

GENERAL FUND REVENUE

Summary of General Fund Forecast

The enacted March 2010 budget for FY 2011 assumes total net General Fund revenues of \$8.56 billion. This amount constitutes an increase of 8.8% compared to enacted FY 2010 General Fund revenues.

Base revenues represent ongoing General Fund revenues, exclusive of tax law and revenue changes, one-time revenue adjustments, and any balance forward from the previous fiscal year. For FY 2011, base revenues are projected to increase 4.3% when compared to forecasted FY 2010 revenues. The detailed enacted budget revenue forecasts appear at the end of this section. *Table 7* compares the enacted FY 2011 forecast to the enacted FY 2010 forecast.

General Fund Base Revenue Forecast

FY 2010

The original FY 2010 budget was based on total net revenues of \$8.22 billion. Excluding one-time revenues and Urban Revenue Sharing, ongoing base revenues were projected at \$7.75 billion, or a decline of (0.9)% without enacted tax law changes. Based on the January revisions for the FY 2011 JLBC Baseline, the decline accelerated to (10.5)%. The primary reason for the \$(882) million reduction was a continued substantial drop-off in revenue collections in all of the major revenue categories during the first half of the fiscal year.

As enacted in March, the FY 2010 revised budget was based on a base revenue forecast of \$6.97 billion, excluding any new financing sources. This \$103 million increase above the JLBC Baseline matched the Executive's forecast.

The revised FY 2010 budget forecast reflects a (9.2)% decrease in base revenues compared to FY 2009. By way of comparison, the April "four-sector" consensus forecast predicted a base decrease of (10.7)% (see FY 2011 section for more information on the four-sector consensus process). See *Table 1* below for FY 2010 consensus estimates. The table includes consensus estimates from January 2010 and updated estimates from April 2010, as well as the budget forecast enacted in March.

FY 2011

The January FY 2011 JLBC Baseline estimated total net revenues of \$6.88 billion for FY 2011. Excluding one-time revenues and Urban Revenue Sharing, the ongoing revenues were projected at \$7.22 billion. This amount reflected a base increase of 5.1% compared to FY 2010.

Table 1

FY 2010 Quartile Forecast Percentages Base Revenue ^{1/}

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales Tax					
January	(11.0)%	(12.5)%	(8.3)%	(9.0)%	(10.2)%
April	(10.4)%	(15.1)%	(13.8)%	(11.4)%	(12.7)%
Budget	N/A	N/A	N/A	N/A	(8.3)%
Individual Income Tax					
January	(6.6)%	(2.8)%	6.6%	(10.8)%	(3.4)%
April	(7.8)%	(5.9)%	0.8%	(8.0)%	(5.2)%
Budget	N/A	N/A	N/A	N/A	(6.1)%
Corporate Income Tax					
January	(26.5)%	(24.3)%	(16.5)%	(30.0)%	(24.3)%
April	(30.2)%	(23.7)%	(21.6)%	(40.6)%	(29.0)%
Budget	N/A	N/A	N/A	N/A	(30.0)%
Overall ^{2/}					
January	(10.7)%	(9.9)%	(3.5)%	(10.8)%	(10.5)%
April	(11.1)%	(12.4)%	(9.0)%	(12.6)%	(10.7)%
Budget	N/A	N/A	N/A	N/A	(9.2)%

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

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

The JLBC's FY 2011 estimated growth rates for the "Big 3" revenue categories (sales tax, individual income tax, and corporate income tax) were initially developed and revised using a four-sector consensus process. This process is based on averaging the results of the following 4 forecasts:

- The Finance Advisory Committee (FAC) panel forecast. This independent panel consists of 15 public and private sector economists that meet 3 times a year to provide the Legislature with guidance on the status of the Arizona economy.
- The University of Arizona Economic and Business Research (EBR) General Fund base model. The model is a simultaneous-equation model consisting of over 100 equations which are updated on an ongoing basis to accommodate changes in the economy. The model uses over 200 variables related to Arizona's economy and is updated quarterly.
- EBR's conservative forecast model, and
- JLBC Staff projections.

The growth rates for the Big 3 categories used in the development of the JLBC revenue estimates from each sector of the forecast are detailed in *Table 2* below. As with the FY 2010 table in the prior section, the table includes consensus estimates from January 2010 and updated estimates from April 2010, as well as the budget forecast enacted in March. The January 2010 four-sector

consensus estimate was the basis of the January JLBC Baseline.

	FAC	UA Low	UA Base	JLBC	Avg
Sales Tax					
January	3.9%	2.6%	7.5%	4.6%	4.7%
April	3.7%	1.8%	4.6%	3.4%	3.4%
Budget	N/A	N/A	N/A	N/A	4.7%
Individual Income Tax					
January	5.8%	0.9%	6.5%	6.3%	4.9%
April	4.5%	3.4%	10.9%	5.7%	6.1%
Budget	N/A	N/A	N/A	N/A	2.9%
Corporate Income Tax					
January	7.6%	17.8%	28.0%	14.6%	17.0%
April	9.5%	(16.9)%	(22.5)%	12.5%	(4.4)%
Budget	N/A	N/A	N/A	N/A	17.0%
Overall ^{2/}					
January	4.9%	3.0%	8.6%	5.9%	5.1%
April	4.4%	1.0%	5.2%	4.8%	3.4%
Budget	N/A	N/A	N/A	N/A	4.3%

^{1/} Prior to any tax law or other revenue changes.
^{2/} Includes JLBC Staff estimates for other revenue categories.

The FY 2011 estimate for the remaining revenue categories, which constitute about 10% of the total, was based on JLBC Staff estimates.

The enacted FY 2011 budget included a General Fund base revenue estimate of \$7.26 billion. This estimate reflects a base growth of 4.3% relative to forecasted FY 2010 revenues and matches the Executive's revised estimate for FY 2011. While the budget growth rate was lower than the JLBC Baseline, the higher FY 2010 base resulted in net new revenues of \$44 million above baseline.

Table 3 below summarizes the changing revenue picture for FY 2010 and FY 2011 through the phases of budget development. The growth rates in the table reflect ongoing base revenues.

	% Change
FY 2010	
Adopted FY 2010 Budget (September 09) <i>(compared to forecasted 09 revenues)</i>	(0.9)%
Adopted FY 2010 Budget (September 09) <i>(compared to actual 09 revenues)</i>	0.9%
JLBC Baseline (January) ^{1/}	(10.5)%
Enacted FY 2011 Budget (March) ^{1/}	(9.2)%
FY 2011	
4 - Sector Consensus (January)	5.1%
Enacted FY 2011 Budget (March)	4.3%

^{1/} Percentage change restated from earlier documents due to technical adjustments.

Revenue Adjustments

Table 8 at the end of this section provides a summary of FY 2010 and FY 2011 tax law and other revenue changes.

Table 4 below provides an overview of base revenue growth rates for FY 2010 and FY 2011 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in Table 5) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on the enacted FY 2011 budget.

	FY 2010	%	FY 2011	%
Base Revenue	\$6,967.4 ^{1/}	(9.2)%	\$7,263.9	4.3%
Ongoing Budget Legislation	21.5		66.1	
TPT Increase – May Ballot			918.0	
First Things First – November Ballot			60.0	
Urban Revenue Sharing	(628.6)		(474.0)	
One-Time Financing Balance Forward	(480.7)		48.3	
Budget Legislation	<u>1,985.9</u>		<u>676.5</u>	
Adjusted Revenue	<u>\$7,865.4</u>	(4.6)%	<u>\$8,558.9</u>	8.8%

^{1/} \$(16.2) million in tax law and revenue changes from the original FY 2010 budget are included in FY 2010 base. The FY 2010 decline of (9.2)% excludes these changes.

Ongoing Budget Legislation

Each year there are statutory tax law and other revenue changes that impact the state’s revenue collection base. These may include tax rate or tax exemption changes, conformity to federal tax law changes, or the implementation of programs that affect revenue collections.

FY 2010

Laws 2009, 4th Special Session, Chapter 3 provides that \$5.3 million in pari-mutuel revenues be distributed to the General Fund in FY 2010. Additionally, Chapter 3 also redirects two-thirds of the fees collected for the annual report of corporations from the General Fund to the Public Access Fund, which reduces General Fund revenues by \$(2.6) million in FY 2010. Thus, the 2 aforementioned provisions under Chapter 3 will result in a General Fund net gain of \$2.7 million in FY 2010.

Laws 2010, 7th Special Session, Chapter 12 provides that \$18.8 million in state lottery monies allocated to the County Assistance Fund, Local Transportation Assistance Funds I and II, and State Parks Board Heritage Fund for FY 2010 be deposited into the state General Fund.

As shown in *Table 4* above, ongoing budget legislation is expected to result in a total of \$21.5 million in net new General Fund revenues in FY 2010.

FY 2011

For FY 2011, ongoing budget legislation is expected to provide additional General Fund revenues of \$66.1 million. *Table 5* below provides a summary of budget legislation changes with ongoing revenue impacts in FY 2011.

Prior Year Changes

In addition to the tax law and revenue changes enacted during the past legislative session, the following changes (as described below) were enacted in prior sessions and will have an impact on FY 2011 revenue collections.

Phoenix Convention Center – Laws 2003, Chapter 266 established the state’s obligation to pay the debt service and related costs on \$300 million of construction bonds for the Phoenix Convention Center \$600 million expansion project. The state’s obligation begins in the fiscal year after the Certificate of Completion for the project is filed with the State Treasurer.

The Certificate of Completion was filed with the Treasurer on March 25, 2009. The state’s obligation is for \$5 million the first year (FY 2010), increasing to \$10 million the second year, \$15 million the third year, \$20 million the fourth year, then increasing by \$500,000 per year up to a maximum of \$30 million per year until the debt service and related costs are retired. This means that the General

<u>Prior Year Changes (Year Enacted)</u>	
Phoenix Convention Center (03)	\$ (5.0)
Contributions to Charities (09)	(0.9)
Solar Tax Credit (09)	(5.0)
BRITS Shift (09)	2.0
Treasurer’s Management Fees (09)	<u>(2.5)</u>
Subtotal	\$ (11.4)
<u>New Tax Law Changes</u>	
Out-of-State Proportionality	\$ 22.0
STO Inflation Adjustments	(0.6)
STO Deadline Extension	(2.5)
Refundable R&D Credit	(5.0)
IRC Conformity	<u>--^{1/}</u>
Subtotal	\$ 13.9
<u>Other New Revenue Changes</u>	
DOR Auditors/Collectors	\$ 7.7
DOR Revenue Generating Programs	15.3
Lottery Decrease (Debt Service)	(21.6)
Lottery Distribution Change	49.6
Abandoned Vehicle Fees	12.1
Property Tax – Class 3 Reform	<u>0.5</u>
Subtotal	\$ 63.6
Total – FY 2011 Revenue Impact	<u>\$ 66.1</u>
^{1/} Legislation is expected to have a minimal impact.	

Fund will incur a revenue loss of \$(5.0) million in FY 2011 over and above the loss in FY 2010.

Contributions to Charitable Organizations – Laws 2009, Chapter 80 eliminated the requirement for a taxpayer to establish a baseline year to qualify for the tax credit for cash contributions to charitable organizations that provide assistance to the working poor. This provision is estimated to reduce individual income tax revenues by \$(5.0) million in FY 2010, \$(5.9) million in FY 2011, and \$(7.0) million in FY 2012. This means that the General Fund will incur a revenue loss of \$(0.9) million in FY 2011 over and above the \$(5.0) million loss in FY 2010.

Solar Tax Credit – Laws 2009, Chapter 96 created income and property tax incentives for qualifying renewable energy companies that build headquarter or manufacturing facilities in the state from tax year 2010 to 2014. An income tax credit is allowed for up to 10% of the capital investment, with an aggregate ceiling of \$70 million annually. The credit is expected to reduce General Fund revenues by \$(5.0) million in FY 2011.

BRITS Shift – Laws 2009, 4th Special Session, Chapter 3 authorized the Department of Revenue (DOR) to use up to \$2.0 million of General Fund revenues in FY 2010 to pay for Business Reengineering/Integrated Tax System (BRITS) operational support costs. For FY 2011, however, the General Appropriation Act provides a direct General Fund appropriation of \$2.0 million to DOR for

this purpose. Since DOR will receive a \$2.0 million appropriation in FY 2011 as opposed to paying BRITS costs directly from General Fund revenues, the \$2.0 million constitutes a revenue increase in FY 2011.

Treasurer's Management Fees – Laws 2009, Chapter 89 authorized the Treasurer to use a portion of the management fees on invested funds for their operating budget. Prior to this change, all management fees were deposited into the General Fund. This had the effect of shifting \$2.5 million of the Treasurer's operating budget from the General Fund to management fees. As a result, there will be a General Fund revenue decrease of an equal amount in FY 2011.

New Tax Law Changes

In the 2010 Session, the Legislature enacted the following ongoing tax law changes.

Out-of-State Proportionality – Laws 2010, 6th Special Session, Chapter 3 requires that nonresident individual income taxpayers prorate their standard deduction based on the ratio of their Arizona Gross Income to their Federal Adjusted Gross Income. The act is estimated to increase General Fund revenues by \$22.0 million in FY 2011.

STO Inflation Adjustments – Laws 2010, Chapter 293 provides that the maximum amount of the individual income tax credit for donations to school tuition organizations (STO) be adjusted for inflation each year. The act, which also prohibits taxpayers from swapping donations with others for the benefit of their dependents, is estimated to reduce General Fund revenues by \$(0.6) million in FY 2011.

STO Deadline Extension – Laws 2010, Chapter 188 allows a donation made to a school tuition organization (STO) between the close of the tax year and the individual income tax filing deadline to be applied to either the current or preceding tax year for the purpose of claiming the individual income tax credit. This act is estimated to result in a General Fund revenue decrease of \$(2.5) million in FY 2011.

Refundable R&D Credit – Laws 2010, Chapter 312 changes the individual and corporate income tax credit for Research and Development (R&D) from being nonrefundable to refundable for those companies that employ less than 150 full-time employees. Specifically, the act provides that such taxpayers receive a refund equal to 75% of the amount by which the credit exceeds their liability. The credit has an aggregate cap of \$5 million annually and is effective retroactively from January 1, 2010. The refundable credit is expected to reduce General Fund revenues by \$(5.0) million in FY 2011.

Internal Revenue Code Conformity – Laws 2010, Chapter 176 conforms Arizona Revised Statutes to the federal Internal Revenue Code in effect as of January 1, 2010 (as

well as provisions enacted retroactively for previous tax years) with the exception for the following federal provisions:

- Suspension of Tax on Unemployment Compensation – excludes up to \$2,400 of unemployment compensation from federal gross income in tax year 2009.
- New Car Deduction – provides an income tax deduction for sales taxes paid in 2009 on the purchase of a new vehicle.
- Net Operating Loss Carryback for Small Businesses – provides a 5-year carryback of 2008 net operating losses for businesses with \$15 million or less in gross receipts.
- Net Operating Loss Carryback for All Businesses – provides a 5-year carryback of 2008 or 2009 net operating losses for all businesses.
- Delay of Tax on Cancellation of Debt Income – allows businesses with cancellation of debt income in 2009 and 2010 to defer payment of tax for 5 years.
- 2010 Contributions Related to Haiti Earthquake – allows cash contributions made in the first 2 months of calendar year 2010 for the relief of Haiti earthquake victims to be treated as if they were made in the 2009 for income tax purposes.

According to estimates provided by DOR, full conformity would have resulted in a General Fund revenue loss of \$(138.5) million in FY 2010 and \$(30.3) million in FY 2011. With these exclusions, the bill's estimated impact is expected to be minimal.

Other New Revenue Changes

As shown in *Table 5* above, the enacted budget includes a net \$63.6 million in new ongoing non-tax revenue changes, including:

DOR Audit/Collections Staff Increases – Laws 2010, 7th Special Session, Chapter 1 provides General Fund appropriations of \$4.7 million to DOR to pay for increases of its existing staff of auditors and collectors. The hiring of additional audit and collections staff is expected to result in ongoing General Fund revenues of \$7.7 million in FY 2011.

DOR Revenue Generating Programs – Laws 2010, 7th Special Session, Chapter 12 authorizes DOR to implement a number of measures intended to generate additional revenues for the state. These measures are estimated to generate additional General Fund revenues of \$15.3 million in total in FY 2011. The \$15.3 million in revenue generation includes:

- TPT Business License Fee – allows DOR to set a one-time fee for new and renewals of the Transaction Privilege Tax (TPT) business license fee in FY 2011. Chapter 12 includes an intent clause that limits the additional General Fund revenue to \$5.4 million.
- Outsourcing Collections – eliminates the \$500 outsourcing limit for the collection of delinquent state

taxes, which is expected to result in additional revenues of \$0.9 million in FY 2011.

- Align the Statute of Limitations with IRS – increases the statute of limitations on tax liability to 10 years, which conforms to the Internal Revenue Service’s (IRS) statute of limitations. This change is expected to result in additional General Fund revenues of \$0.8 million in FY 2011.
- Automation of Bank Matching – allows DOR to enter into agreements with financial institutions to conduct electronic data matching for the purpose of collecting delinquent taxes. This program is projected to generate additional General Fund revenues of \$7.4 million in FY 2011.
- Change of Tax Administration Statutes – provides that a 5% penalty be charged on taxpayers who are already required to pay electronically (taxpayers with quarterly withholding liability of at least \$20,000, corporations with tax liability of at least \$20,000, and TPT taxpayers with annual liability of at least \$1.0 million). Additionally, there would also be a requirement that all payroll companies file and pay electronically on behalf of their clients. Failure to comply with this provision will result in a \$25 penalty fee per quarter per client. These changes to statutes are expected to generate additional General Fund revenues of \$0.8 million in FY 2011.

Lottery Decrease (Debt Service) – Laws 2010, 6th Special Session, Chapter 4 authorizes the Arizona Department of Administration (ADOA) to issue \$450 million in lottery revenue bonds by December 31, 2010 to be deposited into the General Fund. The debt service payments will be made from the lottery revenues that would have otherwise been deposited into the General Fund. It is estimated that the FY 2011 bond service payment (interest only) will be \$21.6 million. This will result in the General Fund receiving \$(21.6) million less in lottery revenues in FY 2011.

Lottery Distribution Change – Laws 2010, 7th Special Session, Chapter 12 redirects lottery distributions for the County Assistance Fund, Local Transportation Assistance Fund I, Local Transportation Assistance Fund II (Mass Transit), and State Parks Heritage Fund to the General Fund. This act has the effect of increasing the lottery distributions to the General Fund from \$46.5 million to \$96.1 million in FY 2011, which constitutes a net revenue gain of \$49.6 million.

Abandoned Vehicle Fees – Laws 2010, 7th Special Session, Chapter 12 authorizes the Arizona Department of Transportation (ADOT) to raise the Abandoned Vehicle Fee from \$50 or \$200, depending on the location of the abandonment, to an amount determined by the department. The act includes an intent clause that limits additional revenue to \$12.1 million.

Property Tax – Class 3 Reform – Arizona law provides a property tax reduction for the primary school district taxes levied on owner-occupied residential (Class 3) property. However, this tax reduction (also known as the “homeowner’s rebate”) is sometimes mistakenly given to residential properties that are not owner-occupied due to incorrect classification of properties by the counties. The Class 3 Reform is an effort by the counties to identify previously misclassified residential properties that are not legally entitled to the homeowner’s rebate. The increased enforcement of the law by the counties is expected to result in a General Fund gain of \$0.5 million in FY 2011.

The amounts in *Table 5* do not include any balance forward from the prior year. Additionally, the estimates do not reflect any “dynamic” or secondary impacts. Tax law changes may have an impact beyond the direct impact of the revision if they cause taxpayers to revise their behavior.

TPT Increase – May Ballot

The Legislature passed SCR 1001 in the 6th Special Session, 2010. As approved by voters at the May 2010 Special Election, the resolution amends the Arizona Constitution to provide a 1% increase of the state TPT for a period of 3 years. As shown in *Table 4* above, the temporary TPT increase is estimated to generate \$918 million in additional General Fund revenues in FY 2011.

First Thing First – November Ballot

The Legislature passed HCR 2001 in the 7th Special Session, 2010. Conditional upon voter approval in November 2010, HCR 2001 will repeal the Early Childhood Development and Health Board (also known as First Things First) and its related Regional Councils. Agency operations would terminate by June 1, 2011 pursuant to existing sunset procedures. Any unexpended monies accumulated by First Things First would be transferred to the General Fund. The 80¢ tobacco tax would be deposited into the General Fund. As shown in *Table 4* above, this redirection of First Things First monies is expected to generate General Fund revenues of \$60 million in FY 2011.

Urban Revenue Sharing

The Urban Revenue Sharing (URS) program provides that a percentage of state income tax revenues (including both individual and corporate income tax) be shared with incorporated cities and town within the state. The amount that is currently distributed to cities and towns is 15% of net income tax collections from 2 years prior. As indicated in *Table 4* above, total URS distributions will decline from \$629 million in FY 2010 to \$474 million in FY 2011. These amounts are significantly below the URS distribution of \$728 million in FY 2009.

One-Time Financing

As shown in *Table 4* above, one-time financing sources have been used to help provide a balanced budget. Following is a discussion of one-time financing sources included in the budget for FY 2010 and FY 2011. *Table 6* below provides a summary of the one-time financing sources used in FY 2010 and FY 2011, including any balance forwards.

	FY 2010	FY 2011
Balance Forward	\$(480.7)	\$48.3
One-Time Financing		
Budget Legislation	113.4	32.6
State Asset Leaseback/Lottery	1,485.4	
Fund Transfers-November Ballot		448.5
Fund Transfers	<u>387.1</u>	<u>195.3</u>
Subtotal	1,985.9	676.5
Total One-Time Financing Sources	<u>\$1,505.2</u>	<u>\$724.8</u>

FY 2010

The \$1.51 billion in one-time financing sources for FY 2010 includes:

Balance Forward – The FY 2010 General Fund balance forward had a deficit of \$(480.7) million.

Budget Legislation – One-time revenues totaling \$113.4 million include:

- County Lottery – Laws 2009, 4th Special Session, Chapter 3 provided that \$4.0 million of lottery proceeds that otherwise would have been distributed to the counties through the County Assistance Fund, Local Transportation Assistance Fund I, and Local Transportation Assistance Fund II were deposited into the General Fund.
- County Contributions – Laws 2009, 4th Special Session, Chapter 3 required Maricopa and Pima counties to transfer a total of \$22.0 million to the General Fund in FY 2010.
- Unclaimed Property Acceleration – Laws 2009, 4th Special Session, Chapter 3 accelerated the presumption of abandonment schedule by 1 to 3 years for a number of unclaimed property types, which was expected to generate additional General Fund revenues of \$39.4 million in FY 2010.
- TPT Estimated Payment – Laws 2010, 7th Special Session, Chapter 12 lowered the threshold for estimated TPT payments from \$1 million in annual TPT liability to \$100,000 for FY 2010 through FY 2012. This act is expected to increase General Fund revenues by \$48.0 million in FY 2010.

State Asset Leaseback/Lottery – Laws 2009, 3rd Special Session, Chapter 6 required ADOA to enter into sale and lease-back of state buildings. The sale and lease-purchase provisions generated \$735.4 million in proceeds FY 2010. Laws 2010, 6th Special Session, Chapter 4 provides that the state enters into another round of sale and lease-back agreements, which are expected to generate an additional \$300 million in FY 2010. This means that the total proceeds from the sale of state assets in FY 2010 are estimated to be \$1,035.4 million. Laws 2010, 6th Special Session, Chapter 4 authorized ADOA to issue a 20-year, \$450 million lottery revenue bond on or before December 31, 2010. The \$450 million of proceeds from the bonds sales are expected to be deposited into the General Fund in FY 2010. The combination of state asset leasebacks and lottery securitization is expected to result in one-time revenues of \$1,485.4 million in FY 2010. (*For more detail, see Capital Outlay Section of the FY 2011 Appropriations Report.*)

Fund Transfers – Laws 2009, 1st Regular Session, Chapters 11 and 12 and Laws 2009, 3rd Special Session, Chapter 12 provided for a total of \$227.8 million in agency fund transfers in FY 2010. Laws 2010, 4th Special Session, Chapter 3, Laws 2010, 5th Special Session, Chapter 1, and Laws 2010, 7th Special Session, Chapter 1 provided for an additional \$159.3 million in total fund transfers in FY 2010. This figure includes a \$2.8 million transfer from the Budget Stabilization Fund. The total amount of fund transfers to the General Fund is \$387.1 million (*see General Provisions for more detail*).

FY 2011

The \$724.8 million in one-time financing sources for FY 2011 includes:

Balance Forward – The FY 2011 General Fund balance forward is estimated to be \$48.3 million. All other one-time financing totals \$676.5 million.

Budget Legislation – One-time net revenues totaling \$32.6 million include:

- County Contributions – Laws 2010, 7th Special Session, Chapter 12 requires Maricopa County to transfer \$28.6 million and Pima County to transfer \$6.0 million, for a total transfer of \$34.6 million to the General Fund in FY 2011.
- Unclaimed Property – Laws 2009, 4th Special Session, Chapter 3 accelerated the timeframe for unclaimed traveler's checks from 15 years to 3 years. Laws 2010, Chapter 119 reverts the presumption of abandonment schedule for such unclaimed property back to 15 years, which is expected to result in a revenue reduction of \$(2.4) million in FY 2011.
- Teacher Certification Repayment – Laws 2010, Chapter 306 establishes a new Teacher Certification Fund and appropriates \$429,700 to it from the General

Fund as a temporary intra-year loan in order to fund expenses incurred during the early part of the year (since the fund will have no beginning balance going into FY 2011). The Arizona Department of Education will transfer the fees paid by teachers and other certification applicants back to the General Fund by June 30, 2011. These certification fees will result in net new General Fund revenues of \$429,700 in FY 2011. (There will be no net impact on the General Fund, however, since the appropriation will be paid for by the fees collected during FY 2011.)

million on the electricity they produce for up to 10 years, beginning January 1, 2011. The renewable energy credit has an aggregate cap of \$20 million annually.

Fund Transfers – November Ballot – If approved by voters at the November 2010 General Election, HCR 2001 and HCR 2002 from Laws 2010, 7th Special Session would transfer \$325.0 million from the Early Childhood Development and Health Board and \$123.5 million from the State Parks Board’s Land Conservation Fund to the General Fund, for a total of \$448.5 million in FY 2011 (*see General Provisions for more detail*).

Fund Transfers – Laws 2010, 7th Special Session, Chapter 1, provides for a total of \$195.3 million in fund transfers in FY 2011 (*see General Provisions for more detail*).

Tax Law Changes – FY 2012 and Beyond

In addition to the tax law and revenue changes that impact FY 2011, as noted above, there were tax law changes enacted that will not have a revenue impact until FY 2012 or later.

Solar Liquid Fuel Credit – Laws 2010, Chapter 289 establishes a new individual and corporate income tax credit for research and development, production, and delivery systems costs associated with solar liquid fuel for tax years 2011 through 2026. Solar liquid fuel is a fuel that is created by reversing the combustion process through the use of solar power. In addition to creating combustible fuels such as methanol and ethanol, the further processing of solar liquid fuel can potentially yield more traditional fuels, such as diesel and gasoline.

R&D and Renewable Energy Tax Credits – Laws 2010, Chapter 312 modifies the existing individual and corporate income tax credit for R&D to allow a company that employs less than 150 full-time employees to receive a refund equal to 75% of the amount by which the credit exceeds the taxpayer’s liability. The credit has an aggregate cap of \$5 million annually and is effective retroactively from January 1, 2010. This retroactive provision is expected to reduce General Fund revenues by \$(5.0) million in FY 2011.

In addition to the modified R&D credit that is effective retroactively from tax year 2010, Chapter 312 also establishes a new renewable energy tax credit that will become effective in tax year 2011. The new credit allows qualified producers of renewable energy to receive an individual and corporate income tax credit of up to \$2

Table 7

GENERAL FUND REVENUE - FY 2010-FY 2011

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	ACTUAL FY 2009	% CHANGE PRIOR YR	FORECAST FY 2010	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2011	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
Taxes:								
Sales and Use	3,756,407.2	-13.7%	3,440,151.8	-8.4%	(316,255.4)	3,601,680.0	4.7%	161,528.2
Income								
-Individual	2,567,754.4	-24.6%	2,402,233.6	-6.4%	(165,520.8)	2,470,929.9	2.9%	68,696.3
-Corporate	592,157.3	-26.8%	381,360.6	-35.6%	(210,796.7)	446,344.4	17.0%	64,983.8
Property	18,244.5	-9.0%	17,000.0	-6.8%	(1,244.5)	15,000.0	-11.8%	(2,000.0)
Luxury	29,808.4	-8.2%	30,538.8	2.5%	730.4	30,538.8	0.0%	0.0
-Tobacco	28,856.0	1.0%	29,838.5	3.4%	982.5	29,838.5	0.0%	0.0
-Liquor	411,370.9	1.1%	398,000.0	-3.3%	(13,370.9)	412,600.0	3.7%	14,600.0
Insurance Premium	210.4	-34.3%	0.0	-100.0%	(210.4)	0.0	N/A	0.0
Estate	1,165.8	-21.5%	630.0	-46.0%	(535.8)	630.0	0.0%	0.0
Other Taxes								
Sub-Total - Taxes	7,405,974.7	-18.2%	6,699,753.3	-9.5%	(706,221.5)	7,007,561.6	4.6%	307,808.3
Other Non-Tax Revenues:								
Lottery	31,000.0	-36.0%	41,847.2	35.0%	10,847.2	46,615.0	11.4%	4,767.8
Licenses, Fees and Permits	34,531.6	-8.6%	24,000.0	-30.5%	(10,531.6)	25,000.0	4.2%	1,000.0
Interest	19,669.4	-79.3%	0.0	-100.0%	(19,669.4)	0.0	N/A	0.0
Sales and Services	48,241.7	-15.7%	45,000.0	-6.7%	(3,241.7)	39,000.0	-13.3%	(6,000.0)
Other Miscellaneous	53,700.6	17.5%	47,523.1	-11.5%	(6,177.5)	47,523.1	0.0%	0.0
Transfers and Reimbursements	33,770.4	-0.8%	40,159.0	18.9%	6,388.6	29,000.0	-27.8%	(11,159.0)
Disproportionate Share Revenue	67,687.5	-6.2%	69,104.9	2.1%	1,417.4	69,210.0	0.2%	105.1
Sub-Total - Other Non-Tax	288,601.2	-26.1%	267,634.2	-7.3%	(20,967.0)	256,348.1	-4.2%	(11,286.1)
Subtotal On-Going Revenue	7,694,575.9	-18.6% ^{1/}	6,967,387.5	-9.5% ^{2/}	(727,188.5)	7,263,909.7	4.3%	296,522.2
TPT Increase - May Ballot	0.0	N/A	0.0	N/A	0.0	918,000.0	N/A	918,000.0
First Things First - Nov. Ballot	0.0	N/A	0.0	N/A	0.0	60,000.0	N/A	60,000.0
Budget Legislation	0.0	N/A	21,458.1	N/A	21,458.1	66,091.2	208.0%	44,633.1
Subtotal w/Tax Law Changes	7,694,575.9	-18.6%	6,988,845.6	-9.2%	(705,730.4)	8,308,000.9	18.9%	1,319,155.3
Urban Revenue Sharing (URS)	(727,677.4)	6.3%	(628,649.1)	-13.6%	99,028.3	(473,986.8)	-24.6%	154,662.3
Subtotal w/Tax Law Changes/URS	6,966,898.5	-20.5%	6,360,196.5	-8.7%	(606,702.1)	7,834,014.1	23.2%	1,473,817.6
One-Time Financing Sources:								
Budget Legislation	118,893.3	N/A	113,420.0	-4.6%	(5,473.3)	32,644.0	-71.2%	(80,776.0)
Prior Year SFB Bond Proceeds	344,000.0	N/A	0.0	-100.0%	(344,000.0)	0.0	N/A	0.0
Fund Transfers	667,749.8	130.1%	387,085.5	-42.0%	(280,664.3)	195,342.9	-49.5%	(191,742.6)
Fund Transfers - Nov. Ballot	0.0	N/A	0.0	N/A	0.0	448,538.6	N/A	448,538.6
BSF Transfer	150,000.0	-69.2%	0.0	-100.0%	(150,000.0)	0.0	N/A	0.0
State Asset Leaseback/Lottery	0.0	N/A	1,485,419.3	N/A	1,485,419.3	0.0	-100.0%	(1,485,419.3)
Sub-Total - One-Time Financing Sources	1,280,643.1	59.7%	1,985,924.8	55.1%	705,281.7	676,525.5	-65.9%	(1,309,399.3)
Subtotal - Revenues	8,247,541.6	-13.8%	8,346,121.3	1.2%	98,579.6	8,510,539.6	2.0%	164,418.3
Balance Forward	1,000.0	-99.7%	(480,713.0)	-48171.3%	(481,713.0)	48,317.6	-110.1%	529,030.6
Total - Resources	8,248,541.6	-17.1%	7,865,408.3	-4.6%	(383,133.4)	8,558,857.2	8.8%	693,448.9

1/ The (18.6)% FY '09 growth rate includes \$(34.5) million in tax law and other revenue changes. Adjusting for these changes, the base FY '09 growth rate is (18.2)%.

2/ The (9.5)% FY 10 decline includes \$(16.2) million in tax law and other revenue changes. Adjusting for these changes, the base FY '10 decline is (9.2)%.

Table 8

BASE REVENUE ADJUSTMENTS BY CATEGORY

(\$ in Thousands)

Summary By Category:	<u>FY 2010</u> ^{1/}	<u>FY 2011</u> ^{1/}
Tax Law Changes		
Individual Income Tax	(9,000.0)	13,000.0
Corporate Income Tax	(33,410.0)	(5,000.0)
Transaction Privilege Tax	(5,000.0)	913,000.0
Subtotal - Tax Law Changes	<u>(47,410.0)</u>	<u>921,000.0</u>
Other Revenue Adjustments		
Other Revenues	52,617.1	123,091.2
Subtotal - Other Revenue Adjustments	<u>52,617.1</u>	<u>123,091.2</u>
TOTAL REVENUE CHANGES	<u>\$ 5,207.1</u>	<u>\$ 1,044,091.2</u>

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Revenue Category</u>
<u>49th Legislature - 2nd Regular Session:</u>				
176	IRS Conformity	0.0	0.0	Individual ^{2/}
		<u>0.0</u>	<u>0.0</u>	Corporate ^{2/}
	Subtotal - IRS Conformity	0.0	0.0	
188	STO Contribution Deadline Extension	0.0	(2,500.0)	Individual
293	STO Maximum Credit Inflation Adjustment	0.0	(600.0)	Individual
312	Research and Development Refundable Credit	0.0	(5,000.0)	Individual
	Subtotal - Revenue Changes	<u>0.0</u>	<u>(8,100.0)</u>	
	Session Total	<u>0.0</u>	<u>(8,100.0)</u>	
<u>49th Legislature - 7th Special Session:</u>				
HCR 2001	First Things First Repeal and Redirect - Nov. Election	0.0	60,000.0	Other ^{3/}
12	Lottery Distribution Change - Beneficiary Elimination	18,800.7	49,650.0	Other ^{4/}
12	DOR Revenue Generation Plan	0.0	15,267.3	Other ^{5/}
12	Abandoned Vehicle Fees	0.0	12,061.2	Other
	DOR Auditors/Collections Staff	0.0	7,705.1	Other ^{5/}
	Class 3 Property Tax - Increased Enforcement	0.0	500.0	Other
	Subtotal - Revenue Changes	<u>18,800.7</u>	<u>85,183.6</u>	
	Session Total	<u>18,800.7</u>	<u>145,183.6</u>	
<u>49th Legislature - 6th Special Session:</u>				
SCR 1001	TPT Increase - May Election	0.0	918,000.0	TPT ^{3/}
3	Out-of-State Filers Proportionality	0.0	22,000.0	Individual
4	Lottery Distribution Reduction - Debt Service	0.0	(21,600.0)	Other
	Subtotal - Revenue Changes	<u>0.0</u>	<u>400.0</u>	
	Session Total	<u>0.0</u>	<u>918,400.0</u>	

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Revenue Category</u>
<u>49th Legislature - 4th Special Session:</u>				
3	Racing - Pari-Mutuel	5,305.5	0.0	Other
3	Corporation Commission Public Access Fees	(2,648.1)	0.0	Other
3	BRITS Shift	0.0	2,000.0	Other
	Subtotal - Revenue Changes	<u>2,657.4</u>	<u>2,000.0</u>	
	Session Total	<u>2,657.4</u>	<u>2,000.0</u>	
<u>49th Legislature - 1st Regular Session:</u>				
2	IRS Conformity	(4,000.0)	0.0	Individual
		<u>(4,410.0)</u>	<u>0.0</u>	Corporate
	Subtotal - IRS Conformity	(8,410.0)	0.0	
80	Contributions to Charitable Organizations	(5,000.0)	(900.0)	Individual
89	Treasurer's Management Fees	0.0	(2,492.4)	Other
96	Renewable Energy Tax Credit	0.0	(5,000.0)	Corporate
	Other Revenue Changes	31,159.0 ^{6/}	0.0	Other
	Subtotal - Revenue Changes	<u>26,159.0</u>	<u>(8,392.4)</u>	
	Session Total	<u>17,749.0</u>	<u>(8,392.4)</u>	
<u>47th Legislature - 1st Regular Session:</u>				
289	Corporate Sales Factor	<u>(29,000.0)</u>	<u>0.0</u>	Corporate
	Subtotal - Tax Law Changes/IRS Conformity	(29,000.0)	0.0	
	Session Total	<u>(29,000.0)</u>	<u>0.0</u>	
<u>Statutory Adjustments</u>				
	Phoenix Convention Center	(5,000.0)	(5,000.0)	TPT
	Statutory Total	<u>(5,000.0)</u>	<u>(5,000.0)</u>	
	TOTAL - All Adjustments	<u>\$ 5,207.1</u>	<u>\$ 1,044,091.2</u>	

1/ Adjustments for FY 2010 reflect estimated change from FY 2009 and adjustments for FY 2011 reflect estimated change from FY 2010, unless otherwise noted.

2/ These adjustments may have a minimal revenue impact not reflected in this chart.

3/ These adjustments are contingent on voter approval. The voters approved the sales tax increase at the May 2010 election.

4/ The \$49,650,000 FY 2011 adjustment includes a continuation of the FY 2010 increase of \$18,800,700 plus an additional increase of \$30,849,300.

5/ These adjustments will be allocated to Individual and Corporate Income Taxes and TPT.

6/ For additional detail, see page 470 of the *FY 2010 Appropriations Report*.