Overall Budget — The State of Arizona’s enacted FY 2003 General Fund budget is $6.2 billion. After accounting for non-General Fund monies, the state’s “all funds” budget is $16.5 billion. See page BD-6 for information on appropriated fund spending and page BD-12 for all funds spending by agency.

In May 2001, the state enacted a two-year budget for FY 2002 and FY 2003. Due to a substantial slowdown in the economy, the state made major changes to both budgets. In special sessions in December 2001 and March 2002, the state eliminated a FY 2002 budget shortfall of approximately $848 million through a combination of fund transfers and spending reductions. See page 330 for a further description.

In the December 2001 special session, the Legislature repealed the original FY 2003 General Fund budget and approved an entirely new budget for that year during the regular session in May 2002.

Comparisons to the FY 2003 Funding Formula Level of Spending — Prior to enactment of the revised FY 2003 budget, the state was estimated to have a $(931) million General Fund shortfall under statutory spending requirements and annualization of the June 2002 state employee pay raise.

The enacted budget eliminated this “funding formula” shortfall through the use of $222 million in one-time fund transfers and other revenues and a $(713) million reduction in “funding formula” spending levels. The largest reductions were $(240) million in lease rather than cash financing of new K-12 school construction, $(151) million in other school related building costs and a $(191) million deferral (the “rollover”) of K-12 operating expenses to FY 2004. Many agencies also received a 3.125% lump sum reduction in their budgets.

Comparisons to the FY 2002 Budget — Relative to the FY 2002 budget, net General Fund revenues are projected to decline by $(167) million in FY 2003. See page 316 for the General Fund revenue forecast. FY 2003 baseline revenue growth is projected to be $263 million, or 4.2%, above FY 2002. As noted above, the Legislature also added $222 million in new FY 2003 revenues mostly in the form of $144 million in dedicated fund transfers and $62 million in federal disproportionate share monies. These gains, however, are offset by the loss of $(547) million in one-time revenues to balance the FY 2002 budget, a $(75) million set-aside for a revenue-related litigation expense and $(30) million in other adjustments.

FY 2003 General Fund spending will decline $(172) million, or (2.7)% in comparison to FY 2002. This net decrease consists of $545 million in new “funding formula” expenses less $(717) million in spending reductions. Prior to any reductions, the new “funding formula” spending consists primarily of:

- $201 million for the Department of Education;
- $162 million for AHCCCS; and
- $60 million to annualize the state employee pay increase of June 2002.

See page BH-6 for a description of the major changes in agency spending.

Budgeting Process — Laws 2002, Chapter 210 converted the state’s budgeting process back to a “bifurcated” approach. Prior to FY 2000, the state had budgeted most large agencies on an annual basis and all others biennially. Starting in FY 2000, all budgets were enacted biennially. Starting in FY 2004, the state will again enact annual budgets for 12 large agencies while the remainder remain biennial.