

## **The FY 2005 State General Fund Budget – A Narrative Summary**

### **Overall State Spending**

- The FY 2005 General Fund budget as transmitted to the Governor would be \$7.36 billion. Of this amount, \$7.16 billion represents on-going spending and another \$195 million reflects one-time payments.
- General Fund spending is growing by \$858 million above FY 2004, an increase of 13.2%. Excluding one-time items, permanent spending is growing by \$565 million, or 8.6%.
- The FY 2005 ending balance would be \$2.4 million.
- The overall state budget, including both appropriated and non-appropriated funds, is projected to be \$21 billion.

### **General Fund Revenues**

- The FY 2005 General Fund permanent revenue forecast is \$6.88 billion, an 8.3% increase over the current FY 2004 forecast.
- The budget also has \$481 million in one-time revenues, including:
  - ⇒ \$243 million from a projected FY 2004 surplus,;
  - ⇒ \$118 million in vehicle license tax monies that otherwise would have been deposited into the Highway Fund;
  - ⇒ \$76 million in income tax withholding adjustments; and
  - ⇒ \$44 million in transfers from dedicated funds to the General Fund.

### **Structural Shortfall**

- The structural shortfall is the difference between permanent revenues and permanent spending. The state can have a balanced budget, but a structural shortfall, if it uses one-time revenues and/or one-time spending reductions in its budget plan.
- The state's structural shortfall is \$283 million when comparing permanent revenues and spending. The shortfall grows to \$323 million after considering that the state's school facility building renewal formula is not fully funded.
- The FY 2005 budget continues a) the \$191 million K-12 "rollover" which defers state payments to school districts to the following fiscal year and b) the lease purchase of \$250 million in new school construction. The structural shortfall grows to \$764 million if these two items are not considered permanent financing mechanisms.

### **State Employee Pay**

- State employees will receive a \$1,000 increase in their annual salary as of July 1, 2004. The University system will be allowed to determine the distribution plan for their employees.
- Instead of the \$1,000 adjustment, DPS officers will have an average pay raise of \$3,500 while nurse salaries will rise by \$2,000.
- The General Fund cost of the salary adjustments is \$44.0 million.

## **Education**

### **K-12 Operating Expenses**

- Direct state assistance to the operations and maintenance of K-12 schools will grow by \$195 million, or 6.5%.  
The K-12 budget will fund 969,000 students, an increase of 30,200 from the prior year.
- The budget contains an across-the-board 2% inflation adjustment in state assistance.
- The budget adds \$25 million (including \$4 million in capital assistance) for full day kindergarten programs to serve schools with more than 90% low income students.
- Achievement testing funding is increased by \$1.8 million to combine the current Stanford and AIMS tests.

### **K-12 Capital Expenses**

- The budget continues to provide \$250 million in lease purchase financing for new schools. This amount will fund 38 new school projects that will house 27,300 students.
- \$100 million is set aside to finish the state's \$1.3 billion program to repair schools (known as deficiency corrections). Of the \$100 million, \$75 million is from cash and \$25 million is from bonding. Cash financing will replace the bonding if extra state revenues materialize.
- School facility building renewal will receive a minimum of \$30 million. In addition, school districts will receive another \$40 million for repairs if extra state revenues materialize.

### **Universities**

- The total University General Fund budget of \$787 million will fund 102,300 students in FY 2005. General Fund spending will grow by \$38 million, or 5.1%.
- The budget funds projected FY 2005 enrollment growth except at ASU-East. Of the \$38 million increase in General Fund spending, \$22.2 million is for salary adjustments.

### **Community Colleges**

- The total Community College General Fund budget will grow by \$16 million, or 12.0%. This amount provides 100% of the statutory funding formula.
- The budget increase will fund 7,200 added full time equivalent students and bring total enrollment to 109,800.

## **Health and Welfare**

### **AHCCCS**

- AHCCCS' General Fund budget will increase by \$180 million, or 26.6%, to a level of \$858 million. Of the \$179 million, \$79 million replaces a one-time increase in the federal share of program costs in FY 2004.
- AHCCCS will provide indigent health care services to 24,000 additional recipients. Total caseload is expected to be 983,000. Health care provider payments will increase by an average of 7.5% for inflation.

### **Department of Health Services**

- DHS funding will increase by \$42 million, or 12.9%. Of this amount, \$17 million will replace one-time increases in the federal share of program costs. Another \$18 million will fund the behavioral health component of federal indigent health care services.
- The Department also receives \$1.5 million for 66,000 added doses of children vaccines, \$150,000 to distribute scorpion anti-venom and \$100,000 for a diabetes education program.

### **Department of Economic Security**

- DES funding will increase by \$116 million, or 23.9%. Of this amount, \$48 million replaces the use of one-time monies. The remainder includes:
  - ⇒ \$23 million of new funding for 1,500 new clients in the Developmental Disabilities program. Of this amount, \$6.4 million is dedicated for provider rate adjustments.
  - ⇒ \$16.2 million for new Child Protective Services funding and related Attorney General staff.
  - ⇒ \$8.7 million to double the current Healthy Families program.
  - ⇒ \$9.7 million to expand Child Care subsidies. The program is expected to serve 40,100 children in FY 2005, an increase of 2,400 from FY 2004. In addition, the program will receive another \$5 million if additional state revenues materialize. In that circumstance, the caseload would increase to 41,400.
  - ⇒ \$4.7 million for welfare cash benefit caseloads.
  - ⇒ \$3.5 million for 65 new job training staff.

## **Criminal Justice**

### **Department of Corrections**

- The Department will receive a total of \$621 million to incarcerate 33,500 inmates by the end of FY 2005. The increased funding of \$14 million will allow 1,800 new beds to open during the year.
- ADC is expected to have a bed shortfall of 2,600 by the end of FY 2005. This compares to a shortfall of 4,100 prior to the added beds authorized in the fall 2003 Special Session.

### **Department of Juvenile Corrections**

- DJC funding will increase by \$4.1 million, or 6.4%, to address issues identified in its federal audit as well as other staffing issues.

### **Department of Public Safety**

- Sworn officer pay will increase by an average of \$3,500.
- The budget added \$2 million to improve communications access between law enforcement agencies. This initiative will receive another \$3 million if added state revenues materialize.

## **Transportation**

### **Aviation Fund**

- The state's airports will receive an additional \$7 million as all flight property tax collections will be deposited into the Aviation Fund
- Vehicle License Tax proceeds of \$118 million will be transferred to the General Fund rather than the Highway Fund.

## **Other Issues**

### **Military Bases**

- The effort to retain the state's current military bases will receive \$5 million annually.

### **Office of Tourism**

- The Office of Tourism will receive its full formula allocation, which will increase its FY 2005 General Fund spending level by \$2.6 million, or 28.9%.

### **“Triggers”**

- The budget provides conditional appropriations if excess revenues materialize at the end of FY 2004 or the first 6 months of FY 2005.
- The first extra \$50 million would be allocated to School Facilities Building Renewal (\$30 million), Child Care (\$5 million), and the state employer share of employee health insurance costs (\$15 million).
- The next \$52 million is set aside for more Building Renewal (\$10 million), more health insurance costs (\$8 million), elimination of school repair bonding (\$25 million), the Department of Public Safety's communication system (\$3 million), and the Rainy Day Fund (\$6 million).
- After the first two triggers, additional revenues would be split in half between the Rainy Day Fund and the ending cash balance.