

## GENERAL FUND REVENUE

### FY 2012

FY 2012 General Fund Baseline revenues are projected to be \$8.91 billion. As indicated in *Table 1*, the revised FY 2012 revenue estimate is \$577.9 million higher than the estimate from the FY 2012 budget enacted April 2011.

**Table 1**

#### FY 2012 Revenue Forecast (\$ in Millions)

Adopted FY 2012 Revenue Estimate	\$8,331.3
Revised Revenue Forecast	\$577.9
Revised FY 2012 Revenue Estimate	\$8,909.2

The Baseline Revenue projection is \$577.9 million higher than the original forecast due to:

- Not having to pay off a FY 2011 shortfall. The original budget assumed that \$332 million of FY 2012 revenues would pay off a FY 2011 shortfall of that amount. Due to higher than expected growth at the end of the prior fiscal year, the state ran a slight surplus at the end of FY 2011, thereby freeing up \$332 million in the FY 2012 budget.
- The higher FY 2011 revenue base results in higher FY 2012 collections. After excluding all one-time and statutory adjustments, the underlying FY 2012 base revenue growth has been adjusted from 5.6% in the enacted budget to 5.3% in the current Baseline, as discussed below.

The FY 2012 base revenue growth is based on the consensus forecasting process (*see FY 2013 section below*). *Table 2* shows the projected FY 2012 growth rates for the “Big 3” General Fund revenue sources (sales tax, individual and corporate income tax) provided by each of the components comprising the 4-sector consensus forecast. These estimates reflect ongoing revenue prior to tax law changes.

**Table 2**

#### FY 2012 4-Sector Forecast Percentages

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales	6.9%	2.1%	5.8%	5.1%	5.0%
Individual Income	8.2%	0.2%	10.1%	8.8%	6.8%
Corporate Income	15.9%	2.0%	17.8%	10.0%	11.4%
Weighted Average <sup>1/</sup>	8.2%	1.3%	8.6%	7.0%	6.3%

<sup>1/</sup> Once adjusted for minor revenue categories, the base FY 2012 revenue increase is 5.3% .

Based on the weighted average of the components of the 4-sector consensus forecast, “Big 3” General Fund revenue would grow by 6.3% in FY 2012. After adjusting for small revenue categories, the growth rate would be 5.3%. After including tax law changes, the projected growth would be 5.2%.

Based on preliminary tax collections through December, year-to-date ongoing revenues (including the 1-cent temporary sales tax) are 7.4% above the same period in FY 2011.

The individual revenue detail for FY 2012 is found in *Table 8* at the end of this section.

### FY 2013

While base revenues are forecast to grow in FY 2013, one-time factors are forecast to reduce overall FY 2013 collections to \$8.79 billion, or \$(121) million below FY 2012. This net revenue loss includes:

- \$415 million, for a 5.1% gain in base revenues under the 4-sector consensus forecast for FY 2013, as outlined below.
- \$(89) million loss due to an increase in urban revenue sharing.
- \$(91) million loss due to previously enacted legislation (primarily from an increase in the estimated sales tax payment threshold).
- \$(357) million loss as a result of discontinuing fund transfers and county contributions.

The FY 2013 Baseline estimated growth rates for the “Big 3” ongoing revenue categories were developed through a consensus process. The Baseline revenue estimate is based on averaging the results of the following 4 forecasts:

- Finance Advisory Committee panel forecast of January 2012. This independent panel consists of 15 public and private sector economists that meets 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 Baseline model. The model is a simultaneous-equation model consisting of more than 100 equations that are updated on a regular basis to reflect changes in the economy. The model uses more than 200 variables related to Arizona’s economy and is updated quarterly.
- EBR’s conservative forecast model, and
- JLBC Staff projections.

The growth rates from each sector of the forecast are detailed in *Table 3*.

**Table 3**

**FY 2013 4-Sector Forecast Percentages**

	<u>FAC</u>	<u>UA Low</u>	<u>UA Base</u>	<u>JLBC</u>	<u>Avg</u>
Sales	6.8%	1.2%	5.8%	5.0%	4.7%
Individual Income	7.7%	1.6%	7.9%	5.0%	5.6%
Corporate Income	14.2%	2.2%	16.1%	4.9%	9.7%
Weighted Average <sup>1/</sup>	7.8%	1.4%	7.6%	5.0%	5.5%

<sup>1/</sup> Once adjusted for minor revenue categories, the base FY 2013 revenue increase is 5.1%.

In FY 2013, sales tax revenue (excluding the temporary 1-cent tax) is projected to increase by 4.7%. Individual and corporate income tax collections are forecast to grow by 5.6% and 9.7%, respectively. After adjusting for small revenue categories, FY 2013 base revenues would grow by 5.1%, or in dollar terms, \$415 million.

**Revenue Adjustments**

Table 4 provides an overview of base revenue growth rates for FY 2012 and FY 2013 with budget legislation changes (which include a number of tax law changes and revenue adjustments described in more detail in Table 6) and one-time financing sources. The table shows the base and adjusted revenue growth rates based on (preliminary) actual FY 2011 General Fund revenue.

**Prior 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 2012***

For FY 2012, ongoing budget legislation is expected to reduce General Fund revenues by \$(2.5) million. Table 5 provides a summary of budget legislation changes with ongoing revenue impacts in FY 2012. As noted above, the FY 2012 base revenue growth of 5.3% excludes these changes. Further details on these changes can be found on pages 286 and 287 of the *FY 2012 Appropriations Report*.

**Table 4**

**General Fund Revenue Baseline  
For FY 2012 and FY 2013  
(\$ in Millions)**

	<u>FY 2012</u>	<u>%</u>	<u>FY 2013</u>	<u>%</u>
Base Revenue	\$8,065.3 <sup>1/</sup>	5.2%	\$8,479.9	5.1%
Prior Budget Legislation	N/A		(39.3)	
Temporary 1¢ TPT Increase	894.3		912.8	
Urban Revenue Sharing	(424.4)		(513.6)	
<i>One-Time Financing</i>				
Budget Legislation	13.9		(52.0)	
Fund Transfers	318.3		0.0	
County Contributions	38.6		0.0	
Balance Forward	<u>3.2</u>		<u>0.0</u>	
<b>Adjusted Revenue</b>	<b>\$8,909.2</b>	<b>6.3%</b>	<b>\$8,787.9</b>	<b>(1.4)%</b>

<sup>1/</sup> The FY 2012 Base Revenue of \$8.07 billion includes \$(2.5) million in ongoing tax law and revenue changes. Adjusting for these changes, the FY 2012 base increase is 5.3%.

The FY 2012 adjustments remain the same as reported in the *FY 2012 Appropriations Report* with 2 exceptions.

First, the annual debt service payment for the Phoenix Convention Center will be reported as an expenditure, rather than a revenue loss. Second, county contributions in FY 2012 have been reclassified as one-time revenues.

**Table 5**

**FY 2012 Budget Legislation Changes  
With Ongoing Revenue Impact  
(\$ in Millions)**

<u>Prior Year Changes (Year Enacted)</u>	
TPT Business License Fee (10)	\$ (5.4)
Renewable Energy Production Credit (10)	(10.0)
Land Fees (10)	(2.0)
QSCB Revenue (10)	<u>6.2</u>
Subtotal	(11.2)
<u>2011 Tax Law and Revenue Changes</u>	
Arizona Commerce Authority	\$ (6.7)
Internal Revenue Code Conformity	9.2
Housing Trust Fund Redirect	6.0
Agricultural Fees	<u>0.2</u>
Subtotal	\$ 8.7
<b>Total – FY 2012 Revenue Impact</b>	<b>\$ (2.5)</b>

***FY 2013***

Several tax law changes enacted in prior years will either take effect or be further phased-in during FY 2013. As shown in Table 6, ongoing budget legislation is expected to result in a total net revenue loss of \$(39.3) million in FY 2013. In addition, there is \$(52.0) million in one-time tax law changes as described in the *One-Time Financing* section. The combined impact of all tax law changes is \$(91.3) million.

**Table 6**

**Prior Year Budget Legislation With  
Ongoing Revenue Impact in FY 2013  
(\$ in Millions)**

Renewable Energy Production Credit	\$(10.0)
Arizona Commerce Authority	(10.7)
Lottery Decrease (Debt Service)	(16.8)
QSCB Revenue	<u>(1.8)</u>
<b>Total – FY 2013 Revenue Impact</b>	<b>\$(39.3)</b>

Below is a description of just the ongoing revenue changes.

- Renewable Energy Production Credit – Laws 2010, Chapter 312 provided a tax credit for the production of electricity using renewable energy. The new credit allows a qualified producer of renewable energy to receive an individual or corporate income tax credit of up to \$2 million per year, beginning in FY 2012. Total credits are capped at \$20 million annually. The revenue loss in FY 2012, the first year the credit is available to businesses, is estimated to be \$(10.0) million. The revenue loss in FY 2013 is expected to increase an additional \$(10.0) million thus reaching the total cap of \$20 million.
- Arizona Commerce Authority – Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 created the Arizona Commerce Authority (ACA) and enacted several changes to individual and corporate income taxes, as well as property taxes, phased in between FY 2012 and FY 2018 (*for more detail, see page 291 of the FY 2012 Appropriations Report*). The ACA legislation is estimated to reduce General Fund revenues by \$(10.7) million in FY 2013. This amount includes \$(4.0) million for the 10% increase of the university-related research and development tax credit and \$(6.7) million for the FY 2013 incremental cost of further phasing in the \$3,000 new job tax credit.
- Lottery Decrease (Debt Service) – Laws 2010, 6<sup>th</sup> Special Session, Chapter 4 authorized the Arizona Department of Administration (ADOA) to issue a 20-year, \$450 million lottery revenue bond by December 31, 2010 to be deposited into the General Fund. The payments are made from Lottery revenues that would have otherwise been deposited into the General Fund. The FY 2011 bond payment was \$21.4 million, which was interest only. The interest-only bond payment in FY 2012 is expected to be \$20.7 million and the principal and interest payment for FY 2013 is expected to be \$37.5 million. This will result in the General Fund receiving \$(16.8) million less in lottery revenues in FY 2013.
- QSCB Revenue – Laws 2010, 7<sup>th</sup> Special Session, Chapter 8 authorized the School Facilities Board (SFB) to enter into a maximum of \$100 million worth of lease-purchase transactions through the end of

FY 2011, to be financed through a federal bonding program known as Qualified School Construction Bonds (QSCB). The program provides a direct federal interest subsidy based on a rate determined by the U.S. Department of Treasury. SFB issued \$91.3 million worth of QSCBs at an annual interest rate of 6.0%, with a federal subsidy of 4.86%. The FY 2013 QSCB revenue of \$4.4 million reflects the federal subsidy for interest due for the FY 2013 debt service payment. This is a decline of \$(1.8) million from the prior year, as last year's payment included interest that accrued from the issuance in early FY 2011.

### Temporary 1-Cent TPT Increase

At the May 2010 Special Election, voters approved a 1-cent increase of the TPT (sales tax) for 3 years. The temporary TPT increased General Fund revenues by \$864.5 million in FY 2011 and is estimated to generate additional revenues of \$894.3 million in FY 2012 and \$912.8 million in FY 2013, as shown in *Table 4*.

### 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*, total URS distributions will increase from \$424.4 million in FY 2012 to \$513.6 million in FY 2013. This URS increase represents a FY 2013 General Fund revenue loss of \$(89.2) million relative to FY 2012.

### One-Time Financing

As shown in *Table 4*, one-time financing sources have been used to help provide a balanced budget. The following is a discussion of one-time financing sources included in the budget for FY 2012 and FY 2013.

#### *FY 2012*

The \$370.7 million in one-time financing sources for FY 2012 includes:

Budget Legislation – One-time net revenues of \$13.9 million, which include:

- Tax Recovery – Laws 2011, Chapter 28 established a tax recovery program for the month of September 2011. This tax recovery program, which applied to all taxes administered or collected by the Department of Revenue (DOR) except estate and property taxes, was originally estimated to generate \$22.0 million in new General Fund revenues in FY 2012. The actual amount generated by the program, however, was \$(9.1) million less, or \$12.9 million.
- DPS GIITEM Backfill – Laws 2011, Chapter 308 appropriated \$1.0 million from the General Fund to

DPS in FY 2012 for County Assistance. These monies are to be provided to Pinal County for purposes of purchasing equipment and supplies related to border security. Chapter 308 also allocated a portion of a new fee to the Gang and Immigration Intelligence Team Enforcement (GIITEM) Fund. Notwithstanding the new Chapter 308 allocation, the act also stipulated that the first \$1.0 million that otherwise would have been put into the GIITEM Fund in FY 2012 be diverted to the General Fund. For this reason, Chapter 308 provides a one-time revenue increase of \$1.0 million in FY 2012.

Fund Transfers – Laws 2011, Chapter 24 provides for a total of \$318.3 million in fund transfers in FY 2012. In addition to the \$256.1 million of fund transfers delineated in the *FY 2012 Appropriations Report (see pages 337-347)*, this amount includes 2 transfers totaling \$62.2 million from the Vehicle License Tax (VLT) associated with the shift of funding for the Arizona Department of Transportation’s (ADOT) Motor Vehicle Division (MVD) and Department of Public Safety’s (DPS) Highway Patrol to the Highway User Revenue Fund (HURF).

County Contributions – Laws 2011, Chapter 28 requires the 5 largest counties to make cash contributions to the state General Fund totaling \$38.6 million, as shown in *Table 7* below.

<b>Table 7</b>	
<b>FY 2012 County Contributions</b>	
<b>(\$ in Millions)</b>	
<b><u>Cash Contribution By County</u></b>	<b><u>FY 2012</u></b>
Maricopa	\$ 26.4
Pima	6.8
Pinal	2.6
Yavapai	1.5
Mohave	<u>1.4</u>
<b>Total - County Contributions</b>	<b>\$ 38.6</b>

Balance Forward – Beyond the \$370.7 million in one-time financing sources, the original FY 2012 budget assumed that the FY 2011 ending balance would have a \$(332.3) million shortfall. This amount was then to be paid off in FY 2012. Due to higher than expected revenues, the FY 2011 balance forward into FY 2012 was \$3.2 million.

***FY 2013***

The \$(52.0) million loss of one-time financing sources in FY 2013 includes:

TPT Estimated Payment – Laws 2010, 7<sup>th</sup> Special Session, Chapter 12 lowered the threshold for estimated TPT payments from \$1.0 million in annual TPT liability to \$100,000 for FY 2010 through FY 2012. Chapter 12 generated an estimated one-time General Fund revenue gain of \$48.0 million in FY 2010 and is expected to result in a one-time revenue loss of \$(52.0) million in FY 2013 when the estimated payment threshold reverts to \$1.0 million.

Fund Transfers and County Contributions – The Baseline does not continue any fund transfers or county cash contributions. This represents a decrease of \$(356.9) million from the FY 2012 amount. There is, however, no adjustment in the appropriation authority of dedicated funds.

While the Baseline does not continue the transfers, it does continue the policy of funding the MVD and Highway Patrol from HURF. As a result, local governments will continue to see a \$62.2 million reduction in their HURF distributions. The \$62.2 million will instead accrue to the State Highway Fund for statewide highway construction projects.

Table 8

## GENERAL FUND REVENUE - FY 2012-FY 2013

FORECAST REVENUE GROWTH								
(\$ in Thousands)								
	PREL. ACT. FY 2011	% CHANGE PRIOR YR	FORECAST FY 2012	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR	FORECAST FY 2013	% CHANGE PRIOR YR	\$ CHANGE PRIOR YR
<b>Taxes:</b>								
Sales and Use	3,448,017.0	1.9%	3,613,884.5	4.8%	165,867.5	3,785,118.1	4.7%	171,233.6
Income - Individual	2,863,658.0	18.5%	3,058,262.3	6.8%	194,604.3	3,230,320.7	5.6%	172,058.4
- Corporate	560,235.7	35.6%	617,689.3	10.3%	57,453.6	677,336.8	9.7%	59,647.5
Property	20,333.5	0.3%	20,000.0	-1.6%	(333.5)	20,000.0	0.0%	0.0
Luxury - Tobacco	25,066.9	-2.9%	24,665.8	-1.6%	(401.1)	25,000.0	1.4%	334.2
- Liquor	28,532.6	-3.4%	28,994.9	1.6%	462.3	30,000.0	3.5%	1,005.1
Insurance Premium	413,742.5	2.0%	400,000.0	-3.3%	(13,742.5)	406,000.0	1.5%	6,000.0
Estate	437.4	20.2%	200.8	-54.1%	(236.6)	0.0	-100.0%	(200.8)
Other Taxes	4,197.3	189.9%	4,500.0	7.2%	302.7	5,000.0	11.1%	500.0
Sub-Total - Taxes	7,364,220.9	10.0%	7,768,197.6	5.5%	403,976.7	8,178,775.6	5.3%	410,578.0
<b>Other Non-Tax Revenues:</b>								
Lottery	81,440.0	20.1%	75,430.4	-7.4%	(6,009.6)	75,103.0	-0.4%	(327.4)
Licenses, Fees and Permits	28,228.9	4.5%	28,972.0	2.6%	743.1	31,000.0	7.0%	2,028.0
Interest	4,557.5	2055.9%	5,000.0	9.7%	442.5	5,500.0	10.0%	500.0
Sales and Services	37,311.6	8.3%	38,000.0	1.8%	688.4	40,000.0	5.3%	2,000.0
Other Miscellaneous	33,573.6	7.3%	41,000.0	22.1%	7,426.4	42,000.0	2.4%	1,000.0
Transfers and Reimbursements	26,516.5	-22.8%	33,213.8	25.3%	6,697.3	34,000.0	2.4%	786.2
Disproportionate Share Revenue	87,578.6	367.8%	75,449.0	-13.8%	(12,129.6)	73,531.7	-2.5%	(1,917.3)
Sub-Total - Other Non-Tax	299,206.6	39.9%	297,065.2	-0.7%	(2,141.4)	301,134.7	1.4%	4,069.5
<b>Subtotal On-Going Revenue</b>	<b>7,663,427.5</b>	<b>10.9%</b> <sup>1/</sup>	<b>8,065,262.8</b>	<b>5.2%</b> <sup>2/</sup>	<b>401,835.3</b>	<b>8,479,910.3</b>	<b>5.1%</b>	<b>414,647.5</b>
Enacted Tax Law Changes	0.0	N/A	0.0	N/A	0.0	(39,265.4)	N/A	(39,265.4)
3-Year 1¢ TPT Increase	864,501.7	N/A	894,332.7	3.5%	29,831.0	912,794.9	2.1%	18,462.2
<b>Subtotal w/Tax Law Changes</b>	<b>8,527,929.2</b>	<b>23.4%</b>	<b>8,959,595.5</b>	<b>5.1%</b>	<b>431,666.3</b>	<b>9,353,439.8</b>	<b>4.4%</b>	<b>393,844.3</b>
Urban Revenue Sharing (URS)	(474,006.5)	-24.6%	(424,423.4)	-10.5%	49,583.1	(513,584.1)	21.0%	(89,160.7)
<b>Subtotal w/Tax Law Changes/URS</b>	<b>8,053,922.7</b>	<b>28.2%</b>	<b>8,535,172.1</b>	<b>6.0%</b>	<b>481,249.4</b>	<b>8,839,855.7</b>	<b>3.6%</b>	<b>304,683.6</b>
<b>One-Time Financing Sources:</b>								
Budget Legislation	38,000.0	-75.4%	13,867.4	-63.5%	(24,132.6)	(52,000.0)	-475.0%	(65,867.4)
Fund Transfers	257,181.1	-33.6%	318,277.7	23.8%	61,096.6	0.0	-100.0%	(318,277.7)
County Contributions	34,600.0	57.3%	38,600.0	11.6%	4,000.0	0.0	-100.0%	(38,600.0)
Sub-Total - One-Time Financing Sources	329,781.1	-83.9%	370,745.1	12.4%	40,964.0	(52,000.0)	-114.0%	(422,745.1)
<b>Subtotal - Revenues</b>	<b>8,383,703.8</b>	<b>0.7%</b>	<b>8,905,917.2</b>	<b>6.2%</b>	<b>522,213.4</b>	<b>8,787,855.7</b>	<b>-1.3%</b>	<b>(118,061.5)</b>
Balance Forward	(5,723.0)	-98.8%	3,243.0	-156.7%	8,966.0	0.0	-100.0%	(3,243.0)
<b>Total - Resources</b>	<b>8,377,980.8</b>	<b>6.7%</b>	<b>8,909,160.2</b>	<b>6.3%</b>	<b>531,179.4</b>	<b>8,787,855.7</b>	<b>-1.4%</b>	<b>(121,304.5)</b>

1/ The 10.9% FY 2011 increase included \$59.3 million in tax law and other revenue changes. Adjusting for these changes, the base FY 2011 increase is 10.1%.

2/ The 5.2% FY 2012 increase includes \$(2.5) million in tax law and other revenue changes. Adjusting for these changes, the base FY 2012 increase is 5.3%.