

FY 2002 GENERAL FUND ADJUSTMENTS

	<u>Original Budget 1/</u>	<u>Change</u>	<u>Revised Budget 2/</u>
REVENUES			
Balance Forward	\$103,141,300	(\$89,807,300)	\$13,334,000
Base Revenue	6,563,860,600		
2nd Special Session			
- Revised Forecast		(675,669,100)	
- Fund Transfers		218,911,200	
- BSF Transfer		119,000,000	
- Other Revenues		129,649,000	
3rd Special Session			
- Revised Forecast		(194,561,100)	
- Lottery Adjustment		10,000,000	
- Fund Transfers		98,750,000	
- BSF Transfer		54,511,100	
2nd Regular Session		4,374,900	
Subtotal		<u>4,374,900</u>	<u>\$6,328,826,600</u>
TOTAL REVENUES	\$6,667,001,900		\$6,342,160,600
EXPENDITURES			
Operating Expenditures	6,573,624,600		
1st Special Session		8,373,000	
2nd Special Session		(195,870,000)	
3rd Special Session		(26,304,700)	
2nd Regular Session		4,374,900	
Revised Total		<u>4,374,900</u>	<u>\$6,364,197,800</u>
Capital Outlay	10,338,400		
2nd Special Session		(889,700)	
Revised Total		<u>(889,700)</u>	<u>\$9,448,700</u>
Administrative Adjustments	33,000,000		
3rd Special Session		(10,000,000)	
Revised Total		<u>(10,000,000)</u>	<u>\$23,000,000</u>
Revertments	(71,169,300)		
2nd Special Session		(4,316,600)	
3rd Special Session		20,000,000	
Revised Total		<u>20,000,000</u>	<u>(\$55,485,900)</u>
TOTAL EXPENDITURES	\$6,545,793,700		\$6,341,160,600
ENDING BALANCE	\$121,208,200		\$1,000,000

1/ The original forecast reflects the FY 2002 budget as of the adjournment of the 2001 Regular Session.

2/ This General Fund statement reflects the status of the FY 2002 budget as of the adjournment of the 2002 Regular Session.

1st Special Session — The Legislature approved a supplemental appropriation of \$8.4 million to AHCCCS for the State Emergency Services Program.

2nd Special Session — FY 2002 General Fund revenues fell significantly below the original budget forecast, mostly due to the slowdown in the economy

after the terrorist attacks of September 11, 2001. The 2nd Special Session was called in November 2001 and lasted through December 2001. The expected revenue shortfall at the time was approximately \$669 million. The shortfall was addressed as follows:

	\$ in M
Fund Transfers	\$219
Budget Stabilization Fund Transfer	119
Other Revenue Changes	130
Net Spending Reductions	201
Total - 2 nd Special Session	\$669

With these changes, the General Fund FY 2002 ending balance was estimated to be \$16 million.

The fund transfers represented shifts of monies from dedicated funds to the General Fund. They included \$142 million related to the School Facilities Board and \$30 million from the Corrections Fund. The Budget Stabilization Fund consists of monies set aside in earlier good economic times to help balance the budget during economic downturns. The fund had an estimated balance of \$180 million prior to the transfer.

The two primary components of the other revenue changes category were \$59 million in new federal disproportionate share revenue and \$60 million from increased state income tax withholding rates. The rates were increased to offset a loss of revenue that would have otherwise occurred due to a decrease in federal withholding rates.

The primary source of the spending reductions was a 4.5% lump sum reduction in agency budgets, excluding entitlement funding. Other significant reductions included \$35 million in monies set aside in the AHCCCS Proposition 204 Budget Neutrality Fund, an elimination of the \$16 million Budget Stabilization Fund repayment requirement and a \$12 million shift of Department of Public Safety Highway Patrol expenses to the Highway Fund.

3rd Special Session — Subsequent to the 2nd Special Session, the economy continued to perform below expectations and revenue estimates were reduced by another \$179 million. The 3rd Special Session was called in February 2002 and was completed in March 2002. The shortfall was addressed as follows:

	\$ in M
Fund Transfers	\$99
Budget Stabilization Fund Transfer	54
Other Revenue Changes	10
Net Spending Reductions	26
Net Revertments	(10)
Total - 3 rd Special Session	\$179

The FY 2002 ending balance at the end of the 3rd Special Session was estimated to be \$1 million.

The fund transfers included \$67 million related to the School Facilities Board and a \$15 million reimbursement of the General Fund for Department of Public Safety expenses in FY 2001.

The Budget Stabilization Fund transfer of \$54 million consisted of two components. First, the 2nd Special Session transfer of \$119 million was increased to \$166 million, for an increase of \$47 million. In addition, Chapter 2, Section 14 required any remaining FY 2002 deficit to be eliminated by further transfers from the Budget Stabilization Fund. The other 3rd Special Session actions did not totally eliminate the \$179 million deficit. At the time, the dollar value of the “automatic balancer” was estimated to be \$7 million. This amount could further change depending on final FY 2002 revenues.

The Other Revenue Change was additional Lottery deposits to the General Fund.

The net spending reductions included \$39 million in supplemental funding and \$65 million in ex-appropriations. The supplementals were for the Department of Education, AHCCCS and the Department of Health Services. The primary spending change was a revision to the state employee pay adjustment. Under the original FY 2002 budget, employees were scheduled to receive a 5% increase, with a minimum adjustment of \$1,500, on April 1, 2002. In the 3rd Special Session, the pay increase was deferred to June 8, 2002 and was limited to \$1,450 per employee. This change saved \$20 million.

The 3rd Special Session legislation also increased the agency lump sum reduction from 4.5% to 4.75% for additional savings of \$6 million.

The net revertment estimate was also lowered at a cost of \$10 million due to an anticipated reduction in unspent monies at the end of the year.

Overall FY 2002 Shortfall and Solutions — The overall FY 2002 revenue shortfall was \$848 million. The 2nd and 3rd Special Sessions in combination eliminated the shortfalls through the following means:

	\$ in M
Fund Transfers	\$318
Budget Stabilization Fund Transfer	173
Net Spending Reductions	227
Other Revenue Changes	140
Net Revertments	(10)
Total	\$848

2nd Regular Session — The Legislature approved an additional \$4 million in funding in Chapter 321, an omnibus supplemental bill, and Chapter 6, the named claimants bill. This additional spending was offset by unanticipated revenues of the same amount.