

**PROPOSED BUDGET
FY 1998
and
FY 1999**

**SUMMARY OF RECOMMENDATIONS
AND
ECONOMIC AND REVENUE FORECAST**

Prepared By

JOINT LEGISLATIVE BUDGET COMMITTEE

REPRESENTATIVE ROBERT "BOB" BURNS
Chairman 1997

TED A. FERRIS
Director

SENATOR RUSSELL W. "RUSTY" BOWERS
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JLBC

JOINT LEGISLATIVE BUDGET COMMITTEE

The Joint Legislative Budget Committee was established in 1966, pursuant to Laws 1966, Chapter 96. In 1979, a bill was passed to expand and alter the committee membership, which now consists of the following 16 members:

Representative Robert "Bob" Burns
Chairman 1997
Representative David Armstead
Representative Lori S. Daniels
Representative Jeff Groscost
Representative Herschella Horton
Representative Laura Knaperek
Representative Robert J. McLendon
Representative James P. Weiers

Senator Russell W. "Rusty" Bowers
Chairman 1998
Senator Gus Arzberger
Senator Scott Bundgaard
Senator Joe Eddie Lopez
Senator Gary Richardson
Senator Victor Soltero
Senator Marc Spitzer
Senator John Wettaw

The primary powers and duties of the JLBC relate to ascertaining facts and making recommendations to the Legislature regarding all facets of the state budget, state revenues and expenditures, future fiscal needs, and the organization and functions of state government.

JLBC appoints a Director who is responsible for providing staff support and sound technical analysis to the Committee. The objectives and major products of the staff of the JLBC are:

- **Analysis and recommendations for the annual state budget, which are presented in January of each year;**
- **Technical, analytical, and preparatory support in the development of appropriations bills considered by the Legislature;**
- **Periodic economic and state revenue forecasts;**
- **Periodic analysis of economic activity, state budget conditions, and the relationship of one to the other;**
- **Preparation of fiscal notes or the bills considered by the Legislature that have a fiscal impact on the state or any of its political subdivisions;**
- **An annual Appropriations Report, which is published shortly after the budget is completed and provides detail on the budget along with an explanation of legislative intent;**
- **Management and fiscal research reports related to state programs and state agency operations;**
- **Support to the JLBC with respect to recommendations on business items placed on the committee's agenda such as transfers of appropriations pursuant to A.R.S. § 35-173;**
- **Support to the Joint Committee on Capital Review (JCCR) with respect to all capital outlay issues including land acquisition, new construction, and building renewal projects;**
- **Support to the Joint Legislative Tax Committee (JLTC) as directed in fulfilling the requirements of A.R.S. § 41-1322(D).**



STATE OF ARIZONA

Joint Legislative Budget Committee

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SENATE

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January 14, 1997

The Honorable Brenda Burns
President of the Senate
and
The Honorable Don Aldridge
Speaker of the House
State Capitol
State of Arizona

Dear President Burns and Speaker Aldridge:

On behalf of Representative Bob Burns, Senator Rusty Bowers, and the Staff of the Joint Legislative Budget Committee, it is my pleasure to transmit to you and the entire 43rd Legislature of the State of Arizona, our recommended budget for FY 1998 (all agencies) and FY 1999 (biennial budget units only).

Our recommendations are contained in three volumes:

- (1) This Summary of Recommendations and Economic and Revenue Forecast;
- (2) An Analysis and Recommendations book, which contains recommendations, by agency, and by program.
- (3) A Non-Appropriated Funds book, containing information on monies that are not subject to the regular, annual appropriations process.

The Staff of the Joint Legislative Budget Committee looks forward to working with you, the Senate and House Appropriations Committees, and the entire 43rd Arizona Legislature in completing the state budget for FY 1998 and FY 1999.

Sincerely,

Ted A. Ferris
Director

TAF:lm

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BUDGET IN BRIEF

FISCAL YEAR 1998 - GENERAL FUND

JLBC STAFF RECOMMENDATION

The State of Arizona's fiscal condition is excellent. We concluded FY 1996 with a near \$400 million General Fund carry-forward and with \$235 million on deposit in our Budget Stabilization Fund. By the end of FY 1997, we will have reserved over \$60 million in our AHCCCS Medical Services Stabilization Account, to help finance unanticipated AHCCCS supplemental appropriations. Interest earnings on investable cash have grown from just \$10 million in FY 1991 to an estimate of nearly \$60 million this year. In FY 1997, after absorbing new tax relief of some \$226 million, General Fund revenues are forecast to grow nearly 3%. With a forecast of continued growth throughout the forecast period, we are able to recommend a state budget for FY 1998 that meets essential needs, yet reserves a record amount (\$120 million) for legislative initiatives including school finance reform, tax reduction, and other appropriation bills.

The JLBC Staff's budget recommendations build upon earlier efforts aimed at strengthening the State's finances and include:

- A conversion to "Total Biennial Budgeting", with comprehensive "Program Authorization Reviews" to be conducted in the alternating, non-budget year;
- The appropriation of **Federal Welfare Reform Block Grants**, including the shift of a significant portion of temporary windfall monies to establish a hedge against future federal funding shortfalls;
- Long-term **Tobacco Tax Fund** stability, by balancing on-going expenditures with annual revenues, and by using surplus Tobacco Tax Fund monies for one-time purposes only;
- A significant allocation of incremental revenues for **Targeted State Employee Pay Raises** including merit pay, classification reviews, and other specific pay proposals;
- Implementation of enhanced oversight of automation projects through the newly established **Government Information Technology Agency and Information Technology Authorization Committee**;
- Further advances in **Legislative oversight of Non-Appropriated Funds**;
- A proposed constitutional amendment for voter approval, to permit Arizona's **Land Trust Fund monies** to be invested in equities as are the state's retirement system assets, to earn a **substantially higher rate of return** and help solve the school finance dilemma at no cost to the taxpayer.

OPERATING APPROPRIATIONS	REVENUES AND YEAR-END BALANCES		
	\$ Change From FY 97	JLBC Staff FY 98 Rec.	
	(\$ Millions)		FY 97 FY 98 (\$ Millions)
• Dept. of Education (K-12)	\$ 89.5	\$2,062.1	REVENUES:
• Universities	18.1	652.8	• Beginning Balance
• AHCCCS	34.5	513.5	• Base Revenues
• Dept of Corrections	24.1	455.4	• County LTC Reimbursement
• Dept of Economic Security	(15.2)	379.8	• Flight Property Tax
• Dept of Health Services	(0.8)	215.5	8.1
• Judiciary	3.5	119.8	SUBTOTAL-REVENUES
• Community Colleges	4.4	115.5	\$5,196.5 \$5,210.1
• Dept of Public Safety	5.4	60.9	EXPENDITURES:
• Dept of Revenue	0.7	52.3	• Operating Budgets
• Dept of Juvenile Corrections	4.4	51.3	• Supplementals
• Dept of Environ. Quality	10.8	32.2	• Capital Outlay
• Dept of Administration	(1.0)	24.7	• New Pay Adjustments
• School Capital Facilities Board	(70.0)	0.0	• Admin Adjust/Emergencies
• All Other	11.1	225.2	• Revertments
TOTAL	<u>\$119.5</u>	<u>\$4,960.9</u>	(60.7) (56.0)
			SUBTOTAL-EXPENDITURES
			\$4,923.3 \$5,060.4
			<u>Other Legislative Priorities</u>
			Tax Reduction
			Other Appropriations Bills
			(100.0) 20.0
			PROJECTED ENDING BALANCE
			<u>\$ 273.2</u> <u>\$ 29.6</u>

**FY 1998
COMPARISON OF MAJOR POLICY ISSUES**

MAJOR ISSUES	JLBC STAFF RECOMMENDATION	EXECUTIVE RECOMMENDATION
General Fund (GF) Budget	<ul style="list-style-type: none"> • \$137 M, or 2.8% General Fund Increase 	<ul style="list-style-type: none"> • \$162 M, or 3.3% General Fund Increase
Tax Changes	<ul style="list-style-type: none"> • \$100 M Unspecified Tax Reduction • Diverts 50% of Flight Property Tax from Aviation Fund to GF for \$8 M Annually 	<ul style="list-style-type: none"> • \$100 M Personal Income Tax Reduction • Diverts 100% to GF for \$16 M Annually for 3 Years
Capital Outlay	<ul style="list-style-type: none"> • \$87.0 M GF and \$42.4 M Tobacco Tax • \$63.9 M Advance Appropriations, including \$56.1 M for Prisons • \$1 M to Design New Capitol Mall Office Building • \$19 M for 50% Funding of Building Renewal • \$1 M for Infrastructure Repair • \$14.8 M Tobacco Tax for New Health Lab • \$27.6 M Tobacco Tax over 2 Years for New Arizona State Hospital 	<ul style="list-style-type: none"> • \$84.7 M GF • \$64.9 M Advance Appropriations • Does Not Recommend • Same Recommendation • Does Not Recommend • Recommends Lease-Purchase Financing • Does Not Recommend
Pay Adjustments	<ul style="list-style-type: none"> • \$42 M • Merit Pay, \$21 M (10/97) • Classification Reviews, \$21 M (10/97) 	<ul style="list-style-type: none"> • \$28 M • Merit Pay, \$14 M (1/98) • Classification Reviews, \$14 M (Unspecified)
Year 2000 Automation	<ul style="list-style-type: none"> • \$7 M GF and \$5.6 M Other Funds • Lump Sum Appropriation to GITA • No FY 99 Recommendation 	<ul style="list-style-type: none"> • \$10 M GF and \$4.5 M Other Funds • Same Recommendation • Recommends Another \$10 M GF/\$4.5 M Other
Other Legislative/ Executive Priorities	<ul style="list-style-type: none"> • \$20 M for Unspecified Legislative Priorities 	<ul style="list-style-type: none"> • \$59.6 M for Executive Initiatives, Including: • Welfare Stabilization Fund, \$17.8 M (JLBC has in DES Budget) • K-12 Vouchers, \$10 M • Year 2000, \$10 M (See Above) • Rail Study, \$10 M
AGENCIES		
K-12	<ul style="list-style-type: none"> • \$89.5 M GF Change Above FY 97 • \$82.2 M for Enrollment Growth • \$32.7 M for Charter School Growth • \$33.3 M for Sudden Growth ("Current Year Funding") • \$18.6 M for Homeowners' Rebate ("Additional State Aid") • \$(72.1) M Net Savings Due to Assessed Value Growth • \$(10.2) M Savings from Eliminating Double Funding to BIA Charter Schools • \$(4.9) M Savings from Changing the Transportation Funding Formula 	<ul style="list-style-type: none"> • \$90.4 M GF Change Above FY 97 • \$78.8 M for Enrollment Growth • \$43.5 for Charter School Growth • \$34.2 M for Sudden Growth • \$16.3 M for Homeowner's Rebate • \$(71.1) M Net Savings Due to Assessed Value Growth • Same Recommendation • Does Not Recommend
Universities	<ul style="list-style-type: none"> • \$18.1 M GF Change Above FY 97 • \$11.2 M for Pay Annualization • \$0.7 M for Enrollment • \$8.3 M for Faculty Teaching Incentive • \$(5.5) M for Other Fund Adjustment • \$1.2 M GF and \$2.4 M Other Funds for SSIG Transfer • Total GF Change, including Pay and Capital, \$34.4 M 	<ul style="list-style-type: none"> • \$28.3 M GF Change Above FY 97 • \$29.5 M for Lump Sum University Programs, \$(2.4) M for Collections Fund Adjustment and \$1.2 M SSIG Transfer. • Total GF Change, including Pay and Capital, \$44.5 M

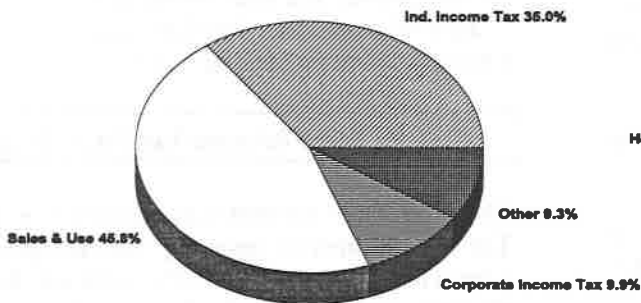
MAJOR ISSUES	JLBC STAFF RECOMMENDATION	EXECUTIVE RECOMMENDATION
Community Colleges	<ul style="list-style-type: none"> • \$4.4 M GF Change Above FY 97 • \$2.0 M Enrollment Growth • \$1.7 M Technology Assisted Learning 	<ul style="list-style-type: none"> • \$4.4 M GF Change Above FY 97 • \$1.9 M Enrollment Growth • Same Recommendation
Juvenile Corrections	<ul style="list-style-type: none"> • \$4.4 M GF Change Above FY 97 • Adds \$2.1 M for 48 Beds Opened in FY 97 • Adds \$1.4 M to Staff 100 Beds and Equip 200 Beds, July 1998 Opening 	<ul style="list-style-type: none"> • \$4.2 M GF Above FY 97 • Adds \$1.6 M for 34 Beds Opened in FY 97 • Adds \$1.4 M to Staff 100 Beds, June 1998 opening
Corrections	<ul style="list-style-type: none"> • \$24.1 M GF Change Above FY 97 • Opens 800 New Beds in Mar & Apr 97, \$10.9 M • 2.1% Inmate Population Growth, \$2.9 M • CSO Pay Plan Continuation, \$4.4 M • Work Incentive Pay Plan (WIPP), \$2.6 M 	<ul style="list-style-type: none"> • \$24.9 M GF Change Above FY 97 • Opens 800 New Beds Earlier, \$12 M • Same Recommendation • Same Recommendation • Same Recommendation
Judiciary	<ul style="list-style-type: none"> • \$3.5 M GF Change Above FY 97 • Funds 2% Growth in Adult Probation, \$1.6 M • Annualizes Juvenile Programs, \$1.4 M. New Funding Deferred Due to Prop 102 	<ul style="list-style-type: none"> • No \$ Change from FY 97
DPS	<ul style="list-style-type: none"> • \$5.4 M GF Change Above FY 97 • Increase GF by \$7.1 M so as to Reduce HURF/Highway Fund Support Pursuant to Law • Adds 41 Highway Patrol Officers, \$3.0 M • Recommends \$3.3 M in Equipment, including 93 Patrol Vehicles • Redirects the \$2.3 M CJEF Contribution from the General Fund to DPS' Crime Lab System • Save \$(2.1) M GF by Shifting Costs to Highway Patrol Fund • Adds 11 Crime Lab and 7 Dispatcher FTEs • Does Not Expand Anti-Gang Programs 	<ul style="list-style-type: none"> • \$2.7 M GF Change Above FY 97 • No GF Increase Since No Reduction in HURF/Highway Support • Adds 35 Officers, \$2.5 M • Recommends \$4.5 M in Equipment, including 122 Patrol Vehicles • Does Not Recommend • Shift \$(1.6) M to Highway Patrol Fund • Same Recommendation • Adds \$0.7 M for Anti-Gang Expansion
AHCCCS	<ul style="list-style-type: none"> • \$34.5 M GF Change Above FY 97 • Acute Care Demographic and Medical Inflation Increase, \$15.5 M • Utilizes \$7.1 M of Tobacco Tax Funds for Expanded Maternity Length of Stay Coverage and to Fund HIV/AIDS Treatment • Use GF Rather than Tobacco Tax Funds to Eliminate \$10 M Private Hospital Reduction • Dispro Share State Contribution, \$11.1 M • Freezes County Acute Care Contribution at \$66.7 M and Estimates County ALTCS Increase of \$13 M. Overall County Share of Costs is 31.3%, down from 31.8% in FY 1997 • Require Counties to Reimburse State for \$9.3 M County LTC Underpayment 	<ul style="list-style-type: none"> • \$27.5 M GF Change Above FY 97 • Acute Care Demographic and Medical Inflation Increase, \$17.8 M • Concurs on use of Tobacco Tax for Maternity and AIDS at a Cost of \$12.1 M • Continues to use Tobacco Tax • Same Recommendation • Freezes County Acute Care Contribution at \$66.7 M and Estimates County ALTCS Increase of \$14.1 M • Does Not Require County Reimbursement
Economic Security	<ul style="list-style-type: none"> • \$(15.2) M GF Change Below FY 97 • Welfare Caseload Reductions Based on Current Law, \$(11.6) M • Places \$17.8 M in TANF Stabilization Fund in DES • Reserves \$20.0 M Federal Funds for Welfare Reform Initiatives to be Specified by Legislature • Does Not Fund New CPS Staff • Adds \$3.9 M for DD/LTC Caseload • Use Federal Funds for Long Term Care Shortfall 	<ul style="list-style-type: none"> • \$(26.0) M GF Change Below FY 97 (\$8.2 M Below when Comparable to JLBC) • Similar Recommendation • Places \$17.8 M in TANF Stabilization Fund Outside of DES Budget • Appropriates \$20.3 M for Assorted TANF Initiatives • Adds 22 CPS FTE Positions and \$1.4 M • Adds \$4.3 M for DD/LTC Caseload • Adds \$3.6 M for LTC Shortfall

MAJOR ISSUES	JLBC STAFF RECOMMENDATION	EXECUTIVE RECOMMENDATION
Health Services	<ul style="list-style-type: none"> • <i>\$(0.8)M GF Below FY 97</i> • Completes Phase-out of Disease Commission \$(1.4) M • Funds Title 19 Growth, \$3.4 M • Eliminates Excess Contract Costs, \$(1.6) M • Continues Downsizing ASH Clients to Community Placements, \$(1.6) M Net Savings • Savings Due to ASH Privatization, \$(0.5) M • CRS Population/Other Savings, \$(1.0) M 	<ul style="list-style-type: none"> • <i>\$(1.2)M GF Below FY 97</i> • Same Recommendation • Adds \$1.5 M for Title 19 Growth • Eliminates \$(0.9) M for Excess Contracts • Concurs, but \$(0.4) M Net Savings for ASH Downsizing • Does Not Recommend • Same Recommendation
DEQ	<ul style="list-style-type: none"> • <i>\$10.8 M GF Change Above FY 97</i> • Adds \$15 M for WQARF • Adds \$3.4 M for a New Safe Drinking Water Revolving Fund • Eliminates \$(4.3) M GF Subsidy of Emission Test • Eliminates \$(3.0) M in One-time UST Funding 	<ul style="list-style-type: none"> • <i>\$5.3 M GF Change Above FY 97</i> • Adds \$8.2 M for WQARF • Same Recommendation • Retains \$2.2 M for GF Subsidy of Tests • Same Recommendation
Parks Board	<ul style="list-style-type: none"> • <i>\$1.3 M GF Change Above FY 97</i> • Kartchner Park Operating Expenses, \$0.9 • Use Growth in Park Fees to Accelerate Tonto Lease-Purchase • Does Not Include Preserve Initiative 	<ul style="list-style-type: none"> • <i>\$2.2 M GF Change Above FY 97</i> • Adds \$1.0 M for Kartchner • Does Not Recommend • Adds \$1.0 M for Preserve Initiative
ADOT	<ul style="list-style-type: none"> • <i>\$(0.6) M Other Funds Below FY 97</i> • Reduce Mainframe Computer Costs, \$(1.1) M • MVD Workload Reduction Savings, \$(1.4) M • Increase Maintenance Funding, \$1.5 M 	<ul style="list-style-type: none"> • <i>\$0.8 M Other Funds Above FY 97</i> • Does Not Recommend • Does Not Recommend • Increase Maintenance Funding, \$1.3 M
Veterans' Comm.	<ul style="list-style-type: none"> • <i>\$(0.5) M GF Change Below FY 97</i> • Reduces GF Support for Nursing Home from \$1.5 M to \$1.0 M 	<ul style="list-style-type: none"> • <i>\$(0.5) M GF Change Below FY 97</i> • Same Recommendation
Commerce	<ul style="list-style-type: none"> • <i>\$2.0 M GF Change Above FY 97</i> • Adds \$1 M for Clean Air Fund • Shifts \$1.2 M in Appropriations from CEDC Fund to GF to Stabilize CEDC Fund 	<ul style="list-style-type: none"> • <i>\$3.3 M GF Change Above FY 97</i> • Same Recommendation • Adds \$2 M from GF for CEDC Fund Stabilization
Arts Commission	<ul style="list-style-type: none"> • <i>\$2.0 M GF Change Above FY 97</i> • Deposit \$2 M into Arts Endowment Fund • Does Not Recommend Expansion of Community Projects 	<ul style="list-style-type: none"> • <i>\$2.8 M GF Change Above FY 97</i> • Same Recommendation • Adds \$0.8 M for New Community Projects

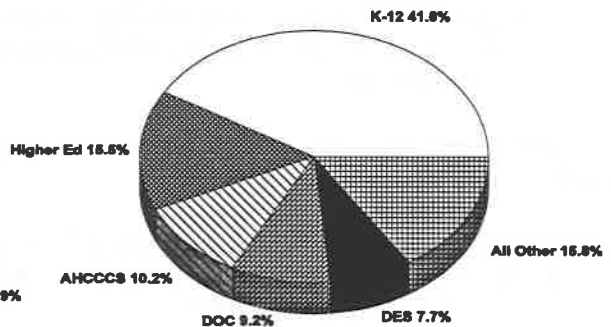
**JLBC STAFF RECOMMENDATION
GENERAL FUND REVENUES AND EXPENDITURES
FISCAL YEARS 1997 AND 1998
(dollars in thousands)**

	<u>Proposed FY 97</u>	<u>Proposed FY 98</u>
REVENUES		
Balance Forward	\$399,765.4	\$273,171.1
Base Revenues	4,787,406.0	4,928,794.0
County Long Term Care Reimbursement	9,347.8	0.0
Flight Property Tax Proposal	0.0	8,086.0
TOTAL REVENUES	\$5,196,519.2	\$5,210,051.1
EXPENDITURES		
Operating Appropriations	4,841,419.5	4,960,926.7
Supplementals	(1,911.2)	0.0
Pay Adjustments	0.0	42,000.0
Capital Outlay	94,081.9	86,982.8
Admin Adjustments/Emergencies	50,500.0	26,500.0
Revertments	(60,742.1)	(56,000.0)
TOTAL EXPENDITURES	\$4,923,348.1	\$5,060,409.5
Other Legislative Priorities		
Tax Reduction	0.0	100,000.0
Other Appropriations Bills	0.0	20,000.0
PROJECTED ENDING BALANCE	\$273,171.1	\$29,641.6

Where It Comes From



Where It Goes



FY 1998 Budget Recommendation Themes

Further Budget Process Reform Legislation

The JLBC Staff recommends enactment of further budget process reform legislation to establish a total biennial budget and make permanent the promising "Program Authorization Review" process. The draft legislation would continue the changes begun in 1993 to streamline the state's budgeting procedures. The entire budgeting - program evaluation process would be converted to a 2-year cycle. The major emphasis of the first regular session of a Legislature would be budgetary review and approval. Program evaluation and Program Authorization Reviews would be conducted in the second regular session. Budgeting and strategic planning would also be further integrated by converting the budget to a more programmatic format.

The 1993 budget reform legislation had 4 main components:

- established a split budgeting cycle -- smaller agencies were reviewed every 2 years and the larger budget units still underwent annual budget reviews;
- required agencies to develop strategic plans, which included a mission statement, goals, objectives and performance measures for the budget unit as a whole.
- required the Governor's Office of Strategic Planning and Budgeting to develop a master list of state agency programs;
- created a 4-year pilot program on Program Authorization Reviews (PARs) in session law. Under these reviews, agencies completed self-assessments of designated programs. Unlike sunset audits, they focused on particular programs within an agency. Upon completion of the self-assessment, OSPB and the staff of the Joint Legislative Budget Committee (JLBC) developed their own findings on the efficiency and effectiveness of the program's operation and recommended whether to retain, eliminate or modify the programs. A total of 75 PARs were required over the 4 years. (A summary of this year's PARs appears later in this narrative.)

The 1997 budget reform legislation we are recommending would:

- convert the remaining 11 major budget units to a biennial cycle, beginning with the FY 2000 and FY 2001 budgets to be enacted in 1999;
- provide that PARs will be done in the off-budget year, being the even-numbered years, providing an alternating and supportive cycle of budget and program evaluations;

- provides for the appointment of Joint Program Authorization Review Committees of the Legislature to receive the PAR findings from the staffs of JLBC/OSPB and to make recommendations to the entire Legislature and the Governor regarding the "retention, elimination, or modification" of programs having been PAR'ed;
- convert the existing strategic planning and Master List of state program procedures to permanent law and place on a 2-year cycle that meshes with biennial budgeting;
- beginning with the budget requests for FY 2000 and FY 2001, require agencies to submit their budget requests according to the program definitions in the Master Program List (in other words, a conversion to "program-based budgeting").

Appropriate Welfare Reform Block Grants

The JLBC Staff recommends the appropriation of 2 Federal Welfare Reform Block Grants: the Temporary Assistance for Needy Families (TANF) Block Grant and the Child Care Block Grant (CCBG). TANF is the new program created by Congress to replace the Aid to Families with Dependent Children (AFDC) program. The CCBG is an expanded version of existing federal assistance for day care. The recent federal welfare reform legislation requires state Legislatures to appropriate these monies. As a result, the JLBC Staff recommends a 9-month FY 1997 supplemental appropriation of \$166.8 million for TANF and \$38.4 million for Child Care. The JLBC Staff also recommends a FY 1998 appropriation of \$226.7 million for TANF and \$52.0 million for CCBG. The JLBC Staff is also recommending reallocating the new TANF monies so as to permit the deposit of \$17.8 million in a new TANF Stabilization Fund.

The JLBC Staff recommends the creation of the TANF Stabilization Fund since the new federal block grant monies will no longer automatically increase with future welfare caseload growth. In a future recession, welfare caseloads can be expected to increase. The Stabilization Fund will provide a funding source for such increases.

Long Term Tobacco Tax Fiscal Stability

The JLBC Staff recommends that the level of Tobacco Tax expenditures for on-going programs not exceed the annual level of new Tobacco Tax revenue; furthermore, we recommend that surplus Tobacco Tax monies be used for one-time purposes only. The goal of numerous tobacco tax programs is to reduce the use of tobacco products. Such a decline would demonstrate success of the program, but obviously reduce tobacco tax revenue. As a result, the JLBC

Staff believes it would be fiscally imprudent to commit to permanent spending in excess of annual revenue.

In FY 1998, the JLBC Staff projects that both Tobacco Tax revenues and expenditures will equal approximately \$122 million. The projected expenditures consist of on-going funding for statutory Tobacco Tax programs (see table below). The projected expenditures include \$19.2 million for items in the AHCCCS budget. These items include the continued phase-out of the Quick Pay Discount and an offset for a loss in Federal Funding. The \$19.2 million would also fund new requirements concerning maternity length of stay and HIV/AIDS treatment. To ensure that proposed expenditures do not exceed current revenues, the JLBC Staff has recommended that the funding for the elimination of the \$10 million reduction in state-only hospital bills be shifted from Tobacco Tax Funds to the General Fund in FY 1998.

In prior years, Tobacco Tax revenue has substantially exceeded expenditures. As a result, the Tobacco Tax surplus is approximately \$130 million. Again, as fiscally prudent policy, the JLBC Staff recommends that these monies support one-time expenditures instead of on-going programs. As a result, the JLBC Staff recommends that \$42.4 million of FY 1997 surplus monies be set aside for 2 Department of Health Services (DHS) construction projects, the DHS Health Laboratory and the new Arizona State Hospital. Since this fund finances a wide range of health programs in the state, the Tobacco Tax and Health Care Fund represents a logical funding source for these one-time projects.

Targeted State Employee Pay Raises

The JLBC Staff Recommends a total of \$42 million for State Employee Pay Adjustments to be effective October 1, 1997. The JLBC Staff recommends that 50% of the monies, or \$21 million, be allocated for merit pay increases, and the other 50%, or \$21 million, be used for classification reviews for all employee groups, except university faculty (where the JLBC Staff has a separate faculty pay recommendation.)

The issue of state employee pay has become prominent recently due to attention given to a U.S. Bureau of Labor Statistics (BLS) 50-state salary comparison that placed the State of Arizona 50th in 1994, with an average salary some \$2,000 behind the 49th state (Wyoming). The JLBC Staff and OSPB recently concluded an analysis of the BLS data and uncovered several serious flaws in the BLS numbers for Arizona (which were the fault of the Arizona reporting agencies). After correcting where we could, the JLBC/OSPB Staffs concluded that average pay of state government employees in Arizona was understated by nearly \$5,000 in 1994.

Nevertheless, the State of Arizona does have some serious state employee salary concerns. We are beset by high and rising employee turnover, that is widespread as shown in the table below:

FY 1998 SUMMARY TOBACCO TAX AND HEALTH CARE FUND	
FUNDS AVAILABLE	
Revenue	<u>\$122,000,000</u>
ACCOUNT SUMMARY	
DOR Administration	320,000
AHCCCS Medically Needy Account	29,696,100
AHCCCS Medical Services Stabilization Account ^{1/}	15,652,500
AHCCCS Premium Sharing Demo Project Fund ^{1/}	20,000,000
DHS Health Education Account	28,526,100
DHS Health Research Account	5,611,300
DHS Medically Needy Allocations	22,059,200
DOC Corrections Fund	<u>134,000</u>
TOTAL EXPENDITURE EARMARKS - ALL ACCOUNTS	<u>\$121,999,200</u>
^{1/} These monies are included as expenditures for the purpose of this table.	

ADOA PERSONNEL SYSTEM TURNOVER DATA			
Agencies with > 1000 FTE Positions	FY 1994	FY 1995	FY 1996
AHCCCS	21%	19%	19%
Corrections	14%	17%	17%
Economic Security	11%	13%	16%
Health Services	19%	19%	31%
Revenue	11%	13%	14%
Transportation	8%	9%	13%
Total State Government	12%	14%	16%

While the Legislature has moved to provide special pay adjustments for Correctional Service Officers and Highway Patrol Officers amongst others, the legislatively-approved, general pay increases for state employees have been intermittent and averaged just 2.5% per year over the past decade.

**SALARY ADJUSTMENT FOR STATE EMPLOYEES
SINCE FY 1988**

(Shown in Nominal Dollars)

Fiscal Year	Approp. ^{1/} (Millions)	Start Date	Annual Cost (Millions)	% Cost of Living	% Merit Adjust.
1988	\$15.2	July 1	\$15.2	1.50%	0.00%
1989	30.6	July 1	30.6	3.50	0.00
1990	12.6	July 1	12.6	0.00	1.25
1991	46.0	July 1	45.6	4.50	0.00
1992	0.0	NA	0.0	0.00	0.00
1993	9.1	April 1	36.4	\$1,000/FTE ^{2/}	0.00
1994	0.0	NA	0.0	0.00	0.00
1995	40.7	July 1	57.9	3.00	0.00
		April 1		2.00	0.00
1996	12.7	Jan. 1	25.4	0.00	2.00
1997	8.4	April 1	33.7	1% and \$500/FTE ^{3/}	0.00
1998	42.0	Oct 1	56.0	To Be Determined	

^{1/} Represents original General Fund appropriation.

^{2/} Equates to approximately 4.2%

^{3/} Equates to approximately 2.9%.

^{4/} JLBC Staff Recommendation

When the other special pay actions (that the JLBC Staff has recommended in individual agency budgets) are included, the total Staff-recommended pay adjustments are a record \$47.4 million.

Enhance Information Technology Oversight

The JLBC Staff is recommending \$1.9 million from the Information Technology Fund to begin the state's new information technology oversight process. Effective July 1, 1997, Laws 1996, Chapter 342 created: 1) a separate Executive agency, the Government Information Technology Agency (GITA), responsible for statewide information technology planning, coordinating, and consulting and 2) a Legislative, Executive, Judicial, and private sector committee, the Information Technology Authorization Committee (ITAC), responsible for oversight of Executive, Legislative, and Judicial information technology. The bill transferred the Executive Branch information technology planning, coordinating and consulting functions from the Arizona Department of Administration (ADOA) to GITA. The JLBC Staff recommendation provides funding for the new agency, along with corresponding reductions in ADOA. GITA and ITAC are expected to improve the coordination and effectiveness of information technology used by state agencies. The new agency and committee also are expected to reduce waste and duplication associated with over \$200 million spent annually on information technology for state government.

In addition, the JLBC Staff recommends appropriating \$7 million from the General Fund and \$5.6 million from Other Funds to GITA to address Year 2000 issues. "Year

2000" refers to a necessity to alter computer functions that use a 2-digit code for the year (i.e., if the year 1997 is "97," 1998 is "98," and so on, the year 2000 being "00" will create enormous miscalculations in formula-driven programs.) The Governor has directed state agencies to absorb the majority of their Year 2000 costs by reallocating priorities within their existing budgets. The recommended amount centrally funds individual state agencies' Year 2000 costs beyond those that can be absorbed within existing agency budgets. GITA will allocate amounts to individual agencies, as required. Central funding will provide flexibility and oversight for resolution of Year 2000 problems in various state agencies.

Improve State Permanent Fund Investment

JLBC Staff recommends that the State Permanent Fund invest some percentage of its investments in equities in order to protect the fund against inflation and achieve a higher rate of growth of assets to improve the income for the 14 designated fund beneficiaries. This will require an amendment to the State Constitution at the next general election.

The State Permanent Fund has grown rapidly in recent years, to \$767.6 million at the end of FY 1996, mainly because of increased sales of State Trust Lands at higher land prices in the current economic expansion. Article 10, Section 7 of the Arizona Constitution requires that the "State Treasurer shall keep all such moneys invested in safe, interest bearing securities . . ." Statutes require that the State Treasurer invest the State Permanent Fund in U.S. federal government and high grade corporate notes and bonds. The policy has been that interest from the State Permanent Fund is transferred each year to the expendable account of the State Permanent Fund for use by the 14 beneficiaries. The State Permanent Fund earned \$52.6 million in FY 1996. The largest beneficiary, the Common Schools (K-12), received about \$48.6 million, or 92%, of the total State Permanent Fund interest earnings that year. This is roughly the proportion of Trust Lands held for their account. (Additionally, any income from the leasing of Trust Lands is moved into the expendable account).

However, it has long been recognized by investment experts that by spending all the interest earnings each year, the State Permanent Fund, or any fund pursuing a similar policy, is not protected against inflation, and the 'real' value of the fund decreases annually. In fact, the primary reason the State Permanent Fund has grown has been due to continued sales of State Trust lands; the proceeds of which must be deposited and not withdrawn from the Fund. In addition, it has also long been recognized that equity securities from established, reputable companies have provided significantly higher rates of return than the Treasurer can earn on government securities and corporate bonds.

It has long been believed that the State Enabling Act prohibited investment of State Permanent Fund monies in equities. However, a 1957 amendment to Section 28 of the State Enabling Act eliminated the requirement that "the state treasurer shall keep all such moneys invested in safe, interest-bearing securities . . ." This 1957 amendment, reportedly initiated by the State of New Mexico, changed the original 1910 State Enabling Act (New Mexico and Arizona were covered by the same Enabling Act) and allowed New Mexico to invest its State Permanent Fund in equities since that time. This change to the Enabling Act for Arizona was, unfortunately, overlooked by West Publishing (amongst others) and was not, therefore, included in Arizona statutes.

The JLBC Staff believes that a change to the Arizona Constitution to allow investment of State Permanent Fund monies in recognized equity securities will, over time, enhance the value of the State Permanent Fund substantially and improve the annual real, inflation adjusted incomes for its beneficiaries. The table shows the actual growth of the fund since 1980 and the hypothetical incremental rate of return if the State Permanent Fund had been invested in a portfolio with 65% invested in the Standard & Poor's 500 Market Index and about 35% in high grade corporate bonds. Had Arizona availed itself of this option since 1980, we would have earned an additional \$320.9 million, representing a 5.0% higher annual rate of return, on average. The JLBC Staff believes a change in investment strategy toward equities can be part of a solution to Arizona's school finance problem.

Permanent Fund Growth With and Without Equity Mix (in millions)				
Fiscal Year	Actual Permanent Fund	Treasurer's Earnings	Equity Return (ASRS)	Difference
1980	\$125.8	\$9.9	\$12.0	\$2.1
1981	135.5	11.3	6.7	(4.6)
1982	143.5	14.0	3.4	(10.6)
1983	150.1	12.6	60.5	47.8
1984	167.6	17.0	(8.7)	(25.7)
1985	211.2	22.2	67.8	45.6
1986	246.7	22.3	77.7	55.4
1987	315.9	28.3	37.3	9.0
1988	364.6	31.8	11.3	(20.5)
1989	405.6	37.2	58.1	20.9
1990	459.5	39.1	43.7	4.6
1991	501.6	45.0	40.1	(5.0)
1992	525.0	46.7	76.8	30.0
1993	572.5	43.4	95.8	52.4
1994	634.5	43.7	12.0	(31.7)
1995	695.1	48.2	123.6	75.4
1996	767.7	<u>52.6</u>	<u>128.2</u>	<u>75.6</u>
Total		\$525.4	\$846.3	\$320.9

Continue Improving Fund Oversight

The JLBC Staff recommends continuing to reduce both the number of funds in the state's accounting system and to transfer more "off-budget" spending to appropriated status. The recommendation is an outgrowth of the Legislature's belief that it should limit the proliferation of separate state funds and exercise greater oversight of non-appropriated funds. Laws 1994, Chapter 366, annually requires the JLBC Staff to recommend the elimination or consolidation of at least 10% of the total number of funds, and the conversion at least 5% of non-appropriated fund expenditures to appropriated status.

We determined in a November 1996 report that there are 535 separate funds, and that non-appropriated resources constitute \$4.4 billion of the state's overall spending authority. To reduce the number of funds and to increase legislative oversight, the JLBC Staff is recommending:

- to eliminate or consolidate 62, or 12%, of all funds, and
- to convert \$326 million, or 7%, of fund expenditures to appropriated status.

Separate legislation will be introduced to accomplish each of these purposes. The detailed recommendations appear in the November 1996 report. A summary of the proposal can also be found at the end of the FY 1998 Non-Appropriated Funds volume.

Redirect Aviation Property Tax Revenues

The JLBC Staff recommends that 50% of Aviation Property Tax revenues be deposited into the General Fund. The Governor is proposing to suspend deposits of aviation property tax revenues to the Aviation Fund for a 3-year period from FY 1998 through FY 2000, and to redirect the deposit of some \$47.5 million into the General Fund over that period. The Governor links this action with the appropriation of \$20 million over the next 2 years into a "Year 2000 Fund" to fix major computer glitches associated with the year 2000 in thousands of computer programs operated by agencies of state government.

The JLBC Staff concurs with the Executive that the flight property tax is generating far more revenue than expected when it was removed from the General Fund in the late 1980's and redirected to the Aviation Fund; however, rather than suspending deposits for the next 3 years as recommended by the Executive, we would recommend the establishment of a 50/50 split of revenues between the Aviation Fund and the General Fund. When viewed in the context of the JLBC Staff's higher forecast for the aviation

property tax, the Staff recommendation leaves sufficient revenue for the Arizona Department of Transportation to maintain airport capital improvement plans at a high level as shown in the table below.

AVIATION FUND PROJECTIONS			
(in millions)			
	<u>Fiscal Year</u>		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues, including			
Beginning Balance:			
Current Law	\$77.0	\$87.5	\$95.9
Exec. Proposal	60.3	52.3	40.0
JLBC Staff Rec.	68.6	69.9	67.9
Expenditures:			
Current Law	\$22.1	\$23.5	\$27.5
Exec. Proposal	22.1	23.5	27.5
JLBC	22.1	23.5	27.5
Ending Balance:			
Current Law	\$54.9	\$64.1	\$68.4
Exec. Proposal	38.2	28.9	12.5
JLBC	46.6	46.5	40.5

HIGHLIGHTS OF AGENCY BUDGET RECOMMENDATIONS

Education

Department of Education

The JLBC Staff recommends \$89.5 million in new K-12 funding, a 4.5% increase. This increase includes \$82.2 million for enrollment growth in non-charter schools and \$32.7 million for enrollment growth in charter schools, both based on formula funding projections. Also included are \$33.3 million for Sudden Growth ("Current Year Funding"), and \$18.6 million for the homeowner's rebate ("Additional State Aid"). Offsetting these increases are projected net savings of \$(72.1) million for assessed valuation growth, \$(10.2) million for eliminating double funding of Bureau of Indian Affairs (BIA) charter schools, and \$(4.9) million for recommended changes in the transportation funding formula.

The JLBC Staff recommends that funding for the State Block Grant for Early Childhood and State Block Grant for Vocational Education programs be allocated differently during FY 1998. Early Childhood funding would be allocated based solely upon the number of "free lunch eligible" pupils enrolled during FY 1997. We recommend that 80% of vocational education funding be based upon 11th and 12th grade student counts in these programs, and 20% be based upon placement rates for these students.

Universities

The JLBC Staff recommends \$18.1 million in new university funding, a 2.9% increase. The recommendation includes \$11.2 million to annualize the April 1997 pay adjustment, a \$(5.5) million decrease due to increases of other funds, and \$8.2 million for the "Faculty Teaching Incentive Pay."

The JLBC Staff recommends that the ranked faculty should increase their direct classroom teaching load to improve the quality of instruction. There has been a national trend toward lower faculty teaching loads in recent years, and Arizona has followed suit. A 1992 study by the JLBC Higher Education Research Advisory Board concluded that the average faculty teaching load (in terms of classroom contact hours) was 7.8 hours. More recent data (1995) shows that in terms of "regularly scheduled classroom credit hours," that faculty teaching loads may be even lower. The Faculty Teaching Incentive Pay program will award a salary bonus to those faculty members who teach at least 9 hours per week in regularly scheduled direct classroom instruction, including lab hours.

In addition, the JLBC Staff recommends \$14.8 million for university building renewal, which is an increase of \$3.3 million from FY 1997 (See *Capital Outlay section of*

Detailed Analysis and Recommendation Book). The universities will also receive approximately \$13 million of the proposed general pay adjustment.

Community Colleges

The JLBC Staff recommends a \$4.4 million, or 3.9%, increase in Community Colleges funding. This increase includes \$2.7 million for changes in full-time student enrollment (FTSE) and "hold harmless" funding, and equalization aid.

The JLBC Staff recommends \$2.7 million for continued funding of the Technology Assisted Learning initiative referred to as the "Arizona Learning System" (ALS). The recommended amount reflects a \$1.6 million increase above the FY 1997 amount of \$1.1 million to implement the statewide plan for interconnecting and consolidating community college, university and K-12 telecommunication systems (video, voice and data) and to continue the technology alliance established between these and other public and private sector partners. Success of the ALS is dependent upon procuring a telecommunications "backbone" infrastructure constructed by private industry at a distance-insensitive price. Therefore, the JLBC Staff recommends that the release of these funds be subject to successful contract negotiations with a private vendor and JLBC review of the contract.

Criminal Justice

Propositions 102 and 200

Proposition 102, the Juvenile Crime Initiative, creates significant uncertainty in the juvenile justice arena. In addition to requiring the transfer to adult court of specific categories of juvenile offenders, the initiative allows the Legislature to define additional groups of juveniles to be transferred. This could increase the number of juveniles in adult probation and prison programs while decreasing the pressure on juvenile corrections beds and juvenile intensive probation. Once the groups are defined, it will be possible to estimate the number of delinquent juveniles involved and the cost shifts among juvenile and adult programs.

Proposition 102 also allows county attorneys to divert juveniles to community programs. This could affect a number of juveniles in programs such as Juvenile Probation, Juvenile Intensive Probation, and Juvenile Treatment Services. Funding for such options was not provided for in the initiative. Third, the new restitution requirements may involve additional administrative resources.

Lastly, and potentially most significantly, Proposition 102 took away from the Judiciary the absolute authority over

Lastly, and potentially most significantly, Proposition 102 took away from the Judiciary the absolute authority over juvenile proceedings. This leaves open the possibility for significant changes, such as moving delinquency or dependency programs from the Judiciary to the Executive Branch of government, or otherwise changing their scope, purpose, and number of participants. Because of these uncertainties, the JLBC Staff has not recommended additional funding for expansions of juvenile delinquency programs in FY 1998. Fiscal impacts of various proposals should be considered as legislation is developed.

Proposition 200 is also expected to put some upward pressure on adult community justice programs. It requires that first or second-time non-serious drug offenders be placed on probation rather than sent to prison, and that drug treatment services be provided for them. During FY 1997 and FY 1998, it is estimated that about 400 persons could be released from prison to parole, and in FY 1998, about 600 persons could be diverted from prison and placed instead on probation. This could cost up to \$5.2 million from the state and \$300,000 from the counties for parole and probation supervision, treatment services, and intensive probation. Furthermore, existing probationers are now eligible for drug treatment services which could cost from \$5 million to \$15 million.

The initiative makes \$8.6 million from alcohol tax revenues available in FY 1998 for some of the added costs: \$3.1 million to the courts for drug treatment, \$2.4 million to the Department of Corrections for parolees, and \$3.1 million to a new commission for drug prevention.

Department of Corrections

The JLBC Staff recommends a total General Fund increase of \$24.1 million, or 5.6%, for the Department of Corrections budget. The recommendation includes \$10.9 million to open 800 new prison beds, \$2.9 million for a 2.1% growth in the average daily inmate population, \$4.4 million to continue the correctional officer pay plan approved in FY 1996, and \$2.6 million to expand the Work Incentive Pay Plan (WIPP) program.

The JLBC Staff recommendation would slightly reduce the current 2,427 bed shortfall to 2,377 by the end of FY 1998. Due to the current construction schedule, new prison beds will not become available until late FY 1998. The inmate population is projected to increase by 110 inmates per month in FY 1998. The FY 1997 growth projection was originally 150 inmates per month, however due to a slowdown in growth, the FY 1997 growth projection was revised to 110 inmates per month. These population projections do not take into account any impact from Proposition 200 or Proposition 102. It is anticipated that Proposition 200 may reduce the bed deficit by as much as 400 as a result of inmates being

released from prison and placed on parole. The impact of Proposition 102 will depend on how the Legislature defines chronic and violent juvenile offenders and any sentencing guidelines that are established for these offenders.

In FY 1997, the Legislature appropriated a total of \$141.1 million over a 3-year period for the construction of a new 4,150 bed complex. These beds will come on-line in FY 1999 and FY 2000.

Department of Juvenile Corrections

The JLBC Staff recommends a \$4.4 million, or 9.3%, increase for the Department of Juvenile Corrections (DJC). Of this change, \$2.1 million would fund the full-year costs of 48 new secure, institutional beds to be opened in FY 1997. In addition, the JLBC Staff recommends a FY 1997 supplemental of \$2 million to start up these beds. Of the new beds, 34 are located at a new mental health facility located on the grounds of the Arizona State Hospital. The other 14 are "reopened" beds at the Catalina Mountain School facility that had been held vacant due to the *Johnson v. Upchurch (J v. U)* consent decree.

With the passage of Proposition 102, there is uncertainty about the department's future secure care bed needs. Implementation of the proposition will likely increase the number of minors sent to the Department of Corrections instead of DJC, but it might also increase the number of juveniles at DJC and their length of stay.

With this uncertainty in mind, the JLBC Staff recommends \$1.4 million to fund beds at the new complex being constructed near Buckeye. The recommended funding would enable the department to hire staff for the first 100 beds and purchase equipment for the first 200 beds.

The committee of consultants which is monitoring the *J v. U* consent decree reported in May 1996 that DJC is making acceptable progress in most areas, although population caps and staffing ratios continue to be areas of concern. The Court has approved DJC's use of 38 of the new beds to alleviate overcrowding and will consider approving the remaining 10 once additional funding is provided. If the committee's January 1997 report is favorable, the consent decree may expire, as scheduled, in May.

Judiciary

The JLBC Staff recommends a \$3.5 million General Fund increase, or 3.0%, for the Judiciary. Most of the increase is for adult programs. We have budgeted for a 2% increase in the population of probationers. For standard adult probation, the funding will pay for 50% of the costs of the new slots. Currently, the state and counties each fund about 50% of Adult probation programs. Propositions 102 and 200 will also affect adult probation programs. The impacts are to

be considered as part of separate legislation which will be needed to clarify provisions of those initiatives. For juvenile programs, the JLBC Staff recommends annualizing the funding for new capacity begun in FY 1997, but we recommend that funding for program growth be considered as part of the separate Proposition 102 legislation.

The Arizona Court Automation Project (ACAP), the first step in the Judiciary's plan to create an integrated Judicial Information System, is designed to provide Arizona's trial courts with a uniform, automated financial and case management system. Version I of ACAP could not successfully manage the courts' financial data. Implementation problems caused the Judiciary to change the ACAP software, resulting in approximately \$6 million in lost expenditures.

Given these previous problems, the JLBC Staff recommends a \$100,000 General Fund appropriation to the Information Technology Authorization Committee (ITAC) to review Judiciary automation plans. Pending the outcome of ITAC's review, the JLBC Staff does not recommend any appropriated monies for the Judiciary to finish uncompleted phases of ACAP or to develop an integrated Judicial Information System.

Health and Welfare

Proposition 203

Proposition 203 allows various health and welfare programs to receive up to \$17 million in Lottery profits after existing statutory deposits or guarantees are met. Based upon the JLBC Staff Lottery revenue forecast, Proposition 203 programs will receive no monies in FY 1998 and \$2.63 million in FY 1999.

Lottery profits follow 2 distinct flows that are derived from the sale of 1) Powerball tickets and 2) Lotto, Fantasy 5, and Scratchers tickets. Powerball profits flow to the General Fund and, if deposit stipulations are met, to mass-transit funding. Proposition 203 programs, however, are only eligible for profits derived from the sale of the remaining games after the Local Transportation Assistance Fund, County Assistance Fund, Heritage Fund and Arizona Clean Air Fund each receive their full deposits as directed by statute.

Sales of the Lotto, Fantasy 5, and Scratchers games (less Bingo) must reach approximately \$211.4 million in FY 1998 for the Proposition 203 programs to receive the full \$17 million. The JLBC Staff estimates that these games will reach sales of \$171.4 million in FY 1998.

The second part of Proposition 203 requires AHCCCS to provide services to individuals with incomes below 100% of

the federal poverty level. The Proposition makes this requirement contingent upon the federal government agreeing to participate in this program expansion. Given that such an agreement has not been reached, the JLBC Staff recommendation does not incorporate the 100% proposal.

AHCCCS

The JLBC Staff recommends a total General Fund increase of \$34.5 million, or 7.2%, for AHCCCS. Combined with caseload growth, Acute Care expenditures are expected to grow by \$15.5 million, or 3.6%, in FY 1998 due in part to changes in capitation rates negotiated with the health plans as FY 1998 is a bid procurement year.

The JLBC Staff recommends utilizing \$19.2 million of Tobacco Tax Funds to continue funding the phase-down of the Quick Pay discount and to offset the loss in federal funding due to a change in the Federal Matching Assistance Percentage. The recommendation also includes utilizing Tobacco Tax Funds to fund expanded maternity length of stay coverage and a new HIV/AIDS treatment. Since these additional costs are a direct result of a change in covered services, the JLBC Staff believes the use of Tobacco Tax Funds is consistent with current law (A.R.S. § 42-1241(C) and § 42-1242.) The FY 1998 General Fund increase includes \$10 million, paid from Tobacco Tax Funds in FY 1997, to eliminate the private hospital discount.

The JLBC Staff recommends that the county Acute Care contribution remain at \$66.7 million. In addition, the counties would be required to pay an additional \$13.0 million in Long Term Care costs, for a total of \$153.9 million. The counties' combined Acute/Long Term Care cost of \$220.6 million represents 31.3% of the overall cost of AHCCCS. The county cost of the program is actually declining, as their FY 1997 share of costs was 31.8%. Furthermore, the collective increase to counties of 6.3% compares favorably to the state's increase of 7.2% and the federal government's increase of 11.8%.

Department of Economic Security

The JLBC Staff is recommending a \$(15.2) million reduction, or (3.8)%, for the Department of Economic Security. The recommendation includes a reduction of \$(11.6) million due to decreasing caseloads in Temporary Assistance for Needy Families (TANF) - Cash Benefits and General Assistance.

TANF is the new program created by the Congress to replace the Aid to Families with Dependent Children (AFDC) program. The caseload reduction assumes that the state will continue to use essentially the same AFDC income eligibility criteria for the TANF program. The reduction occurs primarily due to a decline in welfare caseloads during the current year.

Along with the TANF program, the Congress created an expanded Child Care Block Grant (CCBG) program. As noted earlier, the JLBC Staff is recommending the FY 1998 appropriation of \$226.7 million in TANF Block Grant monies and \$52.0 million in Child Care Block Grant monies.

The state's FY 1998 TANF allocation is \$38.9 million higher than the level of federal funds that would have been required to operate the AFDC program in FY 1998. The JLBC Staff recommends that \$17.8 million of this amount be used to replace General Fund monies currently spent on the AFDC program. The \$17.8 million in "freed-up" General Fund monies would then be deposited into a TANF Stabilization Fund. (This funding shift is being utilized since the federal government would not permit the state to directly deposit Federal Funds into a state stabilization account.)

In addition, the JLBC Staff recommends setting aside \$20 million of the new TANF monies for legislative initiatives.

During the 1997 legislative session, legislative committees will be considering statutory changes in the state's welfare reform laws. Once the redesign of the welfare system is complete, these monies will be available to assist in fulfilling legislative objectives. For example, the legislative initiative monies could be used to further expand the \$17.8 million set aside for the TANF Stabilization Fund.

While the JLBC Staff has recommended using the excess FY 1998 monies for the Stabilization Fund shift and legislative initiatives, our proposal for the excess FY 1997 monies is different. The JLBC Staff recommends ex-appropriating \$(22.2) million of the existing FY 1997 DES General Fund budget and replacing those funds with a like amount of excess FY 1997 federal block grant funding. The ex-appropriation would include a reduction of \$(18.8) million related to TANF and \$(3.4) million related to CCBG. Since no new welfare reform initiatives will begin until at least FY 1998 as the Legislature considers possible policy options during the 1997 session, the JLBC Staff believes this proposal to be a prudent use of the excess FY 1997 monies.

Department of Health Services

The JLBC Staff recommends a total General Fund decrease of \$(791,100) for the Department of Health Services budget. As part of the ongoing requirements for settling the *Arnold v. Sarn* lawsuit, the JLBC Staff recommends transitioning an additional 55 ASH clients to community treatment beds. To accomplish this transition, the JLBC Staff recommends the transfer of \$3.0 million from the ASH operating budget to community treatment services. From FY 1995 through FY 1998, the average daily census at ASH will have been reduced from 450 to 250 clients. In addition, the declining census at ASH results in decreased operating costs, for a net savings of \$(1.6) million.

The Title XIX behavioral health population and capitation rates are expected to increase slightly over FY 1998, resulting in an increase of \$3.4 million. With regard to Children's Rehabilitative Services, population changes and the increased availability of Federal Title V funding are expected to result in a net decrease of \$(1.0) million for the General Fund.

Other changes in the DHS budget involve eliminating excess costs associated with outside contracts. Actuarial and Data Processing contract costs are reduced for a savings of \$(1.6) million and the ASH contract which privatized such ancillary services as groundskeeping, housekeeping and food preparation has resulted in savings of \$(500,000). In addition, the 3-year phase-out of General Fund support for Disease Control Research Commission contracts will be completed, for a decrease of \$(1.4) million.

Transportation/Public Safety

Arizona Department of Transportation

The JLBC Staff recommendation provides \$137.8 million from the State Highway Fund for statewide highway construction, which is \$9.6 million, or 7.0%, more than the FY 1997 estimate. The JLBC Staff can recommend more for highway construction, because we divert \$7.1 million less for the funding of the DPS highway patrol and do not recommend \$3.3 for traffic signal synchronization, which is envisioned to cost a total of \$33 million over 10 years. The JLBC Staff recommends an ADOT operating budget reduction of \$(900,000) and (30) FTE Positions.

The JLBC Staff recommends that the Government Information Technology Agency (GITA) review and oversee ADOT's major Year 2000 computer projects. The JLBC Staff has earmarked a \$5 million contingency set aside from the State Highway Fund for this purpose. No additional funding has been included in ADOT's operating budget for Year 2000 computer projects. ADOT reported in November 1996 that it plans to put its Enterprise computer system (for drivers license and vehicle title and registration) efforts on hold, pending the outcome of its litigation with the vendor who was developing the Enterprise software.

The JLBC Staff recommends that ADOT provide quarterly reports on customer wait time, transaction time, and total customer time spent in Motor Vehicle Division (MVD) field offices. The Staff further recommends that ADOT report on its efforts to increase the number and percent of vehicle registrations renewed by mail and other non-walk-in means by September 30, 1997, since such renewals are a savings to MVD which should be documented.

Department of Public Safety

The JLBC Staff recommends a total General Fund increase of \$5.4 million, or 9.8%, for the Department of Public Safety. Current law limits the amount of Highway User Revenue Fund (HURF) and Highway Fund monies available to fund DPS highway patrol costs. The JLBC Staff recommendation adheres to these laws, decreasing the department's HURF and Highway Fund monies by \$(7.1) million in FY 1998 and an additional \$(5) million in FY 1999.

In recognition that the DPS crime lab system benefits law enforcement at all levels in Arizona, the JLBC Staff recommends a portion of Criminal Justice Enhancement Fund (CJEF) monies currently deposited in the General Fund be redirected to support DPS' crime lab system. In FY 1998, these CJEF revenues will equal \$2.3 million.

Finally, the JLBC Staff recommends addressing the needs of the highway patrol through the addition of 41 highway patrol officers in FY 1998 and 23 officers in FY 1999. The JLBC Staff's recommendation would also add 93 patrol vehicles in FY 1998.

Natural Resources

Arizona Department of Environmental Quality

The JLBC Staff recommends a total General Fund increase of \$10.8 million, or 50.4%, for DEQ. The JLBC Staff recommends a \$15 million increase for the Water Quality Assurance Revolving Fund (WQARF) Priority Site Remediation Program. This amount, when combined with the continuing \$1.8 million appropriation and the approximate \$5 million in WQARF base revenues, gives the program a total funding level of nearly \$22 million. This amount will be used to monitor and remediate contaminated groundwater at 28 sites throughout the state. The Legislature established a groundwater task force and a Joint Select Committee on WQARF to study the issues surrounding the program, including its funding needs. From these groups came several proposals for containment and remediation, each with varying costs.

The JLBC Staff recommends the elimination of the FY 1997 \$4.3 million General Fund appropriation to subsidize the cost of the vehicle emissions inspection program. In FY 1997, vehicle owners paid \$20 for the cost of the 2 year test. Another \$4.30 of the test cost was covered by the GF subsidy. The JLBC Staff, in keeping with legislative intent, recommends that vehicle owners pay the entire cost of the required inspections and that the state subsidy be discontinued. The JLBC Staff also recommends that the

overhead costs not covered by the program's revenue be paid by assessing vehicle owners an additional administrative fee.

The JLBC Staff recommends a General Fund increase of \$3.4 million as a federal match to establish a state Safe Drinking Water Revolving Fund. This amount provides the required 20% match needed to draw \$16.9 million from the federal government. These monies will be used to make loans and assist communities in installing and upgrading drinking water systems.

Arizona State Parks Board

The JLBC Staff recommends a FY 1998 General Fund appropriation increase for the Parks Board of \$1.3 million, or a 20.8% increase. Of this amount, \$946,000 and 29 new FTE Positions would fund the operating cost of the new Kartchner Caverns State Park.

In addition, the JLBC Staff recommends a session law provision to dedicate the revenue growth in the Enhancement Fund above the FY 1997 level to expedite pay-off of the Tonto Natural Bridge State Park lease-purchase. Early pay-off of lease-purchase financing will save the state \$1 million in interest expenses.

Arizona Department of Water Resources

The JLBC Staff recommends a decrease of \$(4.9) million, or (24.5)%, for the Department of Water Resources. The Staff recommends suspending the \$5 million General Fund appropriation to the Water Protection Fund in FY 1998. The fund is used to provide grants to enhance water quality and quantity and to restore the habitat of rivers and streams. The JLBC Staff recommends that FY 1998 grants be made from the fund's \$8 million balance. The recommendation continues the appropriation in FY 1999.

General Government

Department of Commerce

The JLBC Staff recommends a \$2.0 million, or 20.8%, increase for the Department of Commerce. The Staff recommends shifting \$1.2 million in appropriations from the Commerce and Economic Development Commission (CEDC) Fund to the General Fund to stabilize the non-appropriated CEDC Fund. The role of the Commerce and Economic Development Commission is to establish business incentives and assistance procedures to retain, expand, or locate businesses and other qualified projects within the state. Without the recommended fund shift, projected CEDC Fund revenues during the next several years would not be able to sustain the projected level of CEDC expenditures.

FTE Summary Information

The JLBC Staff recommendation provides for an increase of 462.3 FTE Positions. This represents an increase of 1.0%. The majority of this growth occurs in the Department of Corrections, which adds 396 positions to staff new prisons.

Full-Time Equivalent Positions - Total Appropriated Funds

Agency	FY 1997 Estimate ^{1/}	FY 1998 JLBC Staff Recommend	Difference JLBC - FY 1996
Universities	14,284.2	14,399.3	115.1
Dept of Corrections	8,624.4	9,020.4	396.0
Dept of Transportation	4,352.0	4,322.0	(30.0)
Dept of Economic Security	3,802.5	3,613.6	(188.9)
Dept of Public Safety	1,629.5	1,689.5	60.0
Dept of Revenue	1,255.0	1,255.0	0.0
Dept of Health Services	1,167.1	1,073.1	(94.0)
AHCCCS	1,074.8	1,089.8	15.0
Dept of Administration	1,050.0	902.0	(148.0)
Dept of Juvenile Corrections	847.5	917.0	69.5
All Others	<u>6,489.0</u>	<u>6,756.6</u>	<u>267.6</u>
TOTAL	<u>44,576.0</u>	<u>45,038.3</u>	<u>462.3</u>

^{1/} Adjusted for comparability with the JLBC Staff recommendation

Capital Outlay

JLBC Staff recommends the continued use of pay-as-you-go financing, rather than lease-purchase, for constructing new facilities. With the healthy budget outlook, the Staff recommends a continuing return to cash financing of new facilities, which is the least expensive financing method. Beginning in the mid-1980's, the Legislature approved the issuance of Certificates-of-Participation (COP's) to finance the acquisition or construction of general state office buildings, ASU-West, a new Supreme Court building, the ENSCO property, facilities at ASDB, the Tonto Natural

Bridge, and more recently, "distressed properties" and additional state prisons. All told, as of December 31, 1996 there were outstanding lease-purchase issuances of \$541 million with an annual lease-purchase requirement of \$65 million.

COP financing made sense in the late 1980's and early 1990's, due to our poor budgetary climate and the opportunity to take advantage of severely depressed building values and construction costs. Now, these factors are absent, making pay-as-you-go the more attractive financing option.

Accordingly, the JLBC Staff recommends continuing the advance appropriation of \$61 million for a new prison complex and juvenile complex near Buckeye. The JLBC Staff also recommends \$23 million in Tobacco Tax monies for a new state health laboratory and Arizona State Hospital (ASH). Completion of ASH will require \$20 million in FY 1999. The JLBC Staff also recommends plans to accelerate paying off the COP's on Game and Fish offices, the Tonto Natural Bridge, and the "distressed properties" acquired in 1992.

Program Authorization Reviews

The JLBC Staff recommends modifying 18 programs as a result of the Program Authorization Review process. Laws 1996, Chapter 339 required the JLBC Staff and OSPB to review 34 selected state government programs and subprograms in 14 state agencies. These reviews, known as Program Authorization Reviews (PARs), began with an initial agency self-assessment. Subsequently, the JLBC Staff and OSPB jointly reviewed these 34 programs. In addition to the individual reports, the two offices prepared a composite PAR document, the JLBC/OSPB Final PAR Executive Summary Report, which provides for each program a summary of the joint JLBC Staff and OSPB findings. This composite document has been distributed to each legislator, the Governor, and the affected agencies.

As directed by Chapter 339, the JLBC Staff and OSPB recommend either to "Retain, Eliminate, or Modify" (R.E.M.) the program. The Staff recommendation is contained in each agency's narrative as is a discussion of the Executive recommendation. In addition, a brief summary of the second year PAR report for each affected agency is provided in these 14 agencies' analysis and recommendation narrative. For specific detail on each PAR, see the narrative for each agency.

Of the 34 programs and subprograms reviewed, the JLBC Staff recommends retaining 16, modifying 18, and eliminating none. The highlights of the JLBC Staff recommended modifications are as follows:

- The Department of Economic Security's Comprehensive and Medical Dental Program: Transfer program to the Arizona Health Care Cost Containment System.
- Arizona State University and the University of Arizona Colleges of Law: Increase resident tuition by \$1,000 and non-resident tuition by \$2,000 per academic year.
- The Department of Administration's Facilities Management program: Appropriate \$1.1 million to design a new office building on the Capitol Mall, allow building renewal monies to be used for infrastructure repair and replacement, shift tenant improvement staff from General Fund to Capital Outlay Stabilization Fund and charge agencies for tenant improvement labor costs.
- The Department of Corrections' Inmate Programs subprogram: Appropriate an additional \$2.6 million to expand Work Incentive Pay Plan for inmates and \$667,100 to expand the literacy program.
- The Arizona State Schools for the Deaf and the Blind Cooperative Programs: Appropriate an additional \$403,600 over two years to expand the cooperatives statewide.

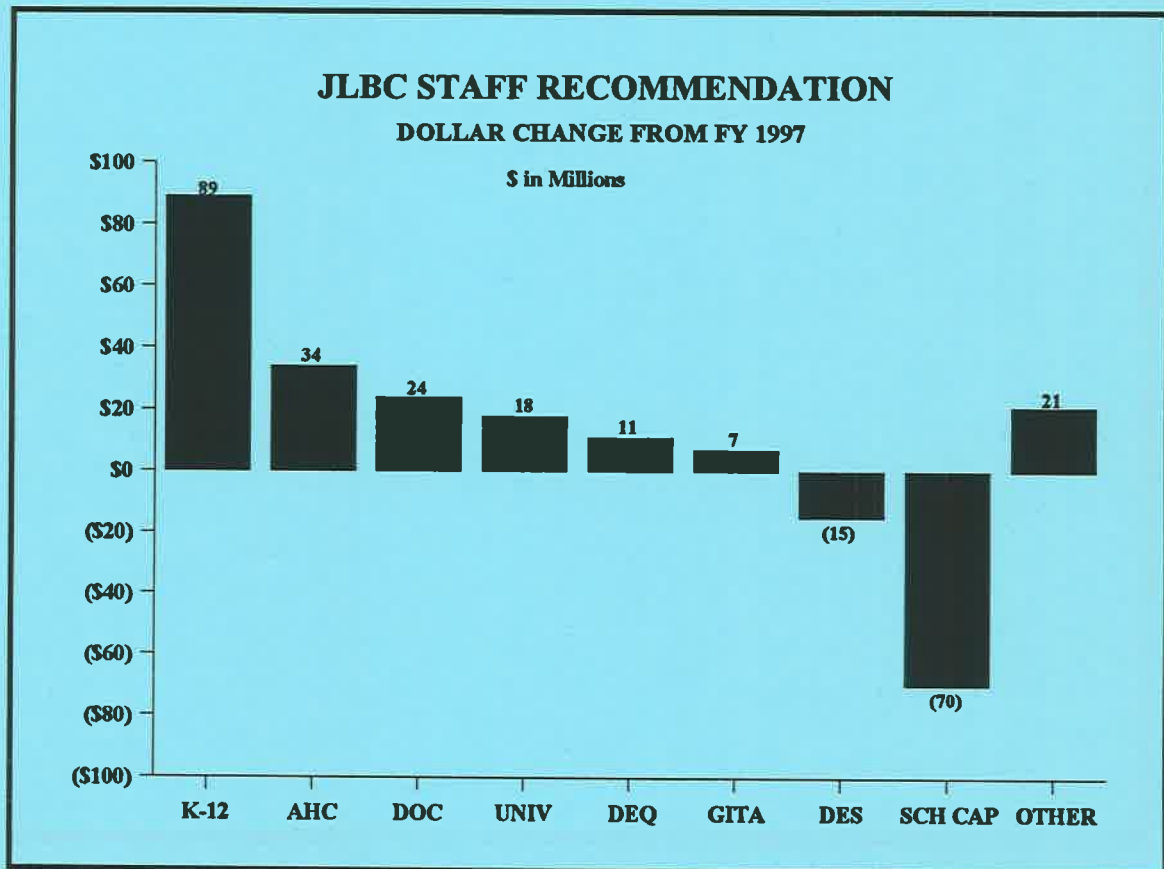
JLBC Staff Program Authorization Review Recommendation

<u>Agency/Department</u>	<u>Program/Subprogram</u>	<u>JLBC Staff Recommendation</u>	<u>OSPB Recommendation</u>
Administration	Facilities Management (1 program, 4 subprograms)	Modify	Modify
Commerce	International Trade and Investment (1 subprogram)	Retain	Modify
Corporation Commission	Corporations (1 program)	Modify	Modify
Corrections	Inmate Programs (1 subprogram)	Modify	Modify
AZ Schools for the Deaf and the Blind	Cooperative Programs (1 subprogram)	Modify	Modify
Economic Security	Comprehensive Medical and Dental Program (1 program)	Modify	Retain
Game and Fish	Sportfish Management (1 subprogram)	Retain	Retain
Health Services	Arizona State Hospital (1 program, 7 subprograms)	Retain	Modify
Judicial System	Juvenile Community Corrections (1 program, 5 subprograms)	Modify	Modify
Public Safety	Anti-Gang Enforcement (1 subprogram)	Modify	Modify
Revenue	Compliance (1 program, 4 subprograms)	Retain	Retain
Transportation	Highway Maintenance (1 program)	Retain	Modify
Arizona State University	College of Law (1 subprogram)	Modify	Retain
University of Arizona	College of Law (1 subprogram)	Modify	Retain

BUDGET DETAIL BY AGENCY

**GENERAL FUND AGENCIES
FY 1998 JLBC STAFF RECOMMENDATION
COMPARISON WITH EXECUTIVE RECOMMENDATION AND FY 1997 APPROPRIATIONS**

AGENCY	FY 1997 Estimate	FY 1998 Executive Recommendation	FY 1998 JLBC Staff Recommendation	\$ Difference JLBC - Executive	\$ Difference JLBC - FY 1997
K-12	1,972,667,000	2,063,067,900	2,062,143,100	(924,800)	89,476,100
UNIVERSITIES	634,653,400	662,988,900	652,751,800	(10,237,100)	18,098,400
AHCCCS	479,038,300	506,552,200	513,492,400	6,940,200	34,454,100
DEPT OF CORRECTIONS	431,236,600	456,180,200	455,366,400	(813,800)	24,129,800
DEPT OF ECONOMIC SECURITY	394,910,100	368,919,900	379,757,100	10,837,200	(15,153,000)
DEPT OF HEALTH SERVICES	216,247,400	215,030,900	215,456,300	425,400	(791,100)
JUDICIARY	116,294,800	116,294,800	119,761,900	3,467,100	3,467,100
COMMUNITY COLLEGES	111,080,000	115,489,000	115,467,000	(22,000)	4,387,000
DEPT OF JUVENILE CORRECTIONS	46,918,200	51,145,500	51,292,200	146,700	4,374,000
ALL OTHER	438,373,700	384,490,500	395,438,500	10,948,000	(42,935,200)
TOTAL	4,841,419,500	4,940,159,800	4,960,926,700	20,766,900	119,507,200



FY 1997 SUPPLEMENTALS

	<u>\$ in thousands</u>
GENERAL FUND	
<i>Operating Budget - Annual Budgets</i>	
Arizona Department of Administration	\$513.6
Federal Gov't Payback of Personnel Fund Costs	
AHCCCS	3,532.5
State Share of Disproportionate Share Costs	
Department of Economic Security	
Summer Youth Program Fund	1,000.0
Child Care Block Grant Shift/Ex-Appropriation	(3,430.9)
Temp. Assist. for Needy Families Block Grant Shift/ Ex-Appropriation	(18,800.0)
TOTAL - DES	(21,230.9)
Department of Education	8,592.2
Net Formula Change (Mostly Current Year Funding/District Charters)	
Judiciary	
<i>Court of Appeals - Division 1</i>	65.2
Elected Official Salary Adjustments	
<i>Court of Appeals - Division 2</i>	24.4
Elected Official Salary Adjustments	
<i>Superior Court</i>	
Elected Official Salary Adjustments	246.4
<i>Supreme Court</i>	
Elected Official Salary Adjustments	21.3
State Grand Jury Expenses	132.1
<i>Total - Supreme Court</i>	153.4
TOTAL - Judiciary	489.4
Department of Juvenile Corrections	1,952.9
Operating Expenses of Additional Beds	
<i>Operating Budgets - Biennial Budgets</i>	
Corporation Commission	16.8
Elected Official Salary Adjustments	
Land Department	2,464.3
Fire Suppression Costs	
Department of Library and Archives	258.0
State Share of \$1 Million in Federal Grants	
Unspecified Supplementals	500.0
<i>Capital Outlay</i>	
Department of Emergency and Military Affairs	
Move FY 98 Clifton Flood Costs to FY 97	1,000.0
Total FY 1997 General Fund Supplementals	<u>(\$1,911.2)</u>
 OTHER APPROPRIATED FUNDS	
<i>Operating Budgets</i>	
Dept of Economic Security	
Temporary Assistance for Needy Families Block Grant	\$166,815.0
Child Care Block Grant	38,374.5
TOTAL - DES	205,189.5
Dept of Liquor Licenses and Control	49.2
Automation Fund	
Lottery Commission	1,600.0
Lottery Fund: Distribution of Settlement Proceeds	
<i>Capital Outlay</i>	
Department of Transportation	2,800.0
County Auto License Fund: MVD Land & Service Centers	
Total FY 1997 Other Fund Supplementals	<u>\$209,638.7</u>

FY 1998 GENERAL FUND SUMMARY

	FY 1997 ESTIMATE	1/	FY 1998 EXEC REC.	FY 1998 JLBC REC.	JLBC REC. - ESTIMATE	JLBC REC. - EXEC REC.
ANNUAL BUDGET UNITS						
ADMINISTRATION, DEPARTMENT OF	25,656,600		24,368,000	24,701,700	(954,900)	333,700
AHCCCS	479,038,300		506,552,200	513,492,400	34,454,100	6,940,200
COMMUNITY COLLEGES	111,080,000		115,489,000	115,467,000	4,387,000	(22,000)
CORRECTIONS, DEPARTMENT OF	431,236,600		456,180,200	455,366,400	24,129,800	(813,800)
ECONOMIC SECURITY, DEPARTMENT OF	394,910,100		368,919,900	379,757,100	(15,153,000)	10,837,200
EDUCATION, DEPARTMENT OF	1,972,667,000		2,063,067,900	2,062,143,100	89,476,100	(924,800)
HEALTH SERVICES, DEPARTMENT OF	216,247,400		215,030,900	215,456,300	(791,100)	425,400
JUDICIARY						
Court of Appeals	9,010,900		9,010,900	9,310,700	299,800	299,800
Superior Court	94,450,100		94,450,100	97,167,800	2,717,700	2,717,700
Supreme Court	12,833,800		12,833,800	13,283,400	449,600	449,600
TOTAL	116,294,800		116,294,800	119,761,900	3,467,100	3,467,100
JUVENILE CORRECTIONS, DEPT OF	46,918,200		51,145,500	51,292,200	4,374,000	146,700
TRANSPORTATION, DEPARTMENT OF	300,000		76,400	76,400	(223,600)	0
UNIVERSITIES						
Arizona State University - Main	216,693,100		216,693,100	220,784,600	4,091,500	4,091,500
Arizona State University - East	5,023,600		5,023,600	5,411,500	387,900	387,900
Arizona State University - West	34,354,000		34,354,000	34,382,000	28,000	28,000
Northern Arizona University	90,922,200		90,922,200	91,379,500	457,300	457,300
Board of Regents	6,207,300		34,542,800	15,861,400	9,654,100	(18,681,400)
University of Arizona - Main	232,910,100		232,910,100	235,290,400	2,380,300	2,380,300
University of Arizona - Health Sciences Center	48,543,100		48,543,100	49,642,400	1,099,300	1,099,300
TOTAL	634,653,400		662,988,900	652,751,800	18,098,400	(10,237,100)
TOTAL - ANNUAL BUDGET UNITS	4,429,002,400		4,580,113,700	4,590,266,300	161,263,900	10,152,600
BIENNIAL BUDGET UNITS						
ADMINISTRATIVE HEARINGS, OFFICE OF	926,700		618,900	585,700	(341,000)	(33,200)
AGRICULTURE, DEPARTMENT OF	10,511,100		11,211,100	10,557,600	46,500	(653,500)
ARTS, COMMISSION ON THE	1,526,100		4,338,200	3,537,600	2,011,500	(800,600)
ATTORNEY GENERAL - DEPT OF LAW	23,320,300		22,813,900	23,083,200	(237,100)	269,300
AUTO THEFT AUTHORITY	225,000		0	0	(225,000)	0
BANKING DEPARTMENT, STATE	2,458,100		2,380,700	2,397,800	(60,300)	17,100
BOXING COMMISSION	68,300		69,500	68,800	500	(700)
BUILDING AND FIRE SAFETY, DEPT. OF	2,873,000		2,929,900	2,992,900	119,900	63,000
COMMERCE, DEPARTMENT OF	9,665,900		13,080,200	11,679,600	2,013,700	(1,400,600)
CONSTITUTIONAL DEFENSE COUNCIL	0		750,000	750,000	750,000	0
CORPORATION COMMISSION	5,209,900		5,609,000	5,642,600	432,700	33,600
CRIMINAL JUSTICE COMMISSION, ARIZONA	500,000		500,000	500,000	0	0
DEAF AND THE BLIND, SCHOOLS FOR THE	16,827,100		18,379,200	18,066,800	1,239,700	(312,400)
EMRG. & MILITARY AFFAIRS, DEPT. OF	9,368,300		11,715,800	11,785,400	2,417,100	69,600
ENVIRONMENTAL QUALITY, DEPT OF	21,417,100		26,711,600	32,219,500	10,802,400	5,507,900
EQUAL OPPORTUNITY, GOVERNOR'S OFC OF	237,900		243,000	243,000	5,100	0
EQUALIZATION, STATE BOARD OF	803,900		795,900	804,400	500	8,500
EXECUTIVE CLEMENCY, BOARD OF	1,691,200		1,525,300	1,649,800	(41,400)	124,500
GEOLOGICAL SURVEY, ARIZONA	743,300		744,500	765,300	22,000	20,800
GOVERNMENT INFORMATION TECH. AGENCY	0		0	7,100,000	7,100,000	7,100,000
GOVERNOR, OFFICE OF THE	4,974,200		5,118,700	5,118,700	144,500	0
GOV'S OFC OF MANAGEMENT & BUDGET	3,323,800		3,359,100	3,359,100	35,300	0
HEARING IMPAIRED, COUNCIL FOR THE	253,000		262,000	252,100	(900)	(9,900)
HISTORICAL SOCIETY, ARIZONA	4,158,900		4,223,000	4,223,000	64,100	0
HISTORICAL SOCIETY, PRESCOTT	617,700		631,700	665,400	47,700	33,700
INDIAN AFFAIRS, COMMISSION OF	175,400		182,000	182,900	7,500	900
INSURANCE, DEPARTMENT OF	4,396,200		4,302,800	4,318,700	(77,500)	15,900
LAND DEPARTMENT, STATE	13,098,200		13,228,300	13,777,000	678,800	548,700
LAW ENFORCEMENT MERIT SYS COUNCIL	48,100		49,100	51,000	2,900	1,900
LEGISLATURE						
Auditor General	9,540,500		9,634,100	9,892,000	351,500	257,900
House of Representatives	8,152,400		8,152,400	8,274,500	122,100	122,100

FY 1998 GENERAL FUND SUMMARY

	FY 1997 ESTIMATE	1/	FY 1998 EXEC REC.	FY 1998 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
Joint Legislative Budget Committee	2,137,200		2,118,400	2,118,400	(18,800)	0
Legislative Council	3,517,500		3,573,700	3,904,300	386,800	330,600
Library, Archives & Public Records	5,388,400		5,525,000	6,073,500	685,100	548,500
Senate	6,070,300		6,144,800	6,144,800	74,500	0
TOTAL	34,806,300		35,148,400	36,407,500	1,601,200	1,259,100
LIQUOR LICENSES AND CONTROL, DEPT.	2,530,000		2,564,500	2,680,900	150,900	116,400
MEDICAL STUDENT LOANS BOARD	236,600		284,300	286,200	49,600	1,900
MINE INSPECTOR	917,200		964,600	971,200	54,000	6,600
MINES & MINERAL RESOURCES, DEPT.OF	706,500		722,600	723,200	16,700	600
NAVIGABLE STREAM ADJUDICATION COMM.	117,400		156,300	139,400	22,000	(16,900)
OSHA REVIEW BOARD	9,000		9,000	9,000	0	0
PARKS BOARD	6,121,600		8,285,300	7,392,600	1,271,000	(892,700)
PERSONNEL BOARD	310,600		309,500	311,300	700	1,800
PIONEERS' HOME	1,973,300		3,580,900	2,197,000	223,700	(1,383,900)
POSTSECONDARY EDUCATION, COMM. FOR	1,334,000		0	0	(1,334,000)	0
PUBLIC SAFETY, DEPARTMENT OF	55,521,400		58,259,900	60,943,900	5,422,500	2,684,000
RACING, DEPARTMENT OF	2,579,300		2,603,300	2,589,400	10,100	(13,900)
RADIATION REGULATORY AGENCY	1,526,700		1,170,900	1,166,800	(359,900)	(4,100)
RANGERS' PENSIONS	10,500		10,800	10,800	300	0
REAL ESTATE DEPARTMENT	2,849,800		2,903,300	2,892,300	42,500	(11,000)
REVENUE, DEPARTMENT OF	51,591,900		52,789,400	52,327,800	735,900	(461,600)
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	70,000,000		0	0	(70,000,000)	0
SECRETARY OF STATE	4,138,900		2,770,900	2,735,600	(1,403,300)	(35,300)
TAX APPEALS, BOARD OF	269,700		288,000	286,400	16,700	(1,600)
TOURISM, OFFICE OF	7,687,200		8,843,600	7,483,800	(203,400)	(1,359,800)
TREASURER, STATE	3,910,100		4,185,000	4,200,900	290,800	15,900
UNIFORM STATE LAWS, COMMISSION ON	29,200		30,100	30,600	1,400	500
VETERANS' SERVICE COMMISSION	2,460,100		1,944,600	1,993,100	(467,000)	48,500
WATER RESOURCES, DEPARTMENT OF	19,756,300		14,860,000	14,906,200	(4,850,100)	46,200
WEIGHTS AND MEASURES, DEPT. OF	1,604,800		1,587,500	1,596,600	(8,200)	9,100
TOTAL - BIENNIAL BUDGET UNITS	412,417,100		360,046,100	370,660,400	(41,756,700)	10,614,300
OPERATING BUDGET TOTAL	4,841,419,500		4,940,159,800	4,960,926,700	119,507,200	20,766,900

1/ Does not include Supplementals.

01/13/97

FY 1998 OTHER APPROPRIATED FUNDS SUMMARY

	FY 1997 ESTIMATE	1/	FY 1998 EXEC REC.	FY 1998 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
ANNUAL BUDGET UNITS						
ADMINISTRATION, DEPARTMENT OF	127,215,900		115,793,600	115,336,900	(11,879,000)	(456,700)
COMMUNITY COLLEGES	145,300		143,800	144,000	(1,300)	200
CORRECTIONS, DEPARTMENT OF	18,868,600		26,775,400	26,775,400	7,906,800	0
ECONOMIC SECURITY, DEPARTMENT OF	13,703,100		293,871,900	293,378,000	279,674,900	(493,900)
EDUCATION, DEPARTMENT OF	37,425,000		40,502,200	38,040,000	615,000	(2,462,200)
HEALTH SERVICES, DEPARTMENT OF	18,759,200		18,778,700	17,744,600	(1,014,600)	(1,034,100)
JUDICIARY						
Superior Court	4,236,500		0	4,242,600	6,100	4,242,600
Supreme Court	8,318,300		1,468,400	6,660,500	(1,657,800)	5,192,100
TOTAL	12,554,800		1,468,400	10,903,100	(1,651,700)	9,434,700
JUVENILE CORRECTIONS, DEPT OF	2,038,600		2,339,800	2,572,000	533,400	232,200
TRANSPORTATION, DEPARTMENT OF	219,233,500		220,012,100	218,257,100	(976,400)	(1,755,000)
UNIVERSITIES						
Arizona State University - Main	78,873,900		74,922,500	82,217,200	3,343,300	7,294,700
Arizona State University - East	2,794,300		2,794,300	2,433,200	(361,100)	(361,100)
Arizona State University - West	5,745,000		5,745,000	5,829,000	84,000	84,000
Northern Arizona University	28,062,600		28,062,600	28,075,800	13,200	13,200
Board of Regents	0		2,361,200	2,441,600	2,441,600	80,400
University of Arizona - Main	61,217,100		62,352,800	61,116,200	(100,900)	(1,236,600)
University of Arizona - Health Sciences Center	5,563,500		5,552,500	5,637,100	73,600	84,600
TOTAL	182,256,400		181,790,900	187,750,100	5,493,700	5,959,200
TOTAL - ANNUAL BUDGET UNITS	632,200,400		901,476,800	910,901,200	278,700,800	9,424,400
BIENNIAL BUDGET UNITS						
ACCOUNTANCY, BOARD OF	1,053,600		1,225,500	1,219,700	166,100	(5,800)
ADMINISTRATIVE HEARINGS, OFFICE OF	419,200		726,600	715,800	296,600	(10,800)
AGRICULTURE, DEPARTMENT OF	2,651,400		2,221,200	2,209,800	(441,600)	(11,400)
APPRAISAL, BOARD OF	251,700		278,900	299,800	48,100	20,900
ATTORNEY GENERAL - DEPT OF LAW	25,432,000		34,586,100	27,942,400	2,510,400	(6,643,700)
AUTO THEFT AUTHORITY	807,600		1,114,200	1,170,400	362,800	56,200
BARBERS, BOARD OF	156,200		153,800	155,200	(1,000)	1,400
BEHAVIORAL HEALTH EXAMINERS, BD OF	357,700		391,200	388,200	30,500	(3,000)
CHIROPRACTIC EXAMINERS, BOARD OF	245,700		248,900	251,400	5,700	2,500
COLISEUM AND EXPOSITION CENTER	12,793,300		12,019,300	12,019,300	(774,000)	0
COMMERCE, DEPARTMENT OF	3,471,900		3,320,600	2,328,700	(1,143,200)	(991,900)
CONTRACTORS, REGISTRAR OF	4,787,100		5,110,000	5,676,200	889,100	566,200
CORPORATION COMMISSION	9,928,900		9,763,800	9,861,300	(67,600)	97,500
COSMETOLOGY, BOARD OF	691,400		818,800	821,700	130,300	2,900
CRIMINAL JUSTICE COMMISSION, ARIZONA	1,897,000		2,111,800	1,920,600	23,600	(191,200)
DEAF AND THE BLIND, SCHOOLS FOR THE	5,864,600		5,730,800	5,774,400	(90,200)	43,600
DENTAL EXAMINERS, BOARD OF	596,100		623,900	619,800	23,700	(4,100)
DRUG & GANG PREVENTION RESOURCE CTR.	230,000		0	203,000	(27,000)	203,000
EMRG. & MILITARY AFFAIRS, DEPT. OF	621,700		847,700	847,700	226,000	0
ENVIRONMENTAL QUALITY, DEPT OF	18,157,600		13,562,700	13,462,900	(4,694,700)	(99,800)
FUNERAL DIRECTORS & EMBALMERS, BD	180,300		184,200	182,400	2,100	(1,800)
GAME AND FISH DEPARTMENT	17,908,300		19,857,700	19,335,500	1,427,200	(522,200)
GAMING, DEPARTMENT OF	3,901,200		4,312,500	4,226,200	325,000	(86,300)
GOVERNMENT INFORMATION TECH. AGCY	0		16,428,500	7,523,000	7,523,000	(8,905,500)
GOV'S OFC OF MANAGEMENT & BUDGET	500,000		500,000	500,000	0	0
HEARING IMPAIRED, COUNCIL FOR THE	4,131,100		4,139,800	4,155,000	23,900	15,200
HOMEOPATHIC EXAMINERS, BOARD OF	33,200		43,500	41,100	7,900	(2,400)
INDUSTRIAL COMMISSION	12,833,800		13,778,600	13,789,900	956,100	11,300
LAND DEPARTMENT, STATE	898,500		898,600	898,500	0	(100)
LOTTERY, ARIZONA	41,255,300		44,725,200	42,084,400	829,100	(2,640,800)

FY 1998 OTHER APPROPRIATED FUNDS SUMMARY

	FY 1997 ESTIMATE	1/ FY 1998 EXEC REC.	FY 1998 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
MEDICAL EXAMINERS, BOARD OF	3,262,100	3,010,400	3,123,100	(139,000)	112,700
MEDICAL STUDENT LOANS BOARD	58,300	19,400	19,400	(38,900)	0
NATUROPATHIC PHYSICIANS BOARD	72,000	79,700	77,100	5,100	(2,600)
NURSING, BOARD OF	1,547,000	1,550,400	1,543,800	(3,200)	(6,600)
NURSING CARE INSTITUTIONAL ADMIN. BD.	91,900	121,000	104,900	13,000	(16,100)
OCCUPATIONAL THERAPY EXAM., BD OF	92,300	106,600	105,000	12,700	(1,600)
OPTICIANS, BOARD OF DISPENSING	67,200	72,900	69,800	2,600	(3,100)
OPTOMETRY, BOARD OF	109,900	112,600	111,800	1,900	(800)
OSTEOPATHIC EXAMINERS, BOARD OF	340,600	362,000	390,800	50,200	28,800
PARKS BOARD	3,624,700	3,639,700	3,611,000	(13,700)	(28,700)
PHARMACY, BOARD OF	729,300	739,700	711,100	(18,200)	(28,600)
PHYSICAL THERAPY EXAMINERS, BOARD	93,000	129,800	118,900	25,900	(10,900)
PIONEERS' HOME, ARIZONA	1,916,600	581,700	1,984,300	67,700	1,402,600
PODIATRY EXAMINERS, BOARD OF	58,200	68,500	68,300	10,100	(200)
POSTSECONDARY EDUCATION, COMM. FOR	2,929,100	0	0	(2,929,100)	0
PRIVATE POSTSECONDARY EDUCATION	160,300	163,000	162,700	2,400	(300)
PSYCHOLOGIST EXAMINERS, BOARD OF	255,700	263,600	266,600	10,900	3,000
PUBLIC SAFETY, DEPARTMENT OF	51,809,400	50,118,400	48,255,500	(3,553,900)	(1,862,900)
RACING, DEPARTMENT OF	293,400	297,400	295,700	2,300	(1,700)
RADIATION REGULATORY AGENCY	107,600	108,700	108,700	1,100	0
RESIDENTIAL UTILITY CONSUMER OFFICE	1,021,500	930,000	929,900	(91,600)	(100)
RESPIRATORY CARE EXAMINERS BOARD	165,700	182,100	182,100	16,400	0
RETIREMENT SYSTEM	8,840,300	8,645,200	9,027,800	187,500	382,600
REVENUE, DEPARTMENT OF	1,401,600	1,366,400	1,371,700	(29,900)	5,300
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	30,000,000	600,000	30,000,000	0	29,400,000
STRUCTURAL PEST CONTROL COMM	1,377,100	1,368,000	1,361,000	(16,100)	(7,000)
TECHNICAL REGISTRATION, BOARD OF	875,700	786,300	785,900	(89,800)	(400)
VETERANS' SERVICE COMMISSION	7,929,700	8,185,100	8,192,600	262,900	7,500
VETERINARY MED EXAMINING BOARD	217,100	236,200	233,000	15,900	(3,200)
WEIGHTS AND MEASURES, DEPT. OF	331,400	449,400	413,800	82,400	(35,600)
TOTAL - BIENNIAL BUDGET UNITS	291,835,100	284,018,600	294,250,600	2,415,500	10,232,000
OPERATING BUDGET TOTAL	924,035,500	1,185,495,400	1,205,151,800	281,116,300	19,656,400
Unallocated Salary Adjustment	281,000	0	0	(281,000)	0
Unallocated CMR	39,600	0	0	(39,600)	0
GRAND TOTAL	924,356,100	1,185,495,400	1,205,151,800	280,795,700	19,656,400

1/ Does not include Supplementals.

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FY 1999 GENERAL FUND SUMMARY

	FY 1998 JLBC REC.	FY 1999 EXEC REC.	FY 1999 JLBC REC.	JLBC REC.- FY 1998	JLBC REC. - EXEC REC.
BIENNIAL BUDGET UNITS					
ADMINISTRATIVE HEARINGS, OFFICE OF	585,700	620,600	587,500	1,800	(33,100)
AGRICULTURE, DEPARTMENT OF	10,557,600	11,203,000	10,583,400	25,800	(619,600)
ARTS, COMMISSION ON THE	3,537,600	5,127,200	3,527,200	(10,400)	(1,600,000)
ATTORNEY GENERAL - DEPT OF LAW	23,083,200	22,827,400	23,174,800	91,600	347,400
AUTO THEFT AUTHORITY	0	0	0	0	0
BANKING DEPARTMENT, STATE	2,397,800	2,383,500	2,409,300	11,500	25,800
BOXING COMMISSION	68,800	69,900	69,100	300	(800)
BUILDING AND FIRE SAFETY, DEPT. OF	2,992,900	2,939,400	2,981,000	(11,900)	41,600
COMMERCE, DEPARTMENT OF	11,679,600	10,982,800	11,694,800	15,200	712,000
CONSTITUTIONAL DEFENSE COUNCIL	750,000	750,000	750,000	0	0
CORPORATION COMMISSION	5,642,600	5,599,400	5,613,200	(29,400)	13,800
CRIMINAL JUSTICE COMMISSION, ARIZONA	500,000	500,000	500,000	0	0
DEAF AND THE BLIND, SCHOOLS FOR THE	18,066,800	18,927,300	18,573,600	506,800	(353,700)
EMRG. & MILITARY AFFAIRS, DEPT. OF	11,785,400	8,604,500	8,694,600	(3,090,800)	90,100
ENVIRONMENTAL QUALITY, DEPT OF	32,219,500	26,597,800	31,573,000	(646,500)	4,975,200
EQUAL OPPORTUNITY, GOVERNOR'S OFC OF	243,000	243,900	243,900	900	0
EQUALIZATION, STATE BOARD OF	804,400	796,300	804,900	500	8,600
EXECUTIVE CLEMENCY, BOARD OF	1,649,800	1,457,500	1,582,500	(67,300)	125,000
GEOLOGICAL SURVEY, ARIZONA	765,300	760,300	764,900	(400)	4,600
GOVERNMENT INFORMATION TECH. AGENCY	7,100,000	0	0	(7,100,000)	0
GOVERNOR, OFFICE OF THE	5,118,700	5,145,200	5,145,200	26,500	0
GOV'S OFC OF MANAGEMENT & BUDGET	3,359,100	3,367,700	3,367,700	8,600	0
HEARING IMPAIRED, COUNCIL FOR THE	252,100	253,500	243,600	(8,500)	(9,900)
HISTORICAL SOCIETY, ARIZONA	4,223,000	4,221,100	4,221,100	(1,900)	0
HISTORICAL SOCIETY, PRESCOTT	665,400	632,800	666,700	1,300	33,900
INDIAN AFFAIRS, COMMISSION OF	182,900	183,000	183,900	1,000	900
INSURANCE, DEPARTMENT OF	4,318,700	4,310,400	4,333,500	14,800	23,100
LAND DEPARTMENT, STATE	13,777,000	13,219,300	13,702,700	(74,300)	483,400
LAW ENFORCEMENT MERIT SYS COUNCIL	51,000	48,200	50,000	(1,000)	1,800
LEGISLATURE					
Auditor General	9,892,000	9,643,500	10,024,500	132,500	381,000
House of Representatives	8,274,500	8,152,400	8,274,500	0	122,100
Joint Legislative Budget Committee	2,118,400	2,119,800	2,119,800	1,400	0
Legislative Council	3,904,300	3,576,500	3,805,600	(98,700)	229,100
Library, Archives & Public Records	6,073,500	5,527,100	6,125,500	52,000	598,400
Senate	6,144,800	6,144,800	6,144,800	0	0
TOTAL	36,407,500	35,164,100	36,494,700	87,200	1,330,600
LIQUOR LICENSES AND CONTROL, DEPT.	2,680,900	2,565,800	2,681,200	300	115,400
MEDICAL STUDENT LOANS BOARD	286,200	292,700	295,800	9,600	3,100
MINE INSPECTOR	971,200	955,400	943,100	(28,100)	(12,300)
MINES & MINERAL RESOURCES, DEPT.OF	723,200	740,100	740,700	17,500	600
NAVIGABLE STREAM ADJUDICATION COMM.	139,400	156,700	140,100	700	(16,600)
OSHA REVIEW BOARD	9,000	9,000	9,000	0	0
PARKS BOARD	7,392,600	8,261,600	7,419,100	26,500	(842,500)
PERSONNEL BOARD	311,300	311,800	310,700	(600)	(1,100)
PIONEERS' HOME	2,197,000	3,585,600	2,201,900	4,900	(1,383,700)
POSTSECONDARY EDUCATION, COMM. FOR	0	0	0	0	0
PUBLIC SAFETY, DEPARTMENT OF	60,943,900	62,648,000	67,371,400	6,427,500	4,723,400
RACING, DEPARTMENT OF	2,589,400	2,554,100	2,542,000	(47,400)	(12,100)
RADIATION REGULATORY AGENCY	1,166,800	1,160,200	1,160,800	(6,000)	600
RANGERS' PENSIONS	10,800	11,100	11,100	300	0
REAL ESTATE DEPARTMENT	2,892,300	2,878,700	2,877,700	(14,600)	(1,000)
REVENUE, DEPARTMENT OF	52,327,800	52,522,100	52,405,600	77,800	(116,500)
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	0	0	0	0	0

FY 1999 GENERAL FUND SUMMARY

	<u>FY 1998 JLBC REC.</u>	<u>FY 1999 EXEC REC.</u>	<u>FY 1999 JLBC REC.</u>	<u>JLBC REC.- FY 1998</u>	<u>JLBC REC. - EXEC REC.</u>
SECRETARY OF STATE	2,735,600	4,298,600	4,196,700	1,461,100	(101,900)
TAX APPEALS, BOARD OF	286,400	277,200	269,500	(16,900)	(7,700)
TOURISM, OFFICE OF	7,483,800	10,000,000	7,477,500	(6,300)	(2,522,500)
TREASURER, STATE	4,200,900	4,366,900	4,351,000	150,100	(15,900)
UNIFORM STATE LAWS, COMMISSION ON	30,600	31,100	31,600	1,000	500
VETERANS' SERVICE COMMISSION	1,993,100	962,900	991,800	(1,001,300)	28,900
WATER RESOURCES, DEPARTMENT OF	14,906,200	19,852,600	19,437,700	4,531,500	(414,900)
WEIGHTS AND MEASURES, DEPT. OF	1,596,600	1,589,800	1,548,900	(47,700)	(40,900)
TOTAL - BIENNIAL BUDGET UNITS	<u>370,660,400</u>	<u>366,968,100</u>	<u>371,951,700</u>	<u>1,291,300</u>	<u>4,983,600</u>

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FY 1999 OTHER APPROPRIATED FUNDS SUMMARY

	FY 1998 JLBC REC.	FY 1999 EXEC REC.	FY 1999 JLBC REC.	JLBC REC.- FY 1998	JLBC REC. - EXEC REC.
BIENNIAL BUDGET UNITS					
ACCOUNTANCY, BOARD OF	1,219,700	1,227,000	1,221,200	1,500	(5,800)
ADMINISTRATIVE HEARINGS, OFFICE OF	715,800	729,000	718,000	2,200	(11,000)
AGRICULTURE, DEPARTMENT OF	2,209,800	2,228,400	2,214,100	4,300	(14,300)
APPRAISAL, BOARD OF	299,800	278,200	300,700	900	22,500
ATTORNEY GENERAL - DEPT OF LAW	27,942,400	34,603,900	28,028,300	85,900	(6,575,600)
AUTO THEFT AUTHORITY	1,170,400	1,114,200	1,170,400	0	56,200
BARBERS, BOARD OF	155,200	154,400	155,900	700	1,500
BEHAVIORAL HEALTH EXAMINERS, BD OF	388,200	385,000	382,000	(6,200)	(3,000)
CHIROPRACTIC EXAMINERS, BOARD OF	251,400	249,100	251,600	200	2,500
COLISEUM AND EXPOSITION CENTER	12,019,300	12,266,500	12,266,500	247,200	0
COMMERCE, DEPARTMENT OF	2,328,700	3,314,400	2,326,600	(2,100)	(987,800)
CONTRACTORS, REGISTRAR OF	5,676,200	5,036,800	5,058,200	(618,000)	21,400
CORPORATION COMMISSION	9,861,300	9,751,300	10,011,700	150,400	260,400
COSMETOLOGY, BOARD OF	821,700	806,500	803,500	(18,200)	(3,000)
CRIMINAL JUSTICE COMMISSION, ARIZONA	1,920,600	2,087,100	1,896,500	(24,100)	(190,600)
DEAF AND THE BLIND, SCHOOLS FOR THE	5,774,400	5,730,800	5,745,700	(28,700)	14,900
DENTAL EXAMINERS, BOARD OF	619,800	634,400	626,800	7,000	(7,600)
DRUG & GANG PREVENTION RESOURCE CTR.	203,000	0	203,000	0	203,000
EMRG. & MILITARY AFFAIRS, DEPT. OF	847,700	47,700	47,700	(800,000)	0
ENVIRONMENTAL QUALITY, DEPT OF	13,462,900	13,455,200	13,352,600	(110,300)	(102,600)
FUNERAL DIRECTORS & EMBALMERS, BD	182,400	180,500	180,000	(2,400)	(500)
GAME AND FISH DEPARTMENT	19,335,500	19,742,200	19,195,400	(140,100)	(546,800)
GAMING, DEPARTMENT OF	4,226,200	4,492,100	4,353,600	127,400	(138,500)
GOVERNMENT INFORMATION TECH. AGENCY	7,523,000	16,504,600	2,093,700	(5,429,300)	(14,410,900)
GOV'S OFC OF MANAGEMENT & BUDGET	500,000	500,000	500,000	0	0
HEARING IMPAIRED, COUNCIL FOR THE	4,155,000	4,139,300	4,154,500	(500)	15,200
HOMEOPATHIC EXAMINERS, BOARD OF	41,100	43,500	41,300	200	(2,200)
INDUSTRIAL COMMISSION	13,789,900	13,094,000	13,091,600	(698,300)	(2,400)
LAND DEPARTMENT, STATE	898,500	898,800	898,500	0	(300)
LOTTERY, ARIZONA	42,084,400	45,064,000	40,075,500	(2,008,900)	(4,988,500)
MEDICAL EXAMINERS, BOARD OF	3,123,100	3,033,400	3,106,600	(16,500)	73,200
MEDICAL STUDENT LOANS BOARD	19,400	20,600	20,600	1,200	0
NATUROPATHIC PHYSICIANS BOARD	77,100	66,400	66,400	(10,700)	0
NURSING, BOARD OF	1,543,800	1,551,100	1,544,500	700	(6,600)
NURSING CARE INSTITUTIONAL ADMIN. BD.	104,900	120,000	103,200	(1,700)	(16,800)
OCCUPATIONAL THERAPY EXAM., BD OF	105,000	104,400	102,900	(2,100)	(1,500)
OPTICIANS, BOARD OF DISPENSING	69,800	68,100	66,800	(3,000)	(1,300)
OPTOMETRY, BOARD OF	111,800	112,800	112,100	300	(700)
OSTEOPATHIC EXAMINERS, BOARD OF	390,800	354,900	376,200	(14,600)	21,300
PARKS BOARD	3,611,000	3,374,200	3,272,400	(338,600)	(101,800)
PHARMACY, BOARD OF	711,100	742,500	706,700	(4,400)	(35,800)
PHYSICAL THERAPY EXAMINERS, BOARD	118,900	129,000	116,800	(2,100)	(12,200)
PIONEERS' HOME, ARIZONA	1,984,300	581,700	1,944,800	(39,500)	1,363,100
PODIATRY EXAMINERS, BOARD OF	68,300	66,800	67,600	(700)	800
POSTSECONDARY EDUCATION, COMM. FOR	0	0	0	0	0
PRIVATE POSTSECONDARY EDUCATION	162,700	163,700	163,500	800	(200)
PSYCHOLOGIST EXAMINERS, BOARD OF	266,600	259,300	267,400	800	8,100
PUBLIC SAFETY, DEPARTMENT OF	48,255,500	50,674,000	44,001,300	(4,254,200)	(6,672,700)
RACING, DEPARTMENT OF	295,700	296,800	295,000	(700)	(1,800)
RADIATION REGULATORY AGENCY	108,700	108,800	108,800	100	0
RESIDENTIAL UTILITY CONSUMER OFFICE	929,900	906,900	907,000	(22,900)	100
RESPIRATORY CARE EXAMINERS BOARD	182,100	175,300	175,300	(6,800)	0
RETIREMENT SYSTEM	9,027,800	7,755,300	8,416,800	(611,000)	661,500
REVENUE, DEPARTMENT OF	1,371,700	1,367,600	1,372,800	1,100	5,200

FY 1999 OTHER APPROPRIATED FUNDS SUMMARY

	<u>FY 1998 JLBC REC.</u>	<u>FY 1999 EXEC REC.</u>	<u>FY 1999 JLBC REC.</u>	<u>JLBC REC.- FY 1998</u>	<u>JLBC REC. - EXEC REC.</u>
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	30,000,000	600,000	30,000,000	0	29,400,000
STRUCTURAL PEST CONTROL COMM	1,361,000	1,395,700	1,388,700	27,700	(7,000)
TECHNICAL REGISTRATION, BOARD OF	785,900	787,100	786,700	800	(400)
VETERANS' SERVICE COMMISSION	8,192,600	8,195,700	8,228,400	35,800	32,700
VETERINARY MED EXAMINING BOARD	233,000	232,600	229,700	(3,300)	(2,900)
WEIGHTS AND MEASURES, DEPT. OF	413,800	450,000	414,300	500	(35,700)
TOTAL - BIENNIAL BUDGET UNITS	<u>294,250,600</u>	<u>282,453,600</u>	<u>279,728,400</u>	<u>(14,522,200)</u>	<u>(2,725,200)</u>

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PROPOSED FY 1998 OMNIBUS RECONCILIATION BILL (ORB) PROVISIONS

Arizona Department of Administration

- As session law, permit the Department to charge agencies for tenant improvements and deposit the proceeds in the Capital Outlay Stabilization Fund.

AHCCCS

- As session law, authorize AHCCCS in FY 1998 to use the Medically Needy Account of the Tobacco Tax Fund to continue the phase-out of the quick pay discount, replace reduced federal funds, fund expanded maternity coverage, and fund a newly-required HIV/AIDS medication.
- Set the FY 1998 county acute care contribution at \$66,689,500, the same level as FY 1997.
- Continue the annual ORB provision of adjusting the upcoming fiscal year's county repayment requirements under the disproportionate share hospital (DSH) program in line with projected federal funding. Also continue the provision of extending county expenditure limit adjustments associated with DSH payments an additional year.

Department of Education

- As session law, set the FY 1998 Charter School Transportation support level at \$174 per student.
- As session law, allow Arizona Student Assessment Plan (ASAP) testing requirements to be modified as necessary in FY 1998 to remain within the appropriation.
- As session law, prohibit the double funding of Bureau of Indian Affairs (BIA) Charter Schools in FY 1998.
- As session law, require transportation support level payments to be based on prior year daily route mileage rather than the highest daily route mileage from the last 3 years.
- As session law, eliminate Rapid Decline and the Capital Outlay Revenue Limit Growth factor for student count changes attributable to a district-sponsored charter switching sponsors or ceasing to operate.
- As session law, require that 100% of State Block Grant for Early Childhood funding allocations be based on "free lunch" student counts. Allow at least 50% of the children to receive services from a federally-funded or private pre-school. Require participating pre-schools to be approved by the Department of Health Services.
- As session law, suspend use of the group B Vocational Education weight and transfer the monies to the State Block Grant for Vocational Education. Allocate 80% of the block grant monies based on the number of 11th and 12th grade vocational education students and 20% based on the successful placement of students.

Department of Health Services

- As session law, authorize the use of balances in the Health Research and Health Education Accounts of the Tobacco Tax Fund to be used for the construction of the Department of Health Services' Health Laboratory and the new Arizona State Hospital for the mentally ill.
- In accordance with the 1996 Health Omnibus Reconciliation Bill, continue to set the Telecommunication Services Excise Tax at 0.3% for Poison Control Centers and 0.8% for the Telecommunication Fund for the Deaf for FY 1998 and FY 1999.

State Parks Board

- As session law, divert all revenues to the State Parks Enhancement Fund above the FY 1997 level to the accelerated lease-purchase of the Tonto State Park.

Commission for Postsecondary Education

- As session law, suspend operation of the Commission in FY 1998. Transfer responsibility of the Postsecondary Voucher Program to the Community Colleges and the State Student Incentive Grant (SSIG) program to the Board of Regents.

Department of Public Safety

- As session law, divert the deposit of Criminal Justice Enhancement Funds from the General Fund to the Crime Lab Assessment Fund.

Department of Revenue

- As session law, suspend the requirement that the Department of Revenue distribute voter registration forms.

Arizona Department of Transportation

- As session law, deposit 50% of the revenue from the flight property tax into the General Fund. This amount is approximately \$8 million. The remaining 50% would continue to be deposited into the Aviation Fund.

Department of Water Resources

- As session law, suspend the requirement for a \$5 million General Fund deposit in FY 1998 to the Water Protection Fund. The deposit would begin again in FY 1999.

Other - Capital Outlay

- As session law, permit the use of Building Renewal monies for a) building modifications to comply with the Americans with Disabilities Act and b) infrastructure repairs.

ECONOMIC AND REVENUE FORECAST

THE ECONOMY

Overview

With Arizona's economic expansion in its fifth year, an increasingly important question in the minds of the state's economists is: when will the next recession occur? Though trying to forecast a recession is a hazardous exercise, it is a question that must be dealt with when planning the state's budgets for the coming years. Thus far, after reviewing the latest available data and consulting with a panel of economists at Finance Advisory Committee Meetings in September and December, the JLBC Staff does not foresee any recession for the next two years – 1997 and 1998.

Instead, like running a 26-mile marathon, we believe the economy is now in the last half of the race and its pace will continue to slow until reaching the next recession. However, the Arizona economy is in good shape, much stronger than nationally; thus the growth rates, though decelerating, will still be respectable, and may be better than what most economists currently anticipate.

Likewise, the state's General Fund for the past four fiscal years has greatly benefited from the robust performance of the Arizona economy. Near-record employment gains, solid personal income and retail sales growth, economic development coups, surging corporate profits, and a booming residential housing market all contributed to the very strong revenue picture. In FY 1996, total General Fund revenue grew 4.4%. *[However, if the \$291.0 million in tax reductions enacted last year is accounted for, then revenue growth would have been 10.9%, exceeding the 9.6% growth in FY 1995.]*

Our forecast for FY 1997 through FY 1999 is based upon the following trends, which we consider to be the major drivers in the current business cycle:

- **The National Economy.** We believe growth in the U.S. economy will continue to grow steadily during our forecast horizon. Although it implies an unusually long economic expansion, a national recession can probably be avoided until late FY 1999 or even FY 2000.
- **Construction.** Historically, the Arizona economy has been volatile due to a higher than average reliance on the construction sector. Single-family housing has been a major "driver" in the current expansion, peaking in 1994, but remaining surprisingly strong in 1995 and in 1996. While further declines in the rate of expansion are forecast, it is expected that growth in commercial construction, office, and hotel construction will offset the decline in residential construction growth rates.
- **The Direction of Interest Rates.** Low and falling interest rates helped to spur the residential housing market out of

the recession of the late 1980s and early 1990s. Interest rates have been rising slightly during the first three quarters of 1996, but started to decline in October. Most economists believe rates will move lower by year's end. So far, the Federal Reserve has decided to leave the discount rate and federal funds rate unchanged since the beginning of 1996. We forecast short-term rates will drop slightly during our forecast period.

- **The "California Factor."** Census data show that in the 1990s California was Arizona's biggest source of in-migration, with Texas a distant second. Due to California's steep recession beginning in the late 1980's, an unprecedented flow of people and businesses moved to other western states, with Arizona being a primary beneficiary. In 1994, net migration to the state increased by about 40%. Now, California is regaining its strength, so Arizona's large net in-migration has begun to taper off. However, a stronger California will boost interstate trade between our two states, since California is our number one interstate trading partner, and our manufacturing sectors are strongly linked.
- **Improved Business Environment.** Arizona has made great strides in improving its national image and attracting new businesses into the state. As a result, Arizona has developed significant high-tech clusters in Maricopa and Pima counties which are gaining in national prominence. We estimate that once the Intel and Sumitomo Sitix plants are built, many supporting firms and other large high-tech firms will relocate or expand into the state. This is what economists call the "agglomeration" effect.

In light of the above trends, this section will discuss the economic outlook for the nation and Arizona in fiscal years 1997 through 1999. The JLBC Staff's economic outlook is essentially that of the consensus of economists, and is consistent with recent economic evidence.

The U.S. Outlook for FY 1997 and FY 1998 – Steady Growth

The U.S. economy is in its 67th month of expansion since the trough of the last recession in March 1991. Real GDP grew at an annual rate of 2.0% (4.1% old method) in calendar year 1994 and 3.1% (3.9% old method) in FY 1995 and 1.9% in FY 1996 which ended June 30, 1996. Most economists expect national growth will continue for the next few years, although at a slower rate. The JLBC Staff also forecasts slightly slower, but steady growth in the national economy through FY 1998. The consensus of economists expects annual real GDP growth of 2.2% for FY 1996, which is a number with which we agree. The present JLBC Staff outlook is for growth of 2.3% in FY 1997, 2.2% in FY 1998

Table 1

JLBC STAFF ECONOMIC OUTLOOK
FOR THE NATION

National Economic Indicators	Fiscal Years				
	1995	1996	1997	1998	1999
Real Gross Domestic Products ^{1/}	\$6,688.3	\$6,816.0	\$6,973.9	\$7,125.3	\$7,297.2
% Change	3.1	1.9	2.3	2.2	2.4
Wage & Salary Employment ^{3/}	115.9	118.3	120.7	122.5	124.4
% Change	3.2	2.0	2.0	1.5	1.5
Pre-Tax Corporation Profits ^{2/}	\$576.8	\$624.6	\$613.1	\$659.6	\$665.9
% Change	17.5	8.3	(1.8)	7.6	1.0
Housing Starts ^{3/}	1.4	1.4	1.4	1.4	1.5
% Change	(0.7)	4.5	(0.9)	0.5	1.5
New Car Sales ^{3/}	8.8	8.8	8.4	8.6	8.9
% Change	(0.8)	(0.0)	(4.2)	2.7	3.1
Consumer Price Index	150.5	154.6	159.0	163.3	167.7
% Change	2.9	2.7	2.8	2.7	2.7
GDP Deflator	106.3	108.7	111.0	113.7	116.6
% Change	2.4	2.3	2.1	2.5	2.5
Prime Interest Rate - %	8.4	8.5	8.2	7.8	7.8
Unemployment Rate - %	5.7	5.6	5.4	5.7	5.8

1/ Chain-weighted.

2/ Billions

3/ Millions

and 2.4% in FY 1999. Our view for FY 1997 is based on the WEFA Group's "baseline" forecast.

The Federal Reserve has publicly said it believes a rate of 2.5% per year in real GDP growth is about right for non-inflationary expansion in the U.S. economy. The 4.1% seen in 1994 was clearly too high by their standards. It successfully engineered a "soft landing," a reduction in the rate of growth to around the target 2.5% rate. The normal scenario is for targets to be overachieved in one direction or another, although this period appears to be one of the rare exceptions.

In addition, many analysts have recently been forecasting that pre-tax corporate profit growth will grow at slower rates in 1997 and 1998. This could lead to a long-awaited stock market "correction," and thereby damage consumer confidence and spending.

Inflation, as measured by the Consumer Price Index and GDP Deflator, should remain moderate and remain in the 2.8%

range for the next two fiscal years. The Federal Reserve Board has clearly done a good job in reducing inflationary expectations among consumers, workers and businesses.

We believe the trend for interest rates will be down after 1996, due to the prior effects of tight "real" money conditions by the Federal Reserve Board, and the slowing economy which will reduce the demand for funds. It should be noted that while interest rates have come down in recent years they are, after adjustment for inflation which has also been falling, still at a comparatively high rate by historical standards.

Housing starts will enjoy a record year nationally in 1996, but may start to cool in 1997 and 1998. The rate of increase in auto sales in the U.S., which were also near record levels for several years, should start to decline slightly because of a slower economy, satiation of demand, and expected continued increases in the average price of cars above the Consumer Price Index.

TRENDS IN REAL GROSS DOMESTIC PRODUCT AND GDP INFLATION

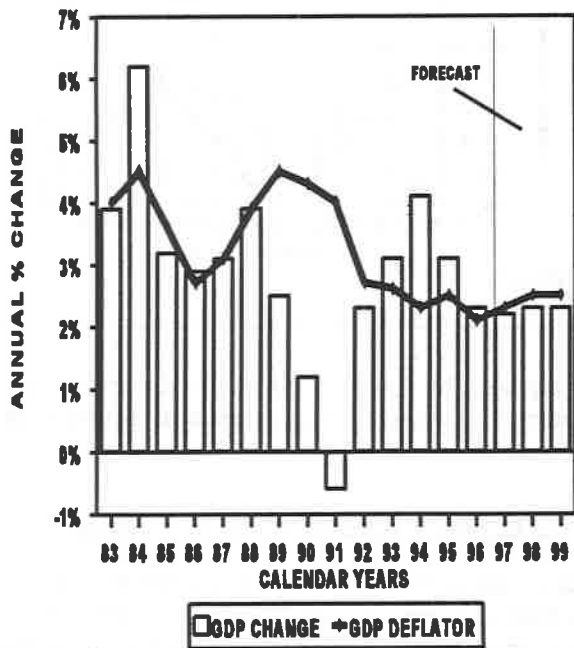


Chart 1

TRENDS IN INTEREST RATES: 1980 THROUGH 1999

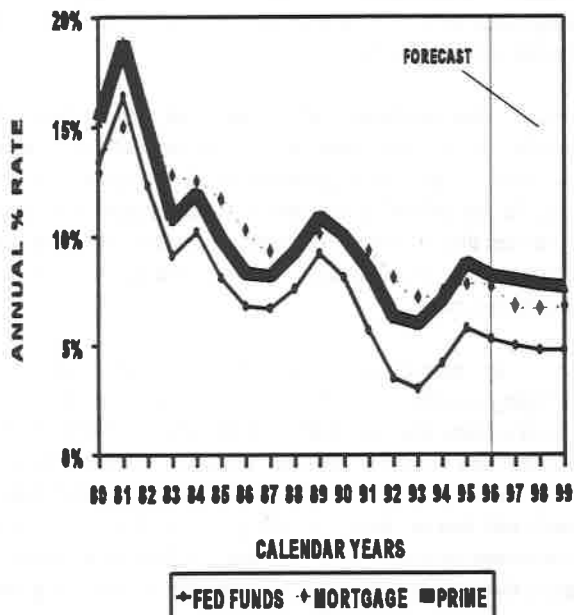


Chart 2

Any scenario for the economy is done on an “averaged” basis. In other words, whether subjectively or quantitatively, an analyst has to weigh the chances of high, middle, or low growth economic scenarios based on the risks identified in the economy and choose the one which fits the current data. Recent events, while not totally convincing, lead to a somewhat “steady state” growth forecast.

- First, after seven successive increases during 1994 and early 1995, the Federal Reserve Board lowered short-term interest rates in mid-1995, and again in December 1995, perhaps believing that it was a bit too zealous in 1994. Most economists believe the Fed has moved to lower rates at about the right time, rather than too late, in order to keep the growth rate of the economy positive in the next 12 to 24 months.
- Second, most economists believe continuing efforts made in Congress to reduce or eliminate the federal budget deficit will result in a higher national savings rate, lower interest rates, and higher private investment. These will increase employment and personal incomes over time. It is, however, uncertain how much a falling deficit will contribute to economic growth in FY 1997 or FY 1998.
- Third, the low value of the U.S. dollar against most major currencies, notably the Japanese yen and German mark, has sustained record U.S. export sales. This should continue for the next several years, depending on the health of our major trading partners.
- Fourth, despite the maturity of the current expansion, most business executives reportedly remain bullish about the economy. Many companies have reduced their break-even point, admittedly by reducing staff in many cases, and have diversified their sales to try to avoid the severity of the cyclical swings of the past. Newspapers and magazine reports indicate that most businesses are not fearful of a recession in the next year or two.

Accordingly, we feel that our forecast of a slower, but steady trend in growth for the next 3 years is appropriate.

The U.S. Outlook for FY 1999

History has shown that U.S. business cycle expansions do not usually die a natural death. Instead, they are typically brought to an end by inflationary pressures which cause the “Fed” to effect a monetary tightening. This could occur if long-term bonds rise above, say, 8.0% in FY 1998, which could cause a softening in the rate of growth or even a recession by FY 1999. Also, some exogenous, international event such as a petroleum price shock as occurred in 1973, 1981, and 1990 could happen again. However, the longer term outlook for inflation remains benign, and thus the 1999 U.S. forecast currently calls for continued moderate growth.

The Arizona Outlook for 1997 through 1999

While JLBC Staff believes Arizona will avoid a recession during the forecast period, our outlook as seen on Table 2 calls for slower growth. All Arizona economic indicators are projected to trend lower for the next three years. Of course, for each year we extend our forecast horizon, the greater likelihood an unforeseen event like an oil crisis or a peso devaluation may wreak havoc and cause a recession. The lower growth forecast hinges mainly on the slowing national economy and a slackening of the California exodus to Arizona as prospects improve for the Golden State. The slower California migration to Arizona will probably be mitigated by increased interstate trade with California.

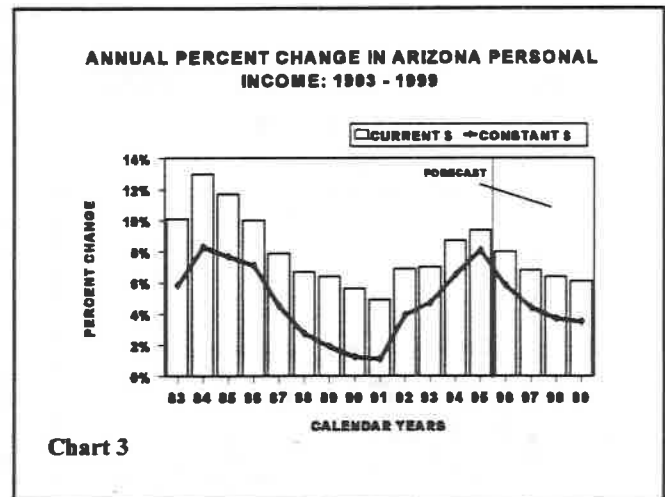
On the other hand, the Arizona economy in 1996 provided some favorable surprises. The single-family building construction was much stronger than what was anticipated this time last year – building permits may have reached a record in 1996. Also, recent higher-than-expected revisions in the employment and personal income growth might indicate a stronger Arizona economy than the one underlying our forecast. This implies that there is some upside risk to the forecast (higher probability of stronger growth than of lower growth).

Also, economic development in the near future appears bright as new companies continue to view Arizona favorably for relocation or expansion. The successful outcome of the Fiesta Bowl and Super Bowl in January 1996 enhanced the national perception of Arizona as an area of major economic growth. Moreover, the addition of the Coyotes hockey team in 1996 and the baseball Diamondbacks in 1998 will further increase our national exposure and prestige.

Personal Income to Grow Moderately

In terms of state revenue, no economic variable is more important than personal income. Chart 3 shows how personal income has performed in recent years. During the 1980s, personal income growth averaged 9.3% in current dollars and 4.4% in real terms. So far in the 1990s (1990 through 1994), income growth in current dollars has been weaker, averaging 6.8%, but is only off slightly in real dollars, averaging 4.0%, mostly reflecting the big improvement in inflation during the 1990s. The estimated 9.4% current dollar gain for 1995 is significantly greater than the average 6.8% experienced thus far in the 1990s.

In FY 1997 through FY 1999, we see personal income rising more modestly at 7.4%, 6.5%, and 6.2% respectively. Historically, Arizona's economic expansions feature double-digit personal income growth that lasts two to four years, but that may not happen this time. The 9.4% growth for 1995 will be the peak for this expansion. Since the national economy, whose expansion has been uncharacteristically mild



and appears to be slowing, is one of the “drivers” of the state economy, we expect Arizona’s personal income to grow moderately.

Real Per Capita Income to Increase Slightly

Real per capita personal income is one indicator of a state’s standard of living. It also is a principal determinant of consumer expenditures, which accounts for about two-thirds of spending, output, and jobs. In recent years, there has been much controversy about Arizona always being below the national average in real per capita income, leading some (including the JLBC Staff) to question the underlying economic vitality of the state. In response to this, the JLBC Staff published a report identifying the main reasons behind Arizona’s lower real per capita income. The report found that Arizona’s poor showing has little to do with its fundamental economic performance, but more to do with such factors as demographics, labor force participation, industry mix, and historically low wages.

The report also points out that, because real per capita income depends on relative rates of growth in total income and population, it can be misleading when compared to other states. In the 1980s, northeastern states ranked the highest, but this was due to severe economic recessions in these states which resulted in population declines greater than those in personal income.

Thus, in measuring economic vitality, an examination of the underlying trends show that Arizona’s average growth in personal income and population during the last three decades has been far above the national average. So, it appears that among Arizona’s problems are (1) that personal income growth just has not kept up with population growth and (2) that increased emphasis must be placed on higher paying jobs. Chart 4 shows that Arizona’s real per capita income growth

Table 2

**JLBC STAFF ECONOMIC OUTLOOK
FOR ARIZONA**

	Fiscal Years				
	1995	1996	1997	1998	1999
<u>AZ Economic Indicators</u>					
Personal Income ^{1/}	\$82,891	\$89,937	\$96,592	\$102,871	\$109,249
% Change	9.6	8.5	7.4	6.5	6.2
Personal Income - Constant Dollars ^{1/}	\$77,978	\$82,739	\$87,020	\$90,476	\$93,696
% Change	8.5	6.1	5.2	4.0	3.6
Personal Income-Per Capita Constant Dollars	\$18,793	\$19,313	\$19,750	\$20,024	20,231
% Change	5.1	2.8	2.3	1.4	1.0
Population ^{2/}	4,149.4	4,284.1	4,406.1	4,518.4	4,631.4
% Change	3.2	3.2	2.8	2.5	2.5
Retail Sales ^{1/3/}	\$25,018	\$26,891	\$28,639	\$30,329	\$32,118
% Change	11.6	7.5	6.5	5.9	6.0
Wage & Salary Employment ^{2/}	1,746.2	1,822.2	1,892.6	1,944.3	1,987.8
% Change	6.7	4.4	3.9	2.7	2.2
Residential Building Permits ^{2/}	51.1	56.0	50.3	41.9	39.8
% Change	9.0	9.6	(10.2)	(16.7)	(5.0)
New Car Registrations ^{2/}	247.0	260.6	257.2	256.2	258.8
% Change	12.6	5.5	(1.3)	(0.4)	1.0
Unemployment Rate - %	5.8	4.9	5.3	5.8	5.9

^{1/} Millions

^{2/} Thousands

^{3/} Taxable sales = retail sales plus gasoline sales plus estimated food sales.

greater than income, but has rebounded since 1992. We predict that income growth will continue to outweigh population growth which is seen on [Chart 5](#), but by declining rates during the forecast period.

Employment Still Rising—But Slowly

[Chart 6](#) shows the changes in Arizona employment since 1981. During this period, Arizona did not experience any yearly declines. In fact, for the post WWII period, the state has had only three years of employment loss—1949, 1975, and 1982. In this business cycle, 1991 was the low point for Arizona, eking out a 0.6% gain, corresponding with the national recession when U.S. employment dropped 1.1%. Since 1991, job growth has accelerated with 1994's 6.7% gain expected to be the peak year of the current cycle. This data, however, masks the economic tumult Arizona experienced during this time. Arizona's goods-producing sector, defined as manufacturing, construction, and mining, went through a recession in the latter half of the 1980s. National defense budget cuts led to military base closings and sharp layoffs in defense-related firms. At the same time, the 1986 Tax Reform Act triggered massive savings and loan bankruptcies. All this resulted in significant losses in manufacturing and construction jobs. But the losses were more than made up by gains in the service-producing sector of the economy. [Chart 7](#) reveals the displacement of jobs in the goods-producing

sector by jobs in the service-producing sector particularly during the 1987 to 1992 period.

Since 1993, manufacturing and construction jobs have made a comeback; the rebound, though, has not been as strong as previous recoveries. Some of the manufacturing rebound was due to an improved business environment and the development of high-tech clusters in Maricopa and Pima counties. For instance, Phoenix recently appeared in Fortune magazine's annual list of the top 10 most attractive cities for businesses. Intel's new Chandler plant and the recent announcement by Sumitomo Sitix are prime examples. Legislation providing tax reductions and regulatory reform has contributed to this success. Another development is American Sky Broadcasting, a joint venture between MCI and News Group, who has committed to locating in Gilbert after passage of tax incentives in the last special session of the state Legislature.

[Table 3](#) shows a moderation of growth in our job outlook for both the goods-producing and service-producing sectors starting in FY 1996, when wage and salary employment increased 4.4%, led by construction with a solid 6.2% growth, and services next with 5.7%. We expect final total job growth to slow to 3.9%, 2.7%, and 2.2% in FY 1997, FY 1998 and FY 1999, respectively.

Table 3

	ARIZONA WAGE AND SALARY EMPLOYMENT									
	FORECAST									
	FY 1995		FY 1996		FY 1997		FY 1998		FY 1999	
	Number	%	Number	%	Number	%	Number	%	Number	%
Goods Producing:										
Manufacturing	191,400	4.2	195,600	2.2	201,800	3.2	205,300	1.7	207,400	1.0
Mining	12,200	1.7	12,500	2.5	12,600	0.8	12,300	(2.4)	12,100	(1.6)
Construction	<u>114,600</u>	15.8	<u>121,700</u>	6.2	<u>126,300</u>	3.8	<u>125,500</u>	(0.6)	<u>122,900</u>	(2.1)
Total Goods Producing	318,200	8.0	329,800	3.6	340,700	3.3	343,100	0.7	342,400	(0.2)
Service Producing:										
Trans. Comm. & Public Utilities	90,400	4.6	91,800	1.5	93,800	2.2	95,900	2.2	97,700	1.9
Trade	436,500	9.0	457,100	4.7	474,000	3.7	487,800	2.9	497,000	1.9
Finance, Insurance & Real Estate	108,300	1.7	107,400	(0.8)	119,700	2.1	111,100	1.3	112,500	1.3
Services	506,400	9.0	535,200	5.7	566,100	5.8	592,000	4.6	616,800	4.2
Government	<u>286,400</u>	1.0	<u>300,900</u>	5.1	<u>308,300</u>	2.5	<u>314,400</u>	2.0	<u>321,400</u>	2.2
Total Service Producing	1,428,000	6.4	1,492,400	4.5	1,551,900	4.0	1,601,200	3.2	1,645,400	2.8
Total Wage & Salary Employment	1,746,200	6.7	1,822,200	4.4	1,892,600	3.9	1,944,300	2.7	1,987,800	2.2

Where Will the Jobs Come From?

Chart 8 shows that job growth will be highly concentrated in services and trade. In 1996 through 1999 combined, only services and trade will increase in their share of total jobs. In contrast, construction and manufacturing will experience significant declines in their contribution to total new jobs. For example: More than 7 out of 10 new jobs will come from services and trade. By comparison, these industries accounted for slightly half of existing jobs in 1995. Manufacturing had 11% of all jobs in 1995, but will account for only 8% of new jobs in our forecast period. Construction will decline further—having 6.5% of jobs now, but contributing only 1% in the next three years.

Overall, the trend is toward a more service-oriented economy, which mirrors what's happening on the national level, but even more so here. This has been a long-term trend in Arizona since 1969, the last year in which more manufacturing jobs existed than services jobs. As technological advances continue, we expect the evolution toward a service and information economy to accelerate.

Housing Market in Transition

Although direct employment in the construction industry accounts for only 6.5% of total Arizona jobs, its impact on the economy is far greater in the short-run. Construction influences economic activity in many other areas of the economy, including equipment and building materials, retail sales, financial services, manufacturing, and trade. We expect construction employment to slow to 3.8% growth in FY 1997 and then mildly decline in FY 1998 and FY 1999 as the housing market is in a transition as described below.

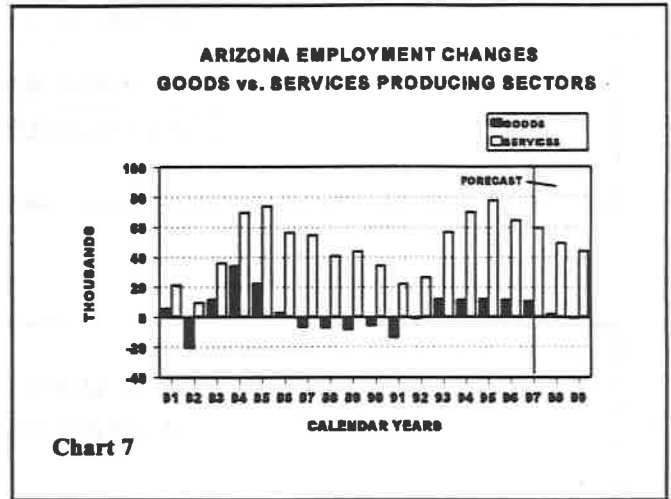
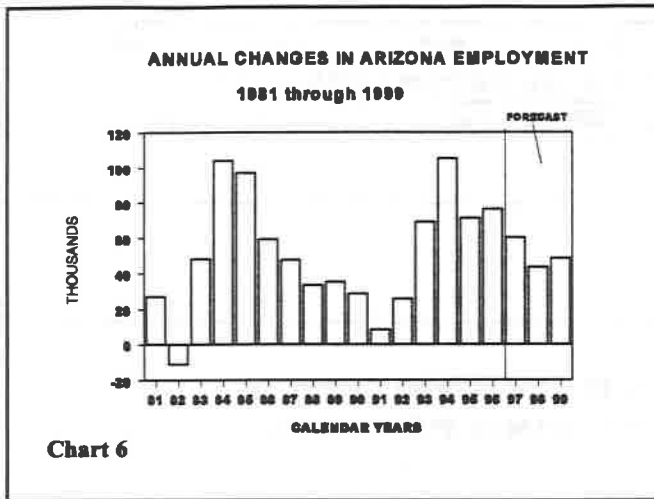
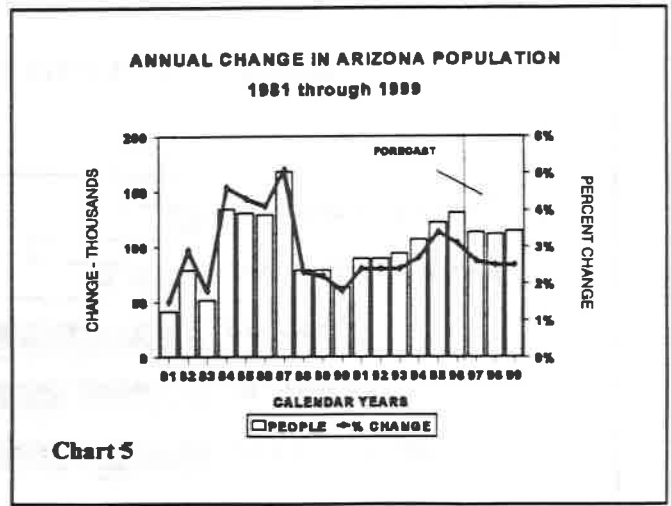
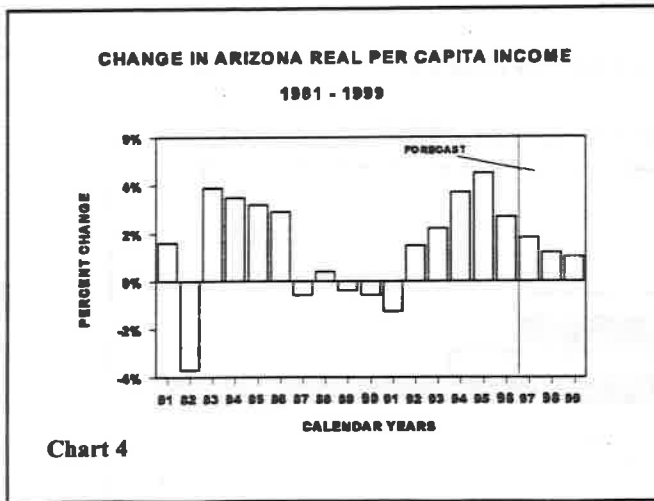
Judging by Chart 9, it appears Arizona's housing market was relatively unaffected by the national recession in 1991, but that's because we had an earlier recession as explained above. So by 1991, when mortgage rates began to plummet, pent-up demand caused housing sales to climb. At the same time, California's problems started an exodus of people and firms to other nearby western states. Arizona has benefited greatly from this movement as net migration and housing starts have escalated each year since 1991 until 1995.

Chart 9 also reveals that the housing boom was almost all in single-family homes. This began to change in 1994 as the Federal Reserve raised interest rates seven times. By 1995, the single-family market slowed as housing sales and permits declined. However, in 1996, single-family permits escalated again and will probably add about 42,700 units, a 7.2% gain. At the same time, vacancy rates at apartments have dropped sharply and rents increased steadily, making it viable for multi-family construction to rise again. More recently, multi-family building permits (three or more units) jumped from about 4,200 units in 1993 to almost 9,800 units by 1994, an increase of 133%. In 1995, multi-family permits added another 12,900 units. For 1996, we expect 12,750 multi-family permits, before dropping again in 1997 and 1998 as vacancy rates rise slightly.

For 1997, 1998, and 1999 we expect total building permits to gradually decline as single-family and multi-family permits both fall. However, building permits in retail, industrial, and office are expected to pick up.

Is the Economic Forecast Reasonable?

The JLBC Staff's basic assumption of a slowing national economy with a modest uptick in inflation is shared by the



vast majority of forecasters. In this sense, our national outlook is a “consensus forecast.” The same can be said of our Arizona outlook.

Main Risks to Forecasts

The fragile Mexico economy continues to add uncertainty to the forecast. The dramatic devaluation of the Mexican peso in late 1994 reverberated throughout the world. Hoping to prevent loan defaults of worldwide proportions, the U.S. sponsored a \$50 billion aid package to Mexico. In return, the Mexican government had to implement austerity measures which plunged its economy into a steep recession. However, the economy in Mexico has started to recover and most financial markets have stabilized. In 1996, their domestic economy was still weak, but growth has turned upward in recent months.

The peso crisis affected southern Arizona’s economy significantly. Trade and tourism between the border regions have suffered. Pima County, especially, has seen growth rates in retail sales, jobs, and building permits all decline this year.

The situation there may not be all attributed to the peso devaluation, but it is important enough to factor into our forecasts.

Federal Reserve action on future interest rates is also uncertain. Though we have forecasted interest rates to move lower from FY 1997 through FY 1999, it is by no means etched in stone. Although the Federal Reserve has left short-term interest rates unchanged in recent months, many economists predict the Federal Reserve may still raise rates during the coming months. This is mainly due to the belief that the economy is much stronger than the data has shown and that the Federal Reserve is much more concerned about keeping inflation in check than whether the economy continues to grow. If the Federal Reserve raises interest rates, the stock and bond markets will respond negatively and increase the likelihood that the nation, and possibly Arizona, could slip into a mild recession.

COMPOSITION OF JOB GROWTH BY INDUSTRY

1996 through 1999

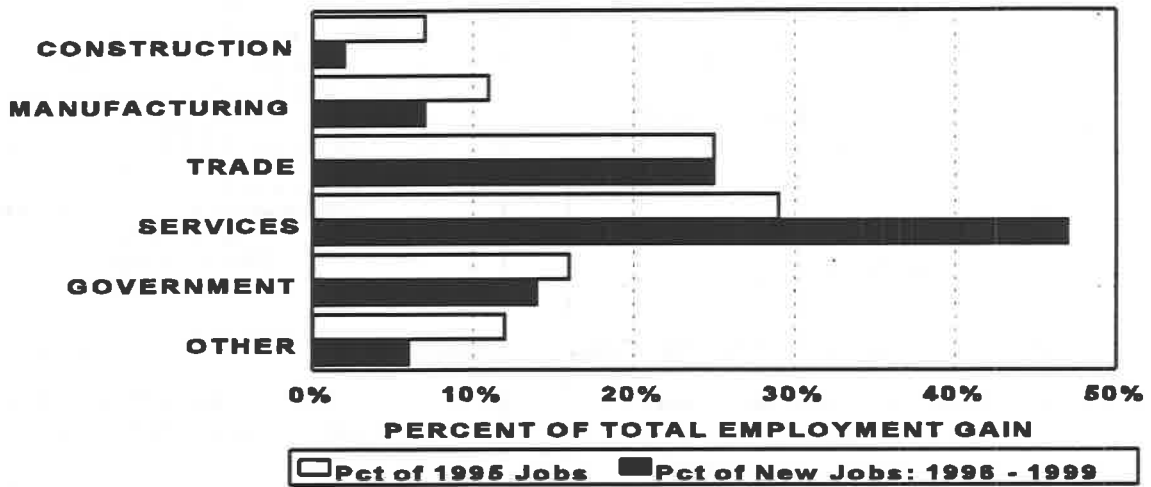


Chart 8

HOUSING IS IN TRANSITION ARIZONA BUILDING PERMITS

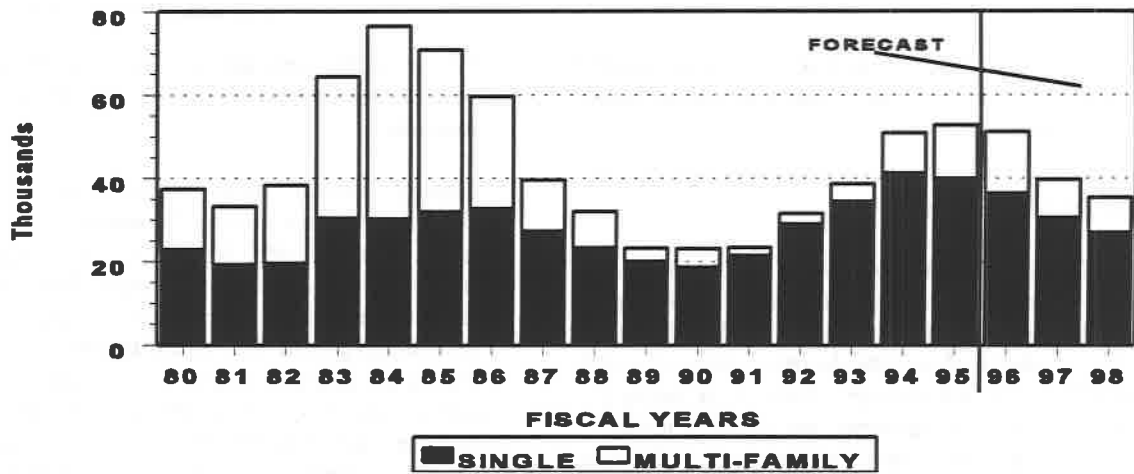


Chart 9

GENERAL FUND REVENUE

Where It Comes From

Chart 10 shows that the bulk of General Fund revenue is raised from three sources, known as the "Big Three." The largest of these is the Sales and Use Tax which is projected to generate 45.8% of General Fund revenues in FY 1998. The Individual Income Tax (IIT) is the next largest source, accounting for 35.0%, while the Corporation Income Tax (CIT) share is 9.9%. Together, these three volatile taxes are expected to provide 90.7% of total FY 1998 General Fund revenue. The Federal Retiree Refunds have not been included as part of the IIT. The current JLBC Staff revenue forecast is summarized on Table 8. In recent years, the Property Tax has been approximately 4% of General Fund revenue. With the recent passage of a major reduction in the Property Tax, it is now less than 1% and does not appear as a separate item in the pie chart.

The New Forecasts

Our forecast for FY 1997 is for \$4,787.4 million, an increase of \$124.4 million, or 2.7% over FY 1996. Our forecast for FY 1998 is for \$4,928.8 million, an increase of \$141.4 million, or 3.0%. Our forecast for FY 1999 is for \$5,103.3 million, an increase of \$174.5 million, or 3.5%.

Apart from the economy, the most important influence on General Fund revenue collections is legislative adjustments to the tax base. Legislation impacting General Fund revenue for the first time in FY 1996, FY 1997 or FY 1998 will reduce collections in FY 1996 by \$291.0 million, by \$516.6 million in FY 1997, by \$630.1 million in FY 1998 and by \$670.9 million in FY 1999. Details by tax category are shown in Table 5. It should be noted that these amounts now include the effect of Property Tax reform and reduction legislation, implemented in Laws 1996, 7th Special Session, Chapter 2. The initial effect of this legislation comes in FY 1997 for a loss of \$149.1 million, of which \$10.0 million is from a reduction of the Salt River Project contributions.

The impact of the legislative changes on General Fund revenue collections is shown in Table 4. Revenue growth before legislative adjustments is 10.9%, 7.1%, 4.8% and 3.9% for FY 1996, FY 1997, FY 1998 and FY 1999, respectively. After deduction of the legislative changes, revenue growth is reduced to 4.4% in FY 1996, 2.7% in FY 1997, 3.0% in FY 1998 and 3.5% in FY 1999. Chart 11 is a line chart which shows the percent changes in revenue before and after the effect of legislative changes. Specific legislative changes passed in the last regular session and in subsequent sessions are shown in Table 6 (effective in FY 1997) and Table 7 (effective in FY 1998).

GENERAL FUND REVENUE SOURCES AS A PERCENT OF TOTAL BASE REVENUE

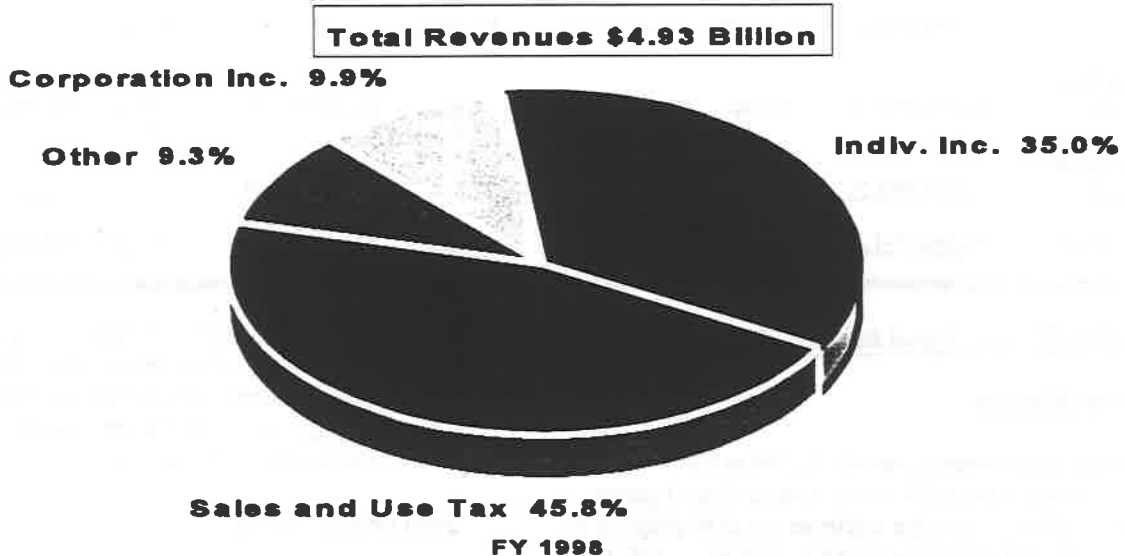


Chart 10

As was noted earlier, the new JLBC Staff revenue forecast is summarized in Table 8. The reader should note that "new money" aggregates \$124.4 million in FY 1997, \$141.4 million in FY 1998, and \$174.5 million in FY 1999, reflecting increases of 2.7% in FY 1997, 3.0% in FY 1998 and 3.5% in FY 1999.

Previous Forecasts Revisited

General Fund revenue collections for FY 1996 aggregated \$4,663.0 million, an increase of \$94.8 million and 2.1% over our mid-year forecast.^{1/} The major area of change is in the Individual Income Tax which increased \$59.1 million and 4.1% over the mid-session 1996 forecast, primarily the result of late increases in published data for Arizona employment

^{1/} Relative to the budget forecast for FY 1996 (after legislative changes) as shown in the FY 1996 Appropriations Report, our new forecast reflects an increase of \$289.5 million and 6.6%.

and personal income. With the Individual Income Tax essentially providing most of the overage, it can be seen that, on the average, the rest of the mid-session 1996 forecast was essentially on the mark.

Our new forecast for FY 1997 aggregates \$4,787.4 million, an increase of \$225.5 million and 4.9% over the budget forecast, after adjusting the Property Tax reduction. The major increases are in the Individual and Corporation Income Taxes, which in the aggregate increased by \$122.3 million and 6.2%. Non-tax revenue increased by \$68.0 million and includes the following previously unknowable increases-in millions:

Disproportionate Share	\$26.5
Cash Balance Reversions	15.3
Lottery Recovery	3.4
Criminal Alien Assist. Program	17.1
TOTAL	<u>\$62.3</u>

Table 4

**GENERAL FUND REVENUE FORECAST
BEFORE AND AFTER LEGISLATIVE CHANGES EFFECTIVE
IN FY 1996, FY 1997, FY 1998 AND FY 1999
(\$ Thousands)**

	<u>FY 1996</u>	<u>% Change from FY 1995</u>	<u>FY 1997</u>	<u>% Change from FY 1996</u>	<u>FY 1998</u>	<u>% Change from FY 1997</u>	<u>FY 1999</u>	<u>% Change from FY 1998</u>
Before Leg. Changes	\$4,953,989.4	10.9%	\$5,304,027.9	7.1%	\$5,558,943.4	4.8%	\$5,774,147.4	3.9%
Legislative Changes	<u>(290,995.2)</u>	--	<u>(516,621.9)</u>	77.5	<u>(630,149.4)</u>	22.0	<u>(670,853.1)</u>	6.5
Forecast	<u>\$4,662,994.2</u>	<u>4.4%</u>	<u>\$4,787,406.0</u>	<u>2.7%</u>	<u>\$4,928,794.0</u>	<u>3.0%</u>	<u>\$5,103,294.3</u>	<u>3.5%</u>

Individual General Fund Revenue Forecasts

Total Base Revenue

Our forecast is for revenue growth of 2.7% in FY 1997, 3.0% in FY 1998 and 3.5% in FY 1999. The decline of growth to 2.7% in FY 1997 is due to the implementation of property tax relief which will aggregate \$149.1 million in FY 1997. Growth in FY 1998 will be reduced somewhat by the implementation of the reduction of the sales tax on prime contracting, which will reduce revenue by \$40.0 million. It should be noted that the Budget Stabilization Fund formula

provides for the movement of \$70.0 million in FY 1999 from the Budget Stabilization Fund to the General Fund. This transfer has not been reflected in our Total Base Revenue forecast. Table 5 shows, by tax type, the impact of significant items of legislation on the forecast.

Sales and Use Taxes

Sales and Use Tax collections are currently forecast to increase by 5.2% in FY 1997, by 2.1% in FY 1998 and by 4.9% in FY 1999. (See Table 5 for details of legislative changes effective in FY 1996 and later years.) Without the

Table 5

**SUMMARY OF LEGISLATIVE CHANGES
SHOWING EFFECT OF MAJOR CHANGES ON FORECAST YEARS
FOR LEGISLATION EFFECTIVE IN FY 1996 AND LATER YEARS
FY 1997, FY 1998, FY 1999
(\$ Millions)**

	Reduction		
	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
<u>Sales Tax</u>			
Cost of Preparing Tax Returns	\$12.5	\$13.1	\$13.7
Reduction of Commercial Lease Tax to 2%	23.1	23.2	23.6
Reduction of Commercial Lease Tax to 1%	21.1	23.2	23.6
Reduction of Commercial Lease Tax to 0%	--	21.2	23.6
Reduction of Prime Contracting Tax Base	--	40.0	45.0
Other	<u>13.4</u>	<u>15.2</u>	<u>16.0</u>
Subtotal	<u>70.1</u>	<u>135.9</u>	<u>145.5</u>
<u>Individual Income Tax</u>			
CMITRA (Laws 1995, 1st Special Session, Chapter 9)	215.2	228.8	242.3
Other	<u>19.4</u>	<u>24.1</u>	<u>23.7</u>
Subtotal	<u>234.6</u>	<u>252.9</u>	<u>266.0</u>
<u>Corporation Income Tax</u>			
Defense Restructuring and Military Reuse Zones	10.0	7.0	6.0
Consolidated Returns	18.0	22.8	23.6
Other	<u>15.2</u>	<u>17.1</u>	<u>17.8</u>
Subtotal	<u>43.2</u>	<u>46.9</u>	<u>47.4</u>
<u>Property Tax (Includes Salt River Project)</u>			
Laws 1996, 7th Special Session, Chapter 2	149.1	155.8	162.7
Other	<u>4.1</u>	<u>5.5</u>	<u>7.2</u>
Subtotal	<u>153.2</u>	<u>161.3</u>	<u>169.9</u>
<u>Other Categories</u>			
	<u>15.5</u>	<u>33.1</u>	<u>42.1</u>
TOTAL	<u>\$516.6</u>	<u>\$630.1</u>	<u>\$670.9</u>

effect of these reductions, the forecast would have been for increases of 6.7% in FY 1997, 5.0% in FY 1998 and 5.1% in FY 1999.

Individual Income Tax

Individual Income Tax collections are forecast to increase by 6.5% in FY 1997, by 7.3% in FY 1998 and by 5.3% in FY 1999. (See Table 5 for details of legislative changes effective in FY 1996 and later years.) Without the effect of the legislative reductions, the forecast would have been for

increases of 6.9% for FY 1997, 7.3% in FY 1998 and 5.3% in FY 1999.

Corporation Income Tax

Arizona's economic growth began to slow in FY 1996 which reduced growth rates for corporation profits. In FY 1997, the economy is making a "soft landing," resulting in flat growth rates for corporation profits, and tax refunds will increase substantially as corporation cash flow becomes tight. Corporation Income Taxes are forecast to increase by 7.1% in FY 1997, by 1.0% in FY 1998 and by 0.6% in FY 1999. (See Table 5 for details of legislative changes effective in FY 1996

ANNUAL GROWTH IN GENERAL FUND REVENUES BEFORE AND AFTER LEGISLATIVE CHANGES

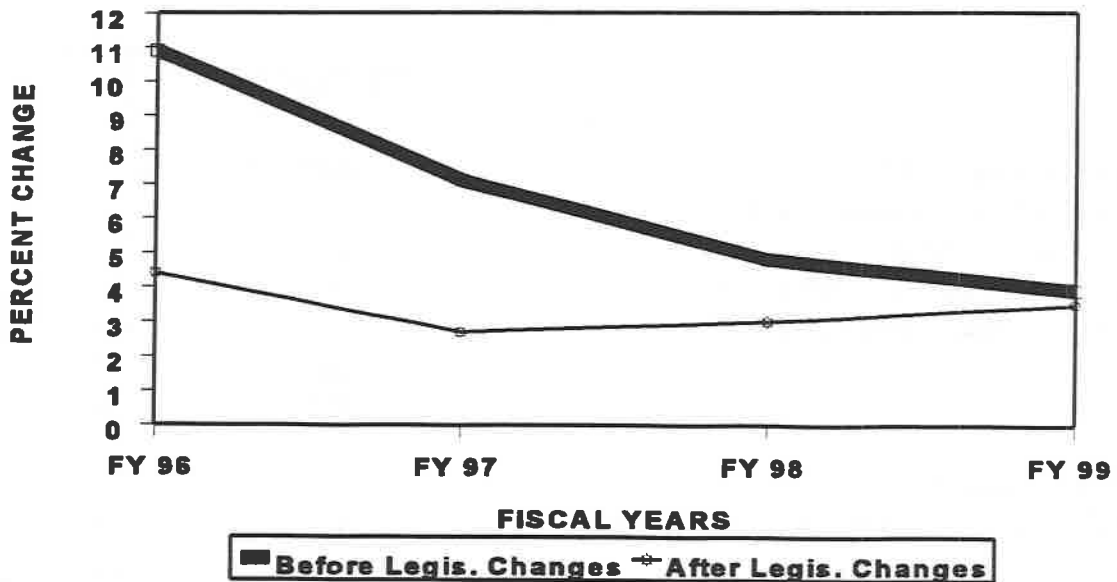


Chart 11

and later years.) Without the effect of legislative reductions, the forecast would have shown an increase of 9.5% in FY 1997, an increase of 1.7% in FY 1998, and an increase of 0.6% in FY 1999.

Property Tax

Assessed valuation is expected to increase by 2.9% in FY 1997, by 5.8% in FY 1998 and by 3.8% in FY 1999. Property Tax collections, however, are expected to decline by (76.0)% in FY 1997, by (9.1)% in FY 1998 and by (2.2)% in FY 1999. The forecast has been reduced by legislative reductions aggregating \$(142.6) million in FY 1997, \$(150.9) million in FY 1998 and \$(159.8) million in FY 1999. These reductions do not include the effect on Salt River Project, which is in another line item. The major item in the reduction is the effect of Property Tax reform and reduction legislation, implemented. (Laws 1996, 7th Special Session, Chapter 2.)

Motor Vehicle License Tax

The JLBC Staff forecast is for an increase of 10.9% in FY 1997, 2.3% in FY 1998 and 0.8% in FY 1999. New car sales continue at a good pace, but market saturation will appear in FY 1998. Without the cuts from S.B. 1071, the "Pima County" legislation, growth would have been 15.0% in FY 1997, 6.8% in FY 1998, and 4.9% in FY 1999.

Lottery

Our forecast is for weak General Fund Lottery collections, with a decrease of (5.3)% in FY 1997, a decrease of (17.7)% in FY 1998 and a decrease of (17.6)% in FY 1999. The General Fund has a measure of protection because certain minimum deposits must be made before the Clean Air Fund or Proposition 203 programs receive monies (see the JLBC Staff's recommendations and analysis for the Lottery Commission for further explanation of this complex issue).

Interest

Our forecast calls for an increase of 14.1% in FY 1997 and a decrease of (11.8)% in FY 1998 and a decrease of (28.1)% in FY 1999. The declines in FY 1998 and FY 1999 are brought about by anticipated declines in Operating Fund average balances and slight declines in applicable interest rates.

Federal Retiree Project

Revenue reductions due to the Federal Retiree Project (FRP) are expected to aggregate \$(56.2) million in FY 1997, \$(6.2) million in FY 1998 and no payments in FY 1999. The FRP reduces FY 1997 General Fund revenue growth by almost one full percentage point, from 3.5% down to 2.7%.

Table 6

**FORTY-SECOND LEGISLATURE
SECOND REGULAR SESSION AND SEVENTH SPECIAL SESSION
BILLS HAVING A SIGNIFICANT FY 1997 GENERAL FUND REVENUE IMPACT**

(\$ Thousands)
[Effective Dates]

	<u>Property</u>	<u>Sales & Use</u>	<u>Individual Income</u>	<u>Corporation Income</u>	<u>Other</u>	<u>Total</u>
Ch. 21 (S.B. 1108) Property Taxes; Refund & Forgiveness [7/20/96]	(\$6.0)					(\$6.0)
Ch. 49 (H.B. 2375) Income Tax; Definitions [1/15/96]			(860.0)			(860.0)
Ch. 102 (S.B. 1056) State Agencies; Regulatory Reform [7/20/96]					\$1,078.0	1,078.0
Ch. 199 (H.B. 2020) IRS Conformity [1/1/96]			-0-			-0-
Ch. 255 (H.B. 2078) Nuclear Emergency Appropriation and Assessment [7/20/96]					850.1	850.1
Ch. 294 (H.B. 2006) Insurance Insolvency Recovery; General Fund [7/20/96] ^{1/}					-0-	-0-
Ch. 309 (H.B. 2559) Neighborhood Protection Act [4/30/96]			(90.0)	\$(60.0)		(150.0)
Ch. 317 (S.B. 1193) Tax Efficiency & Paper Reduction [1/1/97] ^{2/}		(\$24.0)				(24.0)
Ch. 322 (S.B. 1375) Movie Studios; Sales Tax Incentives [7/20/96]		(49.3)				(49.3)
Ch. 326 (H.B. 2088) Homeowners Organization; Tax Classification [1/1/94]		(100.0)				(100.0)
Ch. 344 (H.B. 2496) Enterprise Zones; Tax Credit; Classification [1/1/96] ^{2/}				(183.2)		(183.2)
Ch. 349 (S.B.1116) Government Property Tax Lease Abatement [12/1/96]	Unknown					
Ch. 365 (S.B. 1071) Highway Fund; Distribution [7/1/96] ^{2,3/}					(6,000.0)	(6,000.0)
Ch. 2 (H.B. 2005) 7th Special Session; Property Tax Relief	(139,135.9)				(9,987.8) ^{4/}	(149,123.7)
TOTAL-FY 1997	<u>(\$139,141.9)</u>	<u>(\$173.3)</u>	<u>(\$950.0)</u>	<u>(\$243.2)</u>	<u>(\$14,059.7)</u>	<u>(\$154,568.1)</u>

1/ Total Revenue gain is \$15.4 million which is incorporated into the JLBC Staff base revenue estimate.

2/ Additional impact occurs in FY 1998.

3/ Distribution of Vehicle License Tax revenues to the General Fund was phased down.

4/ Salt River Project.

Table 8

**STATE OF ARIZONA
GENERAL FUND
STATEMENT OF PROJECTED BASE REVENUE
JLBC STAFF ESTIMATE
(\$ Thousands)**

	<u>Actual - FY 1996</u>		<u>Forecast - FY 1997</u>		<u>Forecast - FY 1998</u>		<u>Forecast - FY 1999</u>	
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>
Taxes								
Sales and Use	\$2,103,275.2	6.8	\$2,212,000.0	5.2	\$2,259,400.0	2.1	\$2,371,000.0	4.9
Income - Individual	1,511,059.4	-0.5	1,609,400.0	6.5	1,726,600.0	7.3	1,818,700.0	5.3
- Fed. Retiree Project	(17,474.5)	(30.1)	(56,200.0)	221.6	(6,200.0)	(89.0)	0.0	--
- Corporation	448,039.0	7.5	480,000.0	7.1	485,000.0	1.0	488,000.0	0.6
- Urban Rev. Sharing	(218,543.3)	6.3	(257,800.0)	18.0	(291,200.0)	13.0	(305,000.0)	4.7
Property	188,296.4	5.4	45,100.0	(76.0)	41,000.0	(9.1)	40,100.0	(2.2)
Luxury	73,253.0	(1.1)	68,400.0	(6.6)	64,000.0	(6.4)	63,600.0	(0.6)
Insurance	114,158.0	2.2	125,200.0	9.7	140,100.0	11.9	152,400.0	8.8
Motor Vehicle License	149,366.9	13.1	165,700.0	10.9	169,500.0	2.3	170,900.0	0.8
Estate	54,208.0	11.1	51,100.0	(5.7)	53,700.0	5.1	56,400.0	5.0
Other Taxes	<u>2,453.2</u>	<u>(65.0)</u>	<u>2,600.0</u>	<u>6.0</u>	<u>2,600.0</u>	<u>0.0</u>	<u>2,700.0</u>	<u>3.8</u>
Subtotal - Taxes	<u>4,408,091.3</u>	<u>4.7</u>	<u>4,445,500.0</u>	<u>0.8</u>	<u>4,644,500.0</u>	<u>4.5</u>	<u>4,858,800.0</u>	<u>4.6</u>
Non-Tax Revenue								
Lottery	32,747.1	(14.0)	31,000.0	(5.3)	25,500.0	(17.7)	21,000.0	(17.6)
Licenses, Fees, Permits	44,089.5	9.7	45,800.0	3.9	46,800.0	2.2	47,700.0	1.9
Interest	50,323.9	34.8	57,400.0	14.1	50,600.0	(11.8)	36,400.0	(28.1)
Sales and Services	3,248.3	(10.9)	3,300.0	1.6	3,300.0	0.0	3,200.0	(3.0)
Transfers, Reimb., & Misc.	52,622.4	7.9	101,126.0	92.2	61,500.0	(39.2)	46,400.0	(24.6)
From BSF Due to 5% Cap	2,205.6	21.7	7,100.0	221.9	6,800.0	(4.2)	0.0	--
Disproportionate Share	<u>69,666.1</u>	<u>(17.8)</u>	<u>96,180.0</u>	<u>38.1</u>	<u>89,794.0</u>	<u>(6.6)</u>	<u>89,794.0</u>	<u>0.0</u>
Subtotal - Non-Tax Revenue	<u>254,902.9</u>	<u>0.1</u>	<u>341,906.0</u>	<u>34.1</u>	<u>284,294.0</u>	<u>(16.9)</u>	<u>244,494.0</u>	<u>(14.0)</u>
Total Base Revenue	<u>\$4,662,994.2</u>	<u>4.4%</u>	<u>\$4,787,406.0</u>	<u>2.7%</u>	<u>\$4,928,794.0</u>	<u>3.0%</u>	<u>\$5,103,294.0</u>	<u>3.5%</u>

THE ARIZONA BUDGET STABILIZATION FUND

Background

The Budget Stabilization Fund (BSF) for Arizona was passed during the 1990 Third Special Session (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to spend this revenue during times of below-trend growth. It is designed to provide revenue stabilization across a typical business cycle. Under the economic formula which drives the Budget Stabilization Fund, the first payment into the fund was required in FY 1994.

The principle behind Arizona's formula-driven Budget Stabilization Fund is to mirror changes in the Arizona economy. State economic history has shown that when the Arizona economy has expanded rapidly, the total state personal income was one of the best measures of that growth.

The Formula

The determination of the amount to be appropriated to (deposit) or transferred out (withdrawal) of the Budget Stabilization Fund is made using a formula based upon total annual Arizona personal income (excluding transfer payments) and adjusted for inflation. Essentially, when annual growth is above trend monies are deposited into the BSF, whereas, when growth is below trend monies are withdrawn from the BSF.

The Arizona Economic Estimates Commission (EEC) determines the annual growth rate of inflation-adjusted total state personal income, the trend growth rate over the past 7 years, and the required appropriation to or transfer from the BSF. The EEC reports this calculation for the prior calendar year in the April-May time frame.

Key features of the Arizona BSF can be summarized as follows:

- The deposit into the BSF (or withdrawal from the BSF) for a given fiscal year is determined by comparing the annual growth rate of inflation adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent seven years (see Chart 12).
- If the annual growth rate exceeds the trend growth rate, the excess multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF (see Chart 13).

- If the annual growth rate is less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior fiscal year would equal the amount to be withdrawn from the BSF (see Chart 13).
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.

Appropriations (Deposits) to BSF

The Economic Estimates Commission reported (May 2, 1994) that the first pay-in would be required in FY 1994 in the amount of \$78.3 million. This pay-in was, as expected, due to the sharp improvement in Arizona's economy in 1993 as it recovered from the long, slow period in the national and Arizona economies.

Several requirements were specified by the Legislature for funding the BSF in FY 1995. These included the requirement that any "excess" ending balance (above \$107.2) from FY 1994 be used to repay the "K-12 Rollover" and, thereafter, to make the required deposit to the BSF (Trigger #1). This requirement was satisfied and \$68.4 million was deposited to the BSF. In addition, any total General Fund revenues above \$4,237.1 million in FY 1995 were eligible for deposit as long as the total deposit for FY 1995 did not exceed the amount called for by the BSF formula (Trigger #2). Based upon strong Arizona growth in 1994 as compared to the 7-year moving average, the formula called for a \$178.8 million deposit. When combined with the \$68.4 million deposit from Trigger #1, the total of \$178.8 million was deposited to the fund in FY 1995. The ending balance in the BSF was \$225.0 million.

However, the 1995 Legislature decided to change the maximum balance in the BSF from 15% to 5% of revenues in the current fiscal year. The result is that the BSF is now "capped," or is at its maximum level. In fact, when interest earnings are credited to the BSF, it can become slightly over-funded against the new 5% limit. This happened in FY 1995 and FY 1996 and \$1.8 million and \$2.2 million were actually transferred back into the General Fund. These excess earnings are expected to continue in FY 1997, when \$7.1 million is expected to revert to the General Fund.

Table 11 shows the actual deposits to the BSF for FY 1995 and FY 1996 as well as estimates for FY 1997 and FY 1998.

Table 11

**ESTIMATED CHANGES TO THE BUDGET STABILIZATION FUND
FY 1995 THROUGH FY 1999**
(Amounts in Dollars)

	<u>Actual FY 1995</u>	<u>Actual FY 1996</u>	<u>Estimate FY 1997</u>	<u>Estimate FY 1998</u>
General Fund Revenues	\$4,463,733,000	\$4,463,600,600	\$4,780,306,000	\$ 4,921,994,000
5% Limit for BSF Balances	\$ 223,187,000	\$ 233,039,445	\$ 236,555,000	\$ 246,099,700
BSF Formula Recommended				
Deposit or (Withdrawal)	\$ 178,817,000	\$ 223,196,380	\$ 84,866,000	0
BSF Beginning Balance	\$ 42,146,000	\$ 223,186,600	\$ 233,130,000	\$ 240,470,300
Actual Deposit	\$ 68,504,000	0	0	0
Actual Deposit	<u>\$ 110,313,000</u>	---	---	---
Total Deposits	\$ 178,817,000	0	0	0
Estimated Interest Rate	---	5.4%	5.9%	5.4%
Estimated Interest Earned	\$ 4,036,403	\$ 12,149,000	\$ 14,340,300	\$ 13,869,400
Ending BSF Balance	\$ 224,999,000	\$ 235,335,600	\$247,470,300	\$ 254,339,700
Amount Reverted/Deposited to General Fund	\$ 1,812,400	\$ 2,205,600	\$ 7,100,000	\$ 6,800,000
Adjusted Year-End Balance	<u>\$ 223,186,600</u>	<u>\$ 233,130,000</u>	<u>\$ 240,470,300</u>	<u>\$ 247,539,700</u>

**ARIZONA REAL PERSONAL INCOME GROWTH
ONE YEAR RATE TO SEVEN YEAR AVERAGE**

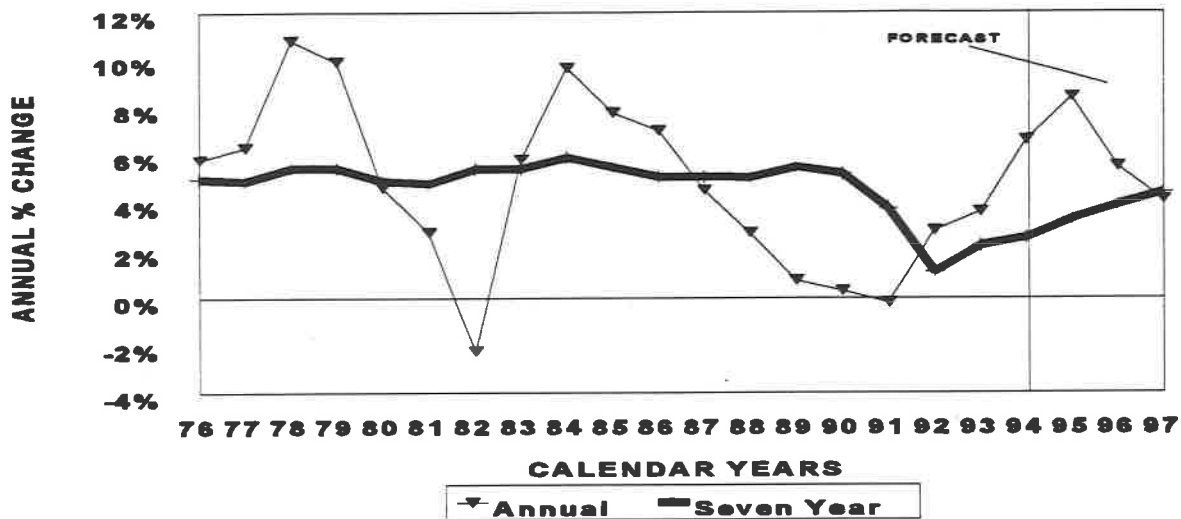


Chart 12

ARIZONA BUDGET STABILIZATION FUND DEPOSITS, WITHDRAWALS AND FUND BALANCES

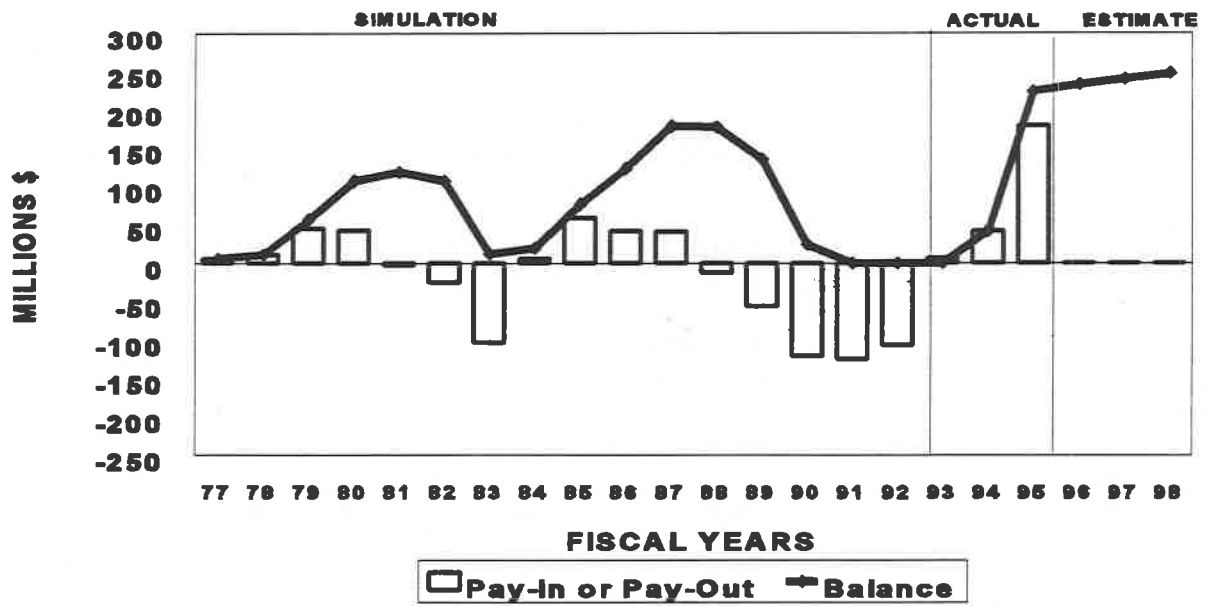


Chart 13