

## GENERAL FUND REVENUE

### Summary of General Fund Forecast

The legislatively-enacted budget is built on a revenue forecast that assumes that both the national and Arizona economies will show signs of recovery from the recent recession in the early part of FY 2003. Nationally, there are early signs the recovery has already begun, and it is assumed that the Arizona economy will slowly begin to exhibit the same signs by the end of CY 2002.

The forecast reflects General Fund baseline revenue growth rates of (5.5)% in FY 2002 and 4.2% in FY 2003. Note that the baseline revenue estimates reflect the forecasted "natural" growth in revenues, prior to accounting for any newly effective or phased-in legislation.

After adjusting for tax law and other revenue changes, the net adjusted revenue growth rate is projected to be 2.4% in FY 2002 and (2.4)% in FY 2003 (including urban revenue sharing). In dollar terms, net adjusted revenues are expected to equal \$6,328.8 million in FY 2002, and \$6,173.9 million in FY 2003.

The detailed revenue forecast appears in [Table 3](#) and [Table 4](#) at the end of this section. These figures include baseline and adjusted forecasts for each revenue category.

### Tax Law and Revenue Changes

The adjusted revenue forecast provided in [Table 4](#) includes a net increase of \$484.4 million for FY 2002 tax law and revenue changes over FY 2001. In comparison to FY 2002, tax law and revenue changes total \$(417.7) million for FY 2003.

As noted in [Table 1](#) below, these revenue adjustments are the net result of tax reductions and revenue changes enacted by several regular and special sessions of the Legislature.

The revenue increase of \$484.4 million for FY 2002 consists primarily of revenue enhancements recently enacted by the Legislature (mostly fund transfers) of \$506.0 million, partially offset by tax reductions of \$(21.6) million enacted in previous sessions of the Legislature.

The revenue decrease of \$(417.7) million in FY 2003 is due primarily to one-time fund transfers in FY 2002.

The estimates of FY 2002 tax law and revenue changes are new changes over and above already enacted FY 2001 tax laws, and the FY 2003 changes are over and above FY 2002. More details of legislative changes are provided in [Table 5](#) at the end of this narrative.

**Table 1**

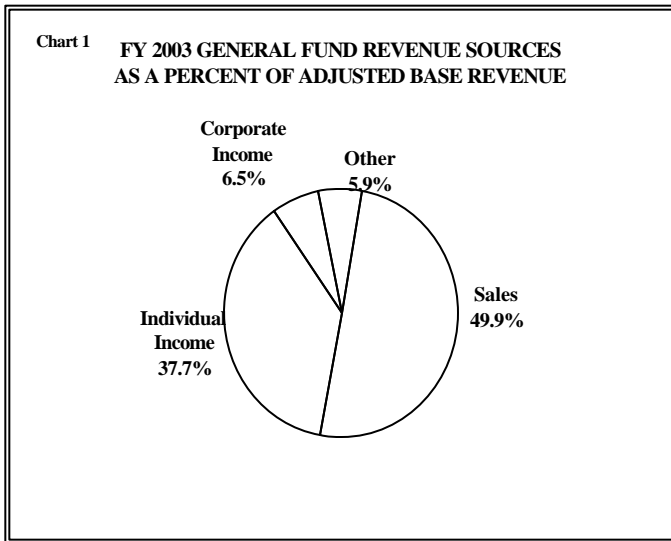
#### Legislative and Revenue Changes <sup>1/</sup> (\$ in Thousands)

	FY 02	FY 03
Enacted Prior to January 2002		
-Tax Law Changes	(91,633.8)	92,593.2
-Other Revenue Changes	<u>(59,200.0)</u>	<u>(69,244.2)</u>
Subtotal	(150,833.8)	23,349.0
45 <sup>th</sup> Legislature - 2 <sup>nd</sup> Regular, 2 <sup>nd</sup> and 3 <sup>rd</sup> Special Sessions		
-Tax Law Changes	70,000.0	(86,500.0)
-Other Revenue Changes	<u>565,196.2</u>	<u>(354,586.8)</u>
Subtotal	635,196.2	(441,086.8)
Subtotal – Tax Law Changes	(21,633.8)	6,093.2
Subtotal – Other Revenue Changes	<u>505,996.2</u>	<u>(423,831.0)</u>
Total	484,362.4	(417,737.8)

<sup>1/</sup> Excluding Proposition 301 sales tax revenues.

### Arizona's Major Revenue Sources

The bulk of General Fund revenues is raised from three sources. The largest of these is the sales tax, which is projected to generate 49.9% of total General Fund revenue in FY 2003. The individual income tax is the next largest source, accounting for 37.7%, while the corporate income tax share is 6.5%. Together these three taxes are expected to provide approximately 94.1% of General Fund revenue. [See [Chart 1](#) below]



Leadership, JLBC Staff and OSPB agreed on a consensus shortfall of \$(675) million, with a General Fund revenue estimate of \$5,888.2 million.

In January, JLBC Staff and OSPB agreed on an additional FY 2002 revenue shortfall of \$(119) million based on the November forecast. Revised JLBC Staff estimates for FY 2003 reduced the baseline growth rate to 4.3%, providing a General Fund revenue estimate of \$6,098.6 million.

In March, JLBC developed revised forecasts reducing baseline growth rates to (5.5)% for FY 2002, and 4.2% for FY 2003, resulting in an additional FY revenue shortfall of \$(75) million. These forecasts ultimately were the basis for the FY 2003 budget adopted by the Legislature.

**Development of General Fund Revenue Forecast**

The revenue forecasts have been revised downward throughout FY 2002 as the extent of the impact of the recession on the national and Arizona economies became more evident.

Table 2 includes the General Fund revenue baseline growth rates for the forecast used to enact the original FY 2002-FY 2003 budget in May 2001 (see the FY 2002 - FY 2003 Appropriations Report), the various alternative forecasts during the budget development process, and the final revised FY 2003 budget enacted in May 2002. Although there are some slight differences, the revenue forecasts essentially reflected a consensus of the Joint Legislative Budget Committee (JLBC) and Office of Strategic Planning and Budgeting (OSPB) staffs.

**Table 2**

**Baseline Growth Rates**

Forecast	FY 02	FY 03
-FY 2002-FY 2003 Appropriations Report	6.3%	7.0%
-November 2001	(2.0)%	5.1%
-January 2002	(4.2)%	4.3%
-March 2002	(5.5)%	4.2%
-Final Revised Budget	(5.5)%	4.2%

In September, JLBC Staff initially estimated that FY 2002 General Fund revenues would be from \$(400) million to \$(550) million below the Legislature’s revenue projection at the time of the FY 2002 - FY 2003 budget’s enactment. Subsequent analysis of individual income tax factors resulted in a further reduction of \$(100) million in the FY 2002 forecast, providing an estimated shortfall of \$(650) million. In November, at the request of Joint

Table 3

## GENERAL FUND REVENUE LEGISLATIVE FORECAST FY 2002 - FY 2003

<b>BASELINE REVENUE GROWTH <sup>1/</sup></b>							
(\$ in Thousands)							
	BASELINE ESTIMATE FY 2001	BASELINE FORECAST FY 2002	% CHANGE FY 2001 ACTUAL	\$ CHANGE FY 2001 ACTUAL	BASELINE FORECAST FY 2003	% CHANGE FY 2002 ADJUSTED	\$ CHANGE FY 2002 ADJUSTED
<b>Taxes:</b>							
Sales and Use	2,988,444.2	2,970,564.6	-0.4%	(12,987.6)	3,081,614.0	3.8%	112,814.0
Income -Individual	2,386,501.8	2,182,374.7	-5.1%	(118,377.3)	2,321,119.0	5.4%	118,919.0
-Corporate	587,659.7	397,459.6	-26.6%	(143,714.0)	378,000.0	5.0%	18,000.0
Property	39,666.4	37,164.9	-6.2%	(2,471.5)	36,638.3	4.9%	1,708.3
Luxury	65,568.8	66,293.7	1.1%	724.9	66,691.0	0.6%	397.3
Insurance Premium	184,461.5	184,461.5	0.0%	0.0	193,684.6	5.0%	9,223.1
Motor Vehicle License	25,475.0	0.0	-100.0%	(475.0)	0.0	N/A	0.0
Estate	74,651.8	86,000.0	15.2%	11,348.2	86,000.0	0.0%	0.0
Other Taxes	2,035.2	2,229.4	9.5%	194.2	2,262.8	1.5%	33.4
Sub-Total - Taxes	6,354,464.4	5,926,548.4	-4.3%	(265,758.1)	6,166,009.7	4.4%	261,095.1
<b>Other Non-Tax Revenues:</b>							
Lottery	21,000.0	21,000.0	0.0%	0.0	31,000.0	0.0%	0.0
Licenses, Fees and Permits	95,922.0	121,900.2	5.2%	5,978.2	106,995.2	5.0%	5,095.0
Interest	89,926.5	40,000.0	-55.5%	(49,926.5)	45,000.0	12.5%	5,000.0
Transfers and Reimbursements	36,779.4	92,692.5	-9.7%	(10,000.0)	90,084.3	-4.3%	(4,007.9)
Disproportionate Share Revenue	76,770.3	64,199.7	13.9%	7,812.0	87,623.9	0.0%	0.0
2nd SS Revenue Enhancements	0.0	0.0	N/A	0.0	337,911.2	0.0%	0.0
3rd SS Revenue Enhancements	0.0	0.0	N/A	0.0	153,261.1	0.0%	0.0
2nd RS Revenue Enhancements	0.0	0.0	N/A	0.0	0.0	N/A	0.0
Sub-Total - Non-Tax	320,398.2	339,792.4	-12.0%	(46,136.3)	851,875.7	0.7%	6,087.1
<b>Total Base Revenue</b>	<b>6,674,862.6</b>	<b>6,266,340.8</b>	<b>-4.7%</b>	<b>(311,894.4)</b>	<b>7,017,885.4</b>	<b>4.0%</b>	267,182.2
Urban Revenue Sharing (URS)	(396,452.6)	(421,876.6)	6.4%	(25,424.0)	(426,288.8)	1.0%	(4,412.2)
Litigation/Other Set-Aside	0.0	0.0	N/A	0.0	0.0	N/A	0.0
<b>Base Revenue w/URS/Litigation</b>	<b>6,278,410.0</b>	<b>5,844,464.2</b>	<b>-5.5%</b>	<b>(337,318.4)</b>	<b>6,591,596.6</b>	<b>4.2%</b>	262,770.0

1/ The baseline forecast represents revenue growth prior to accounting for tax law changes.

Table 4

## GENERAL FUND REVENUE LEGISLATIVE FORECAST FY 2002 - FY 2003

ADJUSTED REVENUE GROWTH <sup>1/</sup>							
(\$ in Thousands)							
	ACTUAL FY 2001	ADJUSTED FORECAST FY 2002	% CHANGE FY 2001 ACTUAL	\$ CHANGE FY 2001 ACTUAL	ADJUSTED FORECAST FY 2003	% CHANGE FY 2002 ADJUSTED	\$ CHANGE FY 2002 ADJUSTED
<b>Taxes:</b>							
Sales and Use	2,983,552.2	2,968,800.0	-0.5%	(14,752.2)	3,081,574.0	3.8%	112,774.0
Income -Individual	2,300,752.0	2,202,200.0	-4.3%	(98,552.0)	2,325,553.5	5.6%	123,353.5
-Corporate	541,173.6	360,000.0	-33.5%	(181,173.6)	400,267.0	11.2%	40,267.0
Property	39,636.4	34,930.0	-11.9%	(4,706.4)	34,900.0	-0.1%	(30.0)
Luxury	65,568.8	66,293.7	1.1%	724.9	66,691.0	0.6%	397.3
Insurance Premium	184,461.5	184,461.5	0.0%	0.0	193,684.6	5.0%	9,223.1
Motor Vehicle License	475.0	0.0	-100.0%	(475.0)	0.0	N/A	0.0
Estate	74,651.8	86,000.0	15.2%	11,348.2	67,170.0	-21.9%	(18,830.0)
Other Taxes	2,035.2	2,229.4	9.5%	194.2	2,262.8	1.5%	33.4
Sub-Total - Taxes	6,192,306.5	5,904,914.6	-4.6%	(287,391.9)	6,172,102.9	4.5%	267,188.3
<b>Other Non-Tax Revenues:</b>							
Lottery	21,000.0	31,000.0	47.6%	10,000.0	25,000.0	-19.4%	(6,000.0)
Licenses, Fees and Permits	115,922.0	101,900.2	-12.1%	(14,021.8)	106,795.2	4.8%	4,895.0
Interest	89,926.5	40,000.0	-55.5%	(49,926.5)	45,000.0	12.5%	5,000.0
Transfers and Reimbursements	102,692.5	94,092.2	-8.4%	(8,600.3)	37,600.1	-60.0%	(56,492.1)
Disproportionate Share Revenue	56,387.7	87,623.9	55.4%	31,236.2	149,301.1	70.4%	61,677.2
2nd SS Revenue Enhancements	0.0	337,911.2	N/A	337,911.2	0.0	-100.0%	(337,911.2)
3rd SS Revenue Enhancements	0.0	153,261.1	N/A	153,261.1	0.0	-100.0%	(153,261.1)
2nd RS Revenue Enhancements	0.0	0.0	N/A	0.0	143,624.4	N/A	143,624.4
Sub-Total - Non-Tax	385,928.7	845,788.6	119.2%	459,859.9	507,320.8	-40.0%	(338,467.8)
<b>Total Adjusted Revenue</b>	<b>6,578,235.2</b>	<b>6,750,703.2</b>	<b>2.6%</b>	172,468.0	<b>6,679,423.7</b>	<b>-1.1%</b>	(71,279.5)
Urban Revenue Sharing (URS)	(396,452.6)	(421,876.6)	6.4%	(25,424.0)	(430,564.9)	2.1%	(8,688.3)
Litigation/Other Set-Aside	0.0	0.0	N/A	0.0	(75,000.0)	N/A	(75,000.0)
<b>Adjusted Revenue w/URS/Litigation</b>	<b>6,181,782.6</b>	<b>6,328,826.6</b>	<b>2.4%</b>	147,044.0	<b>6,173,858.8</b>	<b>-2.4%</b>	(154,967.8)

<sup>1/</sup> The adjusted revenue forecast includes tax law changes and represents a "bottom line" revenue growth estimate.

Table 5

BASELINE REVENUE ADJUSTMENTS BY CATEGORY		
(\$ in Thousands)		
Summary By Category:	<u>FY 2002</u> <sup>1/</sup>	<u>FY 2003</u> <sup>1/</sup>
<b>Tax Law Changes</b>		
Sales & Use Tax	(1,764.6)	(40.0)
Individual Income Tax	19,825.3	4,434.5
Corporate Income Tax	(37,459.6)	22,267.0
Property Tax	(2,234.9)	(1,738.3)
Estate Tax	0.0	(18,830.0)
Subtotal - Tax Law Changes	<u>(21,633.8)</u>	<u>6,093.2</u>
<b>Other Revenue Adjustments</b>		
Disproportionate Share	23,424.2	61,677.2
Litigation/Other Set-Aside	0.0	(75,000.0)
Licenses and Fees	(20,000.0)	(200.0)
Transfers & Reimbursements	1,399.7	(52,484.2)
URS Hold Harmless	0.0	(9,960.0)
URS Reduction	0.0	5,683.9
Lottery (3rd Special Session)	10,000.0	(6,000.0)
Balance Transfers (2nd Special Session)	337,911.2	(337,911.2)
Balance Transfers (3rd Special Session)	153,261.1	(153,261.1)
Balance Transfers (2nd Regular Session)	0.0	143,624.4
Subtotal - Other Revenue Adjustment	<u>505,996.2</u>	<u>(423,831.0)</u>
<b>TOTAL REVENUE CHANGES</b>	<u><u>484,362.4</u></u>	<u><u>(417,737.8)</u></u>

ADJUSTMENTS BY INDIVIDUAL PROVISION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Revenue Category</u>
<u>45th Legislature - 2nd Regular Session</u>				
327	Fund Transfers/BSF <sup>2/</sup>	0.0	143,624.4	Bal Transfs
na	Prison Funding	0.0	3,800.0	Transfers
328	Equine Fees	0.0	(200.0)	Licenses/Fees
328	VLT Enforcement	0.0	3,500.0	Transfers
320	Budget Reconciliation	4,374.9	0.0	Transfers
329	Dispro Share	0.0	61,677.2	Dispro Share
50	Repeal Dividends Income Tax Subtraction	0.0	11,200.0	Corporate
344	IRC Conformity/Revenue Sharing	0.0	5,610.0	Corporate
		0.0	(14,480.0)	Individual
		0.0	(18,830.0)	Estate
		0.0	5,683.9	URS
	Subtotal - Chapter 344	<u>0.0</u>	<u>(22,016.1)</u>	
	<b>Session Total</b>	<u><u>4,374.9</u></u>	<u><u>201,585.5</u></u> <sup>3/</sup>	
<u>45th Legislature - 3rd Special Session:</u>				
328	Lottery-Increase Powerball to GF	10,000.0	(6,000.0)	Lottery
327	Fund Transfers/BSF <sup>2/</sup>	153,261.1	(153,261.1)	Bal Transfs
na	Litigation/Other Set-Aside	0.0	(75,000.0)	Other
	<b>Session Total</b>	<u><u>163,261.1</u></u>	<u><u>(234,261.1)</u></u>	
<u>45th Legislature - 2nd Special Session:</u>				
2	ORB-Finance; Withholding <sup>4/</sup>	60,000.0	(60,000.0)	Individual
2	ORB-Finance; Tax Amnesty	10,000.0	(10,000.0)	Individual
329	Dispro Share	59,149.0	0.0	Dispro Share
328	Sale of Airplane	500.0	(500.0)	Transfers
327	Fund Transfers/BSF <sup>2/</sup>	337,911.2	(337,911.2)	Bal Transfs
	<b>Session Total</b>	<u><u>467,560.2</u></u>	<u><u>(408,411.2)</u></u>	

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Revenue Category</u>
<u>45th Legislature - 1st Regular Session:</u>				
232	Supplemental Appropriations; (Corrections Fund Transfer)	15,000.0	(15,000.0)	Transfers
235	Conditional Appropriations; Taxation (reduce Individual Income Tax Standard Deduction)	(15,000.0)	0.0	Individual
261	Department of Revenue; Confidentiality	1,400.0	(100.0)	Individual
277	Nuclear Emergency Appropriation/Assessment	924.8	15.8	Transfers
286	Flight Property Tax Revenues <sup>37</sup>	0.0	0.0	Property
296	Internal Revenue Code Conformity	(628.0)	(217.0)	Corporate
		(157.0)	(105.0)	Individual
	Subtotal - Chapter 296	(785.0)	(322.0)	
344	AHCCCS; Proposition 204	(35,724.8)	0.0	Dispro Share
370	Enterprise Zone Program; Extension			Corporate
380	Retirement Benefits; Defined Contribution	(300.0)	0.0	Individual
382	Equity Tax Act; Archaic Laws	(552.8)	0.0	Individual
na	Water Banking Fees	2,000.0	700.0	Transfers
na	Sale of Assets (revenue increase)	15,000.0	(15,000.0)	Transfers
na	License and Fees Adjustment <sup>39</sup>	(20,000.0)	0.0	Licenses/Fees
na	Alt Fuel Refunds (Individual Income Tax) <sup>40</sup>	32,400.0	26,700.0	Individual
na	Alt Fuel Refunds (Corporate Income Tax) <sup>41</sup>	4,000.0	3,300.0	Corporate
na	BSF Alt Fuel Reimbursement <sup>42</sup>	(36,400.0)	(30,000.0)	Transfers
na	Federal Tax Bill/Withholding <sup>43</sup>	(60,000.0)	60,000.0	Individual
	Session Total	(98,037.8)	30,293.8	
<u>44th Legislature - 7th Special Session:</u>				
1	Alternative Fuels Program Changes <sup>87</sup>	4,427.0	0.0	Individual
1	URS Hold Harmless	0.0	(9,960.0)	URS
	Session Total	4,427.0	(9,960.0)	
<u>44th Legislature - 5th Special Session:</u>				
1	Education 2000; Programs			
	Low-income Tax Credit	(41,600.0)	0.0	Individual
	Tuition Tax Credit	(3,750.0)	(97.5)	Individual
	GF Reimbursement for Low Income Credit	25,000.0	0.0	Individual
	Proposition 301 Sales Tax <sup>88</sup>			
	Session Total	(20,350.0)	(97.5)	
<u>44th Legislature - 2nd Regular Session:</u>				
214	Renewable Energy; Tax Incentive	(2.1)	(2.2)	Sales
		0.0	(57.0)	Individual
		0.0	(8.8)	Property
	Subtotal - Chapter 214	(2.1)	(68.0)	
239	Technology Training; Tax Credit	(2,500.0)	2,400.0	Corporate
		(300.0)	300.0	Individual
	Subtotal - Chapter 239	(2,800.0)	2,700.0	
252	Internal Revenue Code Conformity	(464.0)	2,624.0	Individual
		154.0	(26.0)	Corporate
	Subtotal - Chapter 252	(310.0)	2,598.0	
258	Cemeteries; Property Tax Exemption Process	0.0	(7.3)	Property
267	Agricultural Preservation District	(100.0)	0.0	Individual
313	Tax Credits; Character Instruction	(75.0)	0.0	Individual
372	Tourism and Sports Authority	(3,500.0)	(350.0)	Individual
		(1,512.5)	(37.8)	Sales
	Subtotal - Chapter 372	(5,012.5)	(387.8)	

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Revenue Category</u>
384	Property Tax; Electrical Generation Facilities	(2,234.9)	(1,722.2)	Property
394	Tuition Tax Credit; Handicapped Preschoolers	(100.0)	0.0	Individual
405	2000 Clean Air Act	192.3	0.0	Corporate
		15,750.0	0.0	Individual
	Subtotal - Chapter 405	15,942.3	0.0	
	<b>Session Total</b>	<b>5,307.8</b>	<b>3,112.7</b>	
<u>44th Legislature - 1st Special Session:</u>				
5	<u>Enacted Triggers:</u>			
	Corporate Tax Rate Reductions	(32,000.0)	0.0	Corporate
	R & D Tax Credit Cap	(5,000.0)	0.0	Corporate
	<b>Session Total</b>	<b>(37,000.0)</b>	<b>0.0</b>	
<u>44th Legislature - 1st Regular Session:</u>				
168	Alternative Fuel Vehicles	1,052.1	0.0	Corporate
		427.1	0.0	Individual
	Subtotal - Chapter 168	1,479.2	0.0	
183	Tax Sharing; Indian Tribal Colleges	(250.0)	0.0	Sales
190	Corporate Income Tax; Income Allocation	(700.0)	0.0	Corporate
250	Taxpayer Bill of Rights	200.0	0.0	Individual
317	Taxation; Internal Revenue Code Conformity	(2,030.0)	0.0	Corporate
		(3,880.0)	0.0	Individual
	Subtotal - Chapter 317	(5,910.0)	0.0	
	<b>Session Total</b>	<b>(5,180.8)</b>	<b>0.0</b>	
<b>TOTAL - All Sessions</b>		<b>484,362.4</b>	<b>(417,737.8)</b>	

1/ Adjustments for FY 2002 reflect estimated change from FY 2001, and adjustments for FY 2003 from FY 2002.

2/ Detail for the transfers can be found on the Excess Balance Transfers chart following this table.

3/ Page BH-2 refers to \$222 million in revenue changes to balance the FY 2003 budget. This amount consists of the 2nd Regular Session changes with the exception of the Chapter 344 estate tax, and some other small items. The estate tax loss had been set aside in the funding formula deficit.

4/ The \$(60.0) million impact of reduced federal withholding rates included with the Federal Tax Bill are offset by an increase in state withholding rates approved by the Legislature.

5/ This legislation is anticipated to have a \$7.5 million impact beginning in FY 2004.

6/ A one-time payment of an additional \$20 million from a judgement related to an insurance bankruptcy occurred in FY 2001. An offsetting adjustment is made to result in no permanent gain from this one-time payment for FY 2002.

7/ Alternative Fuel refunds, which are reimbursed from the Budget Stabilization Fund, were \$(66.4) million in FY 2001, and, as of June 2002, are estimated to be \$(30.0) million in FY 2002, and \$0 in FY 2003. The amounts indicated reflect the incremental net gain each fiscal year as the refunds are reduced, or \$36.0 million in FY 2002 and \$30.0 million in FY 2003.

8/ An estimated one-time \$4.4 million loss to the individual income tax category occurred in FY 2001 as a result of the Alternative Fuels Program. This loss will not occur in FY 2002 or FY 2003. Since the amount displayed in FY 2002 is in comparison to FY 2001, an offsetting adjustment is made to result in no permanent loss to the General Fund.

9/ Proposition 301 sales tax increase of 0.6%. While this revenue is part of the General Fund, it is dedicated to be used exclusively for education related expenditures. Estimated revenues are \$438.7 million in FY 2002, and \$455.4 million in FY 2003.