

INDEX

	<u>Page No.</u>
FY 2002 - FY 2003 Biennial Budget JLBC Recommendation	1
Statement of General Fund Revenues and Expenditures	2
JLBC - Executive Budgets - Comparison of General Fund Issues	3
Comparison of Major General Fund Budgets	10
Highlights of the JLBC Biennial Budget Recommendation	11
Summary of Individual Agency Budget Recommendations	16
Budget Numbers by Agency	
FY 2002 General Fund Summary	24
FY 2003 General Fund Summary	26
FY 2002 Other Funds Summary	28
FY 2003 Other Funds Summary	30
FY 2001 Supplementals	32
Proposed Statutory Changes FY 2002 and FY 2003 Omnibus Reconciliation Bills (ORB)	33
Summary of Federal and Other Non-Appropriated Fund Expenditures	35
Economic and Revenue Forecast	
The Economy	E - 1
General Fund Revenue	E - 7
Arizona Budget Stabilization Funds	E - 15

FY 2002 - FY 2003 BIENNIAL BUDGET JLBC RECOMMENDATION

The JLBC recommends a total General Fund FY 2002-2003 biennial budget of \$14.3 billion. The recommendation includes \$7.0 billion for FY 2002 and \$7.3 billion for FY 2003. In developing the JLBC budget recommendation, the House and Senate Appropriations Chairmen had the following priorities:

State Employee Pay

State employee pay lags compensation for similar workers in the private sector and other government jurisdictions. As a result, the JLBC recommends a 5% increase in each state employee's pay on January 1, 2002. This increase would be adjusted to ensure that lower-paid employees receive at least a \$1,500 raise. The FY 2003 budget would include a further 5% increase on January 1, 2003, with another \$1,500 minimum. These adjustments cost the General Fund \$54.1 million in FY 2002 and \$141.2 million in FY 2003. Once fully annualized in FY 2004, the total appropriated funds increase would be \$228.1 million.

In addition, the JLBC General Fund budget includes \$20.6 million in FY 2002 and \$45.5 million in FY 2003 to cover the costs of an expected 28% increase in the cost of state employee health insurance. On average, state employee health insurance costs would be no higher than their current premiums.

Consistent with the state employee raises, the JLBC General Fund budget also includes \$7.6 million to increase the pay levels of contracted providers of direct care services. Providers would receive a 5% increase in FY 2002 and a new 5% in FY 2003.

Behavioral Health

The JLBC General Fund budget includes up to \$50 million in FY 2002 and \$100 million in FY 2003 to address the state's ongoing seriously mentally ill (SMI) litigation, *Arnold v. Sarn*. This includes \$27.5 million in FY 2002 and \$54.9 million in FY 2003 in direct General Fund appropriations and \$22.5 million in FY 2002 and \$45.1 million in FY 2003 from potential savings in the AHCCCS budget involving Indian Health Service claims.

In addition to these amounts, the JLBC budget includes \$36.7 million in FY 2002 and \$44.7 million in FY 2003 from state and federal funds for SMI Title 19 enrollment growth and inflation. Thus, by FY 2003, total SMI funding would grow by \$144.7 million under the JLBC budget.

Building Renewal

The JLBC General Fund budget includes \$51.6 million in FY 2002 and \$55.4 million in FY 2003 for 100% funding of the state's building renewal formula. This funding is intended for the on-going upkeep and maintenance of state facilities and properties. The General Fund portion of this formula has been fully funded once since FY 1988.

Tax Reductions

The JLBC General Fund budget sets aside \$15 million in FY 2002 and \$30 million in FY 2003 for new tax reductions. The types of tax reduction would be determined during the legislative session.

Spending Box

The JLBC General Fund budget also sets aside \$15 million in FY 2002 and \$30 million in FY 2003 for spending outside of the General Appropriation Act, commonly known as "the box."

General Fund Revenues

The JLBC recommendation is based upon baseline General Fund revenues growing at an annual average rate of 8.1% between now and the end of FY 2003. The long-term historical baseline growth rate is 7.8% and the 5-year average is 9.8%. The general economic consensus is that the Arizona economy will continue to grow at healthy rates, but lower than in the recent past.

JLBC

**STATEMENT OF
GENERAL FUND REVENUES AND EXPENDITURES**

	Revised FY 2001	FY 2002	FY 2003
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Balance Forward	\$ 202,956,000	\$ 144,677,900	\$ 6,514,900
Baseline Revenues	6,768,375,300	7,246,150,600	7,819,459,700
0.6% Education Sales Tax	0	485,976,500	524,698,600
Tax Reduction Legislation	0	(15,000,000)	(30,000,000)
Urban Revenue Sharing	(396,452,600)	(421,876,600)	(453,564,200)
TOTAL REVENUES	<u>\$ 6,574,878,700</u>	<u>\$ 7,439,928,400</u>	<u>\$ 7,867,109,000</u>
EXPENDITURES			
Agency Operating Expenses	\$ 6,370,542,600	\$ 6,843,824,300	\$ 7,119,247,100
Supplementals	33,722,000	0	0
Legislative Priorities	0	15,000,000	30,000,000
Budget Stabilization Fund Deposit	16,000,000	16,000,000	16,000,000
State Employee Initiatives	2,248,700	51,961,700	139,093,700
Subtotal - Operating Budget	<u>\$ 6,422,513,300</u>	<u>\$ 6,926,786,000</u>	<u>\$ 7,304,340,800</u>
0.6% Sales Tax Funding	0	460,976,500	499,698,600
Subtotal - Operating with 0.6% Sales Tax	<u>\$ 6,422,513,300</u>	<u>\$ 7,387,762,500</u>	<u>\$ 7,804,039,400</u>
Capital Outlay	35,687,500	82,651,000	79,378,300
Administrative Adjustments	37,000,000	33,000,000	33,000,000
Revertments	(65,000,000)	(70,000,000)	(70,000,000)
TOTAL EXPENDITURES - Excluding Prop. 301	\$ 6,430,200,800	\$ 6,972,437,000	\$ 7,346,719,100
TOTAL EXPENDITURES - Including Prop. 301	\$ 6,430,200,800	\$ 7,433,413,500	\$ 7,846,417,700
BALANCE FORWARD	\$ 144,677,900	\$ 6,514,900	\$ 20,691,300

JLBC - EXECUTIVE BUDGETS
COMPARISON OF GENERAL FUND (GF) ISSUES

MAJOR ISSUES	JLBC BUDGET	EXECUTIVE BUDGET
General Fund Budget	Total Biennial Budget: <i>\$14.3 Billion</i> FY 02: <i>\$7.0 Billion</i> FY 03: <i>\$7.3 Billion</i> <ul style="list-style-type: none"> Excludes 0.6% Education Sales Tax 	Total Biennial Budget: <i>\$13.8 Billion</i> FY 02: <i>\$6.6 Billion</i> FY 03: <i>\$7.2 Billion</i> <ul style="list-style-type: none"> Excludes 0.6% Education Sales Tax
General Fund Baseline Revenues	FY 01-FY 03: <i>8.1% Average Annual Growth</i> <ul style="list-style-type: none"> <i>\$252.2 M</i> Higher than Executive over 3-year Period (Excluding Dispro Share) 	FY 01-FY 03: <i>7.4% Average Annual Growth</i>
General Fund Spending	FY 02: <i>\$542.2 M Above FY 01</i> <ul style="list-style-type: none"> 8.4% Above FY 01 	FY 02: <i>\$127.1 M Above FY 01</i> <ul style="list-style-type: none"> 2.0% Above FY 01
	FY 03: <i>\$916.5 M Above 01</i> <ul style="list-style-type: none"> 14.3% Above 01 	FY 03: <i>\$726.4 M Above 01</i> <ul style="list-style-type: none"> 11.2% Above 01
Legislative Priorities (The Box)	FY 02: <i>\$15 M</i> FY 03: <i>\$30 M</i>	FY 02: <i>None</i> FY 03: <i>None</i>
Tax Reductions	FY 02: <i>\$15 M:</i> <ul style="list-style-type: none"> Unspecified 	FY 02: <i>\$15 M:</i> <ul style="list-style-type: none"> Unspecified
	FY 03: <i>\$30 M:</i> <ul style="list-style-type: none"> Unspecified 	FY 03: <i>\$25 M:</i> <ul style="list-style-type: none"> Unspecified
Arnold v. Sarn	FY 02: <i>\$62.0 M:</i> <ul style="list-style-type: none"> <i>\$50 M</i> for Arnold v. Sarn, including <i>\$27.5 M</i> in GF Appropriations and <i>\$22.5 M</i> from potential AHCCCS Savings. Does not specify Title XIX vs. Non-Title XIX. <i>\$12 M</i> Title XIX Enrollment and Inflation. 	FY 02: <i>\$22.7 M:</i> <ul style="list-style-type: none"> <i>\$15.9 M</i> for Title XIX Capitation Rate Increases Related to Arnold v. Sarn. <i>\$6.8 M</i> Title XIX Enrollment.
	FY 03: <i>\$115.2 M:</i> <ul style="list-style-type: none"> <i>\$100 M</i> for Arnold v. Sarn, including <i>\$54.9 M</i> in GF Appropriations and <i>\$45.1 M</i> from potential AHCCCS Savings. <i>\$15.2 M</i> for Title XIX Enrollment and Inflation 	FY 03: <i>\$34.5 M:</i> <ul style="list-style-type: none"> <i>\$24.9 M</i> for Arnold v. Sarn Title XIX Capitation Rate Increases. <i>\$9.6 M</i> for Title XIX Enrollment Growth.
Proposition 204	FY 02: <ul style="list-style-type: none"> Does Not Address 	FY 02: <i>\$0.3 M:</i> <ul style="list-style-type: none"> <i>\$(40.2) M</i> Disproportionate Share Hospitals (DSH) State Match <i>\$(169.1) M</i> MN/MI Savings <i>\$2.3 M</i> Increased AHCCCS Enrollment or "Woodwork" <i>\$124.1 M</i> Budget Neutrality Fund Deposit <i>\$71.2 M</i> GF Revenue Loss <i>\$12.0 M</i> Replace DSH Payment to ASH
		FY 03: <i>\$1.5 M</i> <ul style="list-style-type: none"> <i>\$(40.2) M</i> Disproportionate Share Hospitals (DSH) State Match <i>\$(177.7) M</i> MN/MI Savings <i>\$3.5 M</i> Increased AHCCCS Enrollment or "Woodwork" <i>\$132.7 M</i> Budget Neutrality Fund Deposit <i>\$71.2 M</i> GF Revenue Loss <i>\$12.0 M</i> Replace DSH Payment to ASH

Salary Adjustments	<p>FY 02: <i>\$54.1 M</i>:</p> <ul style="list-style-type: none"> • <i>\$40.1 M</i> for a 5% Merit with \$1,500 Minimum for All Employees on 1/02 • <i>\$6.4 M</i> for Correction Officer Pay • <i>\$2.2 M</i> for Other Agency-Specific Competitive Pay Increases • <i>\$1 M</i> for University Classification Maintenance adjustments on 7/01 • <i>\$4.5 M</i> for FY 01 CMR • No Elected Official Pay Increase 	<p>FY 02: <i>\$61.0 M</i>:</p> <ul style="list-style-type: none"> • <i>\$43.1 M</i> for: <ul style="list-style-type: none"> -- 4% Increase with \$1,500 Minimum and \$3,500 Maximum for ADOA System on 1/02 -- 4% Increase for All Others on 1/02 -- 2% Merit for ADOA System on 4/02 • <i>\$6.6 M</i> for Correction Officer Pay • <i>\$3.2 M</i> for Other Agency-Specific Competitive Pay Increases • <i>\$2.5 M</i> for Statewide CMR on 1/02 • <i>\$4.5 M</i> for FY 01 CMR • <i>\$1.1 M</i> for Elected Officials
	<p>FY 03: <i>\$141.2 M</i>:</p> <ul style="list-style-type: none"> • <i>\$80.3 M</i> for Annualization of FY 02 • <i>\$42.2 M</i> for a 5% Increase with \$1,500 Minimum for All Employees on 1/03 • <i>\$10.1 M</i> for Correction Officer Pay • <i>\$2.2 M</i> for Other Agency-Specific Competitive Pay Increases • <i>\$2.0 M</i> for University Classification Maintenance Adjustments on 7/02 • <i>\$4.5 M</i> for FY 01 CMR • No Elected Official Pay Increase • No Retirement Incentive 	<p>FY 03: <i>\$176.3 M</i>:</p> <ul style="list-style-type: none"> • <i>\$92.5 M</i> for Annualization of FY 02 • <i>\$48.5 M</i> for: <ul style="list-style-type: none"> -- 5% Increase for All Employees on 1/03 -- 2% Merit for ADOA System on 4/03 • <i>\$10.9 M</i> for Correction Officer Pay • <i>\$6.0 M</i> for Other Agency-Specific Competitive Pay Increases • <i>\$7.5 M</i> for New 1/03 CMR and Annualize 1/02 CMR • <i>\$4.5 M</i> for FY 01 CMR • <i>\$1.4 M</i> for Elected Officials • <i>\$5.0 M</i> for Retirement Incentives
State Employee Health Insurance	<p>FY 02: <i>\$20.6 M</i></p>	<p>FY 02: <i>\$18.7 M</i></p>
	<p>FY 03: <i>\$45.5 M</i></p> <ul style="list-style-type: none"> • Freezes Average Employee Monthly Premium at \$32 Single/\$112 Family for both years 	<p>FY 03: <i>\$43.3 M</i></p> <ul style="list-style-type: none"> • State Employee Minimum Premium of \$25 Single/\$125 Adult
Providers	<p>FY 02: <i>\$7.6 M</i></p> <ul style="list-style-type: none"> • 5% Increase on 1/02 	<p>FY 02: <i>\$0</i></p> <ul style="list-style-type: none"> • Does Not Address
	<p>FY 03: <i>\$22.7 M</i></p> <ul style="list-style-type: none"> • 5% Increase on 1/03 	<p>FY 03: <i>\$0</i></p> <ul style="list-style-type: none"> • Does Not Address
Capital Outlay	<p>FY 02: <i>\$82.7 M</i>:</p> <ul style="list-style-type: none"> • <i>\$51.6 M</i> for Building Renewal (100%) • <i>\$20.0 M</i> for Highway Expansion and Extension Loan Program (HELP) Fund • <i>\$0.0 M</i> to Ex-Appropriate FY 2002 Appropriation of \$65M for Tucson Prison • <i>\$2.3 M</i> for New State Health Laboratory 20-Year Lease-Purchase Payment 	<p>FY 02: <i>\$30.4 M</i>:</p> <ul style="list-style-type: none"> • <i>\$26.4 M</i> for Building Renewal (50%) • <i>\$0.0 M</i> to Ex-Appropriate \$20M to Highway Expansion and Extension Loan Program (HELP) Fund • The Executive Concurs • Defers until FY 2003
	<p>FY 03: <i>\$79.4 M</i>:</p> <ul style="list-style-type: none"> • <i>\$55.4 M</i> for Building Renewal (100%) • <i>\$20.0 M</i> for Highway Expansion and Extension Loan Program (HELP) Fund • <i>\$0.0 M</i> to Ex-Appropriate FY 2003 Appropriation of \$8.1M for Tucson Prison • <i>\$2.3 M</i> for New State Health Laboratory 20-Year Lease-Purchase Payment 	<p>FY 03: <i>\$31.0 M</i>:</p> <ul style="list-style-type: none"> • <i>\$24.9 M</i> for Building Renewal (50%) • <i>\$0.0 M</i> to Ex-Appropriate \$20M to Highway Expansion and Extension Loan Program (HELP) Fund • The Executive Concurs • <i>\$4.1 M</i> for New State Health Laboratory 10-Year Lease-Purchase Payment

EDUCATION		
Department of Education (K-12)	FY 02: <i>\$149.3 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$121.7 M</i> for 3.3% Enrollment Growth • <i>\$62.8 M</i> for 2% Deflator • <i>\$19.6 M</i> for Homeowner's Rebate • <i>\$19.3 M</i> for Truth in Taxation • <i>\$10.9 M</i> for Group B Weight Increases • <i>\$6.3 M</i> for Special Education Vouchers • <i>\$(84.4 M)</i> Due to 7% Assessed Value Growth • <i>\$(2.0 M)</i> for SAIS Development FY 02 Proposition 301: <i>\$350.7 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$299.8 M</i> for the Classroom Site Fund • <i>\$15.3 M</i> for 1 Additional School Day • <i>\$7.8 M</i> for School Safety • <i>\$5.8 M</i> for School Accountability • <i>\$1.7 M</i> for Failing Schools and Other 	FY 02: <i>\$127.3 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$121.3 M</i> for 3.3% Enrollment Growth • <i>\$66.2 M</i> for 2% Deflator • <i>\$22.7 M</i> for Homeowner's Rebate • <i>\$20.0 M</i> for Truth in Taxation • No Separate Funding for Weight Increases • <i>\$1.1 M</i> for Special Education Vouchers • <i>\$(92.7 M)</i> Due to 7.3% Assessed Value Growth • <i>\$(2.0 M)</i> for SAIS Development FY 02 Proposition 301: <i>\$310.8 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$281 M</i> for the Classroom Site Fund • The Executive Concur • The Executive Concur • <i>\$5 M</i> for School Accountability • The Executive Concur
	FY 03: <i>\$294.4 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$247.9 M</i> for 3.4% Enrollment Growth • <i>\$132.2 M</i> for 2% Deflator • <i>\$30.1 M</i> for Homeowner's Rebate • <i>\$20.2 M</i> for Truth in Taxation • <i>\$11.8 M</i> for Group B Weight Increases • No K-3 Weight Increase • <i>\$8.6 M</i> for Special Education Vouchers • <i>\$(150.7 M)</i> Due to 5% Assessed Value Growth • <i>\$(2.0 M)</i> for SAIS Development FY 03 Proposition 301: <i>\$361.3 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$321.5 M</i> for the Classroom Site Fund • <i>\$32.1 M</i> for 2 Additional School Days • <i>\$7.8 M</i> for School Safety • <i>\$4.6 M</i> for School Accountability • <i>\$1.7 M</i> for Failing Schools and Other 	FY 03: <i>\$271.6 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$251.8 M</i> for 3.5% Enrollment Growth • <i>\$132.6 M</i> for 2% Deflator • <i>\$30.0 M</i> for Homeowner's Rebate • <i>\$20.0 M</i> for Truth in Taxation • No Separate Funding for Weight Increases • Uses Deflator Monies for K-3 Weight Increase • <i>\$2.1 M</i> for Special Education Vouchers • <i>\$(161.5 M)</i> Due to 5.5% NAV Growth • The Executive Concur FY 03 Proposition 301: <i>\$349.9 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$304.4 M</i> for the Classroom Site Fund • <i>\$31.5 M</i> for 2 Additional School Days • The Executive Concur • <i>\$4.5 M</i> for School Accountability • The Executive Concur
School Facilities Board	FY 02: <i>\$32.5 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$(30.0 M)</i> for Deficiencies Corrections to reduce level from \$150 M to \$120 M. • Fully Funds Deficiency Corrections • <i>\$12.0 M</i> for Building Renewal • <i>\$50.0 M</i> for New School Construction FY 02 Proposition 301: <i>\$70.0 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$70.0 M</i> for Deficiencies Corrections Revenue Bond Debt Service FY 03: <i>\$(71.7 M) Below FY 01:</i> <ul style="list-style-type: none"> • <i>\$(150.0 M)</i> for Deficiencies Corrections to Eliminate GF Support • <i>\$17.8 M</i> for Building Renewal • <i>\$60.0 M</i> for New School Construction FY 03 Proposition 301: <i>\$70.0 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$70.0 M</i> for Deficiencies Corrections Revenue Bond Debt Service 	FY 02: <i>\$(87.5 M) Below FY 01:</i> <ul style="list-style-type: none"> • <i>\$(150.0 M)</i> for Deficiencies Corrections for No GF Support. Executive Funds \$120 M in FY 03 • Fully Funds Deficiency Correction • <i>\$12.0 M</i> for Building Renewal • <i>\$50.0 M</i> for New School Construction FY 02 Proposition 301: <i>\$70.0 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$70.0 M</i> for Deficiencies Corrections Revenue Bond Debt Service FY 03: <i>\$48.3 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$(30.0 M)</i> for Deficiencies Corrections for \$120.0 M of GF Support • <i>\$17.8 M</i> for Building Renewal • <i>\$60.0 M</i> for New School Construction FY 03 Proposition 301: <i>\$70.0 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$70.0 M</i> for Deficiencies Corrections Revenue Bond Debt Service

Universities	<p>FY 02: <i>\$20.4 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$11.6 M</i> for Pay Annualization • <i>\$(2.6) M</i> for Student Enrollment • <i>\$6.1 M</i> for Offsets to Collections Fund • <i>\$4.7 M</i> for Technical Changes <p>FY 02 Proposition 301: <i>\$49.9 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$1.4 M</i> for ASU-East Lease-Purchase • <i>\$1.1 M</i> for ASU-West Lease-Purchase • <i>\$47.4 M</i> for Technology & Research Initiative Grants 	<p>FY 02: <i>\$17.9 M Above FY 01:</i></p> <ul style="list-style-type: none"> • The Executive Concur • <i>\$(1.6) M</i> for Student Enrollment • <i>\$(2.2) M</i> for Offsets to Collections Fund • <i>\$9.3 M</i> for Technical Changes <p>FY 02 Proposition 301: <i>\$46.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • Executive Does Not Specify Allocation
	<p>FY 03: <i>\$28.9 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$11.6 M</i> for Pay Annualization • <i>\$1.8 M</i> for Student Enrollment • <i>\$5.4 M</i> for Offsets to Collections Fund • <i>\$5.2 M</i> for Technical Changes • <i>\$3.0 M</i> for New Facilities Support <p>FY 03 Proposition 301: <i>\$54.6 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$2.0 M</i> for ASU-East Lease-Purchase • <i>\$1.6 M</i> for ASU-West Lease-Purchase • <i>\$51.0 M</i> for Technology & Research Initiative Grants 	<p>FY 03: <i>\$16.5 M Above FY 01:</i></p> <ul style="list-style-type: none"> • The Executive Concur • <i>\$(1.6) M</i> for Student Enrollment • <i>\$(4.1) M</i> for Offsets to Collections Fund • <i>\$9.7 M</i> for Technical Changes • Executive Does Not Address <p>FY 03 Proposition 301: <i>\$50.4 M Above FY 01:</i></p> <ul style="list-style-type: none"> • Executive Does Not Specify Allocation
State Board of Directors for Community Colleges	<p>FY 02: <i>\$4.6 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$4.6 M</i> for Enrollment Growth and Equalization • No Change for Dual Enrollment <p>FY 02 Proposition 301: <i>\$12.8 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$11.5 M</i> for Workforce Development • <i>\$1.0 M</i> for Capital Matching • <i>\$0.4 M</i> for Tribal Assistance 	<p>FY 02: <i>\$2.8 M Above FY 01:</i></p> <ul style="list-style-type: none"> • The Executive Concur • <i>\$(1.8) M</i> for Dual Enrollment <p>FY 02 Proposition 301: <i>\$12.2 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$10.7 M</i> for Workforce Development • The Executive Concur • <i>\$0.5 M</i> for Tribal Assistance
	<p>FY 03: <i>\$9.9 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$9.9 M</i> for Enrollment Growth and Equalization • No Change Dual Enrollment <p>FY 03 Proposition 301: <i>\$14.0 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$12.6 M</i> for Workforce Development • <i>\$1.0 M</i> for Capital Matching • <i>\$0.4 M</i> for Tribal Assistance 	<p>FY 03: <i>\$7.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$9.5 M</i> for Enrollment Growth and Equalization • <i>\$(1.8) M</i> for Dual Enrollment <p>FY 03 Proposition 301: <i>\$13.1 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$11.6 M</i> for Workforce Development • The Executive Concur • <i>\$0.5 M</i> for Tribal Assistance
Health and Welfare		
AHCCCS	<p>FY 02: <i>\$148.5 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$127.3 M</i> for Acute Care Caseload, Inflation, and Other Changes • <i>\$(6.7) M</i> Decrease Due to Reinstatement of the Hospital Pilot Program • <i>\$13.8 M</i> for Issues Previously Funded by Tobacco Tax • <i>\$9.6 M</i> for ALTCS Caseload and Inflation; County Contribution Increase of \$7.8 M • Does Not Address. Pending Completion of Actuarial Analysis • Transfers any I.H.S. Savings to DHS for Arnold v. Sarn • Does not Address Due to Significant Policy Decisions that Accompany Implementation 	<p>FY 02: <i>\$9.2 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$127.1 M</i> for Similar Acute Care Issues • Does not Address • Continues Tobacco Tax Funding at FY 2001 Level • <i>\$9.8 M</i> for ALTCS Caseload and Inflation • <i>\$4.9 M</i> for Increased ALTCS Reimbursement • <i>\$(54.4) M</i> for I.H.S. Referral Savings • <i>\$(82.9) M</i> Savings Due to Proposition 204. Offset by Costs in Other Areas

<p>AHCCCS (Cont'd)</p>	<p>FY 03: <i>\$211.9 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$177.8 M</i> for Acute Care Caseload, Inflation, and Other Changes • <i>\$(7.1) M</i> for Reinstatement of the Hospital Pilot Program • <i>\$15.2 M</i> for Issues Previously Funded by Tobacco Tax • <i>\$21.6 M</i> for ALTCS Caseload and Inflation County Contribution Increase of \$9.4 M • Does not Address. Pending Completion of Actuarial Analysis • Transfers any I.H.S. Savings to DHS for Arnold v. Sarn • Does not Address Due to Significant Policy Decisions that Accompany Implementation 	<p>FY 03: <i>\$122.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$181.5 M</i> for Similar Acute Care Issues • Does not Address • Continues Tobacco Tax Funding at FY 2001 Level • <i>\$22.9 M</i> for ALTCS Caseload and Inflation • <i>\$7.3 M</i> for Increased ALTCS Reimbursement • <i>\$(13.2) M</i> for I.H.S. Referral Savings • <i>\$(82.9) M</i> Savings Due to Proposition 204. Offset by Costs in Other Areas
<p>Department of Economic Security</p>	<p>FY 02: <i>\$32.8 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$36.9 M</i> for Long Term Care (LTC) Caseload and Capitation Rates • <i>\$3.5 M</i> for Division of Developmental Disabilities (DDD) Automation • <i>\$(22.1) M</i> for Shifts from GF to TANF • <i>\$2.0M</i> for CPS/Adoption Staff • <i>\$2.9M</i> for Adoption Services Growth • <i>\$3.5M</i> for Adult Home and Community Based Services • <i>\$(1.5) M</i> for GF Shift to Special Admin. Fund 	<p>FY 02: <i>\$24.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$39.1 M</i> for LTC Caseload and Capitation Rates • No Monies for DDD Automation • <i>\$(28.2) M</i> for Shifts from GF to TANF • <i>\$3.4M</i> for CPS/Adoption Staff • The Executive concurs • <i>\$1.7M</i> for Adult Home and Community Based Services • <i>\$(2.0) M</i> for GF Shift to Special Admin. Fund
	<p>FY 03: <i>\$82.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$59.8 M</i> for LTC Caseload and Capitation Rates • <i>\$3.7 M</i> for DDD Automation • <i>\$(16.5) M</i> for Shifts from GF to TANF • <i>\$15.6 M</i> for Funding Shift • <i>\$3.8M</i> for CPS/Adoption Staff • <i>\$5.0M</i> for Adoption Services growth • <i>\$3.5M</i> for Adult Home and Community Based Services • <i>\$3.0 M</i> for Increase in Maximum Child Care Rates (Using Mostly Federal Monies) 	<p>FY 03: <i>\$62.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$62.4 M</i> for LTC Caseload and Capitation Rates • No Monies for DDD Automation • <i>\$(20.6) M</i> for Shifts from GF to TANF • <i>\$2.9M</i> for Funding Shift • <i>\$3.4M</i> for CPS/Adoption Staff • The Executive Concurs • <i>\$1.7M</i> for Adult Home and Community Based Services • No Increase in Maximum Child Care Rates
<p>Department of Health Services</p>	<p>FY 02: <i>\$57.3 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$54.3 M</i> for Title 19 Capitation Rate Increases and Enrollment Growth, and Arnold v. Sarn • Up to <i>\$22.5 M</i> for Arnold v. Sarn, if AHCCCS Obtains IHS Referral Savings • <i>\$0.9 M</i> for Assurance and Licensure Staffing and Retention • <i>\$0.9 M</i> for Title XIX CRS Funding • <i>\$1.5 M</i> for Additional Funding for Vaccines • <i>\$1.2 M</i> for CRS State Only Program • <i>\$0.0 M</i> to Continue Tobacco Tax Funding for Psychotropic Medications • Does not address due to Significant Policy Decisions that Accompany Prop 204 Implementation 	<p>FY 02: <i>\$49.7 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$35 M</i> for Title 19 Capitation Rate Increases, Including a Prospective Change for Arnold v. Sarn, and Enrollment Growth • Retains Savings in AHCCCS Budget for Other Purposes • <i>\$1 M</i> for Assurance and Licensure staffing and retention • <i>\$0.6 M</i> for Title XIX CRS funding • Does not address • Does not address • The Executive concurs • <i>\$12 M</i> to Relinquish ASH Disproportionate Share Monies to Achieve Budget Neutrality and Implement Proposition 204

<p>Department of Health Services (Cont'd)</p>	<p>FY 03: <i>\$99.2 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$90.3 M</i> for Behavioral Health Title 19 Capitation Rate Increases, Enrollment & Arnold v. Sarn • Up to <i>\$45.1M</i> for Arnold v. Sarn, if AHCCCS obtains IHS referral savings • <i>\$0.9 M</i> for Assurance and Licensure staffing and retention • <i>\$1.7 M</i> for Title XIX CRS Funding • <i>\$3.8 M</i> for ASH New Hospital Support • <i>\$2.5 M</i> for Additional Funding for Vaccines • <i>\$1.2 M</i> for CRS State Only Program • Does not address due to significant policy decisions that accompany Prop 204 Implementation 	<p>FY 03: <i>\$69.9 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$50.3 M</i> for Behavioral Health Title 19 Capitation Rate Increases, including a prospective change for Arnold v. Sarn, and Enrollment Growth • Retains savings in AHCCCS budget for other purposes • <i>\$1 M</i> for Assurance and Licensure staffing and retention • <i>\$1.3 M</i> for Title XIX CRS Funding • <i>\$4.2 M</i> for ASH New Hospital Support • Does not address • Does not address • <i>\$12 M</i> to relinquish ASH Disproportionate Share Monies to Achieve Budget Neutrality and Implement Proposition 204
Criminal Justice		
<p>Corrections</p>	<p>FY 02: <i>\$(17.1) M Below FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$(3.5) M</i> for Overfunded Inmate Population Growth. Adjusts Population Growth from 132 Per Month to 75. • <i>\$(12.8) M</i> for Delayed Bed Openings. Opens New Beds Once Shortfall Reaches 2,000. • <i>\$(3.3) M</i> for Closing Arizona Center for Women • <i>\$(0.8) M</i> for Inmate Education Fund Shift • <i>\$2.9 M</i> to Continue Existing CO Pay Plan • <i>\$2.3 M</i> for Enhanced Female Programming • <i>\$0.5 M</i> for Protective Services Unit • No Added Monies for Medical Services • No Corrections Fund Contingency Appropriation. 	<p>FY 02: <i>\$(15.1) M Below FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$(2.8) M</i> for Inmate Population Growth • <i>\$(14.0) M</i> for Delayed Bed Openings • <i>\$(1.0) M</i> for Closing Arizona Center for Women • No Change in Inmate Education Funding • The Executive Concurs • No Additional Females Programming • The Executive Concurs • <i>\$1.4 M</i> for Contracted Medical Services • Corrections Fund Contingency Appropriation of <i>\$4.9 M</i> at the Discretion of the ADC Director
	<p>FY 03: <i>\$0.2 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$(1.4) M</i> for Inmate Population Growth • <i>\$(0.9) M</i> for Delayed Bed Openings • <i>\$(3.3) M</i> for Closing Arizona Center for Women • <i>\$(0.8) M</i> for Inmate Education Fund Shift • <i>\$5.3 M</i> to Continue Existing CO Pay Plan • <i>\$2.3 M</i> for Enhanced Female Programming • <i>\$0.5 M</i> for Protective Services Unit • No Added Monies for Medical Services • No Added Monies for Hepatitis C • No Corrections Fund Contingency Appropriation 	<p>FY 03: <i>\$4.2 M Above FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$(0.6) M</i> for Inmate Population Growth • <i>\$(2.9) M</i> for Delayed Bed Openings • <i>\$(1.0) M</i> for Closing Arizona Center for Women • <i>\$(2.0) M</i> for Inmate Education Fund Shift • The Executive Concurs • No Additional Female Programming • The Executive Concurs • <i>\$1.4 M</i> for Contracted Medical Services • <i>\$5.0 M</i> for Hepatitis C Treatment • Corrections Fund Contingency Appropriation of <i>\$15.9 M</i> at the Discretion of the ADC Director
<p>Department of Juvenile Corrections</p>	<p>FY 02: <i>\$(1.6) M Below FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$(3.2) M</i> for Population Decrease • <i>\$0.8 M</i> for Equipment Replacement • <i>\$0.6 M</i> for YCO Stipends at Buckeye • <i>\$0.3 M</i> for YCO Pay Plan Annualization • <i>\$0.1 M</i> for Mental Health Unit for Females 	<p>FY 02: <i>\$(1.4) M Below FY 01:</i></p> <ul style="list-style-type: none"> • The Executive concurs • The Executive concurs • <i>\$0.7 M</i> for Stipends for All Buckeye Staff • The Executive concurs • The Executive concurs
	<p>FY 03: <i>\$(1.3) M Below FY 01:</i></p> <ul style="list-style-type: none"> • <i>\$(3.2) M</i> for Population Decrease • <i>\$0.8 M</i> for Equipment Replacement • <i>\$0.6 M</i> for YCO Stipends at Buckeye • <i>\$0.3 M</i> for YCO Pay Plan Annualization • <i>\$0.1 M</i> for Mental Health Unit for Females 	<p>FY 03: <i>\$(1.1) M Below FY 01:</i></p> <ul style="list-style-type: none"> • The Executive concurs • The Executive concurs • <i>\$0.7 M</i> for Stipends for All Buckeye Staff • The Executive concurs • The Executive concurs

Department of Public Safety	FY 02: <i>\$0.8M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$0.7 M</i> for Pay Annualization • <i>\$1.1 M</i> Offset to Other Appropriated Funds • <i>\$1.0 M</i> for Crime Lab Personnel and Equipment • <i>\$0.9 M</i> for Telecommunication Equipment • <i>\$(3.4) M</i> for One-Time FY 2001 Equipment • No Recommendation for DNA Database • No Recommendation for Additional GITEM FY 02 HURF/Highway: <i>\$9.8 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$3.5 M</i> for 44 Highway Patrol Officers • <i>\$5.4 M</i> for 175 Highway Patrol Vehicles 	FY 02: <i>\$3.2 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$1.3 M</i> for Pay Annualization • <i>\$0.9 M</i> Offset to Other Appropriated Funds • The Executive Concur • The Executive Concur • The Executive Concur • <i>\$0.5 M</i> for DNA Database • <i>\$0.5 M</i> for Additional GITEM funding FY 02 HURF/Highway: <i>\$11M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$4.8 M</i> for 58 Highway Patrol Officers • The Executive Concur
	FY 03: <i>\$3.3 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$0.7 M</i> for Pay Annualization • <i>\$1.3 M</i> for Crime Lab Personnel and Equipment • <i>\$1.2 M</i> for Mobile Data Computers • <i>\$1.0 M</i> Offset to Other Appropriated Funds • <i>\$0.9 M</i> for Telecommunication Equipment • <i>\$0.6 M</i> for Highway Patrol Support Personnel • <i>\$0.6 M</i> for New Helicopter Lease-Purchase • <i>\$(3.4) M</i> for One-Time FY 2001 Equipment • No Recommendation for DNA Database • No Recommendation for Additional GITEM FY 03 HURF/Highway: <i>\$11.4 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$5.6 M</i> for 88 Highway Patrol Officers • <i>\$4.8 M</i> for 155 Highway Patrol Vehicles 	FY 03: <i>\$6.5 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$1.3 M</i> for Pay Annualization • The Executive Concur • The Executive Concur • <i>\$0.9 M</i> Offset to Other Appropriated Funds • The Executive Concur • The Executive Concur • The Executive Concur • The Executive Concur • <i>\$0.8 M</i> for DNA Database • <i>\$0.7 M</i> for Additional GITEM Funding FY 03 HURF/Highway: <i>\$15.5 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$6.9 M</i> for 116 Highway Patrol Officers • <i>\$6.3 M</i> for 200 Highway Patrol Vehicles
Judiciary	FY 02: <i>\$0.1 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$1.7 M</i> for Pay Adjustments • <i>\$(3.2) M</i> for Probation Growth • <i>\$0.8 M</i> for New Judgeships 	FY 02: <i>No \$ Change Above FY 01:</i> <ul style="list-style-type: none"> • Does Not Recommend on Judiciary Budget
	FY 03: <i>\$2.6 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$1.7 M</i> for Pay Adjustments • <i>\$(0.9) M</i> for Probation Growth • <i>\$0.8 M</i> for New Judgeships 	FY 03: <i>No \$ Change Above FY 01:</i> <ul style="list-style-type: none"> • Does Not Recommend on Judiciary Budget
Attorney General	FY 02: <i>\$1 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$0.4 M</i> for Assistant Attorney General salary Parity with Maricopa County. 	FY 02: <i>\$2.7 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$1.9M</i> for Assistant AG Salary Parity at mid-point between Maricopa and U.S. Attorney's Office
	FY 03: <i>\$0.9 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$0.4 M</i> for Assistant Attorney General Salary Parity with Maricopa County. 	FY 03: <i>\$4.7 M Above FY 01:</i> <ul style="list-style-type: none"> • <i>\$3.8 M</i> for Salary Parity as above

Comparison of Major General Fund Budgets

FY 2001 - FY 2002 COMPARISON

AGENCY	FY 2001 Estimate	FY 2002 Executive Recommendation	FY 2002 JLBC Recommendation	\$ Difference JLBC - Executive	\$ Difference JLBC - FY 2001
DEPT OF EDUCATION	2,450,928,800	2,578,190,400	2,600,203,200	22,012,800	149,274,400
DEPT OF EDUCATION - Dedicated 1/	0	0	328,210,000	NA	328,210,000
UNIVERSITIES	772,959,400	790,893,200	793,318,300	2,425,100	20,358,900
UNIVERSITIES - Dedicated 1/	0	0	49,917,200	NA	49,917,200
DEPT OF CORRECTIONS	587,915,900	572,831,100	570,812,800	(2,018,300)	(17,103,100)
AHCCCS	529,380,800	538,909,200	677,877,600	138,968,400	148,496,800
DEPT OF ECONOMIC SECURITY	449,401,900	474,078,900	482,227,500	8,148,600	32,825,600
SCHOOL FACILITIES BOARD	471,239,800	383,689,200	503,699,800	120,010,600	32,460,000
SCHOOL FACILITIES BD - Dedicated 1/	0	0	70,000,000	NA	70,000,000
DEPT OF HEALTH SERVICES	253,876,700	303,628,300	313,007,600	9,379,300	59,130,900
JUDICIARY	151,874,600	151,874,600	151,990,300	115,700	115,700
COMMUNITY COLLEGES	135,231,100	138,061,600	139,868,500	1,806,900	4,637,400
COMMUNITY COLLEGES - Dedicated 1/	0	0	12,849,300	NA	12,849,300
ALL OTHER	567,733,600	572,090,100	610,818,700	38,728,600	43,085,100
TOTAL	<u>6,370,542,600</u>	<u>6,504,246,600</u>	<u>6,843,824,300</u>	<u>339,577,700</u>	<u>473,281,700</u>
TOTAL - with Dedicated 1/	<u>6,370,542,600</u>	<u>6,504,246,600</u>	<u>7,304,800,800</u>	<u>NA</u>	<u>934,258,200</u>

FY 2001 - FY 2003 COMPARISON

AGENCY	FY 2001 Estimate	FY 2003 Executive Recommendation	FY 2003 JLBC Recommendation	\$ Difference JLBC - Executive	\$ Difference JLBC - FY 2001
DEPT OF EDUCATION	2,450,928,800	2,722,451,200	2,745,282,500	22,831,300	294,353,700
DEPT OF EDUCATION - Dedicated 1/	0	0	361,110,200	NA	361,110,200
UNIVERSITIES	772,959,400	789,533,800	801,888,300	12,354,500	28,928,900
UNIVERSITIES - Dedicated 1/	0	0	54,563,800	NA	54,563,800
DEPT OF CORRECTIONS	587,915,900	592,089,000	588,069,600	(4,019,400)	153,700
AHCCCS	529,380,800	652,063,500	741,317,400	89,253,900	211,936,600
DEPT OF ECONOMIC SECURITY	449,401,900	512,105,600	532,064,700	19,959,100	82,662,800
SCHOOL FACILITIES BOARD	471,239,800	519,517,000	399,527,800	(119,989,200)	(71,712,000)
SCHOOL FACILITIES BD - Dedicated 1/	0	0	70,000,000	NA	70,000,000
DEPT OF HEALTH SERVICES	253,876,700	323,772,200	355,946,700	32,174,500	102,070,000
JUDICIARY	151,874,600	151,874,600	154,435,200	2,560,600	2,560,600
COMMUNITY COLLEGES	135,231,100	142,902,000	145,125,500	2,223,500	9,894,400
COMMUNITY COLLEGES - Dedicated 1/	0	0	14,024,600	NA	14,024,600
ALL OTHER	567,733,600	584,148,700	655,589,400	71,440,700	87,855,800
TOTAL	<u>6,370,542,600</u>	<u>6,990,457,600</u>	<u>7,119,247,100</u>	<u>128,789,500</u>	<u>748,704,500</u>
TOTAL - Dedicated 1/	<u>6,370,542,600</u>	<u>6,990,457,600</u>	<u>7,618,945,700</u>	<u>NA</u>	<u>1,248,403,100</u>

1/ Represents 0.6% education sales tax monies. The Executive does not display these sales tax monies as part of the General Fund.

HIGHLIGHTS OF THE JLBC BUDGET RECOMMENDATION

Summary

This section provides a summary of the following major issues in the JLBC budget recommendation for FY 2002 and FY 2003:

- Revenue Forecast
- State Employee Pay
- State Employee Benefits
- Provider Rate Increases
- Arnold v. Sarn
- Proposition 204
- Tax and Spending Boxes
- FY 2001 Supplementals
- Operating Budgets
- Capital Outlay
- Budget Stabilization Deposit
- Budget Reform

Revenue Forecast

The FY 2002-2003 biennium budget requires General Fund revenues to be forecast 30 months in advance. Our current revenue forecast in January 2001 will have to apply to economic conditions through June 2003. It is not possible to predict the state of the economy with pinpoint certainty that far in the future.

As a starting point, however, in developing a revenue forecast, we believe it is useful to review General Fund baseline revenue growth during the recent past. To ensure comparability between years, baseline revenues measure the underlying growth in collections before tax law changes.

Total General Fund baseline revenues have grown on average by 7.8% over the last 12 years. This time includes years of expansion as well as contraction in the Arizona economy. During the last five exclusively expansionary years, baseline General Fund revenues have grown by 9.8%.

The general economic consensus is that the Arizona economy will continue to grow, although at lower rates than in the prior expansionary years. Given the difficulty in predicting revenues 30 months in advance, we have provided the Appropriations Chairmen a range of possible growth rates during the upcoming biennium as well as a point specific forecast.

Based on the past track record of revenue collections and the current economic forecast, the JLBC Staff believes that General Fund baseline revenues in FY 2001 through FY 2003 will grow between 6.8% and 8.8% annually. To develop their specific budget proposals, the Appropriations Chairmen have chosen a baseline forecast of 8.3% in FY 2001, 8.1% in FY 2002 and 7.9% in FY 2003.

The JLBC Staff estimates that already enacted tax law changes will cost \$70.4 million in FY 2002 and \$75.1 million in FY 2003. In addition, the Appropriation Chairmen are recommending \$15 million in new tax reductions in FY 2002 and \$30 million in FY 2003. After incorporating these changes, adjusted net General Fund revenues are projected to grow by 6.8% in FY 2001, 6.8% in FY 2002 and 7.7% in FY 2003.

Table 1
JLBC Recommendation Revenue % Growth

	<u>Baseline</u>	<u>Net</u>
FY 2001	8.3	6.8
FY 2002	8.1	6.8
FY 2003	7.9	7.7

The JLBC Staff's economic and revenue forecast is described in more detail in a section at the end of this book.

State Employee Pay

The JLBC General Fund budget includes \$54.1 million in FY 2002 and \$141.2 million in FY 2003 for increases in state employee salaries. In terms of total funds including Other Appropriated Fund monies, these salary adjustments cost \$68.0 million in FY 2002 and \$173.9 million in FY 2003. Once fully implemented in FY 2004, these adjustments will raise salaries and related benefits by \$228.1 million in Total Funds (*See Table 2*).

State employee pay has lagged compensation in both the public and private sector. In the Arizona Department of Administration (ADOA) personnel system, the average employee pay is 13.2% below market. These levels of pay have contributed to high turnover rates with the ADOA system experiencing a turnover rate of 17% in FY 2000. To address this issue, the JLBC recommends both across-the-board and targeted salary increases.

The JLBC budget increases state employee salaries by 5% beginning on January 1, 2002 and by an additional 5% beginning January 1, 2003. By FY 2003, this results in a total pay increase of 10% above the FY 2001 budget. In addition, the JLBC budget guarantees a minimum pay increase of \$1,500 for each employee in both years. This portion of the JLBC recommended pay package will cost the General Fund \$40.1 million in FY 2002 and \$122.5 million in FY 2003. This funding would appear as a lump sum in the General Appropriation Act and would be distributed by individual agency at a later date.

In addition to the statewide cost of living adjustment, the JLBC General Fund budget includes \$14.0 million in FY 2002 and \$18.7 million in FY 2003 for a number of specific market adjustments. Of this amount, \$6.4 million

in FY 2002 and \$10.1 million in FY 2003 is dedicated to Correctional Officers. In lieu of the 10% state employee raise, these officers would receive a raise of \$3,000 in FY 2002 and \$1,000 in FY 2003. For starting officers, this \$4,000 increase would represent a 17% increase above FY 2001. This funding would be appropriated as a lump sum in the General Appropriation Act.

The remaining General Fund competitive adjustments include:

- \$2.2 million in FY 2002 and FY 2003 for agency-specific increases for positions such as Youth Correctional Officers, Assistant Attorney Generals, Auditors, and Highway Patrol Officers.
- \$1.0 million in FY 2002 and \$2.0 million in FY 2003 for market adjustments in the University system.
- \$4.4 million to annualize FY 2001 competitive adjustments.

The agency-specific adjustments would be effective July 1st of each year. See Table 6 for additional information on the JLBC salary recommendations that would be appropriated as a lump sum in the General Appropriation Act.

	FY 2002		FY 2003		FY 2004	
	GF	TF ^{1/}	GF	TF ^{1/}	GF	TF ^{1/}
Statewide 5% Adjustment	\$40.1	\$48.3	\$122.5	\$147.5	\$164.7	\$198.3
Competitive Adjustments	14.0	19.7	18.7	26.4	22.1	29.8
Total Increase	\$54.1	\$68.0	\$141.2	\$173.9	\$186.8	\$228.1

^{1/} Includes both General Fund and other appropriated funds.

State Employee Benefits

The JLBC General Fund budget includes an increase of \$20.6 million in FY 2002 and an increase of \$45.5 million in FY 2003 for a 28% increase in state employee health insurance premiums. The JLBC budget freezes state employee premiums at \$32 per month for the single premium and \$112 per month for families. This is equivalent to the current average premium payment.

Provider Rate Increases

The JLBC General Fund budget includes \$7.6 million in FY 2002 and \$22.7 million in FY 2003 for provider rate increases. The JLBC Budget also includes an Other Appropriated Fund increase of \$0.5 million in FY 2002 and \$1.5 million in FY 2003. Contracted providers would receive increases of 5% beginning January 1, 2002 and an additional 5% beginning January 1, 2003. This increase is intended to provide pay increases of a minimum of 5% to staff caring for vulnerable populations. This increase is

included in programs that contract for direct services, such as Home and Community Based Services for the Developmentally Disabled, vocational rehabilitation programs, and behavioral health treatment services through the Department of Health Services, the Judiciary, and the Department of Juvenile Corrections.

The increase is intended to help these contracted providers recruit and retain personnel in direct care positions, an area in which these providers have been having difficulty. A footnote in the General Appropriation Act will state this intent and require state agencies to pass 100% of the increase through to providers. In addition, the footnote will require providers to use the monies for pay increases to direct care staff making less than \$10 per hour and prohibit the monies being used for administrative positions. Table 3 shows the programs and recommended increases.

Program	FY 2002	FY 2003
DES		
Adoption Services	\$ 455.2	\$ 1,365.5
Children Services	977.6	2,932.8
Vocational Rehabilitation Services	82.1	246.4
Independent Living Rehab Services	22.6	67.7
Employment Support Services	235.8	707.5
DDD Home and Community Based Services	698.0	2,093.9
DDD Institutional Services	7.4	22.1
DDD State Fund Long Term Care Services	92.7	278.2
Adult Services - Home Care	116.0	348.0
Adult Services - Supplemental Payments	45.8	137.4
Respite Care	10.9	32.6
Subtotal - Non-Title XIX	\$2,744.0	\$ 8,232.1
DES Title XIX		
DDD Home and Community Based Services	\$1,986.3	5,958.9
DDD Institutional Services	299.8	899.5
DDD Medical Services	482.6	1,447.7
Subtotal - Title XIX	\$2,768.7	\$ 8,306.1
Total DES	\$5,512.7	\$16,538.2
DHS		
Children's Behavioral Health	253.4	760.3
CBH Title XIX	866.2	2,598.5
Total DHS	\$1,119.6	\$ 3,358.8
Judiciary		
Juvenile Treatment	654.6	1,963.8
DJC		
Community Services Contracts	\$ 264.6	793.8
STATEWIDE GF TOTAL	\$7,551.5	\$22,654.6

Arnold v. Sarn

The JLBC budget includes up to \$50 million in FY 2002 and \$100 million in FY 2003 to address the requirements of the 20-year old Arnold v. Sarn lawsuit.

This includes \$27.5 million in FY 2002 and \$54.9 million in FY 2003 in direct General Fund appropriations and \$22.5 million in FY 2002 and \$45.1 million in FY 2003 from potential savings in the AHCCCS budget involving Indian Health Service claims.

While the JLBC recommendation does not specifically address Proposition 204 due to the large number of policy decisions that need to be made (see below), Proposition 204 will likely add significantly more funding to the SMI system. Proposition 204 expands eligibility for AHCCCS to 100% of the Federal Poverty Level. It is estimated that between 50% and 75% of SMIs not currently eligible for AHCCCS will be covered by Proposition 204. The JLBC budget retains the current level of SMI funding for the much smaller SMI population that remains ineligible for AHCCCS. This will significantly increase the amount of funding available for this population.

The JLBC Total Fund budget also includes \$36.1 million in FY 2002 and \$44.7 million in FY 2003 for enrollment growth and inflationary adjustments in the SMI Title XIX program. These amounts include matching federal funds.

In total, the JLBC budget seeks to increase SMI funding by \$86.1 million in FY 2002 and \$144.7 million in FY 2003, not including Proposition 204 increases. Once it is determined how much total funding is available for SMI programs, (including direct appropriations, AHCCCS savings and Proposition 204) the monies can be allocated between Title XIX and Non-Title XIX. Any of the above monies allocated for Title XIX will receive 65% federal matching funds.

Table 4		
JLBC Recommendation - Arnold v. Sarn		
(\$ in millions)		
	<u>FY 2002</u>	<u>FY 2003</u>
GF Appropriations	\$27.5	\$54.9
AHCCCS Savings for Arnold v. Sarn	<u>22.5</u>	<u>45.1</u>
Subtotal-Arnold v. Sarn	\$50.0	\$100.0
Title XIX Caseload/ Inflation	<u>36.1</u>	<u>44.7</u>
Total Increase	\$86.1	\$144.7
General Fund	\$62.0	\$115.2
Federal Funds	\$24.2	\$29.5

Proposition 204

At the 2000 General Election, voters approved Proposition 204, which expands eligibility for the AHCCCS program to 100% of the Federal Poverty Level (FPL) and funds 6 public health programs. The Proposition allocates monies

from the tobacco settlement for these programs. The JLBC budget displays funding for the 6 public health programs, including annual inflation, although they are not subject to legislative appropriation. The JLBC budget does not address the AHCCCS expansion because implementation of this program will involve very significant policy decisions and due to a lack of time to fully analyze the Governor’s proposal. As a result, we recommend that these policy decisions and any resulting budget impacts be addressed during the legislative session.

AHCCCS is in the process of applying for a waiver from the federal Health Care Financing Administration to obtain federal matching funds for the AHCCCS expansion. The Executive budget assumes that a federal waiver is approved and has recommended a detailed funding scheme for the program. The following bullets summarize the Executive’s recommendations related to Proposition 204.

Disproportionate Share Hospitals (DSH) - The Executive recommends relinquishing most of Arizona’s federal DSH payment in order to obtain federal approval of a waiver for the Proposition 204 program. DSH is a federal program to provide additional reimbursement to hospitals serving indigent populations. Under the Governor’s recommendation, the portion paid to private hospitals would be retained (\$5.3 million GF annually). The loss of most of the DSH payment results in a reduction in General Fund revenue, but in the AHCCCS budget it results in a savings of \$(40.2) million in both FY 2002 and FY 2003 because the state match for the DSH program is no longer needed.

MNMI Savings – The Executive recommendation assumes that the current 100% state funded MNMI population would become eligible for Federal matching funds under the Proposition 204 waiver. This results in an estimated GF savings of \$(169.1) million in FY 2002 and \$(177.7) million in FY 2003. The Executive recommends that \$45 million annually of these savings be used to offset the General Fund revenue loss associated with giving up the federal DSH payment. The remaining savings of \$124.1 million in FY 2002 and \$132.7 million in FY 2003 are transferred to a new “Budget Neutrality Compliance Fund.”

State Match Costs – The Executive estimates that if a waiver is approved, the state match cost of the program will exceed the amount available from tobacco settlement funds in FY 2002 if no MNMI savings are applied. In order to mitigate the impact to the General Fund, the Executive recommends using the savings from the MNMI program to fund this additional cost. Thus, the Executive transfers the annual MNMI savings to the Budget Neutrality Compliance Fund, which is used to pay the unfunded difference between the total state match cost and the amount available from the tobacco settlement. Under the Executive’s estimates, the MNMI GF savings will be sufficient to cover the cost of the program until FY 2006.

Woodwork Effect – The Executive recommends a FY 2002 GF increase of \$2.3 million and a FY 2003 increase of \$3.5 million due to enrollment of some of the Proposition 204 applicants in the current AHCCCS program, known as the “woodwork effect”.

Table 5 shows the compilation of these numbers into the Executive recommendation. As mentioned above, there are increased General Fund costs in other areas of the budget that offset the savings shown in the AHCCCS budget, for a net cost to the state of approximately \$0.3 million in FY 2002 and \$1.5 million in FY 2003. These increased costs are due to the loss of DSH revenue and include \$71.2 million in lost revenue to the General Fund and a new \$12 million General Fund appropriation in the Arizona State Hospital budget to replace the Arizona State Hospital (ASH) DSH payment.

	<u>FY 2002</u>	<u>FY 2003</u>
DSH State Match	\$(40.2)	\$(40.2)
MNMI Savings	(169.1)	(177.7)
Woodwork	2.3	3.5
Budget Neutrality		
Fund Deposit	<u>124.1</u>	<u>132.7</u>
Net AHCCCS Savings	\$(82.9)	\$(81.7)
Lost GF Revenue	71.2	71.2
ASH DSH Replacement	<u>12.0</u>	<u>12.0</u>
Net General Fund Cost	\$0.3	\$1.5

Tax and Spending Boxes

The JLBC budget includes \$15 million in FY 2002 and \$30 million in FY 2003 for new unspecified tax reductions. In addition, the JLBC budget includes another \$15 million in FY 2002 and \$30 million in FY 2003 for new unspecified appropriation bills. In legislative parlance, these dollar amounts represent “The Box.”

FY 2001 Supplementals

The JLBC General Fund budget includes \$33.7 million in FY 2001 for supplemental appropriations. This amount includes \$14.9 million for the Department of Health Services to address enrollment and inflation increases in the Behavioral Health Title XIX program. The supplementals also include \$13.0 million to the Department of Education for Basic State Aid funding and \$2.7 million to the School Facilities Board for Building Renewal.

AHCCCS requires a FY 2001 funding adjustment of \$70.8 million due to higher than expected caseload growth and inflationary increases. Of this amount, \$29.0 million was

funded by a transfer from the Medically Needy Account in November 2000. The remaining \$41.8 million will be funded from the Medical Stabilization Fund.

Operating Budgets

In comparison to the FY 2001 budget, the JLBC budget increases General Fund operating spending by \$504.4 million or 7.9% in FY 2002, and by \$882.0 million or 13.8% in FY 2003. These amounts exclude any monies associated with the 0.6% education sales tax. A substantial portion of the new funding results from:

- \$149.3 million in FY 2002 and \$294.4 million in FY 2003 for the K-12 funding formula.
- \$148.5 million in FY 2002 and \$211.9 million in FY 2003 for AHCCCS costs, mostly associated with statutory caseload and inflation adjustments.
- \$59.1 million in FY 2002 and \$102.1 million in FY 2003 for the Department of Health Services, including significant increases in behavioral health funding.

Additional detail on agency operating budgets appears in the next section of this report. Even further detail can be found in the separate volume on individual agency budgets.

Capital Outlay

The JLBC budget includes \$82.7 million General Fund in FY 2002 and \$79.4 million General Fund in FY 2003.

The budget includes \$51.6 million in FY 2002 and \$55.4 million in FY 2003 for Building Renewal. The General Fund Building Renewal Formula has not been fully funded since FY 1999. Prior to FY 1999, the formula had not been fully funded since FY 1988. In the JLBC budget, the Building Renewal Formula is funded 100% in both FY 2002 and FY 2003. The budget also includes \$29.6 million in FY 2002 and \$22.5 million in FY 2003 for various projects in the 3 building systems (Arizona Department of Administration, Arizona Board of Regents, and Arizona Department of Transportation), including lease-purchase payments for a new State Health Laboratory, converting the Arizona State University and University of Arizona public television stations to digital format, and transferring General Fund monies to the Highway Expansion and Extension Loan Program (HELP) Fund. The HELP funding has already been approved in a prior Legislative Session.

The JLBC budget also ex-appropriates \$65 million in FY 2002 and \$8.1 million in FY 2003 from monies previously appropriated for construction of the new

Tucson prison complex. Declining growth in the prison population permits the deferral of this project past the FY 2002 -2003 biennium.

Budget Stabilization Fund Deposit

The JLBC General Fund budget includes an annual \$16 million deposit to the Budget Stabilization Fund (BSF) for FY 2001 through FY 2003. These deposits are in accordance with Laws 2000, Chapter 1, 7th Special Session, which requires the BSF to be repaid for any withdrawals from the BSF to finance alternative fuel vehicle income tax credits and consumer loss recovery claims. The state is to continue repaying the BSF at the rate of \$16 million per year until the BSF is fully repaid with interest. The total withdrawal from the BSF is yet to be determined.

Budget Reform

The JLBC will focus on 3 aspects of budget reform in the upcoming year: conversion of more agencies to program budgeting, increased use of performance measures, and conducting Strategic Program Area Reviews (SPARs).

Program Budgeting: Laws 1997, Chapter 210 requires that all budget units be converted to a program budget format by FY 2006. This is being accomplished in 3 phases. Phase I, which consisted of the smallest 60 budget units, was implemented in the FY 2000 and FY 2001 budget. As part of its FY 2002 and FY 2003 budget recommendation, the JLBC recommends a program budget format for an additional 43 agencies that comprise Phase II. These formats will be adopted by the Legislature. The remaining 14 agencies will be converted in Phase III as part of the FY 2004 and FY 2005 budgets.

The purpose of program budgeting is to provide policymakers with more information on what agencies do and whether or not the resource level for each function is appropriate. For example, the budget recommendation will now provide budget data on 3 programs in the Department of Juvenile Corrections (Housing, Rehabilitation, and Administration) and its subprograms. Prior budget displays focused more on traditional line items of expenditure such as salaries and travel. We will still provide the traditional line item of expenditure detail as well as the program budget display.

Performance Measures: As part of program budgeting, agencies are required to track their performance on several program indicators. As part of its FY 2002 and FY 2003 budget recommendation, the JLBC recommends 5 to 7 key performance measures for each agency or cost center. Performance measures help policymakers evaluate an agency's success in meeting its goals. In order to emphasize the importance of these performance measures,

the measures will also be adopted by the Appropriation Committees. Common measures – for example, administrative costs as a percentage of overall expenditures or employee turnover rates – are recommended in many agencies.

Strategic Program Area Reviews: When the state moved to biennial budgeting, one purpose was to devote the 2nd year (“off-year”) of the cycle to in-depth review of a few topic areas. As outlined in statute, the Strategic Program Area Review (SPAR) process begins with the JLBC choosing program areas to review. At its December meeting, the Committee selected the following 3 SPARs: County Assistance, Children’s Delivery System with a focus on developmentally-disabled clients, and Special Education. Agencies will submit their self-assessments to JLBC Staff and OSPB by June 1, 2001. JLBC believes legislative guidance would help JLBC Staff and OSPB target research efforts in writing their report; to accomplish this, Joint Appropriations subcommittees will meet in the interim to provide that guidance. JLBC Staff and OSPB will jointly publish a report with their respective SPAR findings and recommendations by January 1, 2002.

A.R.S. § 49-282H currently requires that the Water Quality Assurance Revolving Fund (WQARF) program in the Department of Environmental Quality undergo the Program Authorization Review (now SPAR) process beginning in 2002. Because the JLBC did not choose WQARF as one of the 3 SPARs, the JLBC recommends an Omnibus Reconciliation Bill (ORB) provision to eliminate the requirement for a WQARF SPAR.

	FY 2002		FY 2003	
	GF	OF	GF	OF
Statewide 5% Increase	\$40,100.0	\$8,200.0	\$122,500.0	\$25,000.0
Correctional Officers	6,364.3	0	10,096.3	0
New University CMR	1,000.0	0	2,000.0	0
FY 2001 CMR Annualization ^{2/}	<u>4,497.4</u>	<u>3,691.4</u>	<u>4,497.4</u>	<u>3,691.4</u>
Total	\$51,961.7	\$11,891.4	\$139,093.7	\$28,691.4

^{1/} Excludes pay adjustments in individual agency budgets.
^{2/} Includes full level of FY 2001 CMR, including Highway Capital budget funding.

SUMMARY OF INDIVIDUAL AGENCY BUDGET RECOMMENDATIONS

Summary

This section provides highlights of the larger General Fund budget recommendations including:

- Proposition 301
- Department of Education
- School Facilities Board
- Universities
- Community Colleges
- AHCCCS
- Department of Economic Security
- Department of Health Services
- Department of Corrections
- Department of Public Safety
- Department of Juvenile Corrections
- Judiciary
- Attorney General

In addition, this section includes information on:

- Personnel Pro Rata Charge
- Rental Rate Increase
- Elected Official Salary Increase
- FTE Summary Information
- Other Technical Estimates, including Revetments and Administrative Adjustments.

Education

Proposition 301

The JLBC budget increases funding by \$485,976,500 in FY 2002 and \$524,698,600 in FY 2003 for Proposition 301 (“Education 2000”). These amounts equal current JLBC estimates for the biennium for the 0.6% sales tax increase enacted by Proposition 301. Both estimates assume 8% annual growth in sales tax revenues apart from the 0.6% increase.

Table 1 below shows estimated distributions for the new monies. The amounts shown are based on the allocation formula established by the proposition. The first priority under that formula is funding for debt service on up to \$800,000,000 in School Improvement Revenue Bonds for deficiencies correction projects of the School Facilities Board. The \$70,000,000 debt service amount shown in the table for both years assumes that the board will issue all \$800,000,000 in allowable bonds at the very start of FY 2002 and at an interest rate of approximately 6%.

Table 1

Estimated Distribution of “Education 2000” Sales Tax Monies

	FY 2002	FY 2003
Revenues		
Estimated 0.6% Sales Tax Revenue	\$ 485,976,500	\$524,698,600
Expenditures		
Students FIRST debt service	70,000,000	70,000,000
Universities	49,917,200	54,563,800
Community Colleges	12,479,300	13,641,000
Tribal Assistance	370,000	383,600
Additional School Days	15,305,900	31,530,100
School Safety	7,800,000	7,800,000
Character Education	200,000	200,000
School Accountability	5,849,000	4,586,800
Failing Schools Tutoring Fund	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000
Available for Site Fund: Sales Tax	297,555,100	315,493,300
Available for Site Fund: Land Trust	2,204,400	6,017,700
Total Available for Site Fund	\$299,759,500	\$321,511,000

The distribution formula in Proposition 301 allocates 12% of the remaining monies to universities and 3% to community colleges. The university allocation will be transferred to a new Technology and Research Initiative Fund and is estimated at \$49,917,200 for FY 2002 and \$54,563,800 for FY 2003. The community college allocation will be transferred to a new Workforce Development Account and is estimated at \$12,479,300 for FY 2002 and \$13,641,000 for FY 2003. These distributions are followed by formula-based allocations to tribal community colleges, estimated at \$370,000 for FY 2002 and \$383,600 for FY 2003.

The next 5 distributions are K-12 related. They include 1) \$15,305,900 for 1 additional school day in FY 2002 and \$31,530,100 for 2 additional school days (above FY 2001) in FY 2003, 2) a \$7,800,000 increase for the Safe Schools program for both years above FY 2001, 3) a \$200,000 total appropriation for character education matching grants in both years, 4) \$5,849,000 in FY 2002 and \$4,586,800 in FY 2003 for school accountability [the FY 2002 amount includes a \$2,500,000 one-time appropriation for school district compliance with the Student Accountability Information System] and 5) \$1,500,000 in total appropriations for both years for the Failing Schools Tutoring Fund.

Finally, the distribution formula allocates \$25,000,000 to the General Fund in both FY 2002 and FY 2003 to replace revenues lost to a new income tax credit established by Proposition 301. That tax credit is intended to offset increased sales tax payments by low income residents under the proposition.

All remaining 0.6% sales tax increase monies are then allocated to the new Classroom Site Fund. Sales tax

allocations to the Classroom Site Fund are estimated at \$297,555,200 for FY 2002 and \$315,493,300 for FY 2003.

Proposition 301, however, also dedicates growth in expendable State Trust Land income (K-12 “Endowment Earnings”) above FY 2001 to the Classroom Site Fund. The JLBC estimates that this will add \$2,204,400 to the fund in FY 2002 and \$6,017,700 to it in FY 2003. This would result in total Classroom Site Fund monies of \$299,759,500 in FY 2002 and \$321,511,000 in FY 2003.

Not included in *Table 1* are new General Fund costs resulting from Proposition 301 but not funded by it. These costs are estimated at \$85,250,200 in FY 2002 and \$157,268,200 in FY 2003 (both above FY 2001). The estimated FY 2002 total includes \$63,126,600 for a 2% deflator in the K-12 equalization funding formula, \$16,600,000 for an unfunded portion of the new income tax credit, \$1,773,600 for expanded school district audits and \$3,750,000 for expanded school donation tax credits. The estimated FY 2003 total includes \$133,026,300 for the 2% deflator, \$537,000 for unfunded costs of the additional school day in FY 2003, \$16,600,000 for the new income tax credit, \$3,257,400 for expanded audits and \$3,847,500 for expanded school tax credits. These various amounts are incorporated into the JLBC recommendations for the affected budget areas for FY 2002 and FY 2003.

Department of Education

The JLBC General Fund budget increases funding by \$149.3 million in FY 2002 and by \$294.4 million in FY 2003. In addition, the JLBC budget includes Proposition 301 increases of \$328.2 million in FY 2002 and \$361.1 million in FY 2003 for the department. Together these increases total to \$477.5 million for FY 2002 and \$655.5 million for FY 2003. Proposition 301 funding for all agencies is discussed in a separate summary section above.

The non-Proposition 301 increases include \$121.7 million in FY 2002 and \$247.9 million in FY 2003 for enrollment growth, which assumes 3.3% growth in FY 2002 and 3.4% growth (above FY 2002) in FY 2003. They also include a savings of \$(84.4) million in FY 2002 and \$(150.7) million in FY 2003 for local property value growth, which assumes 7% growth in FY 2002 and 5% growth (above FY 2002) in FY 2003. Local property tax collections increase when property values grow, which helps offset the state General Fund cost of Basic State Aid.

The budget increases include \$62.8 million in FY 2002 and \$132.2 million in FY 2003 for a 2% inflation adjustment, \$19.6 million in FY 2002 and \$30.1 million in FY 2003 for the “Homeowner’s Rebate” program, \$19.3 million in FY 2002 and \$20.2 million in FY 2003 for “Truth in Taxation,” and \$10.9 million in FY 2002 and \$11.8 million in FY 2003 for increasing special education “Group B” weights.

School Facilities Board

The JLBC General Fund budget increases funding by \$32.5 million in FY 2002 and decreases funding by \$(71.7) million in FY 2003. The JLBC recommendation will provide full funding of the Board’s estimated cost of \$1.17 billion to repair existing school facilities, otherwise known as deficiencies correction. The cost will be funded by \$800 million of revenue bonds authorized by Proposition 301, \$250 million of previously appropriated funds, and \$120 million in new FY 2002 General Fund monies. No General Fund monies will be required in FY 2003, under the Board’s current cost estimate.

Since the FY 2001 base includes \$150 million for deficiencies correction, the SFB budget will be reduced by \$(30) million in FY 2002 and \$(150) million in FY 2003. Offsetting these reductions will be cost increases for new school construction. This expense will increase from \$200 million in FY 2001 to \$250 million in FY 2002 and \$260 million in FY 2003.

The JLBC budget increases Proposition 301 dedicated funding by \$70 million in both FY 2002 and FY 2003. This sum will pay for the debt service on the \$800 million in new deficiencies correction revenue bonds.

Universities

The JLBC General Fund budget increases funding by \$20.4 million in FY 2002 and by \$28.9 million in FY 2003. The budget includes an increase of \$11.6 million in both FY 2002 and FY 2003 for pay annualization, a decrease of \$(2.6) million in FY 2002 and an increase of \$1.8 million in FY 2003 to reflect changes in student enrollment, increases of \$6.1 million in FY 2002 and \$5.4 million in FY 2003 related to General Fund offsets for reduced collections from student tuition and Collections Fund monies used for debt service, and increases of \$228,900 in FY 2002 and \$3 million in FY 2003 for the operation and maintenance of new facilities, and an increase of \$1,253,000 in FY 2003 to restore operating funding redirected to the Eminent Scholars Program.

The JLBC budget increases Proposition 301 dedicated funding by \$49.9 million in FY 2002 and \$54.6 million in FY 2003. These additional funds are generated by Proposition 301 (Education 2000). The monies will be deposited into the new Technology and Research Initiative Fund and used for lease-purchase payments associated with capital projects at Arizona State University East and West campuses, and for Technology and Research Initiative Grants related to New Economy projects.

Community Colleges

The JLBC General Fund budget increases funding by \$4.6 million in FY 2002, and by \$9.9 million in FY 2003. These increases would fund the existing community

college formulas for operating, capital outlay, and equalization aid. For FY 2002, net full-time student equivalent (FTSE) enrollment grew by 3,175, and for FY 2003 is expected to grow by an additional 3,483 FTSE.

The JLBC budget increases Proposition 301 dedicated funding by \$12.8 million in FY 2002, and by \$14.0 million in FY 2003. These increases would fund the estimated Arizona community college distributions for Workforce Development and Capital Matching requirements. The recommendation also includes funding for Tribal Assistance to qualifying community colleges on Indian reservations.

Health and Welfare

AHCCCS

The JLBC General Fund budget increases funding by \$148.5 M in FY 2002 and by \$211.9 in FY 2003. The key contributing factor is increasing caseloads and inflation. The JLBC estimates that enrollment in the Acute Care program will grow by 20.2% in FY 2002 and 24.2% in FY 2003 above the originally appropriated FY 2001 level. Caseload increases in the Acute Care program are primarily being driven by growth in enrollees who are parents with incomes at 30% FPL (which are sometimes referred to as "1931" enrollees). These enrollees are able to remain on the program once they secure employment, provided their income does not exceed 185% FPL. This continuing coverage is available under the Transitional Medical Assistance program, in which participation has recently doubled. Inflationary impacts coincide with the Contract Year (CY), which begins on October 1 and is estimated at 5.4% in CY 2002 and 5.2% in CY 2003.

Department of Economic Security

The JLBC General Fund budget increases funding by \$32.8 million in FY 2002 and by \$82.7 million in FY 2003. The recommendation includes a FY 2002 increase of \$36.9 million and a FY 2003 increase of \$59.8 million to fund 9.4% yearly caseload growth and 5.5% yearly capitation rate increases in the Developmental Disabilities (DD) Long Term Care program. The recommendation also includes a FY 2002 increase of \$3.5 million and a FY 2003 increase of \$3.7 million to fund a new computer system for the DD program.

There is a reduction in General Fund spending by \$(16.5) million in both FY 2002 and FY 2003 because of funding shifts from the state General Fund to the Temporary Assistance for Needy Families Block Grant. In addition, there is \$3.7 million in both FY 2002 and FY 2003 for Home and Community Based Care for the vulnerable adult population and new staffing to maintain the Adult Protective Services investigations rate at 81%. The recommendation further adds \$2.0 million in FY 2002 and

\$3.8 million in FY 2003 for 75.6 new Child Protective Services FTE Positions and 11.1 new Adoption Services FTE Positions to meet Child Welfare League Standards of America caseload ratios and address client caseload growth.

The recommendation also includes a FY 2003 increase of \$3.0 million along with a total biennial federal funds increase of \$34.5 million to increase maximum child care rates to the 75th percentile of the 2000 market rate survey from the 75th percentile of the 1996 market rate survey.

Department of Health Services

The JLBC General Fund budget increases funding by \$59.1 million in FY 2002 and by \$102.1 million in FY 2003. This provides \$27.5 million in FY 2002 and \$54.2 million in FY 2003 in direct General Fund appropriations to address the requirements of Arnold v. Sarn. The JLBC budget also provides for \$22.5 million in FY 2002 and \$48 million in FY 2003 in potential savings in the AHCCCS budget to be reappropriated to DHS for a total of \$150 million over the biennium for Arnold v. Sarn. In addition, General Fund expenditures for Behavioral Health Title XIX programs are projected to increase by \$26.8 million in FY 2002 and by \$36.1 million in FY 2003 above FY 2001 due to enrollment growth and an increase in capitation rates.

The JLBC budget also increases funding to provide vaccines for children by \$1.5 million in FY 2002, and by \$2.5 million in FY 2003. The recommendation also includes \$0.9 million in both FY 2002 and FY 2003 above FY 2001 for additional staffing and salary increases in the Assurance and Licensure division. In FY 2003, the JLBC also recommends \$3.8 million in General Fund appropriations for additional staff to operate the newly constructed Arizona State Hospital.

Criminal Justice

Department of Corrections

The JLBC General Fund budget decreases funding by \$(17.1) million in FY 2002 and by \$(153,700) in FY 2003. The budget assumes a population growth rate of 75 net new inmates per month for both FY 2002 and FY 2003. Even with the projected growth, the department's Average Daily Population (ADP) will not reach the appropriated FY 2001 ADP, therefore, the JLBC recommends a FY 2002 decrease of \$(3.5) million from FY 2001 and a FY 2003 decrease of \$(1.4) million from FY 2001.

Given the lower than appropriated growth in FY 2000 and FY 2001, the JLBC recommends a total biennial decrease of \$(13.7) million to delay the opening of 350 state-operated prison beds and 1,400 privately-operated prison

beds. This amount includes a FY 2002 decrease of \$(12.8) million from FY 2001 and a FY 2003 decrease of \$(0.9) million from FY 2001. The JLBC recommends opening all of the delayed beds in FY 2003. The JLBC recommendation delays the opening of additional beds until the bed deficit reaches 2,000.

In addition, the JLBC recommends a total biennial increase of \$8.2 million to continue the existing Correctional Officer pay plan established in FY 2000. This amount includes a FY 2002 increase of \$2.9 million from FY 2001 and a FY 2003 increase of \$5.3 million from FY 2001. In an attempt to reduce Correctional Officer vacancies and lower turnover, the JLBC also recommends that each officer receive an increase of \$3,000 on January 1, 2002 and \$1,000 on January 1, 2003.

Department of Public Safety

The JLBC General Fund budget increases funding by \$757,300 in FY 2002 and by \$2.8 million in FY 2003. The JLBC budget also increases Other Funds by \$4.8 million in FY 2002 and \$6.7 million in FY 2003. Most of this increase will come from the Highway User Revenue Fund and the State Highway Fund. Additional Highway Patrol officers and replacement vehicles are funded from these sources. Over the biennium, 88 Highway Patrol officers are added at a cost of \$9.1 million and 330 Highway Patrol vehicles are replaced at a cost of \$10.3 million.

The recommendation will also provide \$2 million in General Fund offsets to funds that will experience revenue shortfalls in FY 2001. The Highway Patrol fund shortfall is due to lower than expected revenues from car insurance premium taxes. The Crime Lab Assessment Fund and DNA Identification Fund shortfalls are due to lower than expected revenue from the Criminal Justice Enhancement Fund. These offsets will maintain DPS' current funding levels in each fund.

In addition, the recommendation includes \$1.9 million for replacement telecommunication equipment, \$1.2 million for a mobile data computer system for the Highway Patrol, \$0.8 million for Highway Patrol Support staffing, and \$0.6 million for a new helicopter lease-purchase. Also included are \$1.3 million to increase crime laboratory personnel and \$1 million to replace aging equipment in the crime laboratory. This will allow DPS to significantly reduce a 4,100 case backlog of controlled substance and toxicology samples and produce reliable test results.

Department of Juvenile Corrections

The JLBC General Fund budget decreases funding by \$(1.6) million in FY 2002 and by \$(1.3) million in FY 2003. The budget subtracts \$(3.2) million each year to reflect decreased population. While the FY 2001 budget originally funded 1,168 juvenile beds, the expected secure

care population is 977 juveniles in FY 2002 and 975 juveniles in FY 2003. The budget adds \$0.6 million each year for stipends for Youth Correction Officers (YCOs) at the Buckeye facility, where recruitment and retention of YCOs has been very difficult due to the facility's remote location. The budget also adds \$0.3 million each year to annualize a pay plan package approved by the Legislature during the 1999 Session.

Judiciary

The JLBC General Fund budget increases funding by \$115,700 in FY 2002 and by \$2.6 million in FY 2003. In FY 2002 and FY 2003, \$1.7 million is for pay adjustments and \$0.8 million is for new judgeships. The budget projects population growth at 4% for both Juvenile and Adult Standard Probation, 1% for Juvenile Intensive Probation, and no growth in the Adult Intensive Probation program. Even with the projected growth, the existing caseload capacity allows for a reduction in funding in 3 of the 4 programs resulting in a total FY 2002 decrease of \$(3.2) million from FY 2001 and a FY 2003 decrease of \$(0.9) million from FY 2001. Also, included in the JLBC budget is an increase of \$0.4 million in FY 2002 and \$1.2 million in FY 2003 for a 4% growth in the Juvenile Treatment program.

Attorney General

The JLBC General Fund budget increases funding by \$1 million in FY 2002 and by \$0.9 million in FY 2003. General Fund expenditures for attorneys' salaries will increase by \$400,000. Attorneys' salaries currently lag behind the attorneys' salaries in most municipalities in Maricopa County, as well as attorneys' salaries for Maricopa County. This increase would bring the average assistant attorneys general salaries in line with the average salaries paid by Maricopa County.

Other Statewide Issues

Personnel Pro Rata Charge

The JLBC General Fund budget increases the Arizona Department of Administration's (ADOA) Personnel Fund pro rata charge from 0.9% to 1.07% at a cost of \$1.9 million starting in FY 2003. The charge is assessed on the total payroll of each agency within the ADOA personnel system in order to provide for operating costs within the ADOA Human Resources division. The increase provides funding to replace the ADOA Human Resources/Payroll (HRMS) technology system.

The JLBC recommends adding the funding increase to the General Appropriation Act as a lump sum, to be allocated to other state agencies.

Rental Rate Increase

The JLBC General Fund budget includes \$912,800 in FY 2002 and \$1.2 million in FY 2003 for increased Rental Rates in state-owned buildings. The table below shows the recommended rates (based on recommendations of the Director of ADOA and the Lease Cost Review Board):

Table 2

State Office Space Rental Rates

FY 2001		FY 2002		FY 2003	
Office	Storage	Office	Storage	Office	Storage
\$13.50	\$4.50	\$15.00	\$5.50	\$15.50	\$6.00

The increased rates will generate additional revenue in the Capital Outlay Stabilization Fund, which is partially used to fund Building Renewal requirements. The JLBC Capital Outlay recommendation applies the additional revenue to Building Renewal funding. The table below lists the fund sources for the additional revenue.

Table 3

Additional Rent Revenues

From FY 2001	General Fund	Other Appropriated Funds	Non- Appropriated Funds	Total
FY 2002	\$ 912,800	\$260,800	\$130,400	\$1,304,000
FY 2003	\$1,224,400	\$349,800	\$174,900	\$1,749,100
Total	\$ 2,137,200	\$ 610,600	\$305,300	\$3,053,100

The budgets for individual agencies in state-owned space have not been adjusted to reflect the new rental rates. The JLBC recommendation would appropriate the additional requirements as a lump sum in the General Appropriation Act with allocations to individual agencies and from individual funds to be determined by JLBC Staff at a later time.

Elected Official Salary Increase

As part of the Executive's FY 2002 and FY 2003 budget recommendations, the Governor has recommended that the salary of appellate and superior court judges be increased on January 1, 2002. In addition, the Governor recommends that the salary of the Governor, Secretary of State, Attorney General, State Treasurer, Superintendent of Public Instruction, and Mine Inspector be increased on January 1, 2003.

Pursuant to A.R.S. § 41-1903, the Commission on Salaries for Elective State Officers biennially reviews the salary of elected state officials, appellate and superior court judges, and clerks of the superior court. On December 10, 1999, the Commission forwarded its salary recommendations to the Governor. As part of the Executive's FY 2000 and FY 2001 supplemental budget recommendations (2000 Legislative Session), the Governor recommended that the salary of Corporation Commissioners, and appellate and superior court judges be increased on January 1, 2001. The Governor deferred recommending any increases for the remaining elected officials, as the increases would occur during the FY 2002 and FY 2003 biennium. The January 1, 2001 salary increase for Corporation Commissioners, and appellate and superior court judges became law, as the Legislature did not take action against the increases.

Pursuant to A.R.S. § 41-1904, the Governor's salary recommendations for FY 2002 and FY 2003 become effective if the following 2 events occur:

- Neither house of the Legislature, within 90 days of release of the Governor's budget, passes a measure that specifically disapproves of all or part of the salary recommendations.
- No statute is enacted, within 90 days of release of the Governor's budget, which establishes rates of pay other than those proposed by the Governor.

Table 4

Governor Recommendations for Elected Official Salary Increase

Office	Current Salary	Recommendation	General Fund Impact ^{1/}	
			FY 2002	FY 2003
Governor	\$ 95,000	\$ 107,350	\$ 0	\$ 6,900
Secretary of State	70,000	79,100	0	5,100
Attorney General	90,000	101,700	0	6,600
State Treasurer	70,000	79,100	0	5,100
Superintendent	85,000	96,050	0	6,200
Mine Inspector	50,000	56,500	0	3,700
Supreme Court Chief Justice	129,150	133,025	2,100	4,200
Other Supreme Court Justices	126,525	130,321	8,200	16,400
Appellate Judges	123,900	127,617	44,600	89,200
Superior Court Judges ^{2/}	120,750	124,373	144,000	288,000
TOTAL			\$198,900	\$431,400

^{1/} Fiscal estimate includes Personal Services and Employee Related Expenditures.

^{2/} Superior Court Judges' salaries are paid 50% by state and 50% by county. The fiscal estimate includes only the state's share of the increase.

The JLBC does not recommend the elected officials' salary adjustments pending the Legislature's final decision on whether to allow the Governor's recommendations to become law. *Table 4* displays the Executive proposal and estimated General Fund impact.

Other Technical Estimates

Revertments

Revertments on the Revenue and Expenditure statement represent an estimate of unexpended General Fund appropriations at the end of each fiscal year. As unexpended appropriations, these amounts appear on the Revenue and Expenditure statement as negative numbers. In both FY 2002 and FY 2003, the JLBC recommends revertments of \$(70,000,000). These amount reflects the 4-year average for all non-AHCCCS agencies of \$(60,000,000) and a \$(10,000,000) estimate for AHCCCS.

Administrative Adjustments

Administrative Adjustments on the Revenues and Expenditures statement represent payments for late claims submitted to the state after the completion of the fiscal year. For example, FY 2001 administrative adjustments reflect the payment of FY 2000 claims submitted to the state in FY 2001. The JLBC recommends using the Executive's \$33,000,000 administrative adjustment estimate for both FY 2002 and FY 2003.

FTE Summary Information

The JLBC budget provides for a net increase of 140.7 FTE Positions, or 0.3%, in FY 2002 above FY 2001 and 502.4 FTE Positions, or 1%, in FY 2003 above FY 2001. The Universities' FTE Positions grow by 190.4 in FY 2002 above FY 2001 and 285 in FY 2003 above FY 2001, reflecting increases in student enrollment and the opening of new facilities. Also, the Department of Economic Security's FTE Positions grow by 92.3 in FY 2002 above FY 2001 and 126.6 in FY 2003 above FY 2001, to meet national caseload ratio standards and due to client caseload growth. These increases are partially offset by a (134.0) FTE Position reduction in the Department of Corrections in FY 2002 from FY 2001 and a (126.0) FTE Position reduction in FY 2003 from FY 2001 for the consolidation of female correctional facilities and the privatization of some inmate education services. In addition, the Department of Juvenile Corrections' FTE Positions decrease by (101.5) in both FY 2002 and FY 2003 below FY 2001 due to a decrease in the department's secure care population. (*See Table 5.*)

Table 5					
Full-Time Equivalent Positions Total Appropriated Funds					
<u>Agency</u>	<u>FY 2001^{1/} Estimate</u>	<u>FY 2002 JLBC</u>	<u>FY 2002 Increase/ (Decrease)</u>	<u>FY 2003 JLBC</u>	<u>FY 2003 Increase/ (Decrease)</u>
Dept of Administration	964.0	979.0	15.0	983.0	19.0
AHCCCS ^{2/}	1,260.4	1,285.4	25.0	1,286.7	26.3
Dept of Corrections	10,677.4	10,543.4	(134.0)	10,551.4	(126.0)
Dept of Economic Security ^{2/}	3,456.9	3,549.2	92.3	3,583.5	126.6
Dept of Health Services ^{2/}	1,709.0	1,732.9	23.9	1,797.9	88.9
Dept of Juvenile Corrections	1,402.2	1,300.7	(101.5)	1,300.7	(101.5)
Dept of Public Safety	1,755.8	1,821.8	66.0	1,879.8	124.0
Dept of Transportation	4,187.0	4,115.0	(72.0)	4,162.0	(25.0)
Universities	15,361.6	15,552.0	190.4	15,646.6	285.0
All Others	9,198.2	9,233.8	35.6	9,283.3	85.1
TOTAL	49,972.5	50,113.2	140.7	50,474.9	502.4

^{1/} Adjusted for comparability with the JLBC recommendation.
^{2/} Does not include positions funded with Federal Title XIX and Title IV-D monies which do appear in individual agency accounts.

FY 2002 GENERAL FUND SUMMARY

	FY 2001 / ESTIMATE	FY 2002 EXEC REC.	FY 2002 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
BUDGET UNITS					
Administration, AZ Department of	28,035,500	27,326,500	27,628,800	(406,700)	302,300
Administrative Hearings, Office of	1,251,000	1,231,700	1,232,100	(18,900)	400
Agriculture, AZ Department of	12,470,300	12,789,100	13,188,100	717,800	399,000
AHCCCS	529,380,800	538,909,200	677,877,600	148,496,800	138,968,400
Arts, Arizona Commission on the	4,376,100	4,388,600	4,387,900	11,800	(700)
Attorney General - Department of Law	26,733,300	29,603,200	27,917,700	1,184,400	(1,685,500)
Banking Department, State	2,809,100	2,852,000	2,849,700	40,600	(2,300)
Boxing Commission, AZ State	76,200	80,700	80,400	4,200	(300)
Building and Fire Safety, Department of	3,622,100	3,731,400	3,608,500	(13,600)	(122,900)
Charter Schools, State Board for	651,900	579,300	683,800	31,900	104,500
Commerce, Department of	10,099,800	8,565,000	5,658,100	(4,441,700)	(2,906,900)
COMMUNITY COLLEGES	135,231,100	138,061,600	139,868,500	4,637,400	1,806,900
Dedicated 2/	0	0	12,849,300	12,849,300	NA
Corporation Commission	6,105,400	5,583,800	6,436,800	331,400	853,000
CORRECTIONS, STATE DEPARTMENT OF	587,915,900	572,831,100	570,812,800	(17,103,100)	(2,018,300)
Criminal Justice Commission, Arizona	2,655,200	2,655,200	2,905,200	250,000	250,000
Deaf and the Blind, Schools for the	18,446,600	17,297,300	18,849,900	403,300	1,552,600
ECONOMIC SECURITY, DEPARTMENT OF	449,401,900	474,078,900	482,227,500	32,825,600	8,148,600
EDUCATION, DEPARTMENT OF	2,450,928,800	2,578,190,400	2,600,203,200	149,274,400	22,012,800
Dedicated 2/	0	0	328,210,000	328,210,000	NA
Emergency & Military Affairs, Dept of	11,397,500	11,704,700	11,555,200	157,700	(149,500)
Environmental Quality, Department of	31,420,500	32,001,800	30,923,300	(497,200)	(1,078,500)
Equal Opportunity, Governor's Office of	238,200	235,100	234,900	(3,300)	(200)
Equalization, State Board of	622,800	640,000	639,100	16,300	(900)
Executive Clemency, Board of	1,301,100	1,330,000	1,318,800	17,700	(11,200)
Geological Survey, Arizona	885,200	897,600	899,600	14,400	2,000
Government Information Tech. Agency	71,600	3,134,700	872,800	801,200	(2,261,900)
Governor, Office of the	5,873,600	6,278,900	6,278,900	405,300	0
Gov's Ofc for Excellence in Government	1,564,300	1,584,200	1,528,200	(36,100)	(56,000)
Gov's Ofc of Strategic Planning & Budgeting	1,914,400	1,942,500	1,941,100	26,700	(1,400)
HEALTH SERVICES, DEPARTMENT OF	253,876,700	303,628,300	313,007,600	59,130,900	9,379,300
Historical Society, Arizona	4,550,100	4,743,600	4,687,400	137,300	(56,200)
Historical Society, Prescott	753,800	782,000	779,400	25,600	(2,600)
Independent Redistricting Commission	6,000,000	6,000,000	0	(6,000,000)	(6,000,000)
Indian Affairs, AZ Commission of	237,400	231,200	231,200	(6,200)	0
Insurance, Department of	5,953,300	6,173,500	6,225,700	272,400	52,200
JUDICIARY					
SUPREME COURT	18,113,100	18,113,100	18,294,300	181,200	181,200
COURT OF APPEALS	10,423,200	10,423,200	10,697,900	274,700	274,700
SUPERIOR COURT	123,338,300	123,338,300	122,998,100	(340,200)	(340,200)
TOTAL - JUDICIARY	151,874,600	151,874,600	151,990,300	115,700	115,700
Juvenile Corrections, Department of	69,617,000	68,143,900	67,998,800	(1,618,200)	(145,100)
Land Department, State	16,437,200	19,095,700	17,663,500	1,226,300	(1,432,200)
Law Enforcement Merit System Council	53,800	57,000	56,600	2,800	(400)
Legislature					
Advocate for Private Property Rights	92,500	92,500	97,500	5,000	5,000
Auditor General	10,416,400	10,416,400	13,050,500	2,634,100	2,634,100
House of Representatives	10,879,900	10,379,900	12,052,400	1,172,500	1,672,500
Joint Legislative Budget Committee	2,297,200	2,297,200	2,452,500	155,300	155,300
Legislative Council	4,534,100	4,034,100	5,353,300	819,200	1,319,200
Library, Archives & Public Records, AZ State	7,424,000	7,424,000	7,868,800	444,800	444,800
Senate	7,461,200	6,961,200	7,035,400	(425,800)	74,200
Total - Legislature	43,105,300	41,605,300	47,910,400	4,805,100	6,305,100
Liquor Licenses & Control, Department of	2,448,400	2,585,100	2,557,100	108,700	(28,000)
Medical Student Loans, Board of	322,100	288,800	285,500	(36,600)	(3,300)
Mine Inspector, State	1,117,800	1,153,900	1,150,100	32,300	(3,800)
Mines & Mineral Resources, Department of	718,000	721,900	725,600	7,600	3,700
Navigable Stream Adjudication Commission	184,800	185,800	185,800	1,000	0
Nursing, State Board of	0	0	132,000	132,000	132,000
Occupational Safety & Health Review Board	1,000	7,000	7,000	6,000	0
Occupational Therapy Examiners, Board of	60,000	0	0	(60,000)	0

FY 2002 GENERAL FUND SUMMARY

	FY 2001 1/ ESTIMATE	FY 2002 EXEC REC.	FY 2002 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
Parks Board, Arizona State	27,390,200	27,337,400	27,510,600	120,400	173,200
Personnel Board	402,800	389,800	396,600	(6,200)	6,800
Pioneers' Home, AZ	2,719,200	2,826,500	2,665,500	(53,700)	(161,000)
Postsecondary Education, Commission for	1,736,300	1,726,100	1,723,800	(12,500)	(2,300)
Public Safety, Department of	76,261,800	79,531,700	77,019,100	757,300	(2,512,600)
Racing, Arizona Department of	2,700,200	2,747,600	2,789,800	89,600	42,200
Radiation Regulatory Agency	1,681,900	1,694,700	1,287,000	(394,900)	(407,700)
Rangers' Pensions, Arizona	11,600	11,800	11,800	200	0
Real Estate Department, State	3,204,900	3,301,300	3,255,800	50,900	(45,500)
Retirement System, Arizona State	4,200,000	7,279,000	6,300,000	2,100,000	(979,000)
Revenue, Department of	58,825,400	67,152,300	60,416,800	1,591,400	(6,735,500)
SCHOOL FACILITIES BOARD	471,239,800	383,689,200	503,699,800	32,460,000	120,010,600
Dedicated 2/	0	0	70,000,000	70,000,000	NA
Secretary of State	6,016,700	3,245,900	3,205,500	(2,811,200)	(40,400)
Tax Appeals, State Board of	309,200	311,400	314,000	4,800	2,600
Tourism, Office of	8,880,300	0	11,420,800	2,540,500	11,420,800
Transportation, Department of	21,484,500	85,600	32,185,900	10,701,400	32,100,300
Treasurer, State	7,373,700	5,632,500	5,509,300	(1,864,400)	(123,200)
Uniform State Laws, Commission on	35,900	44,900	44,900	9,000	0
UNIVERSITIES					
ARIZONA STATE UNIVERSITY - MAIN	273,605,200	281,960,700	279,321,800	5,716,600	(2,638,900)
ARIZONA STATE UNIVERSITY - EAST	11,337,300	12,237,500	11,819,700	482,400	(417,800)
ARIZONA STATE UNIVERSITY - WEST	39,473,600	39,245,800	39,629,100	155,500	383,300
NORTHERN ARIZONA UNIVERSITY	113,169,800	113,483,200	115,166,500	1,996,700	1,683,300
BOARD OF REGENTS	7,421,400	7,871,800	7,946,400	525,000	74,600
Dedicated 2/	0	0	49,917,200	49,917,200	NA
U OF A - MAIN	270,248,100	278,472,600	281,037,700	10,789,600	2,565,100
U OF A - HEALTH SCIENCES CENTER	57,704,000	57,621,600	58,397,100	693,100	775,500
TOTAL - UNIVERSITIES	772,959,400	790,893,200	793,318,300	20,358,900	2,425,100
TOTAL - UNIVERSITIES - Dedicated 2/	0	0	49,917,200	49,917,200	NA
Veterans' Services, Department of	1,722,800	2,491,400	2,415,800	693,000	(75,600)
Water Resources, Department of	16,808,200	17,577,500	19,365,600	2,557,400	1,788,100
Weights and Measures, Department of	1,786,300	1,825,700	1,913,400	127,100	87,700
OPERATING BUDGET TOTAL	6,370,542,600	6,485,577,600	6,814,972,600	444,430,000	329,395,000
OPERATING BUDGET TOTAL - Dedicated 2/	0	0	460,976,500	460,976,500	NA
Health Insurance	0	18,669,000	20,338,900	20,338,900	1,669,900
Provider Adjustments	0	0	7,600,000	7,600,000	7,600,000
Rental Rate Adjustments	0	0	912,800	912,800	912,800
Pro-Rata Surcharge/HRMS	0	0	0	0	0
GRAND TOTAL	6,370,542,600	6,504,246,600	6,843,824,300	473,281,700	339,577,700
GRAND TOTAL with Dedicated 2/	6,370,542,600	6,504,246,600	7,304,800,800	934,258,200	NA

1/ Does not include Supplementals.

2/ Represents 0.6% education sales tax monies. The Executive does not display these sales tax monies as part of the General Fund.

FY 2003 GENERAL FUND SUMMARY

	FY 2001 1/ ESTIMATE	FY 2003 EXEC REC.	FY 2003 JLBC REC.	JLBC REC - FY 2001 EST	JLBC REC. - EXEC REC.
BUDGET UNITS					
Administration, AZ Department of	28,035,500	27,599,100	27,818,100	(217,400)	219,000
Administrative Hearings, Office of	1,251,000	1,231,700	1,231,900	(19,100)	200
Agriculture, AZ Department of	12,470,300	12,735,000	12,999,200	528,900	264,200
AHCCCS	529,380,800	652,063,500	741,317,400	211,936,600	89,253,900
Arts, Arizona Commission on the	4,376,100	4,373,800	4,372,200	(3,900)	(1,600)
Attorney General - Department of Law	26,733,300	31,458,900	27,791,100	1,057,800	(3,667,800)
Banking Department, State	2,809,100	2,819,800	2,821,200	12,100	1,400
Boxing Commission, AZ State	76,200	80,300	80,400	4,200	100
Building and Fire Safety, Department of	3,622,100	3,705,800	3,611,500	(10,600)	(94,300)
Charter Schools, State Board for	651,900	605,300	714,800	62,900	109,500
Commerce, Department of	10,099,800	8,557,300	5,659,400	(4,440,400)	(2,897,900)
COMMUNITY COLLEGES	135,231,100	142,902,000	145,125,500	9,894,400	2,223,500
Dedicated 2/	0	0	14,024,600	14,024,600	NA
Corporation Commission	6,105,400	5,957,100	6,769,800	664,400	812,700
CORRECTIONS, STATE DEPARTMENT OF	587,915,900	592,089,000	588,069,600	153,700	(4,019,400)
Criminal Justice Commission, Arizona	2,655,200	2,655,200	2,905,200	250,000	250,000
Deaf and the Blind, Schools for the	18,446,600	16,836,400	18,820,700	374,100	1,984,300
ECONOMIC SECURITY, DEPARTMENT OF	449,401,900	512,105,600	532,064,700	82,662,800	19,959,100
EDUCATION, DEPARTMENT OF	2,450,928,800	2,722,451,200	2,745,282,500	294,353,700	22,831,300
Dedicated 2/	0	0	361,110,200	361,110,200	NA
Emergency & Military Affairs, Dept of	11,397,500	11,779,300	11,663,600	266,100	(115,700)
Environmental Quality, Department of	31,420,500	32,207,400	31,162,200	(258,300)	(1,045,200)
Equal Opportunity, Governor's Office of	238,200	235,100	234,900	(3,300)	(200)
Equalization, State Board of	622,800	640,000	639,100	16,300	(900)
Executive Clemency, Board of	1,301,100	1,303,500	1,300,300	(800)	(3,200)
Geological Survey, Arizona	885,200	899,000	893,400	8,200	(5,600)
Government Information Tech. Agency	71,600	731,500	35,700	(35,900)	(695,800)
Governor, Office of the	5,873,600	6,372,800	6,372,800	499,200	0
Gov's Ofc for Excellence in Government	1,564,300	1,584,300	1,528,200	(36,100)	(56,100)
Gov's Ofc of Strategic Planning & Budgeting	1,914,400	1,939,900	1,940,900	26,500	1,000
HEALTH SERVICES, DEPARTMENT OF	253,876,700	323,772,200	355,946,700	102,070,000	32,174,500
Historical Society, Arizona	4,550,100	4,748,600	4,692,500	142,400	(56,100)
Historical Society, Prescott	753,800	768,800	786,800	33,000	18,000
Independent Redistricting Commission	6,000,000	0	0	(6,000,000)	0
Indian Affairs, AZ Commission of	237,400	231,200	231,300	(6,100)	100
Insurance, Department of	5,953,300	6,265,100	6,339,500	386,200	74,400
JUDICIARY					
SUPREME COURT	18,113,100	18,113,100	18,323,800	210,700	210,700
COURT OF APPEALS	10,423,200	10,423,200	10,744,200	321,000	321,000
SUPERIOR COURT	123,338,300	123,338,300	125,367,200	2,028,900	2,028,900
TOTAL - JUDICIARY	151,874,600	151,874,600	154,435,200	2,560,600	2,560,600
Juvenile Corrections, Department of	69,617,000	68,444,100	68,297,200	(1,319,800)	(146,900)
Land Department, State	16,437,200	18,495,600	17,896,200	1,459,000	(599,400)
Law Enforcement Merit System Council	53,800	57,000	56,600	2,800	(400)
Legislature					
Advocate for Private Property Rights	92,500	92,500	97,600	5,100	5,100
Auditor General	10,416,400	10,416,400	14,624,100	4,207,700	4,207,700
House of Representatives	10,879,900	10,379,900	12,991,500	2,111,600	2,611,600
Joint Legislative Budget Committee	2,297,200	2,297,200	2,452,600	155,400	155,400
Legislative Council	4,534,100	4,034,100	5,176,300	642,200	1,142,200
Library, Archives & Public Records, AZ State	7,424,000	7,424,000	8,162,100	738,100	738,100
Senate	7,461,200	6,961,200	7,037,000	(424,200)	75,800
Total	43,105,300	41,605,300	50,541,200	7,435,900	8,935,900
Liquor Licenses & Control, Department of	2,448,400	2,583,600	2,555,100	106,700	(28,500)
Medical Student Loans, Board of	322,100	357,500	353,600	31,500	(3,900)
Mine Inspector, State	1,117,800	1,152,900	1,150,300	32,500	(2,600)
Mines & Mineral Resources, Department of	718,000	722,600	718,300	300	(4,300)
Navigable Stream Adjudication Commission	184,800	185,800	0	(184,800)	(185,800)
Nursing, State Board of	0	0	132,000	132,000	132,000

FY 2003 GENERAL FUND SUMMARY

	FY 2001 1/ ESTIMATE	FY 2003 EXEC REC.	FY 2003 JLBC REC.	JLBC REC - FY 2001 EST	JLBC REC. - EXEC REC.
Occupational Safety & Health Review Board	1,000	7,000	7,000	6,000	0
Occupational Therapy Examiners, Board of	60,000	0	0	(60,000)	0
Parks Board, Arizona State	27,390,200	26,947,700	27,525,600	135,400	577,900
Personnel Board	402,800	387,200	392,700	(10,100)	5,500
Pioneers' Home, AZ	2,719,200	2,845,100	2,702,300	(16,900)	(142,800)
Postsecondary Education, Commission for	1,736,300	1,726,100	1,723,800	(12,500)	(2,300)
Public Safety, Department of	76,261,800	82,814,100	79,025,000	2,763,200	(3,789,100)
Racing, Arizona Department of	2,700,200	2,753,300	2,790,100	89,900	36,800
Radiation Regulatory Agency	1,681,900	1,694,500	1,287,400	(394,500)	(407,100)
Rangers' Pensions, Arizona	11,600	12,000	12,000	400	0
Real Estate Department, State	3,204,900	3,299,200	3,223,700	18,800	(75,500)
Retirement System, Arizona State	4,200,000	0	0	(4,200,000)	0
Revenue, Department of	58,825,400	61,889,600	59,950,700	1,125,300	(1,938,900)
SCHOOL FACILITIES BOARD	471,239,800	519,517,000	399,527,800	(71,712,000)	(119,989,200)
Dedicated 2/	0	0	70,000,000	70,000,000	NA
Secretary of State	6,016,700	6,203,300	6,134,800	118,100	(68,500)
Tax Appeals, State Board of	309,200	309,900	311,800	2,600	1,900
Tourism, Office of	8,880,300	0	12,222,600	3,342,300	12,222,600
Transportation, Department of	21,484,500	85,500	32,185,900	10,701,400	32,100,400
Treasurer, State	7,373,700	5,737,400	5,603,400	(1,770,300)	(134,000)
Uniform State Laws, Commission on	35,900	44,900	45,200	9,300	300
UNIVERSITIES					
ARIZONA STATE UNIVERSITY - MAIN	273,605,200	281,586,800	283,481,200	9,876,000	1,894,400
ARIZONA STATE UNIVERSITY - EAST	11,337,300	10,872,500	11,632,700	295,400	760,200
ARIZONA STATE UNIVERSITY - WEST	39,473,600	39,072,000	39,443,200	(30,400)	371,200
NORTHERN ARIZONA UNIVERSITY	113,169,800	113,608,400	115,408,300	2,238,500	1,799,900
BOARD OF REGENTS	7,421,400	8,149,800	8,224,100	802,700	74,300
Dedicated 2/	0	0	54,563,800	54,563,800	NA
U OF A - MAIN	270,248,100	278,681,500	285,316,800	15,068,700	6,635,300
U OF A - HEALTH SCIENCES CENTER	57,704,000	57,562,800	58,382,000	678,000	819,200
TOTAL - UNIVERSITIES	772,959,400	789,533,800	801,888,300	28,928,900	12,354,500
TOTAL - UNIVERSITIES - Dedicated 2/	0	0	54,563,800	54,563,800	NA
Veterans' Services, Department of	1,722,800	2,584,000	2,533,500	810,700	(50,500)
Water Resources, Department of	16,808,200	17,722,600	19,506,200	2,698,000	1,783,600
Weights and Measures, Department of	1,786,300	1,826,700	1,914,400	128,100	87,700
OPERATING BUDGET TOTAL	6,370,542,600	6,947,125,600	7,047,873,000	677,330,400	100,747,400
OPERATING BUDGET TOTAL - Dedicated 2/	0	0	499,698,600	499,698,600	NA
Health Insurance	0	43,332,000	45,545,200	45,545,200	2,213,200
Provider Adjustments	0	0	22,700,000	22,700,000	22,700,000
Rental Rate Adjustments	0	0	1,224,400	1,224,400	1,224,400
Pro-Rata Surcharge/HRMS	0	0	1,904,500	1,904,500	1,904,500
GRAND TOTAL	6,370,542,600	6,990,457,600	7,119,247,100	748,704,500	128,789,500
GRAND TOTAL with Dedicated 2/	6,370,542,600	6,990,457,600	7,618,945,700	1,248,403,100	NA

1/ Does not include Supplementals.

2/ Represents 0.6% education sales tax monies. The Executive does not display these sales tax monies as part of the General Fund.

FY 2002 OTHER FUNDS SUMMARY

BUDGET UNITS	FY 2001 1/ ESTIMATE	FY 2002 EXEC REC.	FY 2002 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
Accountancy, State Board of	1,738,900	1,610,800	1,970,000	231,100	359,200
Acupuncture Examiners, Board of	47,300	50,300	49,400	2,100	(900)
Administration, AZ Department of	143,049,400	154,002,300	148,899,100	5,849,700	(5,103,200)
Administrative Hearings, Office of	865,800	936,400	1,132,400	266,600	196,000
Agriculture, AZ Department of	2,302,400	2,498,500	2,488,600	186,200	(9,900)
AHCCCS	88,958,900	75,403,400	79,127,800	(9,831,100)	3,724,400
Appraisal, State Board of	405,000	409,200	443,600	38,600	34,400
Attorney General - Department of Law	25,491,400	24,464,800	23,162,400	(2,329,000)	(1,302,400)
Automobile Theft Authority	2,475,100	3,876,600	3,885,600	1,410,500	9,000
Barbers, Board of	172,000	189,200	192,100	20,100	2,900
Behavioral Health Examiners, Board of	587,900	678,500	684,600	96,700	6,100
Chiropractic Examiners, State Board of	312,600	332,200	345,400	32,800	13,200
Commerce, Department of	13,493,400	3,726,300	18,658,800	5,165,400	14,932,500
COMMUNITY COLLEGES	150,400	12,335,600	165,500	15,100	(12,170,100)
Contractors, Registrar of	7,726,700	8,949,500	9,479,100	1,752,400	529,600
Corporation Commission	13,278,000	14,702,000	15,013,800	1,735,800	311,800
CORRECTIONS, STATE DEPARTMENT OF	3,868,900	8,797,800	5,054,900	1,186,000	(3,742,900)
Cosmetology, Board of	1,101,600	1,288,800	1,309,600	208,000	20,800
Criminal Justice Commission, Arizona	6,890,600	5,920,900	5,970,300	(920,300)	49,400
Deaf and the Hard of Hearing, Comm. for the	6,062,800	5,828,500	5,700,300	(362,500)	(128,200)
Deaf and the Blind, Schools for the	7,583,400	10,055,600	10,943,900	3,360,500	888,300
Dental Examiners, State Board of	750,400	760,200	753,400	3,000	(6,800)
Drug & Gang Prevention Resource Center	4,937,700	5,015,300	5,030,900	93,200	15,600
ECONOMIC SECURITY, DEPARTMENT OF	407,939,500	397,659,600	407,577,300	(362,200)	9,917,700
EDUCATION, DEPARTMENT OF	72,106,200	386,743,400	75,883,100	3,776,900	(310,860,300)
Dedicated	0	0	2,204,400	2,204,400	NA
Emergency & Military Affairs, Dept of	132,700	132,700	132,700	0	0
Environmental Quality, Department of	36,273,500	65,183,800	49,630,700	13,357,200	(15,553,100)
Exposition and State Fair Board, AZ	13,529,600	15,043,800	14,890,400	1,360,800	(153,400)
Funeral Directors and Embalmers, Board of	252,000	251,900	251,500	(500)	(400)
Game and Fish Department, AZ	20,686,700	22,172,500	22,869,800	2,183,100	697,300
Gaming, Department of	4,764,700	5,062,300	5,061,700	297,000	(600)
Government Information Tech. Agency	3,096,000	2,693,200	4,807,400	1,711,400	2,114,200
Governor, Office of the	47,600	0	0	(47,600)	0
Gov's Ofc for Excellence in Government	500,000	25,000	25,000	(475,000)	0
HEALTH SERVICES, DEPARTMENT OF	125,575,800	47,428,500	61,730,500	(63,845,300)	14,302,000
Homeopathic Medical Examiners, Board of	71,000	74,500	71,600	600	(2,900)
Industrial Commission of AZ	14,943,500	15,359,500	15,359,400	415,900	(100)
JUDICIARY					
SUPREME COURT	26,836,900	26,836,900	27,189,500	352,600	352,600
SUPERIOR COURT	6,880,300	6,880,300	6,884,300	4,000	4,000
TOTAL - JUDICIARY	33,717,200	33,717,200	34,073,800	356,600	356,600
Juvenile Corrections, Department of	5,025,200	4,733,600	4,695,600	(329,600)	(38,000)
Land Department, State	1,353,200	1,670,300	1,677,100	323,900	6,800
Library, Archives & Public Records, AZ State	452,000	452,000	308,700	(143,300)	(143,300)
Lottery Commission, AZ State	42,708,900	44,124,000	42,691,600	(17,300)	(1,432,400)
Medical Examiners, Board of	4,699,900	4,478,800	4,504,800	(195,100)	26,000
Medical Student Loans, Board of	20,300	64,900	64,900	44,600	0
Naturopathic Physician Examiners Board	152,300	189,700	199,400	47,100	9,700
Nursing, State Board of	2,442,700	2,973,400	2,853,300	410,600	(120,100)
Nursing Care Institution Administrators Board	222,200	302,500	359,200	137,000	56,700
Occupational Therapy Examiners, Board of	133,200	196,600	209,400	76,200	12,800
Opticians, State Board of Dispensing	91,300	92,800	94,200	2,900	1,400
Optometry, State Board of	130,300	145,900	165,300	35,000	19,400
Osteopathic Examiners, AZ Board of	490,300	380,300	464,800	(25,500)	84,500
Parks Board, Arizona State	3,954,700	5,194,500	4,975,900	1,021,200	(218,600)
Pharmacy, AZ State Board of	903,800	940,700	1,152,000	248,200	211,300
Physical Therapy Examiners, Board of	203,800	208,300	223,000	19,200	14,700
Pioneers' Home, AZ	2,214,900	2,214,900	2,649,200	434,300	434,300
Podiatry Examiners, State Board of	85,200	94,800	94,700	9,500	(100)
Postsecondary Education, Commission for	2,934,400	2,768,600	2,775,000	(159,400)	6,400
Private Postsecondary Education, Board for	178,800	230,600	255,700	76,900	25,100
Psychologist Examiners, State Board of	284,800	294,600	300,600	15,800	6,000

FY 2002 OTHER FUNDS SUMMARY

	FY 2001 1/ ESTIMATE	FY 2002 EXEC REC.	FY 2002 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
Public Safety, Department of	49,973,200	56,842,100	54,765,900	4,792,700	(2,076,200)
Racing, Arizona Department of	375,600	388,900	383,200	7,600	(5,700)
Radiation Regulatory Agency	157,100	183,700	192,000	34,900	8,300
Residential Utility Consumer Office	1,015,600	1,021,800	1,068,700	53,100	46,900
Respiratory Care Examiners, Board of	167,700	167,700	169,300	1,600	1,600
Retirement System, Arizona State	12,299,800	21,707,700	23,536,400	11,236,600	1,828,700
Revenue, Department of	1,902,300	2,206,700	2,142,600	240,300	(64,100)
SCHOOL FACILITIES BOARD	450,000	870,000,000	0	(450,000)	(870,000,000)
State Boards' Office	243,200	0	249,300	6,100	249,300
Structural Pest Control Commission	1,684,600	1,712,800	1,726,400	41,800	13,600
Technical Registration, State Board of	1,045,900	1,048,900	1,124,500	78,600	75,600
Tourism, Office of	0	15,420,800	4,000,000	4,000,000	(11,420,800)
Transportation, Department of	295,351,400	313,120,400	306,156,500	10,805,100	(6,963,900)
UNIVERSITIES					
ARIZONA STATE UNIVERSITY - MAIN	101,091,600	96,360,900	101,478,800	387,200	5,117,900
ARIZONA STATE UNIVERSITY - EAST	4,484,500	3,389,700	5,167,400	682,900	1,777,700
ARIZONA STATE UNIVERSITY - WEST	2,759,400	6,977,400	2,979,300	219,900	(3,998,100)
NORTHERN ARIZONA UNIVERSITY	29,607,700	28,554,800	27,764,100	(1,843,600)	(790,700)
BOARD OF REGENTS	0	46,690,400	4,096,000	4,096,000	(42,594,400)
U OF A - MAIN	82,978,700	74,912,200	78,791,200	(4,187,500)	3,879,000
U OF A - HEALTH SCIENCES CENTER	6,892,100	6,605,700	6,963,500	71,400	357,800
TOTAL - UNIVERSITIES	<u>227,814,000</u>	<u>263,491,100</u>	<u>227,240,300</u>	<u>(573,700)</u>	<u>(36,250,800)</u>
Veterans' Services, Department of	10,266,500	10,271,500	10,080,200	(186,300)	(191,300)
Veterinary Medical Examining Board	279,600	301,800	342,500	62,900	40,700
Weights and Measures, Department of	840,100	850,000	775,800	(64,300)	(74,200)
OPERATING BUDGET TOTAL	<u>1,738,435,400</u>	<u>2,963,868,300</u>	<u>1,737,494,400</u>	<u>(941,000)</u>	<u>(1,226,373,900)</u>
OPERATING BUDGET TOTAL - Dedicated	0	0	2,204,400	2,204,400	NA
Health Insurance	0	6,223,000	4,196,900	4,196,900	(2,026,100)
Provider Adjustments	0	0	500,000	500,000	500,000
Rental Rate Adjustments	0	0	260,800	260,800	260,800
Pro-Rata Surcharge/HRMS	0	0	0	0	0
Unallocated Motor Pool Funding	1,845,100	0	0	(1,845,100)	0
Grand Canyon Airport Authority	350,000	0	0	(350,000)	0
GRAND TOTAL	<u>1,740,630,500</u>	<u>2,970,091,300</u> 2/	<u>1,742,452,100</u>	<u>1,821,600</u>	<u>(1,227,639,200)</u> 2/
GRAND TOTAL with Dedicated	<u>1,740,630,500</u>	<u>2,970,091,300</u>	<u>1,744,656,500</u>	<u>4,026,000</u>	<u>NA</u>

1/ Does not include Supplementals.

2/ The Executive displays 0.6% sales tax monies as Other Funds. The JLBC displays these monies in the General Fund.

FY 2003 OTHER FUNDS SUMMARY

	FY 2001 1/ ESTIMATE	FY 2003 EXEC REC.	FY 2003 JLBC REC.	JLBC REC - FY 2001 EST	JLBC REC. - EXEC REC.
BUDGET UNITS					
Accountancy, State Board of	1,738,900	1,613,100	1,971,900	233,000	358,800
Acupuncture Examiners, Board of	47,300	50,400	49,400	2,100	(1,000)
Administration, AZ Department of	143,049,400	165,860,900	156,268,700	13,219,300	(9,592,200)
Administrative Hearings, Office of	865,800	936,300	1,132,200	266,400	195,900
Agriculture, AZ Department of	2,302,400	2,499,500	2,489,700	187,300	(9,800)
AHCCCS	88,958,900	88,930,800	96,594,600	7,635,700	7,663,800
Appraisal, State Board of	405,000	409,300	445,400	40,400	36,100
Attorney General - Department of Law	25,491,400	25,307,700	22,914,300	(2,577,100)	(2,393,400)
Automobile Theft Authority	2,475,100	3,883,300	3,896,600	1,421,500	13,300
Barbers, Board of	172,000	184,400	186,300	14,300	1,900
Behavioral Health Examiners, Board of	587,900	697,700	708,600	120,700	10,900
Chiropractic Examiners, State Board of	312,600	320,900	339,400	26,800	18,500
Commerce, Department of	13,493,400	3,722,400	18,658,700	5,165,300	14,936,300
COMMUNITY COLLEGES	150,400	13,256,600	163,800	13,400	(13,092,800)
Contractors, Registrar of	7,726,700	8,267,400	8,677,300	950,600	409,900
Corporation Commission	13,278,000	14,664,900	14,850,100	1,572,100	185,200
CORRECTIONS, STATE DEPARTMENT OF	3,868,900	21,792,000	5,083,400	1,214,500	(16,708,600)
Cosmetology, Board of	1,101,600	1,254,100	1,292,800	191,200	38,700
Criminal Justice Commission, Arizona	6,890,600	5,895,800	5,945,300	(945,300)	49,500
Deaf and the Hard of Hearing, Comm. for the	6,062,800	5,978,600	5,849,900	(212,900)	(128,700)
Deaf and the Blind, Schools for the	7,583,400	10,535,000	12,012,600	4,429,200	1,477,600
Dental Examiners, State Board of	750,400	755,100	751,500	1,100	(3,600)
Drug & Gang Prevention Resource Center	4,937,700	5,008,300	5,020,900	83,200	12,600
ECONOMIC SECURITY, DEPARTMENT OF	407,939,500	400,471,600	411,569,700	3,630,200	11,098,100
EDUCATION, DEPARTMENT OF	72,106,200	425,880,800	75,883,300	3,777,100	(349,997,500)
Dedicated	0	0	6,017,700	6,017,700	NA
Emergency & Military Affairs, Dept of	132,700	132,700	132,700	0	0
Environmental Quality, Department of	36,273,500	65,222,800	61,904,900	25,631,400	(3,317,900)
Exposition and State Fair Board, AZ	13,529,600	13,826,800	13,679,500	149,900	(147,300)
Funeral Directors and Embalmers, Board of	252,000	251,900	251,600	(400)	(300)
Game and Fish Department, AZ	20,686,700	22,268,300	22,907,200	2,220,500	638,900
Gaming, Department of	4,764,700	4,861,400	4,842,900	78,200	(18,500)
Government Information Tech. Agency	3,096,000	2,407,500	3,296,300	200,300	888,800
Governor, Office of the	47,600	0	0	(47,600)	0
Gov's Ofc for Excellence in Government	500,000	25,000	25,000	(475,000)	0
HEALTH SERVICES, DEPARTMENT OF	125,575,800	47,582,900	59,434,100	(66,141,700)	11,851,200
Homeopathic Medical Examiners, Board of	71,000	74,400	71,600	600	(2,800)
Industrial Commission of AZ	14,943,500	15,365,400	15,365,600	422,100	200
JUDICIARY					
SUPREME COURT	26,836,900	26,836,900	27,356,900	520,000	520,000
SUPERIOR COURT	6,880,300	6,880,300	6,884,300	4,000	4,000
TOTAL - JUDICIARY	33,717,200	33,717,200	34,241,200	524,000	524,000
Juvenile Corrections, Department of	5,025,200	4,599,900	4,573,400	(451,800)	(26,500)
Land Department, State	1,353,200	1,656,000	1,662,900	309,700	6,900
Library, Archives & Public Records, AZ State	452,000	452,000	308,700	(143,300)	(143,300)
Lottery Commission, AZ State	42,708,900	43,998,000	41,779,700	(929,200)	(2,218,300)
Medical Examiners, Board of	4,699,900	4,497,800	4,421,200	(278,700)	(76,600)
Medical Student Loans, Board of	20,300	7,900	7,900	(12,400)	0
Naturopathic Physician Examiners Board	152,300	189,800	199,500	47,200	9,700
Nursing, State Board of	2,442,700	2,523,000	2,427,200	(15,500)	(95,800)
Nursing Care Institution Administrators Board	222,200	274,300	338,200	116,000	63,900
Occupational Therapy Examiners, Board of	133,200	191,500	203,300	70,100	11,800
Opticians, State Board of Dispensing	91,300	92,800	94,400	3,100	1,600
Optometry, State Board of	130,300	141,400	166,100	35,800	24,700
Osteopathic Examiners, AZ Board of	490,300	381,900	380,300	(110,000)	(1,600)
Parks Board, Arizona State	3,954,700	5,777,200	5,055,500	1,100,800	(721,700)
Pharmacy, AZ State Board of	903,800	927,100	1,078,200	174,400	151,100
Physical Therapy Examiners, Board of	203,800	208,300	222,800	19,000	14,500
Pioneers' Home, AZ	2,214,900	2,214,900	2,414,900	200,000	200,000
Podiatry Examiners, State Board of	85,200	94,800	94,600	9,400	(200)
Postsecondary Education, Commission for	2,934,400	2,768,700	2,775,100	(159,300)	6,400
Private Postsecondary Education, Board for	178,800	236,300	251,200	72,400	14,900

FY 2003 OTHER FUNDS SUMMARY

	FY 2001 1/ ESTIMATE	FY 2003 EXEC REC.	FY 2003 JLBC REC.	JLBC REC - FY 2001 EST	JLBC REC. - EXEC REC.
Psychologist Examiners, State Board of	284,800	310,200	316,200	31,400	6,000
Public Safety, Department of	49,973,200	61,353,700	56,683,200	6,710,000	(4,670,500)
Racing, Arizona Department of	375,600	383,400	383,200	7,600	(200)
Radiation Regulatory Agency	157,100	183,700	192,000	34,900	8,300
Residential Utility Consumer Office	1,015,600	1,022,200	1,068,400	52,800	46,200
Respiratory Care Examiners, Board of	167,700	167,700	169,200	1,500	1,500
Retirement System, Arizona State	12,299,800	21,704,300	23,108,300	10,808,500	1,404,000
Revenue, Department of	1,902,300	2,239,200	2,142,800	240,500	(96,400)
SCHOOL FACILITIES BOARD	450,000	70,000,000	0	(450,000)	(70,000,000)
State Boards' Office	243,200	0	249,400	6,200	249,400
Structural Pest Control Commission	1,684,600	1,767,800	1,738,900	54,300	(28,900)
Technical Registration, State Board of	1,045,900	1,093,200	1,163,400	117,500	70,200
Tourism, Office of	0	16,422,600	4,200,000	4,200,000	(12,222,600)
Transportation, Department of	295,351,400	313,397,000	305,468,100	10,116,700	(7,928,900)
UNIVERSITIES					
ARIZONA STATE UNIVERSITY - MAIN	101,091,600	96,779,200	101,897,000	805,400	5,117,800
ARIZONA STATE UNIVERSITY - EAST	4,484,500	4,676,500	6,454,200	1,969,700	1,777,700
ARIZONA STATE UNIVERSITY - WEST	2,759,400	7,162,400	3,164,300	404,900	(3,998,100)
NORTHERN ARIZONA UNIVERSITY	29,607,700	28,554,800	27,768,300	(1,839,400)	(786,500)
BOARD OF REGENTS	0	50,373,900	4,173,800	4,173,800	(46,200,100)
U OF A - MAIN	82,978,700	74,912,200	78,061,400	(4,917,300)	3,149,200
U OF A - HEALTH SCIENCES CENTER	6,892,100	6,669,300	7,027,100	135,000	357,800
TOTAL - UNIVERSITIES	<u>227,814,000</u>	<u>269,128,300</u>	<u>228,546,100</u>	<u>732,100</u>	<u>(40,582,200)</u>
Veterans' Services, Department of	10,266,500	10,446,900	10,167,600	(98,900)	(279,300)
Veterinary Medical Examining Board	279,600	277,200	328,100	48,500	50,900
Water Resources, Department of	0	0	0	0	0
Weights and Measures, Department of	840,100	850,100	775,900	(64,200)	(74,200)
OPERATING BUDGET TOTAL	<u>1,738,435,400</u>	<u>2,255,894,300</u>	<u>1,774,064,900</u>	<u>35,629,500</u>	<u>(481,829,400)</u>
OPERATING BUDGET TOTAL - Dedicated	<u>0</u>	<u>0</u>	<u>6,017,700</u>	<u>6,017,700</u>	<u>NA</u>
Health Insurance	0	14,444,000	9,398,200	9,398,200	(5,045,800)
Provider Adjustments	0	0	1,500,000	1,500,000	1,500,000
Rental Rate Adjustments	0	0	349,800	349,800	349,800
Pro-Rata Surcharge/HRMS	0	0	292,500	292,500	292,500
Unallocated Motor Pool Funding	1,845,100	0	0	(1,845,100)	0
Grand Canyon Airport Authority	350,000	0	0	(350,000)	0
GRAND TOTAL	<u><u>1,740,630,500</u></u>	<u><u>2,270,338,300</u></u> 2/	<u><u>1,785,605,400</u></u>	<u><u>44,974,900</u></u>	<u><u>(484,732,900)</u></u> 2/
GRAND TOTAL with Dedicated	<u><u>1,740,630,500</u></u>	<u><u>2,270,338,300</u></u>	<u><u>1,791,623,100</u></u>	<u><u>50,992,600</u></u>	<u><u>NA</u></u>

1/ Does not include Supplementals.

2/ The Executive displays 0.6% sales tax monies as Other Funds. The JLBC displays these monies in the General Fund.

FY 2001 SUPPLEMENTALS

GENERAL FUND

Administrative Hearings, Office of	\$(32,400)
Savings associated with implementation of new cost allocation plan.	
Corporation Commission	11,000
Implements elected official salary increase for Corporation Commissioners.	
Department of Economic Security	2,064,300
Higher than expected caseload and capitation rate increases in the Developmental Disabilities (DD) Long Term Care (LTC) program. \$17,012,900 is offset by expected GF surpluses and funding shifts to TANF totaling \$14,948,600.	
Department of Education	13,022,200
Basic State Aid, \$13.0 million; Additional State Aid, \$6.8 million; Special Education Vouchers, \$0.6 million; Achievement Testing, \$0.6 million; LEP Cost study, \$0.2 million; Certificates of Educational Convenience, \$(1.5) million; Endowment Earnings, \$(6.7) million.	
Department of Health Services	14,948,000
Enrollment and inflation increases in the Behavioral Health Title XIX Program, \$14.9 million; technical adjustments to Public Health Employee Related Expenditures, \$37,500; transfer to AHCCCS, \$(22,700).	
Judiciary	983,200
Judicial Salary Increase effective January 1, 2001; annualization of 8 Superior Court judgeships added in FY 2000; and funding for new 5 judgeships established in FY 2001.	
School Facilities Board	2,725,300
For Building Renewal. Makes up the difference between the \$120 million the board originally instructed the Treasurer to transfer and the \$122.7 million later calculated as necessary by Building Renewal formula.	
TOTAL	\$33,722,000

OTHER FUND

Department of Administration	\$554,600
Administrative support to negotiate and implement a new state employee health and dental insurance contract.	
Auto Theft Authority	556,200
Additional grant monies based on revised estimate of revenues.	
Contractors, Registrar of	(41,500)
Implement new cost allocation plan for services provided by the Office of Administrative Hearings.	
Corporation Commission	390,200
Unanticipated number of rate cases requiring studies and audits.	
Department of Economic Security	986,100
Higher-than-expected state-only expenditures for DD LTC clients.	
GITA	33,700
Increased private lease costs at new location.	
Department of Health Services	195,900
Technical adjustment to Indirect Cost Fund employee related expenditures.	
State Parks Board	37,500
Additional staff for Kartchner Caverns State Park.	
TOTAL	\$2,712,700

**PROPOSED STATUTORY CHANGES
FY 2002 AND FY 2003
OMNIBUS RECONCILIATION BILLS**

Department of Administration

- As permanent law, increase the pro rata share that state agencies contribute to the Arizona Department of Administration (ADOA) Personnel Division Fund from 0.9% of total Personal Services dollars to 1.07% of total personal services dollars in FY 2003 to fund the replacement of the ADOA Human Resources/Payroll technology system. In FY 2003, this will have a General Fund impact of \$1,904,500 and an Other Fund impact of \$292,500.

Department of Education

- As permanent law, amend the special education “Group B” weights in A.R.S. § 15-943(2b) to conform with weights identified in the December 1999 Special Education Cost Study (estimated cost of \$14,679,000 in FY 2002 and \$15,972,300 in FY 2003).

AHCCCS

- As session law, authorize AHCCCS to use \$22.1 million in FY 2002 and FY 2003 (currently \$31.6 million in FY 01) from the Medically Needy Account of the Tobacco Tax Fund to continue provisions from prior years to phase-out the quick pay discount, fund the elimination of a \$10 million private hospital discount, fund expanded maternity coverage, and HIV/AIDS medications.
- As session law, authorize AHCCCS to withdraw \$18.4 million in FY 2002 and \$21.9 million in FY 2003 from the Medically Needy Account of the Tobacco Tax Fund for deposit in the state Children’s Health Insurance Program (CHIP) Fund to pay the state share of the CHIP program. Require AHCCCS to use any unexpended Medically Needy Account balances from prior years in the CHIP Fund before making any new withdrawals.
- Set the FY 2002 and FY 2003 county acute care contribution at \$66,689,500, the same level as FY 2001.
- 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 revise the FY 2001 repayment requirement. Also continue the provision of extending county expenditure limit adjustments associated with DSH payments an additional year using the amended biennial language from Laws 2000, Chapter 63.
- As session law, reinstate the Hospital Pilot Reimbursement program for FY 2002 and FY 2003 (estimated savings of \$(6.7) million in both FY 2002 and FY 2003).

Department of Environmental Quality

- As permanent law, repeal the requirement to complete a Strategic Program Area Review of the Water Quality Assurance Revolving Fund (WQARF).

Department of Health Services

- As session law, authorize AHCCCS to transfer the following amounts from the Medically Needy Account of the Tobacco Tax Fund and Health Care Fund to DHS: \$1 million for AIDS medications, \$16.6 million for psychotropic medications, and \$250,000 for TCE contamination for both FY 2002 and FY 2003.

Arizona State Lottery Commission

- As session law, require the Arizona Lottery to return 31.6% of Powerball sales in both FY 2002 and FY 2003 to the General Fund. Permanent law only requires the Lottery to return 29% (and session law currently requires 31.6% in FY 2001). The recommended change will ensure that the General Fund receives \$19,878,700 from the Lottery Fund in FY 2002 and \$18,626,700 from the Lottery Fund in FY 2003.

Department of Public Safety

- As session law, continue to redirect 9% of CJEF revenues formerly deposited to the General Fund to DPS to fund the department’s crime lab system in both FY 2002 and FY 2003. Avoids \$2.9 million General Fund cost in FY 2002 and \$3 million General Fund cost in FY 2003 for crime lab operations.
- As session law, suspend for 2 years the schedule established by ARS 28-6537 and ARS 28-6993 reducing the level of Highway User Revenue Fund (HURF) and Highway Fund revenues available to fund DPS Highway

patrol. Avoids at least \$5,000,000 General Fund cost in FY 2002 and FY 2003. Increase the amount of HURF and Highway monies transferred to DPS to fund increased highway patrol officers.

School Facilities Board

- As session law, revise the Students FIRST sales tax transfer provisions for the Deficiencies Correction Fund for FY 2002. Provide for \$120 million in deficiencies correction funding as opposed to the \$500 million proposed by the School Facilities Board (\$0 if the board issues revenue bonds for deficiencies correction).
- As session law, transfer \$15,000,000 in monies remaining in the School Capital Equity Fund to the Deficiencies Correction Fund in FY 2003.

Department of Water Resources

- Suspend the requirement for a \$5 million General Fund appropriation to the Water Protection Fund and appropriate \$2.5 million to the Fund in both FY 2002 and FY 2003. Saves \$2.5 million in both FY 2002 and FY 2003.

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
BUDGET UNITS				
Department of Administration (ADA)				
Americans with Disabilities Act, Arizona				
Office for (2000)	239,300	80,500	26,800	26,800
Construction Insurance (4219)	822,000	4,810,800	4,513,200	4,213,400
Co-Op State Purchasing Agreement (4213)	89,500	90,000	95,000	100,000
Emergency Telecommunication Services Revolving (2176)	7,514,400	19,382,900	2,273,600	21,656,500
Employee Related Expenditures/Benefits Admin (ITA3035)	19,194,900	18,255,700	19,224,500	20,309,000
Health Administration & Benefit Insurance Trust (ITA3161)	504,200	1,614,800	0	0
Personnel Division (1107)	713,900	1,526,000	0	0
Retiree Accumulated Sick Leave (YYA3200)	5,695,200	8,667,000	9,181,800	9,727,400
Special Employee Health Insurance Trust (ITA3015)	246,007,100	266,065,900	358,052,500	393,856,800
Special Services Revolving (4208)	3,166,300	3,235,500	3,394,600	3,556,800
State Employee Suggestion Program Awards (3190)	6,000	0	0	0
State Employee Travel Reduction (2261)	487,400	535,000	535,000	535,000
State Traffic and Parking Control (2435)	800	25,000	21,000	21,000
Department of Administration - Subtotal	<u>\$284,441,000</u>	<u>\$324,289,100</u>	<u>\$397,318,000</u>	<u>\$454,002,700</u>
Office of Administrative Hearings (HGA)				
Office of Administrative Hearings Revolving (2500)	\$247,800	\$248,100	\$0	\$0
Arizona Department of Agriculture (AHA)				
Administrative Support (2436)	42,400	32,900	32,900	32,900
Beef Council (2083)	641,300	640,000	640,000	640,000
Citrus Research Council (2299)	45,900	110,000	110,000	110,000
Commodity Promotion (2458)	5,200	5,100	5,100	5,100
Cotton Research and Protection Council Abatement (2013)	1,448,900	1,500,000	1,500,000	1,500,000
Designated (3011)	537,400	537,000	537,000	537,000
Federal (2000)	665,100	642,700	637,500	637,500
Federal-State Inspection, Arizona (2113)	2,373,300	2,330,600	2,330,600	2,330,600
Grain Research and Promotion Council (2201)	132,000	113,500	113,500	113,500
Hay Law (2143)	700	600	600	600
Iceberg Lettuce Research Council (2259)	92,100	105,000	105,000	105,000
Indirect Cost Recovery (9000)	125,200	287,400	287,400	287,400
Interagency Service Agreement (2500)	579,700	2,700	0	0
Wine Promotional, Arizona (2205)	20,900	12,900	12,900	12,900
Arizona Department of Agriculture - Subtotal	<u>\$6,710,100</u>	<u>\$6,320,400</u>	<u>\$6,312,500</u>	<u>\$6,312,500</u>
AHCCCS (HCA)				
County Contributions (2120/2223)	221,493,500	224,104,700	231,846,300	241,252,300
Employee Recognition (2025)	8,200	12,100	10,000	10,000
Federal Funds (2120/2223)	1,114,617,000	1,253,853,400	1,427,674,300	1,541,802,600
Federal Grants (2000)	311,100	312,300	300,000	300,000
Health Care Group Medical Premiums (3197)	18,792,700	24,715,200	25,164,400	25,807,800
Intergovernmental Service (2438)	2,370,100	7,955,600	9,764,700	9,286,900
Third Party Collections (3791/3019)	1,124,800	1,644,500	1,454,100	1,443,600
Tobacco Litigation Settlement, Arizona (TRA2561)	100,314,100	83,136,500	71,090,200	72,051,100
Tobacco Tax & Health Care - Medical Services Stabilization (3037)	8,000,000	41,769,800	0	0
Tobacco Tax & Health Care - Medically Needy Account (1306)	32,493,600	35,537,300	26,646,900	25,719,100
Tobacco Tax & Health Care - Premium Sharing Demonstration Project (2151)	17,269,800	21,896,500	6,991,400	0
AHCCCS - Subtotal	<u>\$1,516,794,900</u>	<u>\$1,694,937,900</u>	<u>\$1,800,942,300</u>	<u>\$1,917,673,400</u>
AZ Commission on the Arts (HUA)				
Arts Endowment Expendable Trust (3106)	48,000	187,000	250,000	275,000
Arts Special Revenues (2116)	835,000	951,000	671,100	656,100
Arts Trust, Arizona (3014)	1,180,100	1,230,200	1,200,000	1,200,000
AZ Commission on the Arts - Subtotal	<u>\$2,063,100</u>	<u>\$2,368,200</u>	<u>\$2,121,100</u>	<u>\$2,131,100</u>
Attorney General - Department of Law (AGA)				
Anti-Racketeering Revolving (2131)	1,289,800	1,381,300	1,388,200	1,395,200
Attorney General Expendable Trust (3102)	0	100,000	0	0
CJEF Distribution to County Attorneys (2068)	3,111,300	3,200,000	3,300,000	3,400,000
Colorado River Land Claims Revolving (9500)	0	25,100	0	0
Court-Ordered Trust (3180)	3,409,300	11,443,600	1,919,000	1,919,000
Criminal Case Processing (9510)	0	0	21,000	21,000
Federal Funds (2117)	5,669,800	6,999,200	6,336,700	4,585,900
Prosecuting Attorneys' Advisory Council Training (2057)	825,800	1,320,000	1,320,000	1,320,000
Victim Witness (2228)	53,500	53,500	53,500	53,500
Attorney General - Department of Law - Subtotal	<u>\$14,359,500</u>	<u>\$24,522,700</u>	<u>\$14,338,400</u>	<u>\$12,694,600</u>
Automobile Theft Authority (ATA)				
Federal Grants (2000)	\$50,000	\$240,000	\$0	\$0

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
State Banking Department (BDA)				
Escrow Recovery, Arizona (2341)	0	0	0	0
Receivership Revolving (3023)	25,700	25,000	25,000	25,000
Revolving (2126)	119,800	175,000	175,000	175,000
State Banking Department - Subtotal	<u>\$145,500</u>	<u>\$200,000</u>	<u>\$200,000</u>	<u>\$200,000</u>
Department of Building and Fire Safety (MMA)				
Arson Detection Reward (2169)	9,300	3,000	3,000	3,000
Building and Fire Safety (2211)	270,100	350,000	385,000	385,000
Consumer Recovery (3090)	30,300	36,000	43,000	50,000
Manufactured Housing Cash Bond (3722)	0	0	0	0
Mobile Home Relocation (2237)	566,800	650,000	682,000	710,000
Department of Building and Fire Safety - Subtotal	<u>\$876,500</u>	<u>\$1,039,000</u>	<u>\$1,113,000</u>	<u>\$1,148,000</u>
Citizens Clean Election Commission				
Citizens Clean Election Fund (NA)	\$544,100	\$3,370,900	\$2,209,700	\$16,616,900
Department of Commerce (EPA)				
Clean Air, Arizona (1238)	2,527,100	26,650,000	12,350,000	12,350,000
Commerce and Economic Development Commission (2245)	366,000	2,000,000	1,000,000	500,000
Community Workshops (2149)	370,300	344,000	361,100	343,000
Donations (3189)	236,900	237,400	249,300	236,800
Export Promotion (2454)	0	0	0	0
Federal Grants (2000)	29,317,900	32,648,100	29,446,500	25,081,800
Greater AZ Development Authority Revolving (2311)	755,800	986,400	1,100,000	1,300,000
Housing Finance Review (2234)	712,900	716,500	731,600	750,700
Housing Trust (2235)	6,394,900	9,349,500	15,029,900	9,989,000
Hydrogen Grant Program (2462)	0	250,000	250,000	0
International Development Authority (NA)	0	0	0	0
Job Training (1237)	2,116,300	3,500,000	1,000,000	2,000,000
Neighborhood Preservation & Investment (2424)	0	0	0	0
Oil Overcharge (3171)	0	0	1,800,000	1,700,000
Recycling (2289)	65,200	74,000	76,000	78,000
Department of Commerce - Subtotal	<u>\$42,863,300</u>	<u>\$76,755,900</u>	<u>\$63,394,400</u>	<u>\$54,329,300</u>
State Board of Directors for Community Colleges (CMA)				
Federal Grants (2000)	2,872,600	3,542,000	3,303,000	3,303,000
Les Aries Memorial (3321)	0	0	0	0
State Board of Directors for Community College - Subtotal	<u>\$2,872,600</u>	<u>\$3,542,000</u>	<u>\$3,303,000</u>	<u>\$3,303,000</u>
State Compensation Fund				
State Compensation Fund 1/	\$271,793,000	\$269,557,300	\$279,159,900	\$289,733,400
Registrar of Contractors (RGA)				
Residential Contractors' Recovery (3155)	\$3,362,900	\$3,490,100	\$3,493,500	\$3,529,000
Corporation Commission (CCA)				
Federal (2000)	\$94,300	\$88,400	\$88,400	\$88,400
State Department of Corrections (DCA)				
Correctional Industries Revolving, Arizona (4002)	15,485,700	20,044,700	22,899,200	25,359,100
Criminal Justice Enhancement (2035)	3,915,700	3,790,300	3,951,600	3,951,600
Donations (3147)	50,300	150,000	100,000	100,000
Drug Treatment and Education Revolving (2277)	1,778,500	3,000,000	3,500,000	4,000,000
Federal (2000)	11,522,300	18,084,200	18,536,800	18,536,800
Non-Federal Grants (2001)	99,600	76,600	76,600	76,600
Risk Management Insurance Reimbursement (3748)	17,400	160,400	160,400	160,400
Special Services (3187)	3,644,600	4,457,000	4,457,100	4,457,100
State Department of Corrections - Subtotal	<u>\$36,514,100</u>	<u>\$49,763,200</u>	<u>\$53,681,700</u>	<u>\$56,641,600</u>
Arizona Criminal Justice Commission (JCA)				
County Jail Juvenile Improvement (2148)	1,762,300	189,300	0	0
Drug & Gang Enforcement Account (2229)	11,309,900	13,929,000	15,073,400	15,073,400
Federal Grants (2229)	1,660,500	2,655,300	2,646,900	2,646,900
Arizona Criminal Justice Commission - Subtotal	<u>\$14,732,700</u>	<u>\$16,773,600</u>	<u>\$17,720,300</u>	<u>\$17,720,300</u>
Arizona State Schools for the Deaf and the Blind (SDA)				
Enterprise (4222)	127,200	128,700	130,200	131,700
Federal Grants (2000)	2,260,600	2,271,000	2,271,000	2,271,000
Intergovernmental Agreements & Interagency Service				
Agreements (2500)	319,100	50,600	0	0
Non-Federal Grants (2011)	210,900	300,200	250,200	228,100
Regional Cooperatives (4221)	6,281,200	6,497,100	6,759,300	6,826,200
Telecommunications for the Deaf (2047)	5,900	5,000	0	0
Trust (3148)	407,000	100,000	100,000	100,000
Arizona State Schools for the Deaf and the Blind - Subtotal	<u>\$9,611,900</u>	<u>\$9,352,600</u>	<u>\$9,510,700</u>	<u>\$9,557,000</u>
Commission for the Deaf and the Hard of Hearing (DFA)				
Federal Grants (2048)	\$26,300	\$43,800	\$43,800	\$43,800

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
Arizona Drug and Gang Prevention Resource Center				
Federal Grants (NA)	1,607,700	2,000,000	2,000,000	2,000,000
Private Grants (NA)	58,900	100,000	120,000	120,000
AZ Drug and Gang Prevention Resource Center - Subtotal	<u>\$1,666,600</u>	<u>\$2,100,000</u>	<u>\$2,120,000</u>	<u>\$2,120,000</u>
Department of Economic Security (DEA)				
Capital Investment (2093)	121,300	40,000	40,000	40,000
Child Passenger Restraint (2192)	192,500	292,800	214,500	218,800
Child Protective Services Expedited Substance Abuse Treatment (2421)	133,400	55,500	0	0
Community-Based Marriage and Communication Skills Program (2434)	0	1,150,000	1,150,000	1,150,000
DES Client Trust (3152)	1,968,400	2,129,100	2,157,400	2,186,300
Developmentally Disabled Client Services Trust (2019)	269,000	260,000	260,000	260,000
Economic Security Donations (3145)	260,000	200,000	200,000	200,000
Federal Grants (2000)	260,197,500	265,042,100	294,765,100	296,698,200
Homeless Trust (3026)	45,600	50,500	52,500	52,500
Industries for the Blind, Arizona (4003)	12,823,100	14,400,000	14,500,000	15,000,000
Joint Substance Abuse Treatment (2429)	0	10,000,000	3,333,300	10,000,000
Long Term Care System - Federal Matched (2225)	193,790,200	239,559,500	274,274,300	315,180,700
Mesa Land (3151)	300,300	290,000	295,000	300,000
Miscellaneous Other Grants (2005)	66,999,500	58,400,800	58,504,300	59,765,300
Neighbors Helping Neighbors (2348)	76,400	51,000	52,200	44,000
Special Olympics Tax Refund (3207)	76,300	123,900	136,300	149,900
Tobacco Litigation Settlement Fund (NA)	0	0	0	0
Tobacco Tax and Health Care (1306)	476,800	643,200	500,000	500,000
Unemployment Insurance Benefits (TRA9005)	179,720,600	184,500,000	188,190,000	191,953,800
Utility Assistance (3092)	655,300	650,000	650,000	650,000
Dept. of Economic Security - Subtotal	<u>\$718,106,200</u>	<u>\$777,838,400</u>	<u>\$839,274,900</u>	<u>\$894,349,500</u>
Department of Education (EDA)				
Academic Contest (1006)	0	0	0	0
Assistance for Education (2420)	0	0	0	0
Charter School Stimulus (1007)	0	0	0	0
Classroom Site (NA)	0	0	0	0
Education Donations (2025)	27,500	139,800	141,900	141,900
Failing Schools Tutoring (NA)	0	0	0	0
Federal (2000)	444,621,600	458,102,700	434,291,900	434,103,500
Food Distribution (4210)	273,000	253,800	266,500	279,800
Permanent State School (3138)	0	0	2,204,400	6,017,700
Production Revolving (4211)	1,171,400	873,600	915,900	969,100
Research Based Systematic Phonics Instruction (2413)	9,800	9,900	8,400	0
Special Education (1009)	0	0	0	0
Youth Farm Loan, Arizona (2136)	30,000	30,000	30,000	30,000
Department of Education - Subtotal	<u>\$446,133,300</u>	<u>\$459,409,800</u>	<u>\$437,859,000</u>	<u>\$441,542,000</u>
Department of Emergency & Military Affairs (MAA)				
Camp Navajo (2106)	6,082,000	9,328,300	9,351,700	8,947,800
Federal Funds - Emergency (2000)	19,083,600	13,814,500	2,952,400	2,954,000
Federal Funds - Military (2000)	17,404,500	16,949,500	17,174,000	15,952,600
Freedom Academy (2104)	0	21,100	15,000	15,000
Morale, Welfare and Recreation (2124)	0	150,000	50,000	50,000
National Guard (2140)	125,200	200,000	175,000	150,000
Nuclear Emergency Management (AEA2138)	0	16,800	0	0
State Armory Property (2146)	0	0	0	0
Department of Emergency & Military Affairs - Subtotal	<u>\$42,695,300</u>	<u>\$40,480,200</u>	<u>\$29,718,100</u>	<u>\$28,069,400</u>
Department of Environmental Quality (EVA)				
Brownfields Cleanup Revolving Loan (2456)	0	0	0	0
Clean Water Revolving (2254)	1,105,800	20,231,500	25,574,800	31,280,100
Donations (3006)	51,300	0	0	0
Drinking Water Revolving (4320)	9,257,100	14,601,500	14,639,200	12,502,600
Federal (2000)	9,716,400	18,036,700	13,118,400	13,118,400
Greenfields Program (2309)	800	0	0	0
Institutional and Engineering Control (4240)	0	0	0	0
Intergovernmental Agreements (2180)	461,600	551,100	590,000	488,000
Monitoring Assistance (2308)	360,500	1,450,700	983,600	0
Recycling (2289)	1,754,100	0	0	0
Small Water Systems (2225)	7,100	126,000	0	0
Technical Appeals Program (3411)	0	10,000	10,000	10,000
UST - Area A Assurance Account (2271)	12,806,500	12,664,500	13,516,500	13,516,500
UST - Grant Account (2271)	2,204,700	1,149,500	0	0
UST - Non-Maricopa County Assurance Account (2271)	14,089,000	15,806,000	16,504,000	16,504,000

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
UST - Regulatory Account (2271)	337,500	1,191,400	795,600	801,500
Voluntary Lawn & Garden Equipment Emissions Reduction (2310)	289,300	260,700	0	0
Voluntary Remediation (4230)	0	150,000	452,600	457,600
Voluntary Vehicle Repair & Retrofit (2365)	0	116,000	109,100	0
Water Quality Assurance Revolving (2221)	0	11,328,800	10,072,200	9,961,000
Department of Environmental Quality - Subtotal	<u>\$52,441,700</u>	<u>\$97,674,400</u>	<u>\$96,366,000</u>	<u>\$98,639,700</u>
Equal Opportunity, Governor's Office of (AFA)				
Equal Employment & Economic Development (2000)	\$65,000	\$67,000	\$65,000	\$65,000
Arizona Game & Fish Department (GFA)				
Conservation Development (2062)	0	0	0	0
Federal (2000)	16,928,100	15,301,000	14,433,900	14,181,600
Firearms Safety and Ranges (2442)	0	0	0	0
Heritage (2295)	8,666,000	6,322,400	6,165,700	5,539,800
Off Highway Vehicle Recreation (2253)	256,500	283,200	373,100	345,700
Publications Revolving (4007)	177,500	180,000	185,000	190,000
Trust (3111)	1,208,900	1,250,000	1,250,000	1,250,000
Wildlife Theft Prevention (2080)	159,700	170,000	170,000	170,000
Arizona Game & Fish Department - Subtotal	<u>\$27,396,700</u>	<u>\$23,506,600</u>	<u>\$22,577,700</u>	<u>\$21,677,100</u>
Arizona Geological Survey (GSA)				
Federal Grants (2000)	171,500	95,900	109,100	109,100
Geological Survey (3030)	165,800	99,000	82,000	82,000
Arizona Geological Survey - Subtotal	<u>\$337,300</u>	<u>\$194,900</u>	<u>\$191,100</u>	<u>\$191,100</u>
Government Information Technology Agency (GTA)				
Statewide Technology License Agreement Account (NA)	\$0	\$0	\$0	\$0
Office of the Governor (GVA)				
The Arizona Fund (3021)	0	0	0	0
County Fairs Livestock & Agricultural Promotion (2037)	1,222,600	1,200,000	1,200,000	1,200,000
Federal Grant (2000)	9,817,100	13,088,000	12,961,000	12,961,000
Governor's Arizona Promotional & Public Service (3207)	2,400	2,000	1,500	0
Governor's Domestic Violence Prevention (2025)	0	500	0	0
Governor's Endowment Partnership (3206)	16,200	4,400	0	0
Governor's Office for Children (3192)	30,800	29,700	27,000	27,000
Governor's Spirit of Excellence (3208)	600	700	0	0
Prevention of Child Abuse (2439)	0	195,400	100,000	100,000
Office of the Governor - Subtotal	<u>\$11,089,700</u>	<u>\$14,520,700</u>	<u>\$14,289,500</u>	<u>\$14,288,000</u>
Department of Health Services (HSA)				
Agreements/IGA (2144/2500)	13,626,200	14,400,000	14,400,000	14,400,000
Disease Control Research (DIA2090)	2,522,000	5,039,600	1,700,000	1,700,000
Donations (3010/2025)	591,100	509,200	485,000	460,000
Federal Grants (2000)	166,043,900	180,703,200	180,714,800	180,714,800
Medical Services Enhancement (MSEF) (TRA2186)	0	0		
Risk Assessment (2427)	0	216,000	216,000	216,000
Title XIX Services and County Contributions (2144)	26,267,000	30,000,000	30,000,000	30,000,000
Tobacco Tax & Health Care - Health Crisis Fund (2312)	960,000	1,000,000	1,000,000	1,000,000
Tobacco Tax & Health Care - Health Education Account (1308)	35,217,300	34,000,000	34,000,000	34,000,000
Tobacco Tax & Health Care - Health Research Account (DSA2096)	6,099,900	6,099,900	6,099,900	6,099,900
Tobacco Tax & Health Care - Subsidiary Medically Needy Account (3037)	23,346,800	18,073,400	17,823,400	17,823,400
Department of Health Services - Subtotal	<u>\$274,674,200</u>	<u>\$290,041,300</u>	<u>\$286,439,100</u>	<u>\$286,414,100</u>
Arizona Historical Society (HIA)				
Enterprise (2900)	21,100	27,400	64,300	69,100
Grants (NA)	67,800	609,100	504,800	172,100
Journal of Arizona History Magazine (2033)	31,700	61,200	54,000	55,500
Preservation and Restoration (2125)	48,500	48,800	48,200	48,200
Private (NA)	328,300	392,000	405,000	433,500
Restricted (NA)	860,100	640,300	1,109,500	675,500
Trust (NA)	5,800	2,700	9,300	7,100
Arizona Historical Society - Subtotal	<u>\$1,363,300</u>	<u>\$1,781,500</u>	<u>\$2,195,100</u>	<u>\$1,461,000</u>
Prescott Historical Society of Arizona (PAZ)				
Sharlot Hall Historical Society (NA)	\$653,700	\$565,100	\$595,700	\$610,700
Arizona Commission of Indian Affairs (IAA)				
Publications (4013)	\$0	\$8,000	\$0	\$4,000
Industrial Commission of Arizona (ICA)				
Federal Grants (2000)	3,529,800	3,465,200	3,562,700	3,643,000

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
Revolving (2002)	152,300	166,700	160,500	150,600
Special (9003)	16,006,100	18,337,500	19,556,000	19,125,000
Industrial Commission of Arizona- Subtotal	<u>\$19,688,200</u>	<u>\$21,969,400</u>	<u>\$23,279,200</u>	<u>\$22,918,600</u>
Department of Insurance (IDA)				
Assessments (2316)	196,500	200,000	203,000	206,000
Health Care Appeals (2467)	0	111,100	205,500	205,500
Insurance Examiners' Revolving (2034)	9,012,000	9,012,000	9,012,000	9,012,000
Life and Disability Insurance Guaranty (2154)	3,290,100	8,913,500	10,028,000	8,929,500
Property and Casualty Insurance Guaranty, AZ (2114)	2,485,100	8,271,800	9,644,800	9,078,700
Receivership Liquidation (3104)	164,300	152,800	155,800	159,000
Department of Insurance - Subtotal	<u>\$15,148,000</u>	<u>\$26,661,200</u>	<u>\$29,249,100</u>	<u>\$27,590,700</u>
Judiciary - Supreme Court (SPA)				
Alternative Dispute Resolution (3245)	195,500	155,500	155,500	155,500
County Public Defender Training (3013)	521,500	545,000	565,500	588,100
Court Reporters (2440)	104,700	91,800	77,400	63,000
Drug Enforcement Account (2075)	2,732,300	2,738,000	2,738,000	2,738,000
Drug Treatment and Education (2277)	3,687,000	3,865,100	3,865,100	3,865,100
Grants and Special Revenue (2084)	1,226,700	723,700	506,700	506,700
State Aid to Detention (2141)	1,894,400	1,246,800	3,400,000	1,281,000
Arizona Judiciary - Supreme Court - Subtotal	<u>\$10,362,100</u>	<u>\$9,365,900</u>	<u>\$11,308,200</u>	<u>\$9,197,400</u>
Department of Juvenile Corrections (DJA)				
Federal (2000)	3,619,800	4,692,100	3,232,900	3,379,600
Interagency Service Agreement (2500)	299,500	0	0	0
Juvenile Corrections (3024)	148,000	272,000	122,000	122,000
Department of Juvenile Corrections - Subtotal	<u>\$4,067,300</u>	<u>\$4,964,100</u>	<u>\$3,354,900</u>	<u>\$3,501,600</u>
State Land Department (LDA)				
CAP Municipal & Industrial Repayment (2129)	0	863,500	295,200	139,900
Cooperative Forestry (2232)	848,400	864,500	0	0
Federal (2000)	33,100	22,100	15,000	15,000
Federal Reclamation Trust (2024)	0	250,000	25,000	0
Fire Suppression (2360)	4,722,600	3,556,000	3,957,000	3,445,000
Interagency Agreements (2212)	223,200	665,300	155,400	162,200
State Land Department (2451)	145,000	150,000	150,000	150,000
Quitclaim Deed Application Revolving (2230)	0	0	0	0
Resource Analysis Division Revolving (4009)	41,300	71,000	84,000	97,000
Riparian Acquisition Trust (3201)	0	0	0	0
Universities Timber Land Account (3158)	69,100	100,800	55,000	55,500
State Land Department - Subtotal	<u>\$6,082,700</u>	<u>\$6,543,200</u>	<u>\$4,736,600</u>	<u>\$4,064,600</u>
Legislature - Auditor General (AUA)				
Audit Services Revolving (2242)	\$1,240,500	\$1,176,100	\$1,194,400	\$1,198,400
Legislature - Dept. of Library, Archives & Public Records (LAA)				
Federal Grants (2000)	2,570,500	3,115,700	2,800,000	2,800,000
Gift Shop Revolving (4008)	77,100	85,000	90,000	105,000
State Library (2115)	240,100	325,500	286,000	95,700
Legislature - Dept. of Library, Archives & Pub. Rcds - Subtotal	<u>\$2,887,700</u>	<u>\$3,526,200</u>	<u>\$3,176,000</u>	<u>\$3,000,700</u>
Department of Liquor Licenses and Control (LLA)				
Audit Surcharge (3010)	76,900	106,000	120,000	124,000
Enforcement Surcharge - Enforcement Unit (3012)	255,900	255,000	262,500	270,100
Enforcement Surcharge - Multiple Complaints (3011)	252,800	259,600	268,900	278,300
Department of Liquor Licenses & Control - Subtotal	<u>\$585,600</u>	<u>\$620,600</u>	<u>\$651,400</u>	<u>\$672,400</u>
Arizona State Lottery Commission (LAO)				
State Lottery (2122)	\$139,831,000	\$137,200,300	\$138,232,700	\$136,474,900
State Mine Inspector (MIA)				
Abandoned Mines Safety (2408)	6,000	95,000	71,200	50,000
Federal Grants (2000)	119,800	394,800	212,200	212,200
State Mine Inspector - Subtotal	<u>\$125,800</u>	<u>\$489,800</u>	<u>\$283,400</u>	<u>\$262,200</u>
Department of Mines & Mineral Resources (MNA)				
Mines and Mineral Resources (3156)	\$94,100	\$94,000	\$94,000	\$94,000
State Board of Nursing (BNA)				
Nurse Aide Training & Registration (2000)	\$620,500	\$713,900	\$713,900	\$713,900
AZ Parents Commission on Drug Education & Prevention (PCA)				
Drug Treatment and Education (2277)	\$2,297,400	\$6,733,300	\$6,332,200	\$4,669,200
Arizona State Parks Board (PRA)				
Development Rights Retirement (NA)	0	0	0	0
Donations (3117)	187,200	179,500	181,600	183,700
Federal (2000)	601,700	2,583,700	2,426,100	2,433,400
Heritage (2296)	7,864,900	10,720,600	10,724,200	10,788,200
Land Conservation - Administration Account (9502)	0	156,800	159,000	161,300
Land Conservation - Donation Account (9502)	0	0	0	0

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
Land Conservation - Public Conservation Account (9502)	0	0	0	0
Off Highway Vehicle Recreation (2253)	1,952,100	2,038,100	2,010,000	2,100,400
Partnership (2123)	18,400	70,000	70,000	70,000
Publications and Souvenir Revolving (4010)	257,000	428,700	429,800	431,100
State Lake Improvement (2106)	7,352,200	8,157,700	8,124,300	8,263,100
State Parks Enhancement (2202)	2,555,500	3,694,200	4,017,600	4,089,500
Arizona State Parks Board - Subtotal	<u>\$20,789,000</u>	<u>\$28,029,300</u>	<u>\$28,142,600</u>	<u>\$28,520,700</u>
Arizona Pioneers' Home (PIA)				
Donations (3143)	\$36,400	\$30,000	\$30,000	\$30,000
Commission for Postsecondary Education (PEA)				
Private Postsecondary Education Student Financial Assistance (2128)	0	75,200	57,000	10,600
Student Program Investing Resources in Education, Arizona (2407)	0	0	0	0
Teachers Incentive Program, Arizona (2249)	1,200	0	0	0
Commission for Postsecondary Education - Subtotal	<u>\$1,200</u>	<u>\$75,200</u>	<u>\$57,000</u>	<u>\$10,600</u>
Arizona Power Authority				
Hoover Uprating (NA)	22,789,000	22,050,000	22,050,000	22,050,000
Power Authority, Arizona (NA)	447,000	450,000	450,000	450,000
Arizona Power Authority - Subtotal	<u>\$23,236,000</u>	<u>\$22,500,000</u>	<u>\$22,500,000</u>	<u>\$22,500,000</u>
State Board for Private Postsecondary Education (PVA)				
Student Tuition Recovery (3027)	\$44,100	\$76,000	\$76,000	\$76,000
Department of Public Safety (PSA)				
Anti-Racketeering Revolving (3123)	1,338,400	1,600,000	1,470,000	1,350,000
Criminal Justice Enhancement Pass Through (3702)	953,100	600,000	600,000	600,000
DPS Administration (2322)	871,300	755,200	827,000	688,700
Driving Under the Influence Abatement (2422)	0	350,000	350,000	350,000
Federal Grants and Reimbursements (2000)	16,538,200	20,181,800	17,674,500	17,674,500
Fingerprint Clearance Card (2433)	829,100	1,200,800	1,127,100	840,000
Motor Carrier Safety Revolving (2380)	6,400	4,000	4,000	5,000
Peace Officers' Training (2049)	4,977,900	5,967,200	5,519,200	5,555,500
Records Processing (2278)	4,529,300	4,813,200	4,785,600	4,790,600
Department of Public Safety - Subtotal	<u>\$30,043,700</u>	<u>\$35,472,200</u>	<u>\$32,357,400</u>	<u>\$31,854,300</u>
Public Safety Personnel Retirement System (NA)				
Fire Fighter Cancer Insurance Policy Program				
Administrative Expenses (NA)	36,200	38,000	40,000	41,900
Investment and Administrative Expenses (NA)	1,402,100	1,472,200	1,545,800	1,623,100
Public Safety Personnel Retirement System - Subtotal	<u>\$1,438,300</u>	<u>\$1,510,200</u>	<u>\$1,585,800</u>	<u>\$1,665,000</u>
Arizona Department of Racing (RCA)				
Breeders Award, Arizona (2206)	688,100	1,077,500	800,000	800,000
County Fairs Racing Betterment (2207)	775,700	775,700	775,700	775,700
Greyhound Adoption (2015)	800	0	5,200	0
Stallion Award (2315)	83,600	57,400	40,000	40,000
Arizona Department of Racing - Subtotal	<u>\$1,548,200</u>	<u>\$1,910,600</u>	<u>\$1,620,900</u>	<u>\$1,615,700</u>
Radiation Regulatory Agency (AEA)				
Federal Grants (2000)	194,500	350,000	335,000	335,000
Nuclear Emergency Management (2138)	0	0	0	0
Radiation Regulatory Agency - Subtotal	<u>\$194,500</u>	<u>\$350,000</u>	<u>\$335,000</u>	<u>\$335,000</u>
State Real Estate Department (REA)				
Education Revolving (4011)	44,800	26,500	31,500	31,500
Recovery (3119)	165,800	193,700	197,000	203,100
State Real Estate Department - Subtotal	<u>\$210,600</u>	<u>\$220,200</u>	<u>\$228,500</u>	<u>\$234,600</u>
Arizona State Retirement System (RSA)				
Administration Account - Investment Expenses (1407)	\$16,280,100	\$16,524,300	\$16,962,100	\$16,975,300
Department of Revenue (RVA)				
Client County Equipment Capitalization (2457)	79,600	517,000	517,000	517,000
DOR Estate and Unclaimed Property (1520)	0	0	0	0
Escheated Estates (3745)	0	0	0	0
Revenue Publications Revolving (2166)	185,600	226,900	195,900	195,900
Special Collections (2168)	60,700	60,700	60,700	60,700
Waste Tire (2356)	5,475,900	5,475,900	5,475,900	5,475,900
Department of Revenue - Subtotal	<u>\$5,801,800</u>	<u>\$6,280,500</u>	<u>\$6,249,500</u>	<u>\$6,249,500</u>
School Facilities Board (SFA)				
Building Renewal (2465)	0	0	0	0
Deficiencies Correction (2455)	0	0	0	15,000,000
New School Facilities (2460)	0	0	0	0
School Capital Equity (2273)	3,227,500	4,062,600	0	0
School Facilities Revenue Bond Debt Service (5010)	0	0	0	0
School Facilities Revenue Bond Proceeds (3325)	0	0	0	0

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
School Improvement Revenue Bond Proceeds (NA) 2/	0	0	800,000,000	0
School Facilities Board - Subtotal	\$3,227,500	\$4,062,600	\$800,000,000	\$15,000,000
Secretary of State - Department of State (STA)				
Blue Book Revolving, Arizona (2006)	0	36,100	40,000	0
Data Processing Acquisition (2265)	104,800	180,000	149,000	134,000
Standing Political Committee Administrative (NA)	0	0	0	0
Secretary of State - Department of State - Subtotal	\$104,800	\$216,100	\$189,000	\$134,000
Structural Pest Control Commission (SBA)				
Federal Certification and Enforcement Grant (2000)	\$109,100	\$109,500	\$109,500	\$109,500
Department of Transportation (DTA)				
Aviation Federal Funds (2267)	6,500	808,700	3,909,000	2,810,000
Economic Strength Project (2244)	944,500	1,100,000	1,100,000	1,100,000
Federal Grants (2097)	429,456,600	436,257,200	449,203,500	476,998,500
Grand Canyon Airport Authority Operating (GCA2451)	91,100	125,400	0	0
Highway Expansion & Extension Loan Program (2417)	161,430,600	279,100,000	143,800,000	77,000,000
Highways Magazine, Arizona (2031)	11,414,500	12,619,700	12,306,700	12,542,500
Maricopa Regional Area Road (2029)	266,759,100	441,243,300	325,893,200	320,980,800
Motor Carrier Safety Revolving (2380)	22,600	54,100	54,100	45,000
Shared Location and Advertising Agreements Expense (2414)	6,400	30,000	30,000	30,000
Underground Storage Tank Revolving (2030)	143,700	166,500	169,700	169,700
Department of Transportation - Subtotal	\$870,275,600	\$1,171,504,900	\$936,466,200	\$891,676,500
Arizona Board of Regents (BRA)				
Collections Revolving (2183)	0	0	0	0
Federal (NA)	824,200	874,000	874,000	874,000
Regents Local (ASU Account)	551,500	647,500	580,000	580,000
Teacher Loan Forgiveness (2249)	0	0	0	0
University Land (3131/3132/3134/3136)	2,714,800	2,570,000	2,570,000	2,570,000
Arizona Board of Regents - Subtotal	\$4,090,500	\$4,091,500	\$4,024,000	\$4,024,000
Arizona State University - Main Campus				
Auxiliary (NA)	71,208,300	74,768,700	78,507,300	82,432,600
Designated (NA)	74,477,800	77,456,900	80,555,200	83,777,400
Endowment and Life Income (NA)	0	0	0	0
Federal Grants (NA)	72,151,500	75,802,500	79,593,100	83,572,600
Federal Indirect Cost Recovery (NA)	184,300	193,500	203,200	213,400
Indirect Cost Recovery - Non-Federal (NA)	30,100	32,200	34,500	36,900
Loan (NA)	1,021,500	597,800	619,300	642,100
Restricted (Excluding Federal Funds) (NA)	42,959,200	45,107,200	47,362,600	49,730,700
Arizona State University - Main Campus - Subtotal	\$262,032,700	\$273,958,800	\$286,875,200	\$300,405,700
Arizona State University - East Campus				
Auxiliary (NA)	54,600	23,300	29,200	37,800
Designated (NA)	647,500	841,800	1,094,400	1,422,800
Endowment and Life Income (NA)	0	0	0	0
Federal Grants (NA)	1,641,600	1,724,600	1,810,800	1,901,600
Federal Indirect Cost Recovery (NA)	3,400	3,700	4,100	4,500
Indirect Cost Recovery - Non-Federal (NA)	2,700	3,200	3,800	4,600
Restricted (NA)	1,034,800	1,291,600	1,612,600	2,013,700
Arizona State University - East Campus - Subtotal	\$3,384,600	\$3,888,200	\$4,554,900	\$5,385,000
Arizona State University - West Campus				
Auxiliary (NA)	495,100	372,800	387,700	403,100
Designated (NA)	2,452,900	7,464,900	7,838,200	8,230,200
Endowment and Life Income (NA)	0	0	0	0
Federal Grants (NA)	1,963,300	2,063,000	2,166,200	2,275,100
Federal Indirect Cost Recovery (NA)	4,000	0	0	0
Indirect Cost Recovery - Non-Federal (NA)	400	500	600	700
Loan (NA)	0	0	0	0
Restricted (NA)	468,500	491,900	516,600	542,400
Arizona State University - West Campus - Subtotal	\$5,384,200	\$10,393,100	\$10,909,300	\$11,451,500
Northern Arizona University				
Auxiliary (NA)	36,867,600	38,382,800	38,750,500	39,933,500
Designated (NA)	35,119,500	37,958,000	38,717,200	39,491,500
Endowment (NA)	298,700	0	0	0
Federal Grants (NA)	25,988,500	27,215,600	28,163,100	29,085,000
Federal Indirect Cost Recovery (NA)	1,463,700	1,505,900	1,548,400	1,652,400
Indirect Cost Recovery - Non-Federal (NA)	258,000	265,500	274,000	280,000
Loan (NA)	285,800	275,000	275,000	275,000
Restricted (Excluding Federal Funds) (NA)	9,539,200	9,813,900	10,048,600	10,289,200
Northern Arizona University - Subtotal	\$109,821,000	\$115,416,700	\$117,776,800	\$121,006,600

SUMMARY OF FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES
For Fiscal Years 2000, 2001, 2002 and 2003

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate
University of Arizona - Main Campus				
Auxiliary (NA)	145,179,600	149,597,300	151,560,300	154,043,300
Designated (NA)	95,115,400	97,985,700	100,417,100	102,897,500
Endowment and Similar (NA)	0	0	0	0
Federal Grants (NA)	130,005,800	129,895,900	129,875,000	132,811,800
Federal Indirect Cost Recovery (NA)	30,696,500	31,617,400	32,565,900	33,542,900
Loan (NA)	95,600	97,200	98,800	102,400
Restricted (NA)	58,621,900	64,171,100	69,962,400	71,696,200
University of Arizona - Main Campus - Subtotal	<u>\$459,714,800</u>	<u>\$473,364,600</u>	<u>\$484,479,500</u>	<u>\$495,094,100</u>
University of Arizona - AZ Health Sciences Center				
Auxiliary (NA)	6,329,400	5,321,400	5,476,300	5,635,900
Designated (NA)	14,250,400	14,633,500	15,072,300	15,524,300
Endowment and Similar (NA)	0	0	0	0
Federal Grants and Contracts (NA)	44,124,900	45,448,700	46,360,900	47,751,700
Federal Indirect Cost Recovery (NA)	14,160,700	14,585,500	15,023,000	15,473,600
Restricted (NA)	40,431,900	41,308,500	42,999,000	44,289,000
University of Arizona - AZ Health Sciences Ctr - Subtotal	<u>\$119,297,300</u>	<u>\$121,297,600</u>	<u>\$124,931,500</u>	<u>\$128,674,500</u>
Veterans' Services, Department of (VSA)				
Federal (2000)	166,000	198,200	205,000	207,500
Veterans' Donations (2441)	30,200	100,000	123,500	145,000
Department of Veterans' Services - Subtotal	<u>\$196,200</u>	<u>\$298,200</u>	<u>\$328,500</u>	<u>\$352,500</u>
Department of Water Resources (WCA)				
Administrative (3025)	0	0	0	0
Augmentation and Conservation Assistance (2213)	1,561,200	1,624,600	2,124,600	2,124,600
Dam Repair (2218)	585,100	1,500,000	0	0
Federal Grants (2000)	223,500	130,500	0	0
Flood Warning System (1021)	43,400	175,500	3,000	3,000
General Adjudications (2191)	74,500	50,000	50,000	50,000
Indirect Cost Recovery (9000)	211,400	675,000	575,000	575,000
Production and Copying (2411)	52,600	50,000	50,000	50,000
Publications and Mailings (2410)	13,300	12,000	12,000	12,000
State Water Storage (2287)	1,974,700	3,000,000	3,250,000	3,250,000
Water Banking, Arizona (2110)	6,083,500	19,816,400	19,816,400	19,816,400
Water Protection, Arizona (1302)	6,416,800	6,548,000	0	0
Water Quality, Arizona (2304)	555,500	852,100	852,100	852,100
Department of Water Resources - Subtotal	<u>\$17,795,500</u>	<u>\$34,434,100</u>	<u>\$26,733,100</u>	<u>\$26,733,100</u>
TOTAL - FEDERAL AND OTHER NON-APPROPRIATED FUND EXPENDITURES	<u>\$5,942,815,200</u>	<u>\$6,741,163,500</u>	<u>\$7,516,770,200</u>	<u>\$6,959,628,900</u>
Total - Other Funds	2,842,115,200	3,376,318,600	3,939,359,600	3,195,544,700
Total - Federal Funds	3,100,700,000	3,364,844,900	3,577,410,600	3,764,084,200
TOTAL - FEDERAL AND OTHER NON-APPROPRIATED EXPENDITURES	<u>\$5,942,815,200</u>	<u>\$6,741,163,500</u>	<u>\$7,516,770,200</u>	<u>\$6,959,628,900</u>

1/ The Joint Legislative Budget Committee approves the State Compensation Fund operating budget. The FY 2002 and FY 2003 amounts represent spending for calendar years 2001 and 2002.

2/ The \$800 million of School Facility Board School Improvement Revenue Bond Proceeds are unlikely to be expended all in FY 2002 as displayed. The allocation by fiscal year will be updated once more information is received.

NA = No Fund Number

THE ECONOMY

The JLBC Staff annually provides the Arizona Legislature with a national and state economic and revenue forecast. In the first section of our report, we describe the prospects for the national and state economy during the next 30 months. Having set this groundwork, the second section of the report details our General Fund revenue forecast. In the third and final section, we provide the Legislature with estimates on the dollar levels of the state's Budget Stabilization Funds.

Summary

The U.S. economy will most likely have grown by more than 5% in 2000. This is almost 1% higher than what the most optimistic forecaster expected one year ago. As a result of Federal Reserve Board (the "Fed") tightening and rising energy prices, however, the economy now seems to be returning to a more sustainable growth path. Most prognosticators seem to subscribe to this view of a "soft-landing" economy engineered by the Fed.

In spite of some recent unfavorable economic news, there is no reason to expect a recession within our forecast horizon of 30 months as long as the economic fundamentals remain sound, as they presently are. However, as it has been stated before, an economic expansion usually does not die of old age, but as a result of a shock, which by its very definition can never be predicted.

The outlook for the Arizona economy is similar to the U.S. forecast. This is because the Arizona economy tends to mirror the U.S. economy. In fact, in the current business cycle the state has even outperformed the national average in many areas, such as in personal income and employment growth. State forecasters anticipate this trend to hold, but still call for a gradual slowing of the Arizona economy over our forecast horizon.

The Forecasting Process

The state Legislature will be adopting its second biennial budget in the upcoming legislative session. Biennial budgeting requires a longer forecast horizon, which also inevitably increases the uncertainty of future state revenues. As of January 2001, we are forecasting revenues through June 2003, or equivalently, 30 consecutive months.

It is important to note that forecast errors tend to increase over time. This is because an error in one year is automatically rolled into and carried forward to subsequent years. By virtue of the so-called compounding effect, the final forecast error can become surprisingly large. For example, we have estimated that even if we forecast growth rates for FY 2002 and FY 2003 with absolute

accuracy, but over-forecast actual revenues in FY 2001 by no more than 1%, we would conclude FY 2003 with \$200 million less in revenues than originally anticipated.

The JLBC Staff uses several inputs to help forecast the economy and state revenues. The JLBC Staff's Finance Advisory Committee (FAC), a group of private and public economists, meets several times each year to provide economic advice to the JLBC Staff. In addition, we use data and models from the WEFA Group, an international forecasting firm, to forecast the U.S. economy. The University of Arizona is another important source as it provides the JLBC Staff with a detailed computer model as well as advice to forecast the state economy and several major state revenues.

The JLBC Staff also considers the national *Blue Chip Economic Indicators*, the *Arizona Blue Chip Forecast*, and the *Western Blue Chip Economic Forecast*. These reports tally the forecasts of noted analysts and average them to achieve consensus forecasts of the national, Arizona and western states economies.

The Economic Outlook

Background of the U.S. Economy

February of 2001 is expected to mark the tenth consecutive year of uninterrupted economic growth in the United States. More impressively, the real or inflation-adjusted Gross Domestic Product (GDP) has grown at an annual rate well in excess of 4.0% over the last four of these ten years. Such rapid continuous growth has not been witnessed since the sixties when much of the U.S. economy was fueled by spending on the Vietnam War. Also, while an environment of accelerating inflation characterized much of the 1960's and 1970's, the current business cycle, by contrast, has been marked by a period of remarkable price stability.

The harvest of this record long economic expansion has been reaped both on "Wall Street" and "Main Street." Investors have seen indices like the S&P 500 and the Dow Jones Industrial Average more than triple since the outset of the current business cycle. Even more breathtaking, the technology-dominated NASDAQ Composite Index has increased nearly sevenfold over the same period. No other

period of economic boom can even remotely match the 1990's with respect to the increase in market capitalization. Most American families have also benefited from the ensuing prosperity. According to the U.S. Census Bureau, the household median income has increased by almost 11% in real terms since the last recession ended in 1991. Rapid job creation accompanied by record low unemployment has spurred personal income growth and thus enabled an increase in the living standard for most Americans. This is evident from a vast array of economic indicators. For example, in the third quarter of 2000, the nation's homeownership rate reached a record high 67.7%.

By virtue of our tax system, a portion of this wealth has been redistributed from the private to the public sector. As a result, in 1996 total federal, state, and local government revenues exceeded expenditures for the first time in 15 years. Furthermore, the U.S. economic expansion has largely occurred at a time when Japan has mired in stagnation and Europe has been beset by sluggish growth and high unemployment. Economic pundits have struggled to find the appropriate superlatives to describe this era in U.S. economic history.

National Outlook

The Federal Open Market Committee (FOMC), the policy-making branch of the Federal Reserve System, raised short-term interest rates six times between June 29, 1999 and May 16, 2000. This gradual shift to a tighter monetary policy is believed to be the chief contributor to the slowdown of the U.S. economy in the second half of 2000. To a lesser extent, rising oil prices and a less buoyant equity market can also explain why economic growth has slowed. Although recent economic news reported that real GDP growth fell from 5.6% to 2.4% in the third quarter of this year, it would still be a mischaracterization to refer to the current state of the economy as weak or faltering. Instead, current economic indicators may merely suggest that we have entered a phase of the business cycle with moderate but still solid growth.

In fact, consumer spending still remains strong and actually accelerated in the third quarter of 2000. Instead, the slowdown in the third quarter was attributable to reduced business spending and an increased trade deficit. Recent corporate earnings warnings, particularly in the telecommunications and computer industry, have reduced investment spending. Higher energy prices and an exceptionally strong dollar have caused the U.S. trade balance to deteriorate further. The housing market, however, remains surprisingly resilient to Fed policy. While sales of existing homes declined slightly in September and October, new home sales continued to beat expectations. Although income and job gains remain solid, the major force sustaining new home sales is steadily dropping mortgage rates. Mortgage rates are closely tied to U.S. Treasury Bonds, and as long as the yields for these securities plummet, mortgage rates are bound to follow

suit. In fact, if mortgage rates continue to defy expectations and decline further, homeowners may spark a new wave of mortgage refinancing, which may provide a boost to consumer spending much like the situation in 1998 and 1999. Furthermore, construction spending on multi-family housing has more than offset the modest decline in single-family building. Overall, the housing market remains stable with no indications of an imbalance between supply and demand.

However, not all sectors of the economy have weathered the recent economic slowdown as well as the housing market. Auto sales, for example, weakened sharply in November to levels not seen since early 1999. The Conference Board's survey of household buying plans suggests a further reduction in vehicle sales over the next six months. As result of the slower pace of sales, both Ford and Chrysler have recently announced production cutbacks. If cost-cutting measures continue, a round of layoffs may also be in the offing.

Overall, the manufacturing industry has contracted mildly over the last few months as captured by the fall in the Purchasing Manager's Index. However, the performance of the manufacturing industry is no longer as reliable an indicator for the economy as it used to be. This is because manufacturing as a share of the U.S. economy has been shrinking over the last 20 years. Arguably, the cyclical volatility that characterizes the manufacturing industry may now be a poor gauge for the overall performance of the economy.

The Consumer Confidence Index has also fallen for the last three months. The dismal performance of the stock market, weaker manufacturing activity and a rise in jobless claims are all to blame. Despite the recent decline of the index, it still remains at a historically high level. However, if consumer confidence slips further, it is bound to have a larger negative impact on consumer spending.

Finally, considering a strong labor market, a historically low inflation rate, and still healthy productivity gains, most economists expect a continued albeit more moderate growth rate in 2001 than in recent years. Also, recent comments by Fed Chairman Greenspan alluded to possible rate cuts should the economy move toward a "hard landing." Although a recession is currently not anticipated, it can never be discounted. A stock market crash, a sharp spike in energy prices, or policy errors are but a few examples of what may trigger the onset of a recession.

JLBC Forecast

The JLBC Staff's forecast is based on WEFA's December 2000 baseline scenario for the U.S. economy. The baseline projection for growth in real output is 5.1% in 2000, 3.0% in 2001, and 3.6% in 2002. This is considerably higher than WEFA's 2000 forecast of 3.0% in December last year. It is interesting to note that the

Figure 1

U.S. Economic Outlook Summary

<u>Percent Change</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<i>Real GDP</i>	5.1	3.0	3.6
<i>Employment</i>	2.1	1.2	1.2
<i>Consumer Prices</i>	3.4	2.7	2.5

- ◆ *Economic growth is expected to moderate in 2001 then re-accelerate in 2002 and 2003.*
- ◆ *Employment growth will fall by almost 1% in 2001 and then remain at that rate through 2003.*
- ◆ *Inflation is expected to fall in 2001 and 2002, only to increase in 2003.*
- ◆ *Unemployment is expected to reach 4.6% in 2001 where it will remain through 2003.*

most positive projection by any major forecasting firm at that time was 4.2%, which is still nearly 1% lower than WEFA's current forecast.

WEFA attributes the expected deceleration of economic growth in 2001 to at least three factors. First, wage gains are expected to outpace price increases, which will depress profits and thus business spending. Second, housing activity, which constitutes a large segment of the U.S. economy, is believed to slow next year and with it related consumer purchases. Third, reduced demand for manufactured goods has caused an involuntary inventory build-up, which subsequently needs to be liquidated next year. Inventory liquidation detracts from national output and income.

Along with a slowing of the economy, WEFA expects job growth to fall from the current pace of 2.1% to 1.2% in both 2001 and 2002. The unemployment rate is expected to increase from 4.1% to 4.6% in 2001 and 4.7% in 2002. Inflation is expected to peak in 2000 at 3.4% only to fall to 2.7% and 2.5% in 2001 and 2002, respectively. (See [Figure 1](#) for the U.S. summary and [Figure 3](#) at the end of the narrative for detailed assumptions.)

The Blue Chip Forecast

The national *Blue Chip Economic Indicators* also expects the U.S. economy to slow with a real GDP growth rate of 5.1% in 2000 and 3.1% in 2001. (Forecasts for 2002 and beyond are not available.) Like WEFA, the *Blue Chip's* consensus forecast calls for the labor market to ease and inflation to subside in 2001. The majority of the 50 panelists expect unemployment to rise to 4.3% and inflation to fall to 2.7% in 2001.

The panelists cite the following three reasons (in order of importance) for forecasting a lower growth rate in 2001. (1) Fed tightening of monetary policy, which will continue to affect the economy next year, (2) weaker stock market, and (3) higher energy prices. To a lesser extent, the

panelists also expressed concerns over widening credit spreads and tighter bank loan standards.

The forecasters express cautious optimism about the future. Only 23% anticipate a recession to begin in 2001. At this time last year, the same panelists assigned a 42% probability for a recession in 2001. The majority of the *Blue Chip* analysts believe that the lower growth rate next year signals the return to long-run non-inflationary growth or a "soft landing" rather than the advent of a new recession.

Forecast Risks

Although a recession is considered unlikely in 2001, the U.S. economy, in spite of its resiliency, is not immune to economic shocks or imbalances. While a shock, such as a stock market crash or an oil crisis, is an unforeseen and often precipitous event that cannot be predicted, imbalances, by contrast, emerge over time and must be assessed when producing a forecast.

Growing imbalances in the U.S. economy today are most noticeable in the labor market and in foreign trade. Although the labor market has shown signs of slight easing lately, it still remains tight by historical standards. Most notably, average hourly earnings rose by 4.0% in November, the largest year-over-year increase since January 1999. Also, unit labor costs increased by 2.9% in the third quarter of 2000 reversing three consecutive quarters of falling costs. Unless productivity growth accelerates from its already healthy pace, wage increases are bound to result in lower corporate profits and/or higher consumer prices. However, with slower growth in output that is largely due to reduced capital spending, further productivity gains seem unlikely. A situation with upward pressure on inflation and downward pressure on profits makes Fed policy even more precarious. Under this scenario, the central bank may opt to raise short-term interest rates to stave off inflation, which could choke off the economy and drive us into a recession much like in 1991.

The increasing current account deficit is another imbalance that is a cause of concern. The current account, which primarily measures the exports and imports of goods and services, reached another record deficit in the third quarter of 2000. Aided by a strong dollar and still high consumer confidence, American consumers continue to show insatiable appetite for foreign commodities. The prospects for an improvement of the U.S. current account appear dim when considering rising oil prices and slower economic growth globally.

An alternative interpretation of the current account is that it constitutes the difference between national savings and national investments. By this definition, a current account deficit implies a shortfall in national savings, which must be offset by foreign capital. Unfortunately, this imbalance makes the U.S. economy increasingly vulnerable to sudden

shifts in investment preferences. If foreign investors decide to pull back their funds, the dollar's value may start to decline rapidly, which in turn could force the Fed to raise interest rates in an attempt to revert the capital flow. While higher interest rates increase private savings, they also depress consumption and capital spending. In other words, a correction of the current account balance may come at the cost of a new recession.

In spite of the aforementioned imbalances or other forecast risks, such as a severe credit crunch, WEFA assigns no more than a 15% probability for a recession in 2001. Instead, WEFA predicts a more moderate growth in 2001 followed by a slight re-acceleration in 2002 and 2003, an outlook consistent with a so-called "soft-landing" economy. Hence, WEFA calls for real GDP to grow by 3.0% in 2001 and 3.6% in 2002 and 2003.

Arizona Overview

Final data on the Arizona economy in 2000 will not be available for several months. However, current indicators suggest that 2000 will closely match but not outperform the state's strong showing in 1999. Historically, Arizona's economy has generally tracked the national economy and therefore as the U.S. economy decelerates, the state is likely to follow suit. While a recession is not believed to be in the offing, the JLBC Staff expects growth to moderate over the next 30 months. The state economy has grown considerably faster than the national average during the current business cycle in terms of personal income and employment growth and there is no reason for this trend to change in the near future.

The strength of the state's economy is evident from its rapid recovery from the Asian financial crisis in the fall of 1998. At that time, Arizona's export industry was severely affected by the reduced demand for its manufactured goods and many layoffs resulted from it. Today, the state Department of Commerce reports that 2000 will likely break the record set in 1997 when \$13.8 billion worth of goods were exported from Arizona to other countries.

(The JLBC Staff's forecast is summarized in [Figure 2](#) and details are presented in the narrative that follows.)

Figure 2

Arizona Outlook Summary

<i>Percent Change</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>Personal Income</i>	6.9	6.4	6.3
<i>Employment</i>	3.5	3.2	3.0
<i>Population</i>	2.8	2.5	2.5

- ◆ *Personal income is expected to slow from the double-digit growth in 1999.*
- ◆ *Employment growth will moderate slowly, but still remain above the U.S. average.*
- ◆ *Population growth will slow due to less creation of new jobs.*
- ◆ *Housing market will continue its cool-off period, but still remain stable.*

Finance Advisory Committee

The Finance Advisory Committee (FAC), a panel of leading economists from both the private and public sector, met on November 20, 2000 in order to present its outlook on the U.S. and Arizona economy. The panelists generally agreed that the rapid growth rate of the recent past is unsustainable and that a moderating growth rather than a recession is what the future holds for the nation as well as the state.

Personal Income

Personal income is a measure of all sources of income, including wages, dividends, interest, profits, and transfers such as pensions. Arizona's personal income grew by 7.4% in 1999, which was 1.6% above the national average and ninth fastest in the nation.

Only personal income data for the first two quarters of 2000 is currently available. In the first quarter, personal income rose by a very strong 10.1% year-to-year. The growth rate slowed to 7.4% in the second quarter, but this is still a brisk pace by historical standards. (It should be noted that personal income data is frequently subject to major revisions and therefore the 2000 and even 1999 figures are not final yet.)

The *Arizona Blue Chip* November consensus forecast for personal income reflects the expectation of moderating growth. The panel expects personal income in the state to grow by 7.0% in 2000, 6.4% in 2001, and 6.3% in 2002. This is still a robust growth rate, but not as high as the 8.1% average recorded in the three preceding years. The JLBC Staff's forecast is 6.9% in 2000, 6.4% in 2001, and 6.3% in 2002.

Employment

The Arizona economy added more than 450,000 new jobs in the five years between the summer of 1995 and the summer of 2000. This means that one out of every five jobs today did not exist five years ago. This explosive growth has often earned Arizona the number one ranking in the nation with respect to job creation over the last few years. In September 2000, the Grand Canyon state had to yield its number one position to Nevada, but it still enjoys a healthy growth rate of 4.1% year-to-year. The experts on the *Arizona Blue Chip* forecast panel expect employment growth to end at 3.9% in 2000, which would translate into 86,700 new jobs statewide. The corresponding forecasts for 2001 and 2002 are 3.2% and 3.0%, respectively. The JLBC Staff's forecast is 0.4% lower than the *Blue Chip* in 2000 but exactly the same in 2001 and 2002.

All sectors of the economy are posting high employment gains except construction. In September 2000, construction growth was ranked 37th in the nation with a meager showing of 1.8%. At the same time last year, the construction industry was growing at an annual rate of 7.5%. While these statistics indicate a cooling off in construction activities, they also mask the fact that

Arizona's construction employment is at an all time record high level of 160,000 construction jobs, twice as many as in 1993. Some analysts even argue that the slow job growth in construction reflects more of a labor shortage problem than a reduced demand for new housing.

The unemployment rate in the state in October was 3.7%, which was 0.6% less than what was recorded at the same time last year. The *Arizona Blue Chip* analysts expect the final 2000 unemployment rate to reach 4.2%, and then rise to 4.5% in 2001 and 2002. The JLBC Staff's forecast is 0.1% higher in 2000 and 2001, but the same in 2002. These forecasts reflect the expectation of a moderating state economy.

Population

Arizona's population is expected to grow by 2.8% in 2000, the same rate of growth as posted for 1999. This means that the state will add 135,000 new residents in 2000. The *Arizona Blue Chip* panelists predict that the statewide population growth will slow to 2.6% in 2001 and 2002, which is 0.1% higher than the JLBC Staff's forecast for the same period. This means that Arizona is expected to have 5.2 million residents in July 2002.

Slower population growth reflects a less rapid pace in job creation. Population growth is closely tied to job creation, so once less employment opportunities become available, fewer people will also make Arizona their permanent home.

Retail Sales

Retail sales grew by 10.2% in 1999, which was an exceptional year that will not be matched in 2000, or in any year throughout our forecast horizon. gyrations in the stock market and a less buoyant housing market tempered consumer spending in 2000. The *Arizona Blue Chip* panel calls for retail sales to grow by 6.8% in 2000, 5.6% in 2001, and 5.8% in 2002. The JLBC Staff also anticipates a slower growth in retail sales but does not expect it to decline as quickly as the *Blue Chip* panel. We forecast growth rates of 8.8% in 2000, 6.3% in 2001, and 6.5% in 2002.

Housing

The housing market in Arizona is also slowing somewhat following the remarkable years of 1998 and 1999. Homebuilding activity, as measured by new units permitted, will be less than 60,000 statewide in 2000, compared to nearly 63,000 building permits in 1999. The *Arizona Blue Chip* expects a further decline in 2001 and 2002 both for single-family and multi-family (mostly apartments) construction.

The market for existing homes is also cooling from last year's extraordinary performance. This is particularly evident in metro-Phoenix, where sellers of existing homes

now outnumber buyers. November resales were down 23% from the same month in 1999.

The lower-than-expected mortgage rates have probably prevented a more dramatic slowdown in home buying. After having peaked at 8.5% in May 2000, the rates are now almost 1% less. Lower mortgage rates offset higher housing prices, which in turn prevent many first-time buyers from being priced out of the market. The continuation of a stable housing market is contingent upon housing affordability.

Conclusion

The outlook for the Grand Canyon state for the next 30 months remains favorable. A recession is not expected, but can never be ruled out. Instead, we expect a continued trend of still healthy but slowing growth.

The Arizona economy faces the same risks as the nation as a whole. While the state economy is strong, it is not immune to economic shocks such as a stock market crash or another international oil crisis. Barring any shocks to the economy, the state should continue to do well. Personal income will grow less rapidly than in the last few years, but will still follow a steady albeit slowing growth path. The labor market will ease somewhat but still record 60,000 to 70,000 new jobs annually. Along with slower employment growth, we can also expect to see a smaller influx of people to Arizona than previously. The population increase will still exceed 100,000 annually over our forecast horizon.

Retail sales will not be fueled by a strong equity and housing market this time around. Instead, market conditions will probably revert to more historical averages. While consumer confidence in the state remains higher than nationally, it will likely fall somewhat and thus the retail spending associated with it.

Overall, the economic fundamentals in Arizona are favorable. While Arizona has yet to establish itself as a center for the "new economy," it nonetheless enjoys high nationwide rankings and has been the recipient of large sums of venture capital, which are key to increasing the presence of new high-tech companies in the state.

Figure 3**National Outlook**

<u>National Economic Indicators</u>	Calendar Years				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Real Gross Domestic Product ^{1/} (Billions)	8,515.7	8,875.8	9,330.0	9,614.0	9,955.0
% Change	4.4	4.2	5.1	3.0	3.6
<i>Blue Chip</i>			5.1	3.1	N/A
Wage & Salary Employment ^{2/} (Millions)	125.8	128.8	131.5	133.0	134.7
% Change	2.6	2.3	2.1	1.2	1.2
Unemployment Rate - %	4.5	4.2	4.1	4.6	4.7
<i>Blue Chip</i>			4.0	4.3	N/A
After-Tax Corporation Profits ^{2/} (Billions)	583.0	567.2	647.2	656.8	673.8
% Change	5.6	(2.7)	14.1	1.5	2.6
Housing Starts ^{2/} (Millions)	1.6	1.7	1.6	1.4	1.4
% Change	9.9	3.4	(5.5)	(8.6)	(0.2)
New Car Sales ^{2/} (Millions)	15.4	16.8	17.4	15.9	16.0
% Change	2.0	9.1	3.6	(8.6)	0.1
Consumer Price Index	163.1	166.7	172.4	177.0	181.4
% Change	1.6	2.2	3.4	2.7	2.5
<i>Blue Chip</i>			3.4	2.7	N/A

1/ Chained (1996) Dollars. 2/ Blue Chip Data Unavailable.

Figure 4**Arizona Outlook**

<u>Arizona Economic Indicators</u>	Calendar Years				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Personal Income ^{1/} (Millions)	112,973.8	121,391.3	129,767.3	138,072.4	146,771.0
% Change	8.7	7.4	6.9	6.4	6.3
<i>Arizona Blue Chip</i>			7.0	6.4	6.3
Personal Income-Per Capita 1996 Dollars ^{2/}	24,022.0	25,096.0	26,350.8	27,404.8	28,418.8
% Change	5.6	4.5	5.0	4.0	3.7
Population (Thousands)	4,703.0	4,837.0	4,972.4	5,096.7	5,224.2
% Change	2.9	2.8	2.8	2.5	2.5
<i>Arizona Blue Chip</i>			2.8	2.6	2.6
Retail Sales (Millions)	45,292.9	49,897.7	54,288.7	57,708.9	614,559.9
% Change	5.8	10.2	8.8	6.3	6.5
<i>Arizona Blue Chip</i>			6.8	5.6	5.8
Wage & Salary Employment (Thousands)	2,074.3	2,161.1	2,236.7	2,308.3	2,377.6
% Change	4.5	4.2	3.5	3.2	3.0
<i>Arizona Blue Chip</i>			3.9	3.2	3.0
Unemployment Rate - %	4.1	4.2	4.3	4.6	4.5
<i>Arizona Blue Chip</i>			4.2	4.5	4.5

1/ Chained (1996) Dollars. 2/ Blue Chip Data Unavailable.

GENERAL FUND REVENUE

Recommendation Revenue

The FY 2002-2003 biennium budget requires General Fund revenues to be forecast 30 months in advance. Our current revenue forecast in January 2001 will have to apply to economic conditions through June 2003. It is not possible to predict the state of the economy with pinpoint certainty that far in the future.

As a starting point in developing a revenue forecast, we believe it is useful to review General Fund baseline revenue growth during the recent past. To ensure comparability between years, baseline revenues measure the underlying growth in collections before tax law changes.

Total General Fund baseline revenues have grown on average by 7.8% over the last 12 years. This time includes years of expansion as well as contraction in the Arizona economy. During the last five exclusively expansionary years, baseline General Fund revenues have grown by 9.8%.

The general economic consensus is that the Arizona economy will continue to grow, although at lower rates than in the prior expansionary years. Given the difficulty in predicting revenues 30 months in advance, we have provided the Appropriations Chairmen a range of possible growth rates during the upcoming biennium as well as a point-specific forecast.

Based on past track record of revenue collections and the current economic forecast, the JLBC Staff believes that General Fund baseline revenues in FY 2001 through FY 2003 will grow between 6.8% and 8.8% annually. For

purposes of the JLBC Recommendation, the Appropriations Chairmen have chosen a baseline forecast of 8.3% in FY 2001, 8.1% in FY 2002 and 7.9% in FY 2003.

The JLBC Staff estimates that already enacted tax law changes will cost \$70.4 million in FY 2002 and \$75.1 million in FY 2003. In addition, the Appropriations Chairmen are proposing \$15 million in new tax reductions in FY 2002 and \$30 million in FY 2003. Both figures are relative to FY 2001. After incorporating these changes, adjusted net General Fund JLBC recommendation revenues are projected to grow by 6.8% in FY 2001, 6.8% in FY 2002 and 7.7% in FY 2003.

The following table compares the JLBC Recommendation Revenues, the JLBC Staff forecast, and the Executive's forecast. A portion of the difference, \$76 million, is due to the Executive's assumption that federal disproportionate share revenue will be eliminated in the state's negotiations with the federal government on Proposition 204.

Summary of JLBC Staff Forecast

As described in The Economy Section, the JLBC Staff forecasts that both the national and Arizona economies will continue to grow over the forecast period from January 2001 to June 2003. While we expect the economy to continue growing, it is believed to do so at a decelerating rate over the next 30 months. Based on a consensus of leading economists, however, the JLBC Staff does not foresee a recession during this time period. We caution the reader that it is virtually impossible to make accurate predictions this far in advance.

Figure 5

General Fund Revenues ^{1/}						
A Comparison of Forecast Alternatives						
(\$ in Millions)						
	FY 2001 Baseline Revenues <u> %</u>	FY 2001 Adjusted Revenues	FY 2002 Baseline Revenues <u> %</u>	FY 2002 Adjusted Revenues	FY 2003 Baseline Revenues <u> %</u>	FY 2003 Adjusted Revenues
JLBC Recommendation	8.3	\$6,768.4	8.1	\$7,246.2	7.9	\$7,819.5
JLBC Staff	8.2	\$6,762.0	7.4	\$7,192.0	7.8	\$7,753.8
Executive	8.4	\$6,780.7	6.5	\$7,074.5	7.2	\$7,573.4

^{1/} Excludes sales tax dedicated to Proposition 301, Urban Revenue Sharing and new tax reductions.

The JLBC Staff forecast reflects baseline revenue growth rates of 8.2% in FY 2001, 7.4% in FY 2002, and 7.8% in FY 2003. In dollar terms, baseline revenues are expected to equal \$6,857.7 million in FY 2001, \$7,262.4 million in FY 2002, and \$7,828.9 million in FY 2003. (Note that baseline revenue estimates reflect the forecasted "natural" growth in revenues, prior to accounting for any newly effective or phased-in legislation, proposed legislation, sales tax collections related to Proposition 301, or urban revenue sharing.)

The detailed revenue forecast appears in [Figure 6](#) and [Figure 7](#) at the end of this section. These figures include baseline and adjusted forecasts for each revenue category.

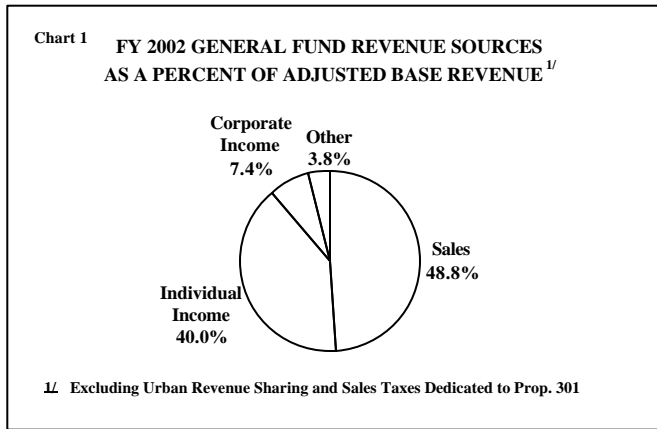
Legislative Changes

The FY 2001 revenue forecast includes \$(95.6) million in tax and revenue reductions. This is \$(20.1) million in further reductions from the estimates reported in the 2000 enacted budget. This change is partly attributable to newly enacted alternative fuel vehicle legislation (Laws 2000, 7th Special Session, Chapter 1).

The FY 2002 and FY 2003 revenue forecasts include previously enacted tax and revenue reductions in the amount of \$(70.4) million and \$(75.1) million, respectively. The estimates of FY 2002 and FY 2003 tax law changes are new changes over and above already enacted FY 2001 tax laws. (More details of legislative changes are provided in [Figure 8](#) at the end of this narrative.)

In addition, the Appropriations Chairmen are proposing \$(15) million in new unspecified tax reductions in FY 2002 and \$(30) million in FY 2003.

The Big Picture - Arizona's Major Revenue Sources



Before providing more details on our revenue forecast, it is important to understand the overall context of Arizona's

General Fund revenue sources. The bulk of General Fund revenues is raised from three sources, known as the "Big Three". The largest of these is the sales tax, which is projected to generate 48.8% of General Fund revenue excluding urban revenue sharing and the sales taxes dedicated to Proposition 301 in FY 2002. The individual income tax is the next largest source, accounting for 40.0%, while the corporate income tax share is 7.4%. Together these three taxes are expected to provide 96.2% of General Fund revenue. [See [Chart 1](#)]

Individual General Fund Revenue Forecasts

Key Factors for the Sales Tax

- ◆ Sales tax revenues are expected to continue growing at a strong pace.
- ◆ Consumer spending, the backbone of this expansion, will remain buoyant.
- ◆ The 0.6% education sales tax will come online in FY 2002.

Sales and Use Tax

Baseline sales and use tax collections are forecast to increase by 8.3% in FY 2001 and by 8.0% in both FY 2002 and FY 2003. Beginning with FY 2002, the 0.6% increase in the sales tax rate dedicated to education will become effective, and this tax is forecast to raise \$486.0 million in FY 2002 before rising 8.0% to \$524.7 million in FY 2003.

We project that sales tax revenues will continue to grow at a high level throughout the forecast biennium. Despite recent evidence that the economy may be slowing, we expect consumer spending to remain strong for the next few years. This economic expansion has proven itself resilient and durable, and our forecast calls for more of the same. With unemployment at low levels and favorable demographic conditions (i.e., the large Baby Boom generation is in its peak-earning phase), the long-term economic fundamentals look good.

Key Factors for the Individual Income Tax

- ◆ Through November 2000 withholding receipts have grown over 8.8%, much faster than reported job and wage growth.
- ◆ Capital gains income have continued to contribute to growth of final year-end payments in recent years.

Individual Income Tax

Baseline individual income tax collections are expected to grow by 10.5% in FY 2001. This compares to 10.3% in FY 2000 and 15.4% in FY 1999. The outlook for the personal income tax remains positive.

Total individual income tax receipts have four major components: withholding, estimated payments, annual final payments, and refunds. The amount of money withheld from paychecks is a relatively smooth series which reflects employment and wage growth trends. The total net income tax revenue is, however, affected by refunds, quarterly estimated tax payments and final payments made during tax filing season. Withholding has increased 8.8% through November 2000 in response to continued employment and wage growth in Arizona.

Included in the net revenue forecast is the estimate for the costs of alternative fuels tax credits which eligible taxpayers are expected to take over the next three years. This includes \$(4.4) million for alternative fuel tax credits which will be applied to taxpayers' individual income tax liabilities. Credits which are over and above the taxpayers liability will be paid out of the Budget Stabilization Fund, as discussed in the following section of this report. In addition, an estimated \$(15.7) million has been deducted from the forecast in FY 2001 for the cost of tax credits for neighborhood electric vehicles.

Given the expectation of a growing economy through the biennial forecast horizon, baseline revenue growth is expected to continue at 10.2% in FY 2002 and 9.9% in FY 2003.

Key Factors for the Corporate Income Tax

- ◆ *It is unclear at this time if the current revenue surplus in this tax will remain through the end of the fiscal year.*
- ◆ *There is uncertainty over how much the recent decline in corporate profits will affect tax collections.*

Corporate Income Tax

Baseline corporate income tax collections are forecasted to increase by 5.8% in FY 2001, and increase by a more conservative 5.0% in both FY 2002 and FY 2003. After accounting for tax reductions, collections are projected to decline by (1.6)% in FY 2001, (3.1)% in FY 2002, and grow by 5.4% in FY 2003.

The projected negative revenue growth in this tax is a result of an estimated \$(38.7) million in tax reductions in FY 2001, followed by another \$(41.9) million in tax reductions in FY 2002. The majority of this tax reduction

is from legislation that reduced the tax rate from 8% down to 7%.

It is difficult to estimate this tax because of the fact that a few companies have a large influence on the level of tax collections, and that fluctuations in the profit-making status of these companies may lead to large changes in total tax payments. A review of Department of Revenue annual reports identifies that as little as two-tenths of 1% of filers pay more than 50% of total tax collections. The JLBC Staff has little information about these taxpayers.

In addition, these companies have much flexibility when it comes to paying taxes; past returns may be amended at a later date, potential refunds may be converted into estimated quarterly payments, and tax credits may be taken over many years. Until the JLBC Staff has access to more specific tax data, this forecast will continue to prove to be the most unreliable.

Property Tax

The net assessed value (NAV) for properties in Arizona grew by 6.7% in FY 2000, and is projected to grow by 8.4% in FY 2001, 7.0% in FY 2002, and 5.0% in FY 2003. Most of the NAV growth so far has been driven by new construction and that pattern is assumed to hold over our forecast horizon as well.

In spite of rising property values, tax collections for the state are expected to decline by (3.5%) in FY 2001, (8.5%) in FY 2002, and (5.6%) in FY 2003. This forecast would generate property tax proceeds of \$39.9 million in FY 2001, \$36.5 million in FY 2002, and \$34.5 million in FY 2003. The reason for this anomaly is that the General Fund does not receive property tax revenues from all school districts in the state. Instead, state taxes are levied only on properties in districts that do not qualify for Basic State Education Aid (so-called zero-aid districts) and on properties located outside the boundaries of school districts (so-called unorganized districts). In addition, 50% of flight property tax is deposited into the General Fund.

Laws 2000, 2nd Regular Session, Chapter 384 changed the valuation methodology for electrical generation plants. This legislation was prompted by the deregulation of electric utilities in Arizona. Under the new methodology, the value of generation facilities will be allowed to depreciate more rapidly than before. We have estimated that this legislation will reduce property tax revenues to the state by \$(2.2) million in FY 2002 and \$(3.9) million in FY 2003. Other property tax legislation is only expected to have a negligible effect on property tax collections in FY 2001 to FY 2003.

It should be noted that most property tax legislation has a small impact on state revenues but a large effect on state expenditures. This is because K-12 education in Arizona is funded both through local property taxes and the state's

equalization formula for school aid. By virtue of the funding formula, there is an inherent trade-off between these two funding sources. This means that whenever local property tax revenues are reduced, the state must make up for this loss to keep the funding amount unchanged.

Insurance Premium Tax

After growing 6.7% in FY 2000, baseline insurance premium tax growth is expected to moderate to 2.7% in FY 2001. The trend in underlying growth of insurance premiums remains healthy, but it had previously been thought by the Department of Insurance that there would not be any bankruptcies, however small, within the industry in Arizona in the near term. The department now anticipates a small number of insolvencies in the next few years. These influence revenues because the remaining healthy insurers in Arizona are assessed to pay for the outstanding policy claims of the bankrupt insurer. Subsequently, the healthy insurers are able to deduct their assessments from their premium taxes over a 5-year period. Overall, the outlook for the insurance industry remains healthy and a decline in the industry's financial health is not expected. Premium taxes are expected to grow 3.0% in FY 2002 and then, in line with a resumption of growth, increase by 4.7% in FY 2003.

Lottery

The JLBC Staff forecasts that deposits to the General Fund will drop to \$20.6 million in FY 2001, and will drop further to \$19.9 million in FY 2002 and \$18.6 million in FY 2003. Laws 1997, Chapter 214 caps the amount that the General Fund can receive from the Powerball game at \$21 million, and allows profits in excess of this cap to be transferred to the mass transit program. Changes to the odds structure of the game in FY 1998 made it more difficult to win, resulting in bigger jackpots. The larger jackpots drew more players, leading to increased sales in FY 1998 and FY 1999. However, this proved to be only a temporary phenomenon, as sales figures in FY 2000 decreased by approximately (26.0)% from the prior year.

This forecast applies the FY 1999 rate of return of 31.6% to a steadily decreasing Powerball sales forecast. We believe that Powerball sales will continue to decline even with the odds change, an assumption supported by the FY 2000 results.

Interest

A record \$77.7 million in General Fund interest earnings was received in FY 2000, a 3.0% increase above the previous year. Operating fund balances, which includes the General Fund and all other state funds which earn interest that is not specifically earmarked, are expected to have average balances of about \$1.4 billion in FY 2001. The Treasurer's Office expects to earn about 6.2% on this which will yield an estimated \$87.0 million in earnings,

another record. The forecast expects that operating balances will remain at about the current levels over the following two years, largely because of continued strong revenue growth and bonding for the cash requirements of the Students First capital expenditure program. The forecast for earnings in FY 2002 is \$80.0 million followed by \$70.0 million in FY 2003.

Disproportionate Share

Disproportionate Share Hospital (DSH) program revenue represents money paid by the federal government to hospitals that disproportionately serve the indigent population. Payments are made to the state, which then transmits the monies to the counties. A portion of the DSH revenue is withheld by the state for deposit into the state General Fund. This revenue stream could change as part of the state's negotiation with the federal government over the financing of certain health care programs. Until that negotiation is completed, the JLBC Staff continues the state share of DSH revenue at a level of \$76.5 million per year for the FY 2001 through FY 2003 period.

Other Non-Tax Revenues - Miscellaneous

A judgement recovery of funds relating to a complicated insurance bankruptcy in the early 1990's has resulted in annual payments, starting with \$17 million in FY 1997 and \$7 million each year thereafter through FY 2000. A final payment of \$26 million is due in FY 2001. This large final payment is the primary reason for the increase of \$25.2 million in the licenses, fees, and permits revenue category in FY 2001, and the subsequent decline in FY 2002.

Figure 6

BIENNIAL BUDGET JLBC STAFF FORECAST (FY 2001 - FY 2003)

BASELINE REVENUE GROWTH ^{1/}										
(\$ in Thousands)										
	BASELINE FORECAST FY 2001	% ABOVE FY 2000 ACTUAL	\$ CHANGE FROM FY 2000act	\$ CHANGE FROM PRIOR FRCST	BASELINE FORECAST FY 2002	% ABOVE FY 2001 ADJUSTED	\$ CHANGE FROM FY 2001adj	BASELINE FORECAST FY 2003	% ABOVE FY 2002 BASE	\$ CHANGE FROM FY 2002base
Taxes:										
Sales and Use	3,064,050.1	8.3%	234,742.7	47,319.7	3,304,511.7	8.0%	245,353.6	3,569,711.0	8.0%	265,199.3
Income -Individual	2,529,021.3	10.5%	239,692.4	37,525.8	2,758,630.3	10.2%	256,135.8	3,031,858.9	9.9%	273,228.6
-Corporate	553,645.2	5.8%	30,463.6	0.0	540,675.6	5.0%	25,746.5	567,708.7	5.0%	27,033.1
Property	39,953.8	-3.5%	(1,438.5)	0.0	38,791.1	-2.8%	(1,132.7)	38,478.8	-0.8%	(312.3)
Luxury	65,899.8	0.7%	463.7	0.0	66,293.7	0.6%	393.9	66,691.0	0.6%	397.3
Insurance Premium	165,000.0	2.7%	4,298.7	(13,000.0)	170,000.0	3.0%	5,000.0	178,000.0	4.7%	8,000.0
Motor Vehicle License	25,000.0	3.0%	734.2	0.0	0.0	-	0.0	0.0	-	0.0
Estate	75,000.0	-7.0%	(5,644.3)	5,000.0	80,000.0	6.7%	5,000.0	80,000.0	0.0%	0.0
Other Taxes	2,196.4	1.0%	21.7	(710.5)	2,229.4	30.4%	519.9	2,262.8	1.5%	33.4
Sub-Total - Taxes	6,519,766.6	8.4%	503,334.2	76,135.0	6,961,131.8	8.4%	537,017.0	7,534,711.1	8.2%	573,579.3
Other Non-Tax Revenues:										
Lottery	20,574.9	-2.0%	(425.1)	(425.1)	19,878.7	-3.4%	(696.2)	18,626.7	-6.3%	(1,252.0)
Licenses, Fees and Permits	115,808.5	27.9%	25,251.5	16,245.9	94,311.8	-18.6%	(21,496.7)	98,453.9	4.4%	4,142.1
Interest	87,000.0	12.0%	9,297.9	22,000.0	80,000.0	-8.0%	(7,000.0)	70,000.0	-12.5%	(10,000.0)
Transfers and Reimbursements	30,615.7	16.8%	4,393.6	615.7	30,615.7	0.0%	0.0	30,615.7	0.0%	0.0
Disproportionate Share Revenue	76,490.0	-24.8%	(25,177.9)	0.0	76,490.0	0.0%	0.0	76,490.0	0.0%	0.0
Balance Transfers	7,433.4	69.2%	3,039.8	0.0	0.0	-100.0%	(7,433.4)	0.0		0.0
Sub-Total - Non-Tax	337,922.5	5.1%	16,379.8	38,436.5	301,296.2	-10.8%	(36,626.3)	294,186.3	-2.4%	(7,109.9)
Total Base Revenue	6,857,689.1	8.2%	519,714.0	114,571.5	7,262,428.0	7.4%	500,390.7	7,828,897.4	7.8%	566,469.4
Urban Revenue Sharing (URS)	(396,452.6)	5.0%	(18,741.6)	(0.0)	(421,876.6)	6.4%	(25,423.9)	(452,613.5)	7.3%	(30,737.0)
Base Revenue After URS	6,461,236.5	8.4%	500,972.4	114,571.5	6,840,551.4	7.5%	474,966.8	7,376,283.9	7.8%	535,732.5

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

Figure 7

ADJUSTED REVENUE GROWTH ^{1/}										
(\$ in Thousands)										
	ADJUSTED FORECAST FY 2001	% ABOVE FY 2000 ACTUAL	\$ CHANGE FROM FY 2000act	\$ CHANGE FROM PRIOR FRCST	ADJUSTED FORECAST FY 2002	% ABOVE FY 2001 ADJUSTED	\$ CHANGE FROM FY 2001	ADJUSTED FORECAST FY 2003	% ABOVE FY 2002 ADJUSTED	\$ CHANGE FROM FY 2002
Taxes:										
Sales and Use ^{2/}	3,059,158.1	8.1%	229,850.7	47,319.7	3,302,747.1	8.0%	243,589.0	3,566,393.9	8.0%	263,646.8
Income -Individual	2,502,494.5	9.3%	213,165.6	17,348.8	2,709,157.3	8.3%	206,662.8	2,981,005.4	10.0%	271,848.1
-Corporate	514,929.1	-1.6%	(8,252.5)	0.0	498,791.9	-3.1%	(16,137.2)	525,799.0	5.4%	27,007.1
Property	39,923.8	-3.5%	(1,468.5)	0.0	36,526.2	-8.5%	(3,397.6)	34,475.6	-5.6%	(2,050.6)
Luxury	65,899.8	0.7%	463.7	0.0	66,293.7	0.6%	393.9	66,691.0	0.6%	397.3
Insurance Premium	165,000.0	2.7%	4,298.7	(13,000.0)	170,000.0	3.0%	5,000.0	178,000.0	4.7%	8,000.0
Motor Vehicle License	0.0	-100.0%	(24,265.8)	0.0	0.0	-	0.0	0.0	-	0.0
Estate	75,000.0	-7.0%	(5,644.3)	5,000.0	80,000.0	6.7%	5,000.0	80,000.0	0.0%	0.0
Other Taxes	1,709.5	-21.4%	(465.2)	(710.5)	2,229.4	30.4%	519.9	2,262.8	1.5%	33.4
Sub-Total - Taxes	6,424,114.8	6.8%	407,682.4	55,958.0	6,865,745.6	6.9%	441,630.8	7,434,627.6	8.3%	568,882.0
Other Non-Tax Revenues:										
Lottery	20,574.9	-2.0%	(425.1)	(425.1)	19,878.7	-3.4%	(696.2)	18,626.7	-6.3%	(1,252.0)
Licenses, Fees and Permits	115,808.5	27.9%	25,251.5	16,245.9	94,311.8	-18.6%	(21,496.7)	98,453.9	4.4%	4,142.1
Interest	87,000.0	12.0%	9,297.9	22,000.0	80,000.0	-8.0%	(7,000.0)	70,000.0	-12.5%	(10,000.0)
Transfers and Reimbursements	30,615.7	16.8%	4,393.6	615.7	55,615.7	81.7%	25,000.0	55,615.7	0.0%	0.0
Disproportionate Share Revenue	76,490.0	-24.8%	(25,177.9)	0.0	76,490.0	0.0%	0.0	76,490.0	0.0%	0.0
Balance Transfers	7,433.4	69.2%	3,039.8	0.0	0.0	-100.0%	(7,433.4)	0.0	-	0.0
Sub-Total - Non-Tax	337,922.5	5.1%	16,379.8	38,436.5	326,296.2	-3.4%	(11,626.3)	319,186.3	-2.2%	(7,109.9)
Total Adjusted Revenue	6,762,037.3	6.7%	424,062.2	94,394.5	7,192,041.8	6.4%	430,004.5	7,753,813.9	7.8%	561,772.1
Proposed Tax Reductions	0.0	N/A	N/A	N/A	(15,000.0)	N/A	N/A	(30,000.0)	100.0%	(15,000.0)
Adjusted Revenue After Proposed Tax Reductions & 301	6,762,037.3	6.7%	424,062.2	94,394.5	7,177,041.8	6.1%	415,004.5	7,723,813.9	7.6%	546,772.1
Urban Revenue Sharing (URS)	(396,452.6)	5.0%	(18,741.6)	(0.0)	(421,876.6)	6.4%	(25,423.9)	(452,613.5)	7.3%	(30,737.0)
Adjusted Revenue After Proposed Tax Reductions, 301, & URS	6,365,584.7	6.8%	405,320.6	94,394.5	6,755,165.2	6.1%	389,580.6	7,271,200.4	7.6%	516,035.2

^{1/} The adjusted forecast includes these tax law changes and represents a "bottom line" revenue growth estimate.

^{2/} See below for Proposition 301 0.6% monies.

^{3/} 0.6% sales tax for education authorized by Proposition 301.

Figure 8

LEGISLATIVE ADJUSTMENTS BY REVENUE CATEGORY
 (\$ in Thousands)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Summary By Category:			
Sales & Use Tax	(4,892.0)	(1,764.6)	(3,317.1)
Individual Income Tax	(26,526.8)	(49,473.0)	(50,853.5)
Corporate Income Tax	(38,716.1)	(41,883.7)	(41,909.7)
Property Tax	(30.0)	(2,264.9)	(4,003.2)
Motor Vehicle License Tax (VLT)	(25,000.0)	0.0	0.0
Other Taxes	(486.9)	0.0	0.0
Transfers & Reimbursements	0.0	25,000.0	25,000.0
TOTAL TAX LAW CHANGES	(95,651.8)	(70,386.2)	(75,083.5)

ADJUSTMENTS BY INDIVIDUAL LEGISLATION

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Revenue Category</u>
<u>44th Legislature - 7th Special Session:</u>					
1	Alternative Fuels Program Changes	(4,427.0)	4,427.0	4,427.0	Individual
	Session Total	<u>(4,427.0)</u>	<u>4,427.0</u>	<u>4,427.0</u>	
<u>44th Legislature - 5th Special Session:</u>					
1	Education 2000; Programs	0.0	(41,600.0)	(41,600.0)	Individual
		0.0	(3,750.0)	(3,847.5)	Individual
		0.0	25,000.0	25,000.0	Transfers
	Subtotal - Chapter 1	0.0	(20,350.0)	(20,447.5)	
	Session Total	<u>0.0</u>	<u>(20,350.0)</u>	<u>(20,447.5)</u>	
<u>44th Legislature - 2nd Regular Session:</u>					
111	Board of Athletic Training	60.0	0.0	0.0	Other
168	Victim Compensation; Unclaimed Restitution	(83.3)	0.0	0.0	Other
214	Renewable Energy; Tax Incentive	(40.7)	(2.1)	(4.3)	Sales
		0.0	0.0	(57.0)	Individual
		0.0	0.0	(8.8)	Property
	Subtotal - Chapter 214	(40.7)	(2.1)	(70.1)	
209	Named Claimants; Appropriations	(103.6)	0.0	0.0	Other
239	Technology Training; Tax Credit	0.0	(2,500.0)	(2,500.0)	Corporate
		0.0	(300.0)	(300.0)	Individual
	Subtotal - Chapter 239	0.0	(2,800.0)	(2,800.0)	
252	Internal Revenue Code Conformity	(2,116.0)	(464.0)	2,160.0	Individual
		36.0	154.0	128.0	Corporate
	Subtotal - Chapter 252	(2,080.0)	(310.0)	2,288.0	
258	Cemeteries; Property Tax Exemption Process	0.0	0.0	(7.3)	Property
267	Agricultural Preservation District	0.0	(100.0)	(100.0)	Individual
313	Tax Credits; Character Instruction	0.0	(75.0)	(75.0)	Individual
359	Spaceport; Launch Site; Exemption	(18.3)	0.0	0.0	Sales
372	Tourism and Sports Authority	0.0	(3,500.0)	(7,350.0)	Individual
		0.0	(1,512.5)	(3,062.8)	Sales
	Subtotal - Chapter 372	0.0	(5,012.5)	(10,412.8)	
381	Appropriation; Floodway Control	(360.0)	0.0	0.0	Other
384	Property Tax; Electrical Generation Facilities	0.0	(2,234.9)	(3,957.1)	Property
394	Tuition Tax Credit; Handicapped Preschoolers	0.0	(100.0)	(100.0)	Individual
405	2000 Clean Air Act	0.0	192.3	192.3	Corporate
		(15,750.0)	96.1	96.1	Individual
	Subtotal - Chapter 405	(15,750.0)	288.4	288.4	
	Session Total	<u>(18,375.9)</u>	<u>(10,346.1)</u>	<u>(14,945.9)</u>	

<u>Ch.</u>	<u>Reference Title</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Revenue Category</u>
<u>44th Legislature - 1st Special Session:</u>					
5	Tax Relief and Fiscal Control	(20,000.0)	0.0	0.0	VLT
5	<u>Triggers:</u>				
	Reduce Mining Severance	(3,333.0)	0.0	0.0	Sales
	Corporate Tax Rate Reductions	(32,000.0)	(32,000.0)	(32,000.0)	Corporate
	R & D Tax Credit Cap	(5,000.0)	(5,000.0)	(5,000.0)	Corporate
	Personal Property Tax	(30.0)	(30.0)	(30.0)	Property
	VLT Rate Reductions	(5,000.0)	0.0	0.0	VLT
	Subtotal - Triggers	<u>(45,363.0)</u>	<u>(37,030.0)</u>	<u>(37,030.0)</u>	
	Session Total	<u>(65,363.0)</u>	<u>(37,030.0)</u>	<u>(37,030.0)</u>	
<u>44th Legislature - 1st Regular Session:</u>					
50	Public Retirement; Benefits	(1,766.7)	0.0	0.0	Individual
168	Alternative Fuel Vehicles	(1,052.1)	0.0	0.0	Corporate
		<u>(427.1)</u>	<u>(427.1)</u>	<u>(427.1)</u>	Individual
	Subtotal - Chapter 168	<u>(1,479.2)</u>	<u>(427.1)</u>	<u>(427.1)</u>	
183	Tax Sharing; Indian Tribal Colleges	(1,500.0)	(250.0)	(250.0)	Sales
190	Corporate Income Tax; Income Allocation	(700.0)	(700.0)	(700.0)	Corporate
250	Taxpayer Bill of Rights	(400.0)	200.0	200.0	Individual
317	Taxation; Internal Revenue Code Conformity	0.0	(2,030.0)	(2,030.0)	Corporate
		<u>(1,640.0)</u>	<u>(3,880.0)</u>	<u>(3,880.0)</u>	Individual
	Subtotal - Chapter 317	<u>(1,640.0)</u>	<u>(5,910.0)</u>	<u>(5,910.0)</u>	
	Session Total	<u>(7,485.9)</u>	<u>(7,087.1)</u>	<u>(7,087.1)</u>	
TOTAL - All Sessions		<u>(95,651.8)</u>	<u>(70,386.2)</u>	<u>(75,083.5)</u>	

ARIZONA BUDGET STABILIZATION FUNDS

Arizona has two funds which can be used for budget contingencies. These are the Budget Stabilization Fund, and the AHCCCS Medical Services Stabilization Fund.

Budget Stabilization Fund - Background and Recent Developments

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (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 utilize 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 BSF, the first payment into the fund was required in FY 1994.

Recently, Laws 2000, Chapter 1, 7th Special Session, required that the refund payments for alternative fuel vehicle tax credits and consumer loss recovery fund liabilities would be funded by the Budget Stabilization Fund up to \$200 million.

The Formula

The determination of the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF is made using a formula based upon total annual Arizona personal income (excluding transfer payments) and adjusted for inflation.

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 seven years, and the appropriation to or transfer from the BSF. The EEC reports this calculation for the prior calendar year in the April-May timeframe.

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.
- Adjusted personal income in the BSF formula is defined as total Arizona personal income less transfer

payments, adjusted by the gross domestic product price deflator index.

- 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.
- If the annual growth rate is less than the trend growth rate by 2.0% or more, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not a recession.
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
- The BSF is limited in size, although the limit was temporarily suspended by the Legislature for FY1999. Thereafter, the BSF cannot be larger than 7.0% of the prior year's General Fund revenues.

State Hospital Financing Mechanism

Laws 2000, Chapter 1 provided for the financing of construction of a new Arizona State Hospital by appropriating interest earnings from the BSF of \$20,000,000 per year over 4 years, \$80,000,000 total, from FY 2000 through FY 2003. These payments will be made by the Treasurer on an equal monthly basis, \$1,660,000 per month, to a construction account at the Treasurer's Office. Chapter 1 provides for the reimbursement of this diversion of BSF interest earnings from \$20,000,000 in annual receipts from the Arizona share of the master tobacco settlement agreement. This was subsequently modified by Laws 2000, Chapter 1, 7th Special Session to provide that the payments would be made from the BSF rather than interest earnings from the BSF.

Investments of BSF Funds

In addition to the fixed income investments available to the Treasurer, the 1998 Legislature allowed the Treasurer to invest up to 25% of the BSF in equity securities (Laws 1998, Chapter 266). The Treasurer has stated that it intends to annually increase the proportion of equities in the BSF by 5% to reach the 25% limit over 5 years. It is expected that a "buy and hold" strategy will be used for the equity funds until BSF monies are eventually withdrawn.

Figure 9

**ESTIMATED CHANGES TO THE BUDGET STABILIZATION FUND
FY 1999 THROUGH FY 2003
(\$ in Millions)**

	Actual ^{1/} FY 1999	Actual FY 2000	Estimate FY 2001	Estimate FY 2002	Estimate FY 2003
Adjusted Revenues	5,635,341.2	5,960,264.1	6,365,584.7	6,755,165.2	7,271,200.4
Statutory Limit of Revenues	6.330%	7.000%	7.000%	7.000%	7.000%
Maximum Balance	356,717.1	417,218.5	445,590.9	472,861.6	508,984.0
Adjusted Annual Income Growth	8.0%	5.9%	4.7%	4.1%	4.9%
Adjusted 7-Year Income Growth	6.0%	6.5%	6.1%	6.0%	5.8%
Annual Difference	2.0%	-0.6%	-1.4%	-1.9%	-0.9%
Beginning BSF Balance	291,670.0	386,838.0	407,821.0	237,474.1	268,682.5
BSF Formula Recommendation	104,588.0	0.0	0.0	0.0	0.0
Actual/Recommended Deposit	75,115.0	--	--	--	--
ASH Construction Fund Payments	--	(20,000.0)	(20,000.0)	(20,000.0)	(20,000.0)
ASH Reimbursement from Settlement Fund	--	20,000.0	20,000.0	20,000.0	20,000.0
Payment of Alternative Fuel Credits			(200,000.0) ^{2/}	--	--
Alternative Fuel Repayment to BSF			16,000.0	16,000.0	16,000.0
Balance	366,785.0	366,838.0	223,821.0	237,474.1	268,682.5
Effective Interest Rate	5.5%	5.4%	6.1%	6.0%	6.0%
Interest Earnings	20,053.0	20,983.0	13,653.1	15,208.4	17,081.0
Ending BSF Balance	386,838.0	407,821.0	237,474.1	252,682.5	285,763.5
Percent of Revenues	6.9%	6.8%	3.7%	3.7%	3.9%

^{1/} In FY 1999, the Legislature removed the maximum allowed in the BSF for that fiscal year.

^{2/} Maximum withdrawal permitted. The actual amount is unknown.

Projected Deposits/Withdrawals

Based on the projections of a gradually slowing economy, *Figure 9* shows that the difference between annual adjusted personal income and the seven-year average will be (1.9)% in FY 2002 and (0.9)% in FY 2003. Since these are not greater than (2.0)%, no withdrawal from the BSF is anticipated.

As a result of the alternative fuel vehicle related legislation, up to \$200 million will be withdrawn to pay tax credits in excess of normal taxpayer liabilities in FY 2001. The legislation also requires an annual repayment to the BSF of up to \$16 million from sales tax revenues. The unpaid balance of the withdrawn amount will bear interest at the annual average interest rate earned on operating funds on deposit at the Treasurer's Office.

BSF Balances

At the end of FY 2000, balances in the BSF, including accrued interest, had reached \$407.8 million. If \$200 million is withdrawn for alternative fuel tax credit payments, balances would fall to about \$237.5 million by the end of FY 2001. Interest earnings and the annual \$16.0 million repayment to the BSF are expected to cause balances to rise to \$252.7 million at the end of FY 2002 and \$285.8 million at the end of FY 2003.

Figure 9 shows the actual deposits and balances in the BSF for FY 2000, as well as estimates of balances for FY 2001 through FY 2003.

**Medical Services Stabilization Fund —
Background**

The AHCCCS Medical Services Stabilization Fund is authorized in A.R.S. § 36-2922. It is to be used if the appropriation for AHCCCS in a fiscal year is insufficient

to cover the cost of AHCCCS medical services. AHCCCS must notify the Chairperson of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting that the appropriation is insufficient, and the JLBC Staff may recommend that AHCCCS withdraw an amount from the Medical Services Stabilization Fund to cover the shortfall.

The fund currently has no ongoing source of funding other than interest earnings. The fund previously received \$15,000,000 per year from the Medically Needy Account of the Tobacco Tax and Health Care Fund to the Medical Services Stabilization Fund. This monthly transfer was discontinued after July 1, 1998. Interest earnings are retained in the fund. At the end of FY 2000, the fund balance was \$78,876,000.

The two stabilization funds are summarized over the period FY 2000 through FY 2003 in *Figure 10*. Currently, the JLBC is projecting a total FY 2001 state-funding shortfall of \$70,769,800 in the AHCCCS program. However, a portion of the FY 2001 shortfall has been

offset by the transfer of \$29,000,000 from the Tobacco Tax and Health Care Fund Medically Needy Account authorized by the Executive in November 2000. Therefore, the total additional state-funding requirement for FY 2001 is \$41,769,800, which the JLBC recommends funding from the Medical Services Stabilization Fund. After the recommended transfer, the fund balance at the close of FY 2001 is projected to be \$34,750,000.

Figure 10				
Total Stabilization Funds				
(\$ in Millions)				
	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
BSF	\$407,821.0	\$237,474.1	\$252,682.5	\$285,763.5
AHCCCS Fund	<u>72,876.0</u>	<u>34,750.0</u>	<u>36,487.5</u>	<u>38,311.9</u>
Total	\$480,697.0	\$272,224.1	\$289,170.0	\$324,075.4