

HIGHLIGHTS OF THE FY 2011 BUDGET

The FY 2011 budget is based primarily upon the actions of the 48th Legislature's 7th Special Session (convened in March 2010). On March 18, 2010, the Governor signed into law the FY 2011 budget for the year beginning July 1, 2010.

The state's FY 2011 General Fund budget is \$8.50 billion. After accounting for non-General Fund monies, the state's "all funds" budget is \$29.3 billion. (*See the Summary of Appropriated Funds and Summary of Total Spending Authority for more details.*)

Revised FY 2010 Budget – At the time of publication of the *FY 2010 Appropriations Report* in September 2009 after the 3rd Special Session, the FY 2010 ending balance was assumed to be \$(451) million short for FY 2010 alone and \$(951) million short when combined with the FY 2009 shortfall. Prior to the publication of the FY 2011 Baseline, however, that shortfall estimate was adjusted as follows:

- The 4th Special Session in November reduced the shortfall by \$423 million.
- The 5th Special Session in December further reduced the shortfall by \$193 million.
- Technical adjustments and a revised revenue forecast increased the shortfall by \$(1.12) billion.

The January revisions along with the 4th and 5th Special Session adjustments generated the new \$(1.45) billion shortfall. This shortfall was resolved through actions in the 6th and 7th Special Sessions:

- The 6th Special Session in February reduced the shortfall by \$750 million.
- The 7th Special Session in March further reduced the shortfall by \$749 million.

The 6th and 7th Special Sessions combined generated a projected FY 2010 ending balance of \$48 million. (*See FY 2010 General Fund Adjustments at the end of this Appropriations Report for more details.*)

Comparison to the JLBC Baseline – At the beginning of session, the JLBC Staff calculated the growth in the state's anticipated FY 2011 spending based on existing statutory funding formulas and other technical requirements. The projected spending level was \$9.47 billion. Based on a (10.5)% General Fund base revenue decrease in FY 2010 and a 5.1% increase in FY 2011, General Fund revenues were anticipated to be \$6.88 billion in FY 2011. Under this JLBC Baseline, the FY 2011 budget was projected to have a \$(2.59) billion deficit. As a result of technical adjustments, that estimate was revised to \$(2.58) billion.

In the 7th Special Session and 2nd Regular Session, the Legislature approved FY 2011 solutions totaling \$2.65 billion as follows:

- \$1.00 billion from various revenue proposals, primarily from the 3-year 1-cent sales tax increase (\$918 million) approved by the voters at the May 18 Special Election. A total of two-thirds of the increased monies from the tax are required to be spent on public primary and secondary education; one-third is to be spent on health and human services and public safety.
- \$697 million in new reductions.
- \$488 million in new fund transfers, 2 of which require voter approval in the November General Election: \$325 million from the Early Childhood Development and Health Board and \$124 million from the Land Conservation Fund.
- \$394 million from an extension of the enhanced federal Medicaid match rate.
- \$73 million from other budget solutions.

As part of the last solution, the Legislature adopted the Governor's revenue growth rates of (9.2)% in FY 2010 and 4.3% in FY 2011.

These solution estimates represent the numbers used at the time of the budget's enactment in March, adjusted for the retention of AHCCCS' Proposition 204 program. While the original budget eliminated the program's General Fund support in January 2011, federal health care legislation resulted in its being retained. The \$385 million cost was financed from the savings related to extending the enhanced federal Medicaid match rate for 6 months.

(*See FY 2011 State General Fund Budget - A Narrative Summary and the General Provision section for further details on FY 2011 changes.*)

Comparison to the FY 2010 Budget – General Fund revenues, including one-time monies, are projected to increase from \$7.87 billion in FY 2010 to \$8.56 billion in FY 2011. Base ongoing revenues are projected to increase by \$297 million, from \$6.97 billion in FY 2010 to \$7.26 billion in FY 2011. This 4.3% increase, however, will be further modified by the following revenue adjustments (*see the General Fund Revenue section*):

- \$66 million gain due to enacted tax law and other revenue changes, including the proration of nonresident filers' standard deduction, and a redirection of Lottery revenues to the General Fund.
- \$918 million gain from the temporary 1-cent sales tax and \$60 million from redirecting tobacco tax monies from the Early Childhood Development and Health Board (First Things First) to the General Fund. The latter

would need to be approved by the voters in the November General Election.

- \$155 million gain due to decreased contributions to Urban Revenue Sharing based on state income tax collections from 2 years prior.
- A \$(780) million loss in other one-time revenues from \$1.51 billion in FY 2010 to \$725 million in FY 2011. Of the \$725 million, \$644 million is the result of fund transfers.

General Fund spending is projected to increase from \$7.82 billion in FY 2010 to \$8.50 billion in FY 2011, which is an increase of \$678.5 million, or 8.7%. Excluding one-time rollover adjustments and federal funds backfill, permanent spending is expected to decrease by \$(173) million, or (2.2)%, in FY 2011. The largest changes include:

- \$450 million to replace one-time K-12 and university deferrals;
- \$379 million to replace one-time federal funds for K-12;
- \$109 million in AHCCCS caseload increases;
- \$74 million in net costs from replacing one-time deferrals offset by increased one-time federal funds in AHCCCS;
- \$50 million to replace one-time federal funds for the Department of Corrections;
- \$(45) million for a performance pay and furlough reduction totaling 5% for most agencies;
- \$(56) million in reductions to the Department of Health Services and AHCCCS budgets; and
- \$(273) million in ADE reductions, including \$(218) million to reduce state support for kindergarten from full to half day.

(See FY 2011 State General Fund Budget - A Narrative Summary for a more detailed list of changes.)

General Fund Balance – The FY 2011 General Fund cash balance is projected to be \$63 million. 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 \$(1.69) billion in FY 2011. *(See page BH-4 for more details.)*

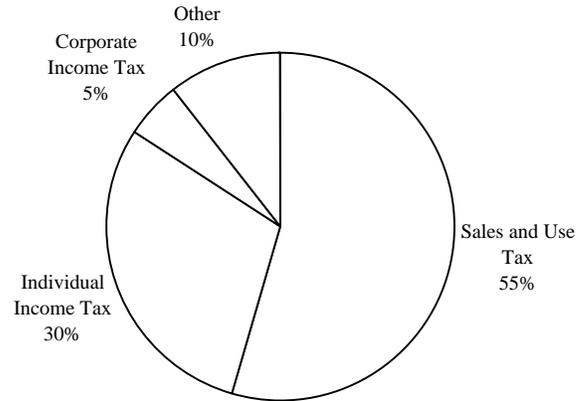
**STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES 1/
WITH ONE-TIME FINANCING SOURCES**

| | FY 2010 Enacted | FY 2011 Enacted |
|---|----------------------------|----------------------------|
| REVENUES | | |
| Ongoing Revenues | \$6,967,387,500 | \$7,263,909,700 |
| Budget Legislation Changes <u>2/</u> | 21,458,100 | 66,091,200 |
| Sales Tax Increase -May Ballot | | 918,000,000 |
| First Things First Redirect - Nov. Ballot | | 60,000,000 |
| Urban Revenue Sharing | (628,649,100) | (473,986,800) |
| Net On-going Revenues | \$6,360,196,500 | \$7,834,014,100 |
| One-time Financing Sources | | |
| Balance Forward | (\$480,713,000) | \$48,317,600 |
| Budget Legislation Changes <u>3/</u> | 113,420,000 | 32,644,000 |
| State Asset Leaseback/Lottery | 1,485,419,300 | |
| Fund Transfers - November Ballot <u>4/</u> | | 448,538,600 |
| Fund Transfers <u>4/</u> | 387,085,500 | 195,342,900 |
| Subtotal One-time Revenues | \$1,505,211,800 | \$724,843,100 |
| Total Revenues | \$7,865,408,300 | \$8,558,857,200 |
| EXPENDITURES | | |
| Operating Budget Appropriations | \$9,645,879,500 | \$9,524,317,500 |
| FY 2010 Supplementals <u>5/</u> | 132,583,200 | |
| First Things First/DES Redirect - Nov. Ballot | | 40,000,000 |
| Administrative Adjustments | 72,731,600 | 73,607,000 |
| Revertments | (113,241,600) | (112,905,100) |
| Subtotal Ongoing Expenditures | \$9,737,952,700 | \$9,525,019,400 |
| One-time Expenditures | | |
| Capital Outlay | \$10,400,000 | \$4,000,000 |
| Capital Outlay Prior Year Reversions | (450,000) | |
| Statutory Revertments | (6,733,400) | |
| Temporary Federal Assistance <u>6/</u> | (1,339,189,500) | (973,385,200) |
| SFB Debt Refinance | | (60,000,000) |
| New Payment Deferrals <u>7/</u> | (584,889,100) | |
| Subtotal One-time Expenditures | (\$1,920,862,000) | (\$1,029,385,200) |
| Total Expenditures | \$7,817,090,700 | \$8,495,634,200 |
| Ending Balance <u>8/</u> | \$48,317,600 | \$63,223,000 |
| Structural Shortfall <u>9/</u> | (\$3,377,756,200) | (\$1,691,005,300) |

- 1/ Significant one-time revenues and expenditures are separately detailed so as to permit the calculation of ongoing revenue and expenditures.
- 2/ See page 386 for details.
- 3/ See page 389 for details.
- 4/ See page 442 for details. These amounts include \$488 million in new fund transfers, \$15 million in pay reduction transfers, and \$141 million in on-going transfers from FY 2010.
- 5/ See page 467 for details.
- 6/ An additional \$38.9 million of state spending was offset by federal stimulus funding, but is reflected as an agency reduction. See page BH-16 for details.
- 7/ Reflects increases in deferrals from the prior year, including ADE, \$350 million; Universities, \$100 million; AHCCCS, \$117 million; and DES, \$17 million.
- 8/ This calculation reflects the difference between total revenues and total expenditures.
- 9/ This calculation reflects the difference between ongoing revenues and expenditures.

FY 2011 General Fund Revenue - Where it Comes From

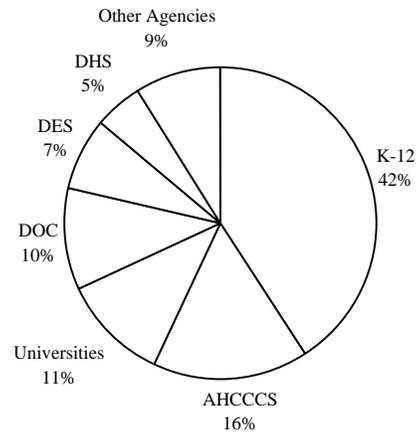
| Source | Revenue (Millions) |
|-----------------------|---------------------------------|
| Sales and Use Tax | \$ 4,519.7 |
| Individual Income Tax | 2,470.9 |
| Corporate Income Tax | 446.3 |
| Other | 871.1 |
| TOTAL REVENUE | \$ 8,308.0 ^{1/} |



^{1/} Includes all legislative revenue changes, but does not include beginning balance, urban revenue sharing, or other one-time revenue adjustments.

FY 2011 General Fund Appropriations - Where it Goes

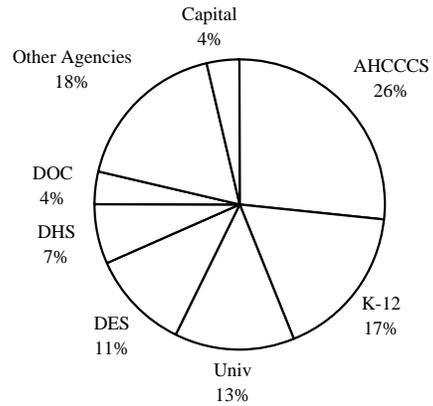
| Budget Unit | Appropriation (Millions) |
|-------------------------------|---------------------------------|
| Education (K-12) | \$ 3,491.2 |
| AHCCCS | 1,376.9 |
| Corrections | 948.7 |
| Universities | 890.2 |
| Economic Security | 634.1 |
| Health Services | 438.9 |
| Other Agencies | 754.9 |
| TOTAL OPERATING BUDGET | \$ 8,534.9 ^{1/} |



^{1/} Does not include administrative adjustments and revertments

FY 2011 Total Spending - All Sources ^{1/}

| <u>Budget Unit</u> | Spending (Millions) |
|--------------------|----------------------------------|
| AHCCCS | \$ 7,855.6 |
| Education (K-12) | 5,059.1 |
| Universities | 3,916.1 |
| Economic Security | 3,237.2 |
| Health Services | 1,999.1 |
| Corrections | 1,052.4 |
| Other Agencies | 5,184.7 |
| Capital | 1,082.8 |
| | |
| TOTAL | <u>\$ 29,387.0 ^{2/}</u> |

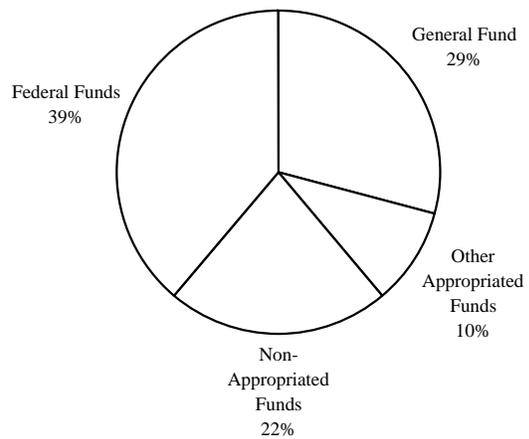


^{1/} Does not include administrative adjustments and revertsments.

^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

FY 2011 Total Spending by Fund Source ^{1/}

| <u>Fund Source</u> | Spending (Millions) |
|--------------------------|----------------------------------|
| General Fund | \$ 8,534.9 |
| Other Appropriated Funds | 2,928.4 |
| Non-Appropriated Funds | 6,479.6 |
| Federal Funds | 11,444.1 |
| | |
| TOTAL | <u>\$ 29,387.0 ^{2/}</u> |

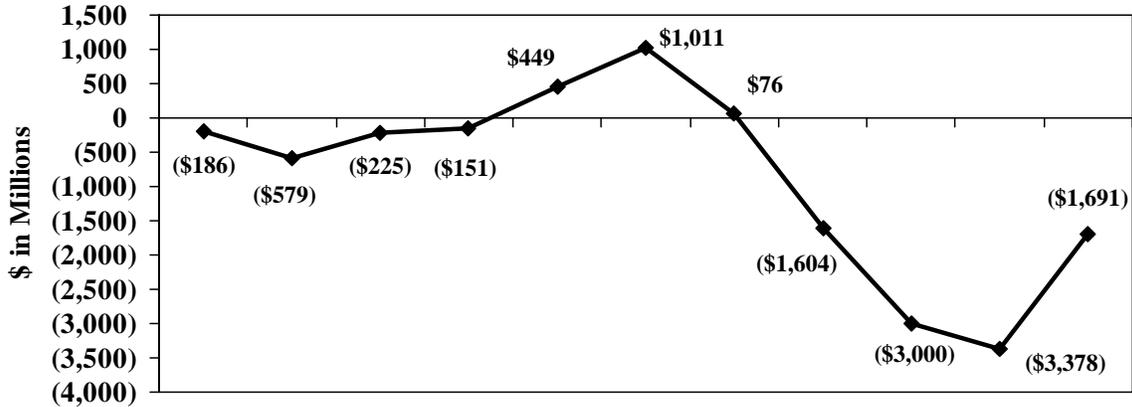


^{1/} Does not include administrative adjustments and revertsments.

^{2/} Prior to FY 2008, the same chart in Appropriations Reports excluded capital.

The Structural General Fund Balance

Difference Between Ongoing Revenues and Ongoing Expenditures



FY 01 FY 02 FY 03 FY 04 FY 05 FY 06 FY 07 FY 08 FY 09 FY 10 FY 11

Ongoing Fund Surplus (+) / Shortfall (-)

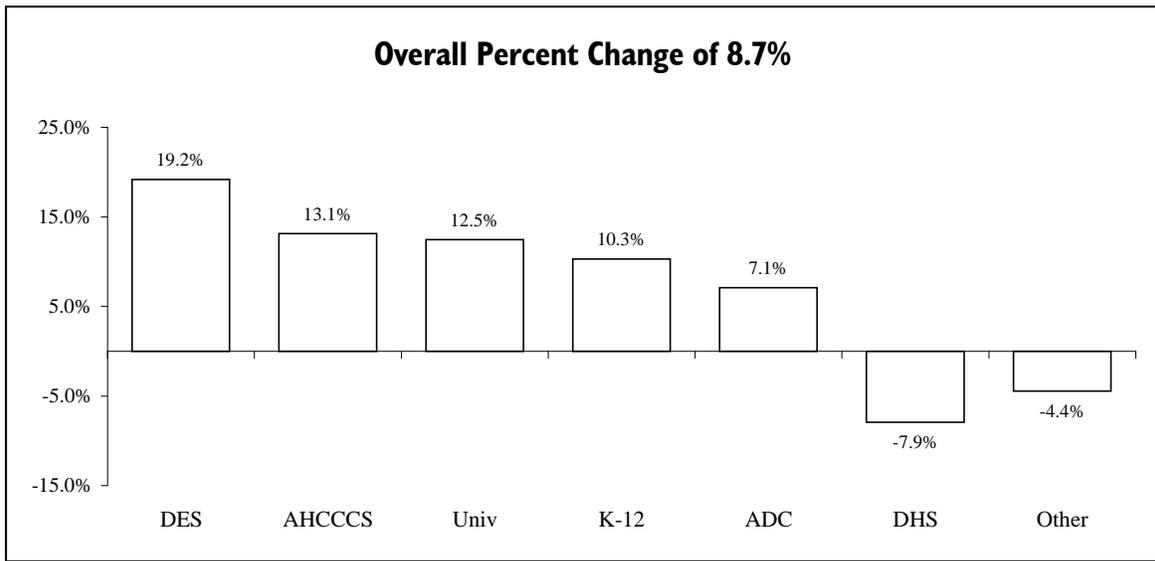
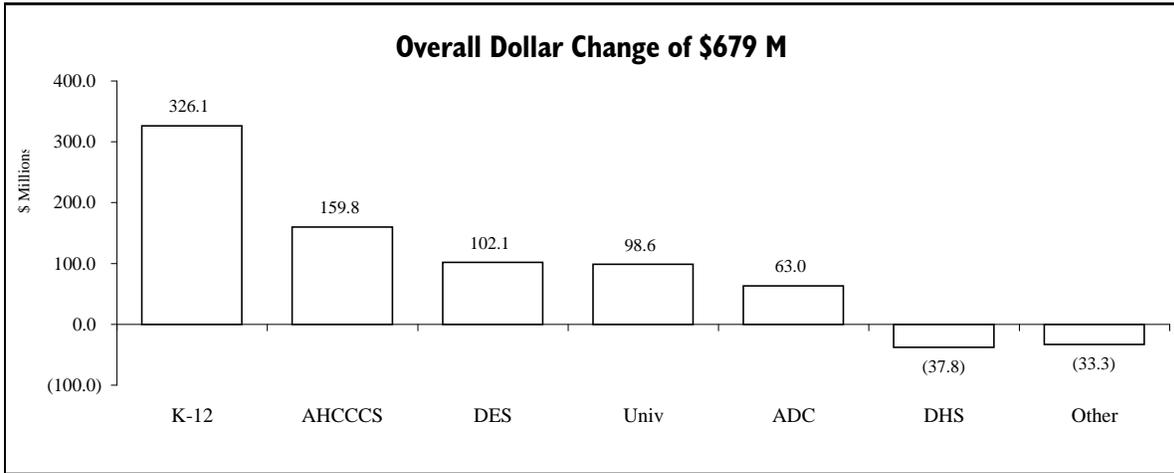
Recent History of Ongoing General Fund Balance ^{1/}
(\$ in Millions)

| 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 | 6,967 | 9,967 | (3,000) |
| 2010 | 6,360 | 9,738 | (3,378) |
| 2011 | 7,834 ^{2/} | 9,525 | (1,691) |

^{1/} Excludes one-time revenues and expenditures.

^{2/} Includes the 1-cent sales tax increase from Proposition 100 as ongoing revenue

CHANGES TO MAJOR AGENCIES' GENERAL FUND BUDGET ^{1/2/}
FY 2010 to FY 2011

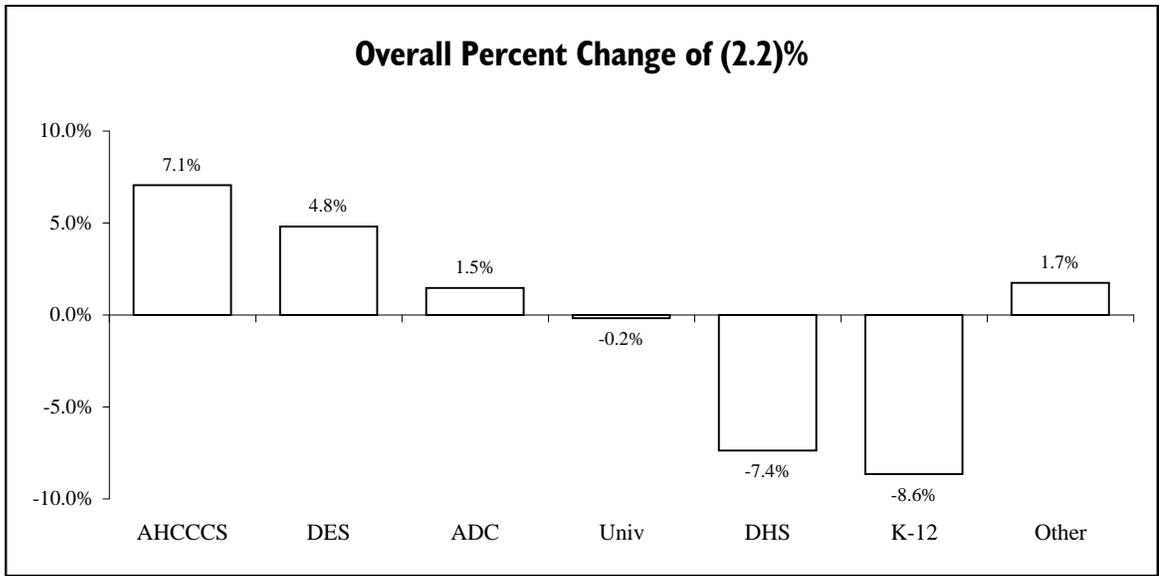
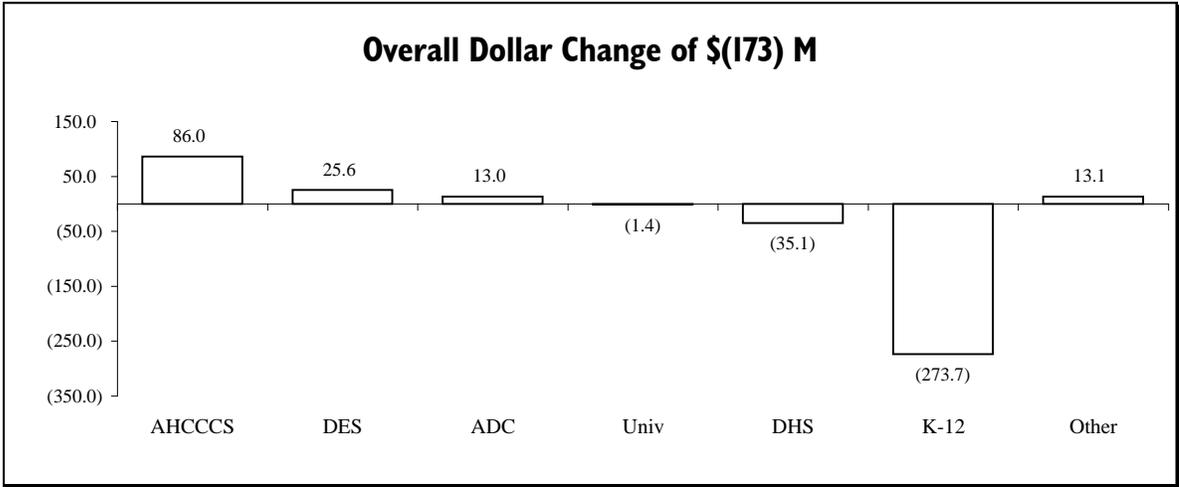


^{1/} Represents change in total General Fund spending from FY 2010 (including supplementals) to FY 2011. See pg. BD-5

^{2/} See BH - 9 for major changes with adjustments for federal funds and payment deferrals.

**CHANGES TO MAJOR AGENCIES' GENERAL FUND BUDGET
FY 2010 to FY 2011**

Excludes Federal Offsets and Payment Deferrals ^{1/}



^{1/} Represents change in total General Fund spending from FY 2010 (including supplementals) to FY 2011, but excludes one-time changes associated with federal funds and payment deferrals.

FY 2011 STATE GENERAL FUND BUDGET – A NARRATIVE SUMMARY

- The narrative below outlines significant changes made by the FY 2011 budget as compared to the final enacted FY 2010 budget. This summary presumes the passage of federal legislation to extend the enhanced federal Medicaid match rate through the end of FY 2011, which will create savings to maintain the Proposition 204 program.

General Fund Balances

- Given FY 2011 revenues of \$8.56 billion, spending of \$8.50 billion, the state has a projected FY 2011 ending balance of \$63 million.
- When comparing on-going revenues and spending, the budget has a structural shortfall of \$(1.69) billion.

Budget Solutions

- The budget included \$2.65 billion of solutions to solve the projected FY 2011 shortfall of \$(2.58) billion. The enacted budget solutions included the following:
 - ⇒ \$1.0 billion due to various revenue proposals, most of which is the result of the 3-year 1¢ sales tax increase (\$918 million).
 - ⇒ \$697 million in new spending reductions.
 - ⇒ \$487 million in new fund transfers.
 - ⇒ \$394 million due to the extension of the enhanced federal Medicaid match rate.
 - ⇒ \$73 million from other budget solutions.

General Fund Revenues

- FY 2011 General Fund revenues are projected to be \$8.56 billion. FY 2011 base revenues are projected to increase by 4.3%, excluding tax law changes.
- The \$8.56 billion revenue estimate includes \$724.8 million in one-time revenue and \$1.04 billion in enacted tax and revenue changes. The latter includes \$918 million from the 1-cent sales tax increase approved by the voters in the May special election. Of this amount, two-thirds is dedicated to public primary and secondary education while the remaining one-third is for health and human services and public safety.
- Urban Revenue Sharing (URS) distributions for FY 2011 will total \$474.0 million. By statute, URS is based on 15% of income tax collections 2 years prior. This amount is a reduction of \$(154.7) million compared to FY 2010, due to the substantial decline in income tax revenues.
- \$508.5 million of FY 2011 revenues require voter approval in November:
 - ⇒ \$385 million from the repeal of the Early Childhood Development and Health Board (First Things First).
 - ⇒ \$123.5 million from the transfer of unexpended monies from the Land Conservation Fund.

General Fund Spending

- FY 2011 General Fund spending is projected to be \$8.50 billion.
- Spending would increase by \$678.5 million, or 8.7%, above the FY 2010 budget. Excluding one-time rollover adjustments and federal funds backfill, however, spending would decline by approximately \$(173) million, or (2.2)%.
- The entire state budget, including both appropriated and non-appropriated funds, is projected to be approximately \$29.3 billion.

Education

Department of Education

- ADE spending would increase by \$326.1 million, or 10.3%. Excluding one-time rollover adjustments and federal funds backfill, the net decrease in ADE spending would be \$(273.7) million, or (8.6)%. The \$326.1 million adjustment includes:
 - \$350 million to offset one-time FY 2010 rollover savings. The budget continues to defer \$952.6 million in school district payments from FY 2011 to FY 2012.
 - No net increase for formula changes:
 - ⇒ \$52.0 million for an increase of 9,300 students, or 0.9%, for a total of 1,059,800.
 - ⇒ \$5.4 million for a 1.2% inflation adjustment for transportation and charter additional assistance. The state has traditionally inflated the per pupil “base level” as well. That adjustment would have cost another \$61.4 million.
 - ⇒ \$(64.8) million net decrease for (4.6)% property value decline, Truth in Taxation, and Homeowner’s Rebate.
 - ⇒ \$(218.3) million to return to state funding a half-day of kindergarten.
 - ⇒ \$(21.1) million for an additional soft capital reduction.
 - ⇒ \$(10.0) million for an additional reduction to charter school additional assistance.
 - ⇒ \$(6.2) million for the 2nd year impact of the prohibition against state funding of early kindergarten repeaters.

- ⇒ \$(116.1) million decrease to remove one-time funding pertaining to the FY 2009 cash balances reduction.
- ⇒ \$472.1 million to replace one-time federal Education Stabilization monies to support the K-12 formula.
- ⇒ \$(92.8) million for a new one-time federal Education Stabilization Fund reduction and backfill.
- \$(21.9) million to eliminate non-formula programs and \$(2.4) million to fund achievement testing with monies from Proposition 301.

School Facilities Board

- SFB spending would decrease by \$(37.2) million, or (35.5)%. Excluding the one-time savings associated with the debt refinancing, the SFB would increase by \$22.8 million, or 21.8%. The \$37.2 million adjustment includes:
 - ⇒ \$14.8 million to pay for increased debt service associated with past lease-purchase agreements.
 - ⇒ \$8 million to backfill one-time FY 2010 debt service savings.
 - ⇒ \$(60) million reduction associated with refinancing SFB's outstanding debt.
- The budget continues the new construction moratorium enacted for FY 2010, excluding projects financed through federal bonding programs.

Universities

- The Universities' General Fund spending would increase by \$98.6 million, or 12.5%. Excluding one-time rollover adjustments, the Universities' budget would essentially not change from FY 2010.
- University enrollment is projected to be 118,632 full-time equivalent students in FY 2011, representing a comparable increase of 4,255 in-state students, or 5.3% above FY 2010. University enrollment growth is not part of a statutorily-required formula and is not included in the budget. Enrollment growth for in-state students would have cost \$32.2 million.
- The budget includes a \$(1.4) million reduction for the Nursing Pilot Program since the multi-year appropriation has expired.

Community Colleges

- The Community College's General Fund spending would remain unchanged for FY 2011.
- Enrollment is projected to increase by 5,363 full-time equivalent students, or 4.5%, for a total enrollment of 123,797.

Health and Welfare

AHCCCS

- AHCCCS' General Fund spending would increase by \$159.8 million, or 13.1%. Excluding one-time rollover adjustments and federal funds backfill, the AHCCCS budget would increase by \$86 million, or 7.1%.
- Caseload funding would increase by \$109 million.
 - ⇒ Healthcare provider payments would not increase for inflation and utilization. A 5% adjustment would have otherwise cost \$62.5 million.
- The budget would increase by \$117.9 million to replace one-time payment deferral savings.
- The budget includes \$(24.5) million in spending reductions:
 - ⇒ \$(9.0) million for the KidsCare enrollment freeze that went into effect in January 2010
 - ⇒ \$(4.4) million to reduce payments for Graduate Medical Education and Disproportionate Share Hospital payments.
 - ⇒ \$(6.3) million to eliminate certain optional services.
 - ⇒ \$(4.8) million in other agency reductions.
- Under current eligibility levels, total caseloads would be projected to increase 3.1% from June 2010 to June 2011. Total population would reach 1.5 million by June 2011.
- The original FY 2011 budget eliminated Proposition 204 General Fund support on January 2011, thereby resulting in the loss of coverage for 310,000 persons. The new federal health care legislation, however, appears to require the state to retain this coverage. As a result, the budget was revised to retain Proposition 204 General Fund support contingent upon federal extension of the enhanced match rate until the end of FY 2011.

Department of Health Services

- DHS' General Fund spending would decrease by \$(37.8) million, or (7.9)%.
- Caseload funding would increase by \$1.8 million.
 - ⇒ Healthcare provider payments would not increase for inflation and utilization. A 5% adjustment would have otherwise cost \$19.8 million.
- The budget includes a \$(31.0) million spending reduction to Non-Title 19 behavioral health services.
- Under current eligibility levels, the total number of individuals receiving Title 19 behavioral health services would be projected to increase 9.7% through June 2010 and 5.2% from June 2010 to June 2011. The total served population would reach 126,000 by June 2011. Actual change in caseloads will be less, however, due to a change in utilization rates.

Department of Economic Security

- DES General Fund spending would increase by \$102.1 million, or 19.2%. Excluding one-time rollover adjustments and federal funds backfill, the DES budget would increase by \$25.6 million, or 4.8%. The \$102.1 million includes:
 - ⇒ \$19.5 million for an increase of 1,382 new clients, or 6.5%, in the Title 19 Developmental Disabilities Long Term Care program. Total caseload would equal 23,830.
 - ⇒ \$(24.8) million for reducing the lifetime limit for receiving TANF cash benefits from 60 months to 36 months.
 - ⇒ \$(6.1) million for means testing and fee increases for certain TANF cash benefits recipients.
 - ⇒ \$(6.6) million for reductions to Developmental Disabilities programs, adult services, and other programs.
 - ⇒ \$40 million increase in funding conditional on voter approval in November to redirect Early Childhood Development and Health Board monies to the General Fund.
 - ⇒ \$60 million to backfill other Federal Funds, including Fiscal Stabilization Fund monies and the TANF block grant shortfall.
 - ⇒ \$17 million for a technical adjustment related to the payment deferral.
- Besides the conditional enactment, the budget includes no baseline increase for provider payments due to inflation. A 3% adjustment for provider rate inflation and 5% adjustment for medical inflation would have otherwise cost \$8.8 million. .

Early Childhood Development and Health Board

- With approval from the voters at the November 2010 General Election, the budget would repeal the Early Childhood Development and Health Board (also known as First Things First) and its related Regional Councils. Agency operations would terminate on or before June 1, 2011 pursuant to existing sunset procedures.
- Approximately \$325 million of unexpended monies accumulated by First Things First would be transferred to the General Fund.
- The 80¢ tobacco tax would be deposited in the General Fund, and would be separately accounted for and appropriated for health and human services for children. The tobacco tax is expected to generate approximately \$60 million for the General Fund in FY 2011, of which \$40.0 million is set aside for DES.

Criminal Justice

Department of Corrections

- ADC General Fund spending would increase by \$63.0 million, or 7.1%. Excluding federal funds backfill, the ADC budget would increase by \$13 million, or 1.5%. The budget includes:
 - ⇒ \$56.5 million for the start-up of 4,000 new state beds.
 - ⇒ \$41.1 million to annualize the cost of utilizing all 2,000 private beds also authorized by Chapter 261.
 - ⇒ Continuation of a \$20.0 million supplemental to restore a portion of the savings previously taken for adopting the AHCCCS rate structure.
 - ⇒ \$10.8 million for the employer share of health insurance costs.
 - ⇒ \$(17.3) million to implement the statewide salary reduction.
 - ⇒ \$(77.6) million from eliminating all provisional beds in accordance with contract expiration dates.
 - ⇒ \$(1.2) million for other adjustments.
 - ⇒ \$50 million to restore one-time federal funds for correctional officer Personal Services.
- The budget does not include funds for population growth or health care inflation. The budget assumed population growth of 126 inmates/month for a total of 31,248 prisoners in state beds.
- ADC is expected to have a 5,329-bed shortfall by June 2010 and 4,641 by June 2011.

Department of Juvenile Corrections

- DJC General Fund spending would decrease by \$(6.3) million, or (10.0)%.
- The FY 2011 budget establishes the Commission on Juvenile Corrections to review DJC's role in the juvenile justice system and to develop a plan for the possible closure of DJC.
- The budget extends the sunset date for DJC to July 1, 2011.

Judiciary

- The budget decreases Judiciary General Fund spending by \$(5.6) million or (4.7)%. This amount includes:
 - ⇒ \$105,300 for the state share of 2 new Superior Court judgeships.
 - ⇒ \$3.5 million adjustment related to past lease-purchase financing.
 - ⇒ \$(9.1) million to shift the full cost of Maricopa Superior Court judges to Maricopa County.

Environment

Land Conservation Fund

- With approval from the voters at the November 2010 General Election, the budget would transfer the remaining \$123.5 million balance of the Land Conservation Fund to the state General Fund. These funds were set aside for the Growing Smarter program, which provides matching monies to purchase or lease land for open space preservation.

Department of Environmental Quality

- DEQ General Fund spending would decrease by \$(5.7) million, or (44.8)%.
- The budget allows DEQ to increase fees in order to offset its FY 2011 budget reduction.

Parks Department

- Excluding Growing Smarter funds, Parks General Fund spending would remain at \$0.
- Of 23 state parks, 4 are expected to remain closed.
- The budget permanently repeals the State Parks Heritage Fund, diverting \$10 million in Lottery revenues to the General Fund in FY 2011.

Department of Water Resources

- DWR General Fund spending would decrease by \$(9.8) million, or (58.2)%.
- The budget allows DWR to increase fees in order to offset \$5.7 million of its FY 2011 budget reduction.

General Government

Lottery

- Lottery distributions to the General Fund would decrease by \$(49.7) million.
- The budget redirects the following Lottery distributions to the General Fund: County Assistance Fund, Local Transportation Assistance Fund (LTAF), LTAF II, and the State Parks Heritage Fund.

Tourism

- The FY 2011 budget eliminates all General Fund support for the Department of Tourism
- 50% of Tourism Sports Authority monies may be used for administrative expenses. These are funds that would have otherwise gone to Maricopa County tourism promotion.

Financing and Payment Deferral

- The budget includes \$54.8 million for the annual debt service payment for the \$1.04 billion state building sale/lease-back issuances.
- The budget includes the issuance of \$1.59 billion of debt and lease-purchase financing in fiscal years 2010 and 2011:
 - ⇒ \$1.04 billion from the sale/lease-back of state buildings.
 - ⇒ \$450 million of lottery revenue bonds.
 - ⇒ \$100 million to finance new school construction through a newly-authorized federal bonding program.
- The budget includes \$1.31 billion in payment deferrals from FY 2011 to FY 2012, including:
 - ⇒ \$953 million of school district payments
 - ⇒ \$200 million of payments to the University system
 - ⇒ \$118 million to AHCCCS
 - ⇒ \$42 million to DES

State Employee Issues

FTE Positions

- The budget would fund (583.9) fewer Full-Time Equivalent (FTE) Positions than in FY 2010, including:
 - ⇒ 746.3 additional positions to open 4,000 new state prison beds.
 - ⇒ A decline of (1,389) FTE Positions associated with the 5% reductions mandated by last year's budget legislation. In combination with the FTE Position reduction implemented midway through FY 2010, the total 5% reduction is (2,142) FTE Positions.
 - ⇒ An increase of 58.8 FTE Positions due to technical changes.
- These adjustments would bring total appropriated FTE Positions to 48,698.0

Employee Pay and Salary Issues

- The budget includes a \$(45) million reduction to implement a 5% statewide salary reduction, as follows:
 - ⇒ For all state agencies, excluding non-gubernatorial elected officials, a 2.75% pay reduction, along with 6 furlough days (which equate to approximately a 2.3% pay reduction).
 - ⇒ For the offices of non-gubernatorial elected officials, a 5% personnel expenses reduction to be achieved through the use of pay reductions, furloughs, and/or vacancy savings.
- The budget includes \$15 million for the non-university employer share of health insurance costs.

SUMMARY OF BUDGET-RELATED BALLOT MEASURES

| Bill Number | Reference Title | Description of Ballot Measures |
|--|---|---|
| <u>Forty-Ninth Legislature - Sixth Special Session</u> | | |
| SCR 1001 | Temporary Sales Tax; Repeal | <p>Approved by the voters at the May 2010 Special Election, institutes a temporary 1-cent increase in the Transaction Privilege Tax. The increase becomes effective June 1, 2010 and expires May 31, 2013, and will be appropriated as follows: two-thirds for public primary and secondary education; one-third for health and human services and public safety purposes.</p> <p>The tax is estimated to generate \$918,000,000 to the General Fund in FY 2011. In later fiscal years, the tax is forecast to generate \$968,000,000 in FY 2012 and \$1,060,000,000 in FY 2013.</p> |
| <u>Forty-Ninth Legislature - Seventh Special Session</u> | | |
| HCR 2001 | Early Childhood Development; Health; Repeal | <p>If approved by the voters at the November 2010 General Election, would repeal the Early Childhood Development and Health Board (also known as First Things First) and its related Regional Councils. Agency operations would terminate on or before 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-cent tobacco tax would be deposited in the General Fund, and would be separately accounted for and appropriated for health and human services for children.</p> <p>The FY 2011 budget assumes that if approved, a total of \$325,000,000 of unexpended funds would be transferred to the General Fund, along with \$60,000,000 of ongoing tobacco tax revenues. However, a conditional enactment provided that if HCR 2001 is approved by voters, the FY 2011 General Fund appropriation to the Department of Economic Security would be increased by \$40,000,000.</p> <p>The Early Childhood Development and Health Board was created as a result of Proposition 203 in 2006. Since ballot propositions can only be amended to further the purpose of the initiative, the board's elimination is being referred to the ballot.</p> |
| HCR 2002 | Land Conservation Fund; Reversion | <p>If approved by the voters at the November 2010 General Election, would transfer the remaining balance of the Land Conservation Fund to the General Fund. The FY 2011 budget assumes that if approved, a total of \$123,538,600 would be transferred to the General Fund.</p> <p>The Land Conservation Fund was created as a result of Proposition 303 in 1998. The initiative, otherwise known as "Growing Smarter", transferred \$20,000,000 from the General Fund annually to the Land Conservation Fund. Since ballot propositions can only be amended to further the purpose of the initiative, the transfer back to the General Fund is being referred to the ballot.</p> |