

State of Arizona  
 Governor Brewer Budget Proposal  
 FY 2010 General Fund Sources and Uses

Sources

Beginning Balance	1,000.0
FY 2009 Shortfall	(200,000.0)
Total Revenues	7,764,360.9
Urban Revenue Sharing	<u>(628,649.1)</u>
Total Sources	6,936,711.8

Uses

FY 2009 Original Operating Appropriation	9,961,693.4
FY 2010 Baseline Adjustments (Caseload, etc.)	944,609.0
Capital	10,000.0
Statewide Issues/ Unallocated Items	46,401.9
Administrative Adjustments	72,731.4
Revertments	<u>(106,241.6)</u>

Net Uses	<u>10,929,194.1</u>
Net Budget Position	(3,992,482.3)

Solutions

Operating Budget Reductions	963,795.1
Federal Stimulus-Medicaid	809,527.2
Lottery Securitization	450,000.0
Fund Transfers	198,866.6
State Equalization Tax	164,533.3
Sale/Leaseback of State Assets	200,000.0
Other Miscellaneous Adjustments	67,950.0
Health/Social Service Rollover	103,520.5
Unclaimed Property	78,000.0
New Revenues-One Cent Sales Tax	<u>1,000,000.0</u>

Total Solutions	<u>4,036,192.7</u>
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Adjusted Ending Balance	43,710.4
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# Sources and Uses of Funds

**T**HE SOURCES AND USES of funds document presents budget data on projected revenue sources and expenditures for the General Fund.

FY 2010 sources and uses includes OSPB projections of taxes, fees and other General Fund revenue sources and estimates of expenditures to establish the size of the FY 2010 problem. It then lists a series of Governor Brewer's proposed solutions to the problem.

## SOURCES OF FUNDS

*Revenues.* The total revenue forecast for FY 2010 of \$7.764 billion is 19% less than FY 2008 actual revenues and is less than State revenues in FY 2005.

In FY 2009, revenues have fallen dramatically in all of the big 3 revenue categories. Forecasting FY 2009 based on 10 months of actual data, individual income tax is projected to decline 25% from FY 2008. FY 2009 Transaction Privilege Tax (TPT), or sales tax, is forecast to fall 13% and corporate income tax is forecast to drop 26.6% from FY 2008. FY 2010 is forecast to remain weak, with the big 3 rising by only 0.5% from FY 2009.

## USES OF FUNDS

*FY 2009 Original Operating Appropriation.* The budget includes a starting point for expenditures of \$9.962 billion for the original FY 2009 operating appropriations.

*FY 2010 Baseline Adjustments.* The Executive's \$944.6 million recognizes that the demand for health care and education continue to grow rapidly within the state. These two areas alone are responsible for over 85% of the growth in baseline adjustments.

*Capital.* The budget includes \$10.0 million as a state match for \$18.7 million in federal stimulus funds that will fund the construction of the Southern Arizona Veteran's Home in Tucson.

*Statewide Issues.* The budget includes an estimate of \$46.4 million for a variety of statewide issues in FY 2010, including employee health insurance costs, retirement payment increases, lease-purchase

payments for state buildings, and risk management payments.

*Administrative Adjustments and Reversions.* The budget includes an estimate of \$72.7 million for administrative adjustments in FY 2010, which reflect funds that have been encumbered by agencies for payment of obligations but are carried over into another fiscal year. Additionally, the budget incorporates projections of \$106.2 million of unexpended or unencumbered funds to be reverted to the General Fund in FY 2010.

## SOLUTIONS

The Executive proposes \$4.0 billion in solutions for the FY 2010 budget problem which, after accounting for an expected \$200 million shortfall in FY 2009, leaves a \$43.7 million ending balance.

*Operating Budget Reductions.* The budget includes \$963.8 million for reductions to agency operating budgets. Federal stimulus money for education is used to mitigate the cuts to school districts, universities and community colleges.

*Federal Stimulus-Medicaid.* The FY 2010 budget includes \$809.5 million of the \$1.8 billion total expected to be received from the federal stimulus Medicaid match funds. The stimulus bill provides, given Arizona's growth in unemployment, a 10.17% increase over the standard federal match.

*Lottery Securitization.* Securitizing the General Fund stream of revenues from the Lottery would provide \$450 million of one-time revenues in FY 2010.

*State Equalization Tax.* The basic state aid formula includes a state-mandated "county equalization" tax collected by the counties. This tax was renamed as the "State Equalization Assistance Property Tax" by Laws 2006, Chapter 354, which also set that rate at zero for FY 2007 through FY 2009.

The Legislature has to take action to repeal the tax since it is scheduled to return in FY 2010. The Executive proposal would phase out the tax by 2012. The Executive would bring back two-

thirds of the tax in FY 2010, netting the State \$164.5 million. One-third of the original amount would be assessed in FY 2011, and then none in FY 2012.

*Sale/Leaseback of State Assets.* The budget includes \$200 million for the sale and leaseback of state owned buildings, including prisons and Department of Administration facilities.

*Other Miscellaneous Adjustments.* The budget includes \$67.9 million for a variety of changes, including various fee increases, a new revenue generating plan for the Department of Revenue, and elimination of the Department of Racing allocation from unclaimed property (which is replaced in the agency's budget with General Fund appropriation).

*Health/Social Service Rollover.* Of the \$103.5 million for the health and social service rollovers, the budget includes \$60.3 million for the rollover of the June capitation payment for AHCCCS. It also includes a draw-down of additional federal funds, which will fund the DHS supplemental need in Behavioral Health Services, as well as reimburse the General Fund with an additional \$20 million. A shift from accrual-basis to cash-basis accounting within DES, which will generate a one-time benefit of \$15.6 million in FY 2009 and an additional gain of \$7.6 million in FY 2010. These savings are net of a \$9.4 million General Fund reinstatement for developmental disability programs, which had been reduced as a result of the lump sum reductions made in FY 2009.

*Unclaimed Property.* The budget includes \$78 million that results from the Executive recommendation to shorten the period before which property is declared unclaimed.

*New Revenues-One Cent Sales Tax.* The budget includes \$1.0 billion in new revenues from a proposed temporary increase of 1¢ in the transaction privilege tax (TPT), commonly referred to as the sales tax. The Executive proposes that this increase be 1) limited to 36 months and 2) offset over ten years by other targeted tax reductions.

