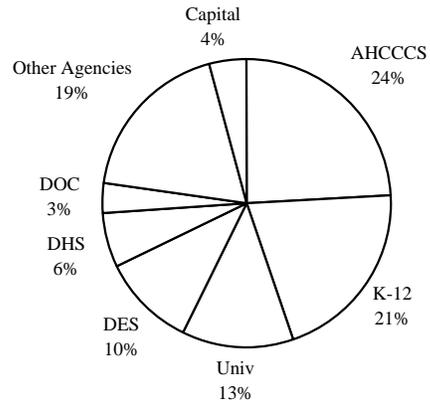
Budget Unit	Appropriation (Millions)
Education (K-12)	\$ 4,398.1
AHCCCS	1,185.7
Universities	901.7
Corrections	879.9
Economic Security	727.2
Health Services	458.2
School Facilities Bd	113.1
Other Agencies	697.3
<b>TOTAL OPERATING BUDGET</b>	<b>\$ 9,361.2 <sup>1/</sup></b>



<sup>1/</sup> Does not include administrative adjustments, revertsments capital, fund backfills and Education Stabilization Fund offsets.

## FY 2010 Total Spending - All Sources <sup>1/</sup>

<u>Budget Unit</u>	Spending (Millions)
AHCCCS	\$ 7,194.9
Education (K-12)	6,108.9
Universities	3,731.6
Economic Security	3,073.0
Health Services	1,891.3
Corrections	986.2
Other Agencies	5,535.2
Capital	1,207.5
<b>TOTAL</b>	<b><u>\$ 29,728.6</u> <sup>2/</sup></b>

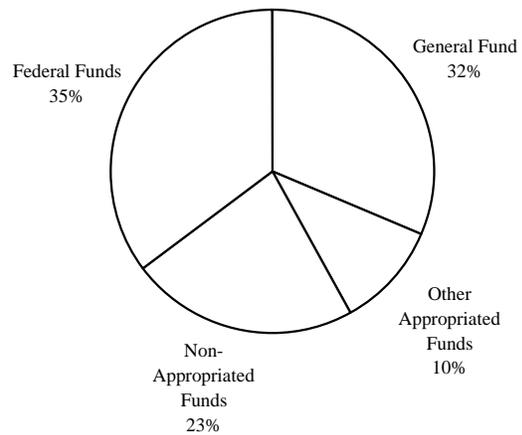


<sup>1/</sup> Does not include administrative adjustments, revertsments, fund transfers, and federal stabilization fund offset.

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

## FY 2010 Total Spending by Fund Source <sup>1/</sup>

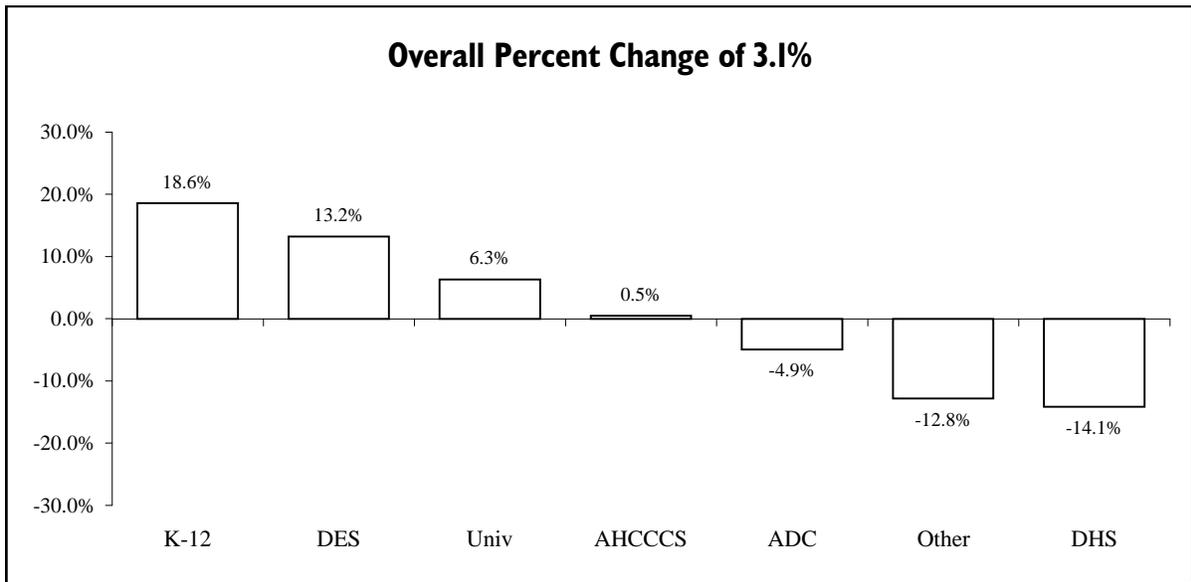
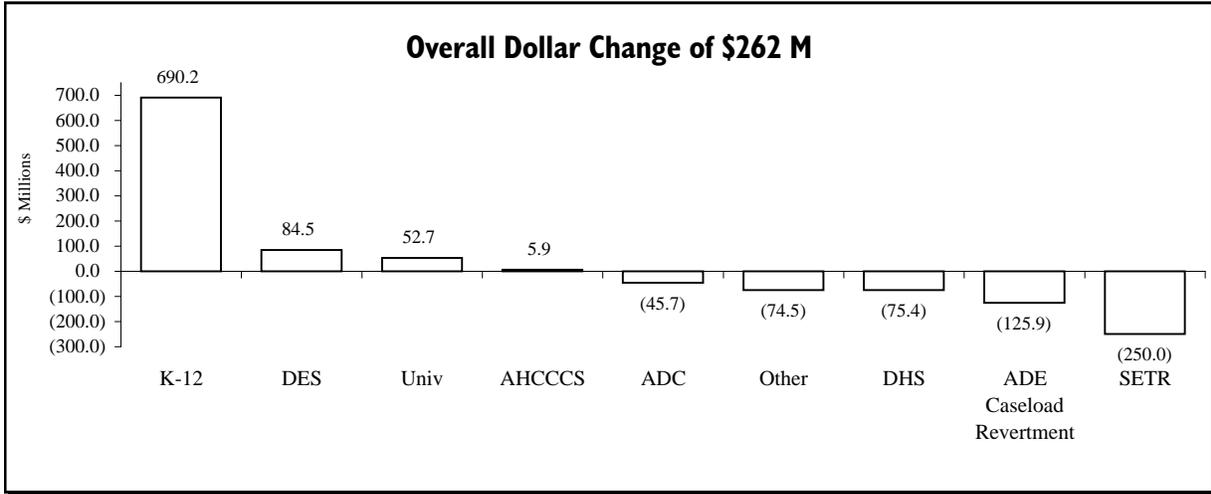
<u>Fund Source</u>	Spending (Millions)
General Fund	\$ 9,372.6
Other Appropriated Funds	3,115.3
Non-Appropriated Funds	6,750.6
Federal Funds	10,490.1
<b>TOTAL</b>	<b><u>\$ 29,728.6</u> <sup>2/</sup></b>



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

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

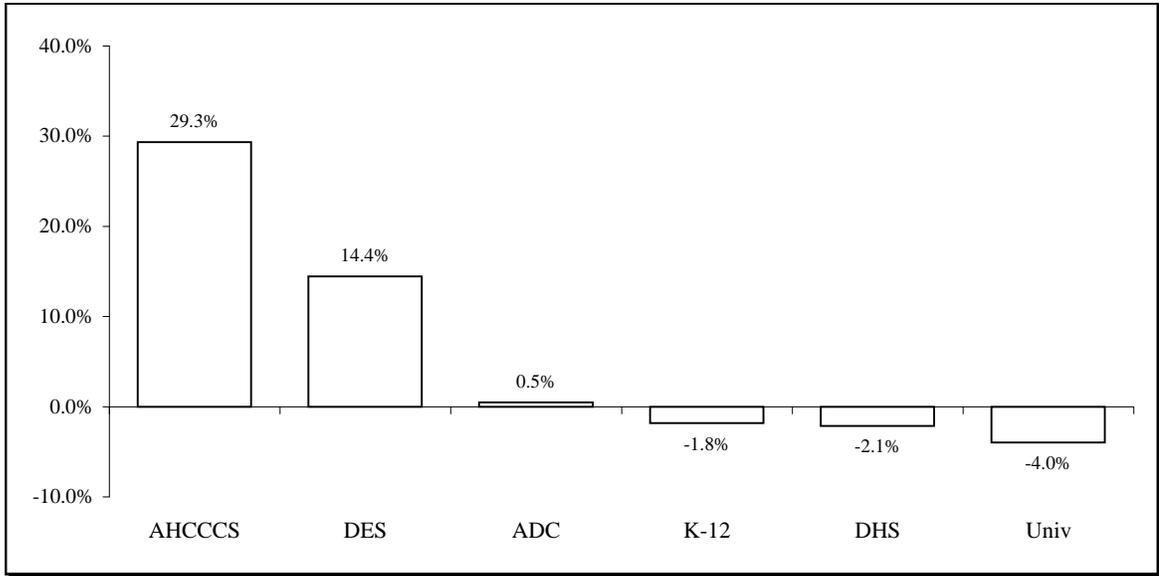
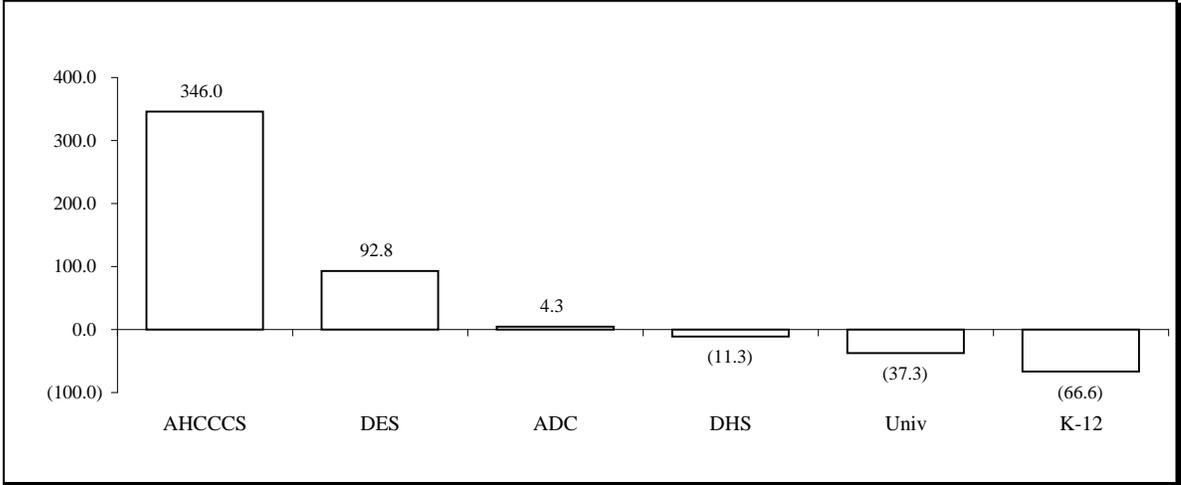
**MAJOR CHANGES TO STATE GENERAL FUND BUDGET**  
**Total Budget Expenditures <sup>1/</sup>**  
**FY 2009 to FY 2010**



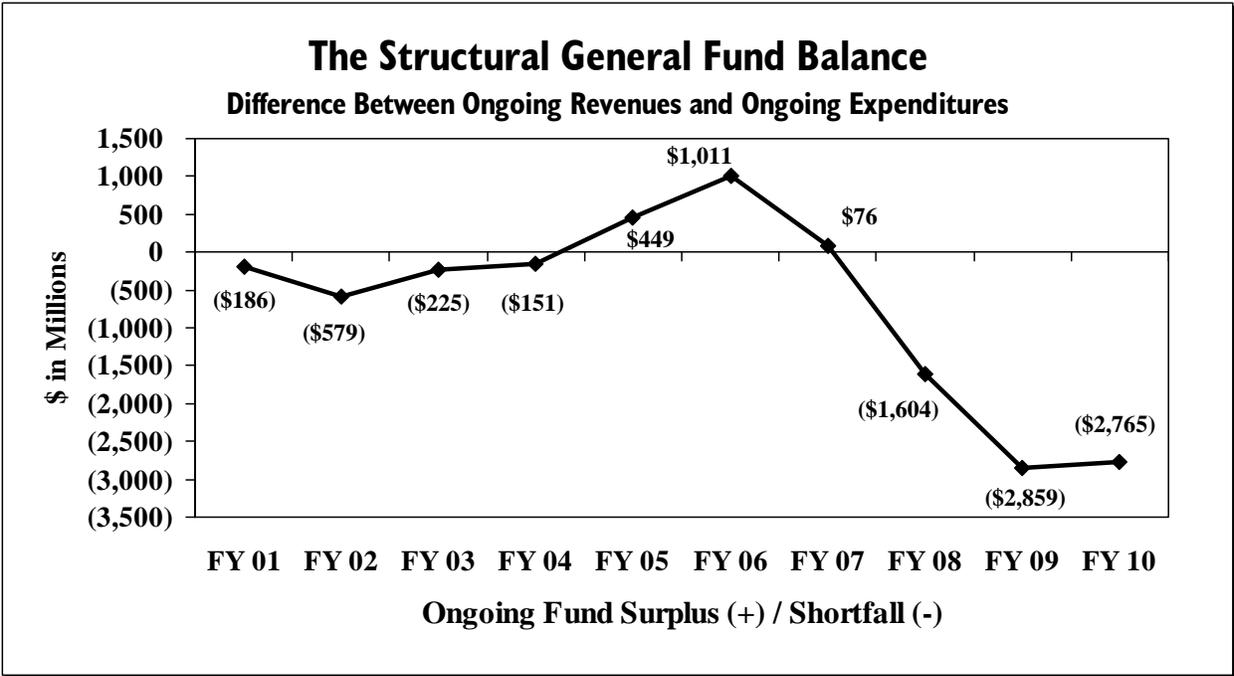
<sup>1/</sup> Represents change in operating budget appropriations from FY 2009 (including supplementals) to FY 2010. Excludes Education Stabilization Fund offsets. See pg. BD-10.

**CHANGES TO MAJOR AGENCIES' GENERAL FUND BUDGET  
FY 2009 to FY 2010**

**Excludes Federal Offsets, Local Fund Shifts, and Rollovers <sup>1/</sup>**



<sup>1/</sup> Represents change in operating budget appropriations from FY 2009 (including supplementals) to FY 2010, but excludes one-time savings associated with rollovers, ARRA, and local fund shifts. Includes ADE caseload reversion.



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

(\$ in Millions)

Fiscal Year	Ongoing Revenues	Ongoing Expenditures	Surplus/ (Shortfall)
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	8,765	10,369	(1,604)
2009	7,108	9,967	(2,859)
2010	7,117	9,881	(2,765)

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

## **FY 2010 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY**

- The narrative below outlines significant changes made by the FY 2010 budget. The reduction amounts reflect changes as compared to the enacted FY 2009 budget, as revised in the 1<sup>st</sup> Special Session, 1<sup>st</sup> Regular Session, and 3<sup>rd</sup> Special Session.

### **General Fund Revenues**

- FY 2009 base revenues declined by (18.2)% prior to tax law changes. Including one-time revenues, FY 2009 revenues were \$8.25 billion, which was \$(1.73) billion below the originally enacted FY 2009 budget.
- FY 2010 General Fund revenue is projected to be \$8.22 billion. FY 2010 ongoing base revenues are projected to increase 0.9% above FY 2009 preliminary actual collections. (Page 467)
- The budget uses \$1.10 billion in one-time financing sources, including:
  - ⇒ \$735.4 million as a result of the sale and simultaneous lease-purchase of existing state-owned facilities, including prison facilities.
  - ⇒ \$100 million in an upfront payment to the state as a result of a concession agreement allowing private vendors to operate Arizona State Prison Complex(s).
  - ⇒ \$227.8 million in fund transfers.
- Tax law changes will reduce ongoing revenue by an estimated \$(47.4) million in FY 2010 relative to FY 2009.
- The enacted budget includes a net \$31.2 million in new ongoing non-tax revenue changes.

### **General Fund Spending**

- FY 2010 General Fund spending is projected to be \$8.67 billion.
- FY 2010 General Fund spending will increase by \$261.9 million, or 3.1% from the enacted FY 2009 budget, as revised in the 1<sup>st</sup> Special Session, 1<sup>st</sup> Regular Session and 3<sup>rd</sup> Special Session. Based on the current estimate of FY 2009 spending, which is greater than previously projected, the increase would be \$11.9 million, or 0.1%.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be \$29.0 billion.

### **Governor Vetoes**

- As transmitted to the Governor on August 20, the budget was essentially balanced. The Governor vetoed the General Revenue Budget Reconciliation Bill (BRB) and line item vetoed revisions in the Arizona Department of Education (ADE) and Department of Economic Security (DES) budgets, which eliminated \$464.0 million in budget savings and resulted in an unbalanced budget. The vetoes had the following impacts:
  - ⇒ Increased DES spending by \$177.0 million.
  - ⇒ Increased ADE spending by \$359.4 million, including the net impact of revertsments.
  - ⇒ Reduced General Revenue BRB savings by \$182.6 million.
  - ⇒ Reduced ADE spending by \$250 million by vetoing the permanent repeal of the State Equalization Tax, which will increase local revenues to the K-12 system.

### **General Fund Balances**

- The FY 2009 enacted budget revision originally assumed a \$32 million surplus. Due to declining revenues and technical changes relating to Arizona's receipt of federal assistance, the FY 2009 ending balance has declined \$(500) million and is now projected to be \$(467.2) million. The Arizona Constitution requires that any deficit from the prior year be carried forward to the following fiscal year.
- Given FY 2010 revenues of \$8.22 billion and spending of \$8.67 billion, the budget as enacted with vetoes had a projected FY 2010 deficit of \$(450.6) million. Because of the \$(500) million decline in the FY 2009 ending balance, the FY 2010 ending balance is now estimated to be \$(950.6) million.
- The state's fiscal condition is also evaluated by the comparison between the state's permanent ongoing revenues and permanent ongoing spending. Due to the use of one-time measures in the FY 2010 budget package, the FY 2010 structural shortfall is estimated to be \$(2.76) billion.

### **Budget Stabilization Fund**

- The Budget Stabilization Fund has no remaining balance.

### **Urban Revenue Sharing**

- Urban Revenue Sharing (URS) distributions for FY 2010 will total \$629 million. By statute, URS is based on 15% of income tax collections 2 years prior. This amount is a reduction of \$(99) million compared to FY 2009 due to the substantial decline in income tax revenues.

### American Recovery and Reinvestment Act (ARRA)

- ARRA allocated approximately \$4.3 billion to Arizona, of which \$1.1 billion is used to achieve direct budget savings in FY 2010, including:
  - \$(816) million from higher federal Medicaid match rates, which reduces the budgets for the Arizona Health Care Cost Containment System (AHCCCS), DES and the Department of Health Services (DHS). The state also budgeted \$(500) million in FY 2009 savings from the higher match rates.
  - \$(232) million due to the receipt of the federal government's Education State Fiscal Stabilization Fund, which will permit reductions of \$(222) million for ADE and \$(10) million for the Universities.
    - ⇒ The enacted budget includes a \$(472) million reduction for ADE rather than \$(222) million, but it is uncertain whether all of these funds can be used to offset FY 2010 expenses.
  - \$(79) million due to the receipt of the federal government's Government Services Fund, which will permit reductions of \$(50) million for the Department of Corrections, \$(17) million for the DES and \$(12) million for DHS. In addition, another \$26 million is expected to be set aside for unfunded caseload growth in DES. Another \$80 million of Government Services funds remain unallocated in the budget.
- In addition, the Universities and Community Colleges are expected to receive \$154 million and \$29 million, respectively, in FY 2010 from the Education Stabilization Fund to compensate for prior year reductions.

### Education

#### **Department of Education (Page 155)**

- The FY 2010 budget includes a \$690.2 million General Fund increase above FY 2009. After excluding one-time rollover adjustments and the expected caseload reversion, the net decrease is \$(66.6) million.
- The budget includes the following adjustments:
  - ⇒ \$330.9 million to offset one-time FY 2009 K-12 rollover savings. The budget continues to defer \$602.6 million in school district payments from FY 2010 to FY 2011.
  - ⇒ \$300.0 million to restore one-time "cash balances" reduction from FY 2009.
  - ⇒ \$102.1 million for 2% base level increase.
  - ⇒ \$(11.2) million for no Early Kindergarten repeater funding.
  - ⇒ \$(5.0) million for Displaced or Disabled Student Vouchers (ruled unconstitutional).
  - ⇒ \$(4.9) million for lump sum reductions.
- The \$690.2 million change does not include an estimated \$(125.9) million in net savings from formula reductions and other factors, savings which ADE is expected to revert and a \$(250.0) million reversion from the restoration of the State Equalization Tax Rate. Suspended since FY 2007, this property tax automatically resumes in FY 2010. By generating \$250 million in new local property tax funds, ADE's General Fund requirements will decline by a corresponding amount.
- In addition, Basic State Aid and Additional State Aid is reduced by \$(472.1) million in FY 2010 with the intent that this reduction be backfilled with monies from ARRA. It is not known by how much or when this reduction will be backfilled.
- The budget includes an estimated average daily membership (ADM) count of 1,045,800.

#### **School Facilities Board (Page 372)**

- The FY 2010 budget includes \$25.3 million in General Fund spending increases to the School Facilities Board:
  - ⇒ A \$(4.0) million reduction to fund Building Renewal Grants at \$3.0 million.
  - ⇒ A \$29.4 million increase to pay the debt service for the FY 2009 authorized lease-purchase agreement of \$580 million.
  - ⇒ A \$(100,000) lump sum reduction.
- The budget continues the new construction moratorium begun in FY 2009.

#### **Universities (Page 401)**

- The FY 2010 budget includes a \$52.7 million increase in General Fund spending to the Universities. Not including federal assistance and payment deferral savings, the budget includes a net decrease in University spending of \$(37.3) million. In addition, the Universities will receive a one-time payment of \$154.1 million in federal Fiscal Stabilization Fund monies that were allocated for FY 2009 and will be distributed in FY 2010, with another payment anticipated next year.
- The budget includes the following adjustments:
  - ⇒ \$100.0 million to offset one-time FY 2009 University rollover savings. The budget continues to defer \$100.0 million in University payments from FY 2010 to FY 2011.
  - ⇒ A \$(40.0) million lump sum reduction allocated by university.

- ⇒ An additional \$(10.0) million General Fund reduction which is dependent on the state receiving federal assistance. The budget requires the Arizona Board of Regents to distribute this reduction to the Universities in proportion to the General Fund support they receive.
- University formula enrollment is projected to be 118,091 full-time equivalent students in FY 2010.

#### **Community Colleges (Page 80)**

- The FY 2010 budget includes a \$(3.3) million decrease in General Fund spending to the Community Colleges. In addition, the Community Colleges will receive a one-time payment of \$28.7 million in federal Fiscal Stabilization Fund monies that were allocated for FY 2009 and will be distributed in FY 2010, with another payment anticipated next year.
- The budget includes \$(10.8) million in General Fund spending reductions:
  - ⇒ \$(9.2) million operating state aid reduction.
  - ⇒ \$(1.7) million decrease reflecting the statutory elimination of the districts' hold harmless provision.
- The budget includes an increase of \$7.5 million to the Community Colleges for baseline changes:
  - ⇒ A \$1.1 million statutory formula increase in operating state aid for enrollment growth.
  - ⇒ A \$6.9 million statutory formula increase in equalization aid.
  - ⇒ A \$(500,000) decrease in one-time capital monies.
- Community College formula enrollment is projected to be 118,434 full-time student equivalents.

#### **Health and Welfare**

#### **AHCCCS (Page 26)**

- The budget includes an increase of \$5.9 million in General Fund spending for FY 2010. Not including federal assistance and payment deferral savings, the budget includes a net increase in AHCCCS spending of \$346.0 million.
- The budget includes an increase of \$358.9 million to AHCCCS for baseline changes:
  - ⇒ \$336.5 million for a 10.7% caseload increase, which would fund 1.39 million participants.
  - ⇒ \$22.4 million for a 1.5% capitation rate increase. This amount reflects inflation and utilization.
- The budget includes \$(12.8) million in General Fund spending reductions:
  - ⇒ \$(5.5) million for the elimination of KidsCare Parents beginning on October 1, 2009.
  - ⇒ \$(7.3) million in other agency reductions.
- The budget includes a reduction of \$(222.2) million, which will be backfilled with enhanced federal Medicaid matching rate monies from ARRA. This figure represents the incremental increase in savings from \$(359.6) million in FY 2009 to \$(581.9) million in FY 2010.
- The budget includes a reduction of \$(117.9) million for deferred health plan payments to FY 2011.

#### **Department of Health Services (Page 222)**

- The budget includes a decrease of \$(75.4) million in General Fund spending in FY 2010. Not including federal assistance savings, the budget includes a net decrease in DHS spending of \$(11.4) million.
- The budget includes \$17.9 million in General Fund spending increases:
  - ⇒ \$36.8 million to fund statutory caseload growth for the Title 19 Behavioral Health Services program. Caseloads are projected to grow by 9.0%.
  - ⇒ A \$(19.9) million decrease for one-time behavioral health spending which was not continued into FY 2010.
- The budget includes \$(29.3) million in General Fund spending reductions:
  - ⇒ \$(20.9) million agencywide lump sum reduction.
  - ⇒ \$(4.5) million to shift Assurance and Licensure costs onto the new Health Services Licensing Fund.
  - ⇒ \$(3.5) million to require that all cities and counties pay costs associated with Sexually Violent Person and Restoration to Competency treatment.
  - ⇒ \$(1.0) million to reduce Alzheimer's Research Funding.
- The budget includes a reduction of \$(11.6) million to Community Health Centers, which will be backfilled with the ARRA Government Services Stabilization Fund.
- The budget includes a temporary reduction of \$(52.5) million, which will be backfilled with enhanced federal Medicaid matching rate monies from the federal stimulus. This figure represents the incremental increase in savings from \$(80.7) million in FY 2009 to \$(133.2) million in FY 2010.

#### **Department of Economic Security (Page 116)**

- The budget includes an increase of \$84.5 million in General Fund spending for FY 2010. Not including federal assistance and payment deferral savings, the budget includes a net increase in DES spending of \$92.4 million.

- The budget includes an increase of \$77.3 million to restore reductions vetoed by the Governor.
- The budget includes \$(9.8) million in General Fund spending reductions to continue reductions approved in the FY 2009 midyear revisions and for annualization of FY 2009 reductions, including drug testing of Temporary Assistance for Needy Families (TANF) Cash Benefits recipients, elimination of the Summer Youth Employment and Training program, and for reductions to the Children Services program.
- The budget includes a net increase of \$24.7 million for baseline adjustments:
  - ⇒ \$17.5 million for 1,159 new clients, or 5.5% in the Title 19 Developmental Disabilities Long Term Care program. Payments will not increase for inflation. The total funded caseload is 22,448.
  - ⇒ \$6.2 million to restore a FY 2009 reduction to the Division of Developmental Disabilities and \$9.4 million to continue a FY 2009 supplemental appropriation.
- The budget includes a net increase of \$50 million to eliminate a payment deferral.
  - ⇒ Restores \$25 million to eliminate the payment deferral from FY 2009 to FY 2010 and adds a one-time appropriation of \$25 million to repay the FY 2009 decrease in FY 2010.
  - ⇒ A \$(42) million decrease to allow DES to pay for services rendered in June 2010 with the FY 2011 appropriation was vetoed by the Governor.
- The budget includes a reduction of \$(41.0) million, which will be backfilled with enhanced federal Medicaid matching rate monies from the federal stimulus. This figure represents the incremental increase in savings going from \$59.6 million in FY 2009 to \$100.6 million in FY 2010.
- The budget also includes \$(17.3) million in General Fund spending reductions for autism programs and for state-only developmental disabilities services that the Executive plans to backfill with the ARRA Government Services Stabilization Fund.
- The budget also included footnotes indicating the Legislature's intent that \$26.0 million of these Government Services monies be used for funding increases to Child Protective Services, Children Services, and Adoption Services. These footnotes were vetoed by the Governor.

### Criminal Justice

#### **Department of Corrections (Page 93)**

- The budget includes a decrease of \$(45.7) million in General Fund spending for FY 2010. Not including federal assistance savings, the budget includes a net increase in ADC spending of \$4.3 million.
- The budget includes an increase of \$57.8 million to ADC for baseline changes:
  - ⇒ \$26.2 million for population growth, healthcare, and other adjustments.
  - ⇒ \$16.7 million for lease-purchase payments associated with the \$200 million financing of 4,000 state beds authorized by the 2007 Legislature.
  - ⇒ \$14.9 million for costs associated with existing and new provisional and private beds.
- The FY 2010 budget includes \$(57.1) million in General Fund spending reductions to the ADC:
  - ⇒ \$(26.0) million from utilizing the AHCCCS rate structure for health care services.
  - ⇒ \$(31.1) million lump sum reduction.
- The budget also includes a temporary reduction of \$(50.0) million, which will be backfilled with ARRA Government Services Stabilization Fund monies.
- The budget funds 151 net new inmates per month and a FY 2010 year-end inmate population of 43,224. The budget defers the opening of 4,000 previously authorized state beds until FY 2011 and phases-in the opening of 1,250 of 2,000 private beds in FY 2010.

#### **Judiciary (Page 266)**

- The budget includes a decrease of (1.4) million in General Fund spending for the Judiciary in FY 2010.
- The budget includes an increase of \$1.6 million to the Judiciary for baseline changes, primarily for judicial salary increases.
- The FY 2010 budget includes \$(4.7) million in General Fund spending reductions to the Judiciary.

### Capital Outlay

- The budget includes \$10 million in General Fund monies for a Southern Arizona Veteran's Home. These funds are conditional upon receipt of a federal grant providing 65% of the total cost of the facility from the U.S. Department of Veterans Affairs.

### State Employee Issues

#### **FTE Positions (Page BD-17 & 480)**

- The budget eliminates 3,293.6 Full-Time Equivalent (FTE) Positions, essentially to account for FY 2009 expenditure reductions. This (6.3)% decrease would bring total appropriated FTE Positions to 49,126.7.

- The budget requires that every General Fund supported agency, board, commission, or other state entity to reduce its number of FTE Positions by 5% on or before February 1, 2010.

**Employee Pay and Salary Issues** (*Page 481 & 486*)

- The budget excludes funding for new state employee pay increases.
- The budget includes \$15.0 million for the employer share of health insurance and retirement costs.