

STATE OF ARIZONA



LIBRARY COPY

ANNUAL BUDGET FY 1988

SUMMARY OF RECOMMENDATIONS AND ECONOMIC AND REVENUE FORECAST

Prepared By The Staff
Of The
JOINT LEGISLATIVE BUDGET COMMITTEE

STATE OF ARIZONA

ANNUAL BUDGET

FY 1988

SUMMARY OF RECOMMENDATIONS

AND

ECONOMIC AND REVENUE FORECAST



Prepared by The Staff

Of The

JOINT LEGISLATIVE BUDGET COMMITTEE

JOINT LEGISLATIVE BUDGET COMMITTEE

The Joint Legislative Budget Committee was first established on April 25, 1966, pursuant to Laws 1966, Ch. 96. Thereafter, Laws 1979, Ch. 187 expanded and altered the Committee membership. The Committee members are:

Representative John Wettaw,
Chairman - 1987

Representative Carmen Cajero

Representative Bev Hermon

Representative Chris Herstam

Representative Leslie Whiting Johnson

Representative James B. Ratliff

Representative Betty Rockwell

Representative Polly Rosenbaum

Senator Jack Taylor,
Chairman - 1988

Senator Jaime P. Gutierrez

Senator A. V. "Bill" Hardt

Senator Jeffrey J. Hill

Senator Peter Kay

Senator John T. Mawhinney

Senator Robert B. Usdane

Senator Patricia "Pat" Wright

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

The Joint Legislative Budget Committee appoints a Staff Director and Chief Executive Officer who is responsible for providing staff support and sound technical analysis to the Committee. The objectives and major products of the staff of the Joint Legislative Budget Committee are:

- ° **Analysis and Recommendations for the Annual State Budget**, which are presented in January of each year;
- ° Technical, analytical, and preparatory support in the development of **appropriations bills** considered by the legislature;
- ° An annual **Appropriations Report**, which is published shortly after the budget is completed and provides detail on the budget along with a further explanation of legislative intent;
- ° Support to the **Joint Committee on Capital Review** with respect to all capital outlay issues including land acquisition, new construction, and building renewal projects.
- ° Preparation of **fiscal notes** or those bills considered by the legislature having a fiscal impact on the state or any of its political subdivisions;
- ° **Management and Fiscal Research Reports** related to state programs and state agency operations;
- ° Periodic **economic and state revenue forecasts**;
- ° Periodic **analysis of economic activity, state budget conditions**, and the relationship of one to the other.

Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007
Ph: (602) 255-5491

Theodore A. Ferris,
Staff Director

JOINT LEGISLATIVE BUDGET COMMITTEE

STAFF ORGANIZATION

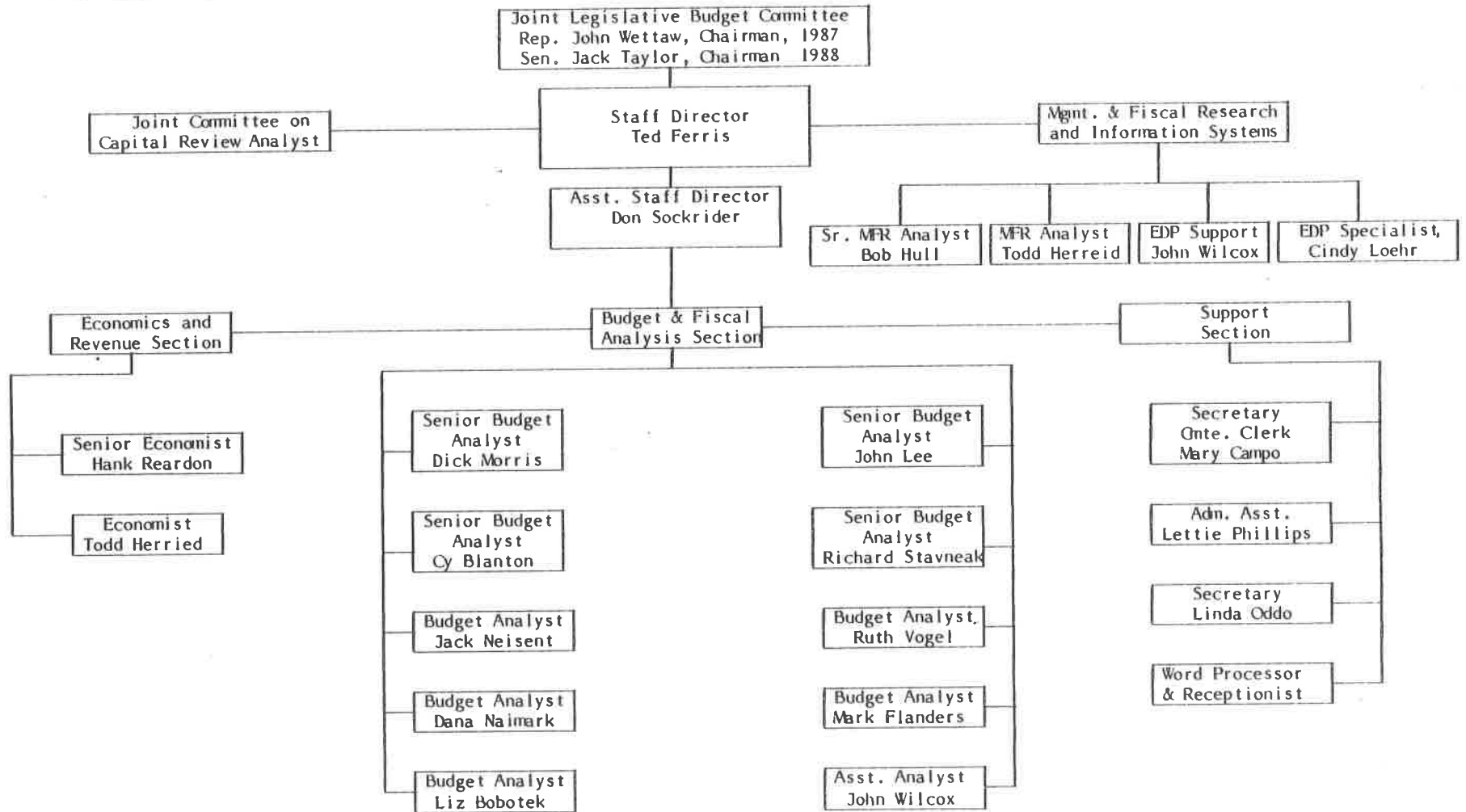


TABLE OF CONTENTS

- Introduction. i - ii
- Summary of JLBC Recommended FY 1988 Budget. A-1 to A-24
- Summary Comparison of JLBC Recommendation to Governor's Recommendation. B-1 to B-15
- U.S. Economic Outlook - JLBC Forecast C-1 to C-17
- Arizona Economic Outlook - JLBC Forecast. D-1 to D-12
- General Fund Revenue - JLBC Forecast. E-1 to E-11



STATE OF ARIZONA
Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007
PHONE (602) 255-5491

REPRESENTATIVE JOHN WETTAW
CHAIRMAN 1987
SENATOR JACK TAYLOR
CHAIRMAN 1988

THEODORE A. FERRIS
STAFF DIRECTOR

INTRODUCTION

The JLBC Staff Analysis and Recommendations on the FY 1988 Budget were the most difficult recommendations to develop in many years. Our recommendations were developed at the same time that the current year budget underwent corrective surgery in a January Special Session, to eliminate a prospective deficit equal to 6.2% of the budget.

State revenue growth has been constrained by a relatively lackluster economy exhibiting little or no job growth in the important goods-producing sectors, particularly high-tech industries and construction. Nevertheless, we are forecasting an improving economy throughout 1987 resulting in a modest up-turn in the rate of revenue growth in FY 1988. Whereas, new General Fund Revenues grew by 6% in FY 1986 and are now expected to grow by just under 5% in FY 1987, the JLBC Staff forecast calls for 7.8% growth in new General Fund Revenue next year. It is important to note that this amount of growth would leave revenues just 2% above the level that the FY 1987 General Fund Budget was originally predicated upon.

As a first step in developing our recommendation for FY 1988, the legislative staff estimated a "current services level" of spending for FY 1988. In other words, assuming no change in policy, the staff estimated the cost in FY 1988 of providing the same set of programs and services as was originally appropriated for FY 1987. The unmistakable conclusion was that a Current Services Budget would exceed the JLBC staff estimate of revenues by nearly 2%. The legislative staff then made downward adjustments to our recommended level of appropriations in order to produce the balanced budget recommendation that is contained herein.

Although our FY 1988 recommendations do allow for a significant increase as compared to the reduced level of appropriations in FY 1987, it must be emphasized that a great deal of the savings in FY 1987 are either "one-time" or are made possible by having agencies temporarily run unsustainably-high vacancy rates. If permanent savings are desired, below the general 2% reduction recommended by JLBC Staff, we should reduce authorized positions and determine which programs are to be reduced or eliminated.

In addition to our specific agency recommendations, we are recommending the Legislature make the following major policy changes with respect to the budget process:

1. We recommend the Legislature enact legislation establishing a process for legislative appropriation of federal funds, excluding direct payments to individuals and university research grants;
2. We once again recommend enactment of legislation creating a Budget Stabilization Fund, to stabilize our revenues across the business cycle and allow for more orderly execution of state programs and improved budgetary planning.

Last year, we recommended a new capital budget process and establishment of a Building Renewal Formula. That recommendation led to Chapter 85, Laws of 1986, a model piece of legislation in that regard. We hope similar progress can be made with respect to the aforementioned two recommendations as well. Detail on these recommendations, like the detail on all other Legislative Staff recommendations, are contained in the main report, FY 1988 Annual Budget - Analysis and Recommendations.

The Staff of the Joint Legislative Budget Committee looks forward to working on behalf of the Members of the Senate and House Appropriations Committees and the entire Arizona Legislature in developing the Appropriations Acts and related Appropriations Report for FY 1988.



Theodore A. Ferris
Staff Director and
Legislative Budget Analyst

FY 1988

SUMMARY OF JLBC STAFF RECOMMENDATIONS

- OVERVIEW -

Economic/Revenue Forecast

- No economic recession in sight - sluggish growth rate improves slightly during year - modest revenue growth of under 6% (when adjusted for impact of federal tax reform on withholding).
- No "windfall" from federal tax reform is included in revenue.
- No sales tax "roll-back" is included in revenue.

Budget Recommendations/Agency-Wide Issues

- No tax shift - no turning-back of program responsibilities without State aid - examples include: Teachers' Retirement, Community Colleges Basic Aid, and certain DPS Law Enforcement Activities.
- No pay increases.
- No shift of highway funds to finance DPS - Highway Patrol Activities and displace General Funds.
- High vacancy factors - continuation of certain FY 1987 cuts.
- Recapture of 2.5% of past excess inflationary increases.
- Minimal program increases and new FTE's.
- Continuation of rental charges for state-owned office space in Capitol Mall for deposit in Capital Outlay Stabilization Account (C.O.S.A.).

Agency Recommendations/Key Issues

- Full-funding of K-12 Basic State Aid - 4.1% increase over original FY 1987.
- Community Colleges - maintains current year state share - provides increase of 3.1% over original FY 1987.
- Universities - Assumes \$60 increase in tuition already approved - provides nominal increase of 1.1% in total expenditure authority over original FY 1987.
- Annualizes Chronically Mentally Ill Pilot Program - Total \$4 million.
- Department of Economic Security - benefit and service levels maintained at original FY 1987 levels, with allowance for increased population served.
- Does not turn back responsibility for certain DPS law enforcement activities to local law enforcement agencies.
- New Correctional Facilities - Winslow staffed in March 1988 and opening in April 1988; Yuma staffed in July 1988 and opening in August 1988; Florence open in August 1988; Globe open in October 1988.
- Community Correctional Release Centers recommended to remain operative in Tucson and Phoenix.
- Does recommend substantial reduction in ADOT personnel and associated operating budget - does not reduce highway maintenance nor construction program.
- Assumes alternative revenue source (other than GF) is chosen to fund new Department of Environmental Quality "Superfund".

Capital Outlay Recommendations

- Building Renewal Formula is fully-funded.
- Minimum General Fund recommendation for Capital Outlay restores critical FY 1987 cuts - consistent with legislative intent.
- Emphasis on Fire-Life-Safety issues.

Other Issues

- No additional lump-sum appropriations nor less detail in FY 1988 General Appropriations Bill than was contained in FY 1987.
- Recommend legislative review of Federal Funds in FY 1988 - Legislative Appropriation of Federal Funds beginning in FY 1989.
- Recommend legislative appropriation of State Lottery operating budget and DOA - Risk Management operating budgets for FY 1988.
- Continue to recommend establishment of a Budget Stabilization Fund.

FY 1988
SUMMARY OF JLBC STAFF RECOMMENDATION

The exhibit on the following page presents a "balance sheet" perspective on the JLBC Staff recommendations for general fund revenues and expenditures for FY 1987 and FY 1988. We are projecting a mere \$0.2 million carry-forward at the end of the current fiscal year based upon the deficit reduction package totalling \$156.6 million which was enacted last month. For FY 1988, we are estimating general fund revenues at \$2,571.1 million and we are recommending appropriations and other expenditures totalling \$2,557.0 million; thus, we are recommending a year-end balance of \$14.1 million. This, in legislative staff's opinion, represents the minimum, acceptable level of contingency against a revenue shortfall. We should have a goal of increasing this contingency to at least \$25 million (1% of the budget) through the legislative appropriations process, and firmly establishing the contingency by setting it aside in a statutorily-created Budget Stabilization Fund.

In summary, recommended General Fund operating appropriations of \$2,546.6 million are just \$62.4 million, or 2.5% higher than the original appropriations for the current fiscal year, while Other Funds operating appropriations are recommended at a level of \$486.6 million, which is \$13.5 million, or 2.9% higher than appropriated in FY 1987. The recommended capital outlay budget of \$23.1 million is \$5.7 million less than in FY 1987. And, a recommended state employee compensation package of \$3.8 million only provides enough monies to pay anticipated health and dental insurance premium increases (the DOA recommended annual adjustments to the state salary plan called for increases totalling \$23.3 million).

Tables 1 through 3 summarize the JLBC recommendation for FY 1988 appropriations, while Chart 1 provides a graphic illustration of where general fund revenues are derived and how they are disbursed.

Table 1 provides the recommended dollar increase and percent increase in operating budgets for all agencies/budget units. Both General Fund and Other Fund appropriations are shown. Unlike previous years, there is only a minor difference in the rate of growth of General Fund appropriations (2.5%) and Other Fund appropriations (2.9%). Although general fund operating budgets would rise 2.5% under the JLBC staff recommendations, they would fall some 1.6% short of a "current services level" necessary to maintain the same programs and services as originally provided for in FY 1987.

Table 2 provides a summary of the recommended full-time equated (FTE) positions for FY 1988 as compared to FY 1987. After increasing by 2,130 FTE's, or 7.2% in the prior year's appropriations, we are recommending a miniscule 10 FTE increase for FY 1988.

Table 3 presents the recommended general fund appropriations for capital outlay (land, buildings, and improvements). A total of \$23.1 million is recommended, which is \$5.7 million less than the \$28.8 million of capital outlay appropriations originally enacted in FY 1987. Consistent with Chapter 85, Laws of 1986, priority is given to funding of the Building Renewal Formula, for major maintenance and repair; for fire-life-safety projects; and for restoring funds cut from critical capital outlay appropriations in FY 1987, which were part of this year's deficit reduction package. Detail on all capital outlay appropriations, including projects financed with Other Funds, will be presented in the detailed Analysis and Recommendations portion of the Legislative Staff Recommendations.

EXHIBIT 1

GENERAL FUND SUMMARY
 JLBC RECOMMENDED
 REVENUES AND EXPENDITURES
 FISCAL YEARS 1987 and 1988
 (000's)

	<u>FY 1987</u>	<u>FY 1988</u>
REVENUES:		
- Beginning Balance	\$ (15,749.0)	\$ 236.7
- New Revenues	2,384,392.4	2,570,866.5
TOTAL RESOURCES	<u>\$2,368,643.4</u>	<u>\$2,571,103.2</u>
APPROPRIATIONS		
- Actual Appropriations	\$2,523,027.4	\$ -----
- Est. Supplementals	10,000.0	-----
- JLBC Staff Recomm.		
-Operating Budgets	-----	2,546,558.8
-Capital Outlay	-----	23,102.5
- State Empl. Ins. Prem. Incr.	-----	3,800.0
- Administrative Adj., Emergencies, Transfers	12,000.0	8,500.0
- Revertments	(20,000.0)	(25,000.0)
TOTAL APPROPRIATIONS	<u>\$2,525,027.4</u>	<u>\$2,556,961.3</u>
PRELIMINARY ENDING BALANCE\$ (156,384.0)	\$ 14,141.9
- Deficit Reduction Package	156,620.7	-----
ENDING BALANCE ^{1/}	<u>\$ 236.7</u>	<u>\$ 14,141.9</u>

1/ Does not reflect impact of carryover appropriations as provided by 35-190.01 A.R.S.

Table 1

FY 1988
STATE WIDE SUMMARY

RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
GENERAL GOVERNMENT					100.00
DEPT OF ADMINISTRATION	GENERAL	25,905,500	26,684,900	779,400	3.00
	OTHER	238,000		238,000-	100.00-
	TOTAL	26,143,500	26,684,900	541,400	2.07
PERSONNEL BOARD	GENERAL	214,400	214,600	200	.09
ATTY GENERAL-DEPT OF LAW	GENERAL	16,531,100	16,646,600	115,500	.69
COLISEUM/EXPOSITION CTR.	OTHER	9,960,420	9,723,020	237,400-	2.38-
ARIZONA JUDICIARY	GENERAL	35,178,700	42,320,700	7,142,000	20.30
OFFICE OF THE GOVERNOR	GENERAL	2,872,700	2,650,000	222,700-	7.75-
OFFICE/AFFIRMATIVE ACTION	GENERAL	198,300	204,000	5,700	2.87
DEPARTMENT OF COMMERCE	GENERAL	2,905,400	2,563,100	342,300-	11.78-
	OTHER	48,000	48,000		
	TOTAL	2,953,400	2,611,100	342,300-	11.59-
OFFICE OF TOURISM	GENERAL	3,421,000	3,372,100	48,900-	1.42-
LAW ENF MERIT SYS CNCL	GENERAL	51,400	43,100	8,300-	16.14-
LEGISLATURE	GENERAL	22,031,150	22,890,500	859,350	3.90
STATE RETIREMENT SYSTEM	OTHER	8,450,600	10,995,300	2,544,700	30.11
DEPARTMENT OF REVENUE	GENERAL	31,629,200	31,525,400	103,800-	.32-
DEPT OF ST.-SECY OF STATE	GENERAL	2,219,800	1,513,600	706,200-	31.81-
ST. BOARD OF TAX APPEALS	GENERAL	415,900	410,800	5,100-	1.22-

Table 1
(Continued)

FY 1988
STATE WIDE SUMMARY

RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
STATE TREASURER	GENERAL	3,101,500	3,057,000	44,500-	1.43-
AZ COMM. ON UNFRM ST LAWS	GENERAL	14,800	14,800	200	1.36
SUBTOTAL GENERAL GOVERNMENT	GENERAL	146,690,650	154,111,200	7,420,550	5.05
	OTHER	18,697,020	20,766,320	2,069,300	11.06
	TOTAL	165,387,670	174,877,520	9,489,850	5.73
HEALTH & WELFARE					100.00
GOV-AZ RANGERS' PENSIONS	GENERAL	14,400	14,400		
AZ CNCL FOR HEARING IMPRD	GENERAL	139,900	124,900	15,000-	10.72-
DEPT OF ECONOMIC SECURITY	GENERAL	222,089,800	232,285,600	10,195,800	4.59
	OTHER	398,600	390,700	7,900-	1.98-
	TOTAL	222,488,400	232,676,300	10,187,900	4.57
DEPT OF HEALTH SERVICES	GENERAL	100,394,100	99,433,700	960,400-	.95-
	OTHER	1,499,000	2,237,100	738,100	49.23
	TOTAL	101,893,100	101,670,800	222,300-	.21-
ENVIRONMENTAL QUALITY	GENERAL	7,865,300	9,710,700	1,845,400	23.46
AHCCCS	GENERAL	133,279,500	132,947,500	332,000-	.24-
	OTHER	161,898,000	174,026,400	12,127,400	7.49
	TOTAL	295,177,500	306,972,900	11,795,400	3.99
AZ COMM ON INDIAN AFFAIRS	GENERAL	163,800	164,500	700	.42
PIONEERS' HOME	GENERAL	2,609,500	2,659,200	49,700	1.90
VETERANS' SERVICES COMM	GENERAL	875,800	691,900	183,900-	20.99-
	OTHER	303,100	486,000	182,900	60.34
	TOTAL	1,178,900	1,177,900	1,000-	.08-
SUBTOTAL HEALTH & WELFARE	GENERAL	467,432,100	478,032,400	10,600,300	2.26
	OTHER	164,098,700	177,139,200	13,040,500	7.94
	TOTAL	631,530,800	655,171,600	23,640,800	3.74
INSPECTION & REGULATION					100.00
BOARD OF ACCOUNTANCY	OTHER	437,700	447,200	9,500	2.17
AGRIC. EMP. RELATIONS BD.	GENERAL	195,300	197,300	2,000	1.02

Table 1
(Continued)

FY 1988
STATE WIDE SUMMARY
RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
COMM OF AGRIC & HORTIC	GENERAL	5,948,600	5,898,300	50,300-	.84-
	OTHER	1,237,500	1,214,300	23,200-	1.87-
	TOTAL	7,186,100	7,112,600	73,500-	1.02-
BOXING COMMISSION	GENERAL	38,700	36,500	2,200-	5.68-
	OTHER	11,300	8,200	3,100-	27.43-
	TOTAL	50,000	44,700	5,300-	10.60-
RADIATION REGULATORY AGCY	GENERAL	1,293,300	1,208,400	84,900-	6.56-
	OTHER	84,100	82,800	1,300-	1.54-
	TOTAL	1,377,400	1,291,200	86,200-	6.25-
BANKING DEPARTMENT	GENERAL	3,043,700	3,103,600	59,900	1.96
BOARD OF BARBER EXAMINERS	OTHER	119,800	120,400	600	.50
CHIROPRACTIC EXAMINERS BD	OTHER	153,500	154,700	1,200	.78
REGISTRAR OF CONTRACTORS	GENERAL	2,534,200	2,809,600	275,400	10.86
CORPORATION COMMISSION	GENERAL	5,255,400	4,974,700	280,700-	5.34-
	OTHER	4,997,100	4,938,300	58,800-	1.17-
	TOTAL	10,252,500	9,913,000	339,500-	3.31-
RESID. UTIL. CONS. OFFICE	OTHER	822,600	830,900	8,300	1.00
BOARD OF COSMETOLOGY	OTHER	416,500	409,000	7,500-	1.80-
DAIRY COMMISSIONER	GENERAL	439,200	473,800	34,600	7.87
BOARD OF DENTAL EXAM.	OTHER	343,400	370,300	26,900	7.83
DISPENSING OPTICIANS BD.	OTHER	50,800	50,300	500-	.98-
EGG INSPECTION BOARD	OTHER	173,600	176,800	3,200	1.84
FUNERAL DIR. & EMBALM. BD	OTHER	128,300	132,700	4,400	3.42
INDUSTRIAL COMMISSION	OTHER	8,793,300	9,507,100	713,800	8.11
OCCUP SFTY & HLTH REV BD	GENERAL	16,700	8,900	7,800-	46.70-
NURS CARE INST ADMIN BD	OTHER	37,500	41,100	3,600	9.60
DEPARTMENT OF INSURANCE	GENERAL	2,245,000	2,243,800	1,200-	.05-

Table 1
(Continued)

FY 1988
STATE WIDE SUMMARY

RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
DEPT OF LIQUOR LICENSES	GENERAL	2,045,600	2,073,700	28,100	1.37
LIVESTOCK BOARD	GENERAL	3,802,500	3,782,700	19,800-	.52-
BOARD OF MEDICAL EXAMINER	OTHER	1,404,700	1,510,000	105,300	7.49
HOMEOPATHIC MED EXAM BD	OTHER	2,600	6,600	4,000	153.84
STATE MINE INSPECTOR	GENERAL	747,900	742,900	5,000-	.66-
BUILDING AND FIRE SAFETY	GENERAL	2,524,900	2,499,400	25,500-	1.00-
NATUROPATHIC PHYS EXAM BD	OTHER	30,900	28,000	2,900-	9.38-
BOARD OF NURSING	OTHER	772,000	834,200	62,200	8.05
BOARD OF OPTOMETRY	OTHER	89,600	90,600	1,000	1.11
OSTEOPATHIC EXAM BD	OTHER	172,900	183,200	10,300	5.95
BOARD OF PHARMACY	OTHER	509,400	554,900	45,500	8.93
PHYSICAL THERAPY EXAM BD	OTHER	73,900	63,600	10,300-	13.93-
PODIATRY EXAMINERS BOARD	OTHER	36,500	37,600	1,100	3.01
PSYCHOLOGIST EXAMINERS BD	OTHER	97,100	106,000	8,900	9.16
BD OF PRIV POSTSECOND. ED	OTHER	94,000	101,800	7,800	8.29
DEPARTMENT OF RACING	GENERAL	2,721,500	2,602,200	119,300-	4.38-
	OTHER	297,000	287,600	9,400-	3.16-
	TOTAL	3,018,500	2,889,800	128,700-	4.26-
REAL ESTATE DEPARTMENT	GENERAL	2,413,300	2,415,200	1,900	.07
STRUCTURAL PEST CONTRL BD	OTHER	333,800	404,600	70,800	21.21
BD OF TECH REGISTRATION	OTHER	557,300	622,800	65,500	11.75
VETERINARY MED EXAM BD	OTHER	100,000	104,300	4,300	4.30
SUBTOTAL INSPECTION & REGULA	GENERAL	35,265,800	35,071,000	194,800-	.55-
	OTHER	22,378,400	23,419,900	1,041,500	4.65
	TOTAL	57,644,200	58,490,900	846,700	1.46

Table 1
(Continued)

FY 1988
STATE WIDE SUMMARY

RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
EDUCATION					100.00
BOARD OF REGENTS	GENERAL	4,105,000	4,775,700	670,700	16.33
U OF A-MAIN CAMPUS	GENERAL	170,181,600	166,602,100	3,579,500-	2.10-
	OTHER	36,899,100	40,917,400	4,018,300	10.88
	TOTAL	207,080,700	207,519,500	438,800	.21
U OF A-COLL OF MED	GENERAL	38,566,500	39,350,000	783,500	2.03
	OTHER	1,901,600	1,615,300	286,300-	15.05-
	TOTAL	40,468,100	40,965,300	497,200	1.22
ARIZONA STATE UNIVERSITY	GENERAL	149,464,000	147,036,200	2,427,800-	1.62-
	OTHER	37,220,100	42,730,100	5,510,000	14.80
	TOTAL	186,684,100	189,766,300	3,082,200	1.65
ASU WEST	GENERAL	5,333,400	6,272,900	939,500	17.61
	OTHER	1,184,600	1,067,100	117,500-	9.91-
	TOTAL	6,518,000	7,340,000	822,000	12.61
NORTHERN AZ UNIVERSITY	GENERAL	53,259,700	52,567,400	692,300-	1.29-
	OTHER	9,887,500	11,480,300	1,592,800	16.10
	TOTAL	63,147,200	64,047,700	900,500	1.42
MED STUDENT LOANS BOARD	GENERAL	96,000	75,000	21,000-	21.87-
BD OF DIR FOR COMM COLL	GENERAL	67,708,000	69,842,400	2,134,400	3.15
DEPARTMENT OF EDUCATION	GENERAL	1018,558,900	1059,951,300	41,392,400	4.06
SCH FOR THE DEAF & BLIND	GENERAL	9,720,900	9,569,100	151,800-	1.56-
	OTHER	3,401,600	3,496,400	94,800	2.78
	TOTAL	13,122,500	13,065,500	57,000-	.43-
AZ COMMISSION ON THE ARTS	GENERAL	1,171,100	1,151,800	19,300-	1.64-
AZ HISTORICAL SOCIETY	GENERAL	1,773,900	1,774,900	1,000	.05
PRESCOTT HIST SOCIETY	GENERAL	413,900	444,200	30,300	7.32
SUBTOTAL EDUCATION	GENERAL	1520,352,900	1559,413,000	39,060,100	2.56
	OTHER	90,494,500	101,306,600	10,812,100	11.94
	TOTAL	1610,847,400	1660,719,600	49,872,200	3.09
PROTECTION & SAFETY					100.00

Table 1
(Continued)

FY 1988
STATE WIDE SUMMARY

RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
DEPARTMENT OF CORRECTIONS	GENERAL	205,719,000	212,517,600	6,798,600	3.30
	OTHER	7,260,200		7,260,200-	100.00-
	TOTAL	212,979,200	212,517,600	461,600-	.21-
DEPT OF EMER & MIL AFFRS	GENERAL	3,689,400	3,669,300	20,100-	.54-
BD OF PARDONS & PAROLES	GENERAL	1,640,700	1,690,100	49,400	3.01
DEPT OF PUBLIC SAFETY	GENERAL	77,908,700	77,564,000	344,700-	.44-
	OTHER	400,000	1,591,200	1,191,200	297.80
	TOTAL	78,308,700	79,155,200	846,500	1.08
AZ CRIMINAL JUSTICE COMM	OTHER	152,600	168,500	15,900	10.41
SUBTOTAL PROTECTION & SAFETY	GENERAL	288,957,800	295,441,000	6,483,200	2.24
	OTHER	7,812,800	1,759,700	6,053,100-	77.47-
	TOTAL	296,770,600	297,200,700	430,100	.14
TRANSPORTATION					100.00
DEPT OF TRANSPORTATION	GENERAL	89,700	84,800	4,900-	5.46-
	OTHER	153,095,200	146,033,500	7,061,700-	4.61-
	TOTAL	153,184,900	146,118,300	7,066,600-	4.61-
SUBTOTAL TRANSPORTATION	GENERAL	89,700	84,800	4,900-	5.46-
	OTHER	153,095,200	146,033,500	7,061,700-	4.61-
	TOTAL	153,184,900	146,118,300	7,066,600-	4.61-
NATURAL RESOURCES					100.00
GAME & FISH DEPARTMENT	OTHER	13,272,900	13,745,600	472,700	3.56
COMM. ON AZ ENVIRONMENT	GENERAL	122,800		122,800-	100.00-
STATE LAND DEPARTMENT	GENERAL	7,488,500	7,695,400	206,900	2.76
DEPT OF MINERAL RESOURCES	GENERAL	452,300	453,100	800	.17
OIL & GAS CONSERV. COMM.	GENERAL	189,000	186,800	2,200-	1.16-
STATE PARKS BOARD	GENERAL	5,475,400	5,222,200	253,200-	4.62-
	OTHER	3,244,100	2,411,600	832,500-	25.66-
	TOTAL	8,719,500	7,633,800	1,085,700-	12.45-
SOLAR ENERGY COMMISSION	GENERAL	310,100	306,400	3,700-	1.19-

Table 1
(Continued)

FY 1988
STATE WIDE SUMMARY

RECOMMENDED APPROPRIATIONS BY AGENCY

AGENCY / BUDGET UNIT	FUND SOURCE	FY 1987 ESTIMATE	FY 1988 RECOMMENDED	DOLLAR CHANGE	PERCENT CHANGE
DEPT OF WATER RESOURCES	GENERAL	11,298,790	10,541,500	757,290-	6.70-
SUBTOTAL NATURAL RESOURCES	GENERAL	25,336,890	24,405,400	931,490-	3.67-
	OTHER	16,517,000	16,157,200	359,800-	2.17-
	TOTAL	41,853,890	40,562,600	1,291,290-	3.08-
TOTAL STATE OF ARIZONA	GENERAL	2484,125,840	2546,558,800	62,432,960	2.51
	OTHER	473,093,920	486,582,420	13,488,500	2.85
	TOTAL	2957,219,760	3033,141,220	75,921,460	2.56

Table 2
 FY 1988
 LEGISLATIVE STAFF RECOMMENDATION
 FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS
 STATE WIDE SUMMARY

AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
GENERAL GOVERNMENT			
DEPT OF ADMINISTRATION	539.75	557.75	18.00
PERSONNEL BOARD	3.00	3.00	
ATTY GENERAL-DEPT OF LAW	306.00	304.00	2.00-
COLISEUM/EXPOSITION CTR.	222.00	222.00	
ARIZONA JUDICIARY	301.80	314.80	13.00
OFFICE OF THE GOVERNOR			
OFFICE/AFFIRMATIVE ACTION	5.00	5.00	
DEPARTMENT OF COMMERCE	38.00	38.00	
OFFICE OF TOURISM	15.00	15.00	
LAW ENF MERIT SYS CNCL	1.00	1.00	
LEGIS-SENATE			
LEGIS-HOUSE OF REP.			
LEGISLATIVE COUNCIL			
JT LEGIS BUDGET COMM			
LEGIS-AUDITOR GENERAL	141.00	141.00	
LEGIS-LIB, ARCH & PUB RCDS	113.00	113.00	
STATE RETIREMENT SYSTEM	53.00	53.00	
DEPARTMENT OF REVENUE	859.00	871.00	12.00

Table 2
(Continued)
FY 1988
LEGISLATIVE STAFF RECOMMENDATION
FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS
STATE WIDE SUMMARY

AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
DEPT OF ST.-SECY OF STATE	30.00	30.00	
ST. BOARD OF TAX APPEALS	7.50	7.50	
STATE TREASURER	28.00	28.00	
AZ COMM. ON UNFRM ST LAWS			
SUBTOTAL GENERAL GOVERNMENT	2,663.05	2,704.05	41.00-
HEALTH & WELFARE			
GOV-AZ RANGERS' PENSIONS			
AZ CNCL FOR HEARING IMPRD	4.00	3.00	1.00-
DEPT OF ECONOMIC SECURITY	2,671.30	2,654.60	16.70-
DEPT OF HEALTH SERVICES	1,497.25	1,458.50	38.75-
ENVIRONMENTAL QUALITY	135.00	132.00	3.00-
AHCCCS	358.00	351.00	7.00-
AZ COMM ON INDIAN AFFAIRS	4.00	4.00	
PIONEERS' HOME	110.00	110.00	
VETERANS' SERVICES COMM	38.00	38.00	
SUBTOTAL HEALTH & WELFARE	4,817.55	4,751.10	66.45

Table 2
(Continued)
FY 1988
LEGISLATIVE STAFF RECOMMENDATION
FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS
STATE WIDE SUMMARY

AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
INSPECTION & REGULATION			
BOARD OF ACCOUNTANCY	7.00	7.00	
AGRIC. EMP. RELATIONS BD.	3.00	3.00	
COMM OF AGRIC & HORTIC	199.50	199.50	
BOXING COMMISSION	1.00	1.00	
RADIATION REGULATORY AGCY	28.00	28.00	
BANKING DEPARTMENT	79.00	79.00	
BOARD OF BARBER EXAMINERS	6.00	6.00	
CHIROPRACTIC EXAMINERS BD	3.00	3.00	
REGISTRAR OF CONTRACTORS	73.50	82.25	8.75
CORPORATION COMMISSION	215.00	217.00	2.00
RESID. UTIL. CONS. OFFICE	10.00	10.00	
BOARD OF COSMETOLOGY	13.50	13.50	
DAIRY COMMISSIONER	8.00	8.00	
BOARD OF DENTAL EXAM.	6.50	7.00	.50
DISPENSING OPTICIANS BD.	.80	.80	
EGG INSPECTION BOARD	5.00	5.00	
FUNERAL DIR. & EMBALM. BD	1.50	1.50	

Table 2
 (Continued)
 FY 1988
 LEGISLATIVE STAFF RECOMMENDATION
 FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS
 STATE WIDE SUMMARY

AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
INDUSTRIAL COMMISSION	217.00	218.00	1.00
OCCUP SFTY & HLTH REV BD			
NURS CARE INST ADMIN BD	.50	.50	
DEPARTMENT OF INSURANCE	61.00	61.00	
DEPT OF LIQUOR LICENSES	60.50	60.50	
LIVESTOCK BOARD	109.20	108.20	1.00-
BOARD OF MEDICAL EXAMINER	28.00	29.00	1.00
HOMEOPATHIC MED EXAM BD			
STATE MINE INSPECTOR	16.00	16.00	
BUILDING AND FIRE SAFETY	67.00	67.00	
NATUROPATHIC PHYS EXAM BD			
BOARD OF NURSING	19.20	19.20	
BOARD OF OPTOMETRY	3.00	3.00	
OSTEOPATHIC EXAM BD	4.00	4.50	.50
BOARD OF PHARMACY	10.00	11.00	1.00
PHYSICAL THERAPY EXAM BD	1.00	1.00	
PODIATRY EXAMINERS BOARD			
PSYCHOLOGIST EXAMINERS BD	1.00	1.00	
BD OF PRIV POSTSECOND. ED	2.50	2.50	
DEPARTMENT OF RACING	67.90	68.70	.80

Table 2
 (Continued)
 FY 1988
 LEGISLATIVE STAFF RECOMMENDATION
 FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS
 STATE WIDE SUMMARY

AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
REAL ESTATE DEPARTMENT	69.00	69.00	
STRUCTURAL PEST CONTRL BD.	10.00	12.00	2.00
BD OF TECH REGISTRATION	14.00	14.00	
VETERINARY MED EXAM BD	1.50	1.50	
SUBTOTAL INSPECTION & REGULATION	1,422.60	1,439.15	16.55-
EDUCATION			
BOARD OF REGENTS	34.75	33.75	1.00-
U OF A-MAIN CAMPUS	4,836.20	4,856.20	20.00
U OF A-COLL OF MED	577.70	577.70	
ARIZONA STATE UNIVERSITY	4,349.10	4,390.10	41.00
ASU WEST	153.90	189.60	35.70
NORTHERN AZ UNIVERSITY	1,502.00	1,507.00	5.00
MED STUDENT LOANS BOARD			
BD OF DIR FOR COMM COLL	8.00	8.00	
DEPARTMENT OF EDUCATION	179.80	179.80	
SCH FOR THE DEAF & BLIND	420.00	425.40	5.40
AZ COMMISSION ON THE ARTS	11.50	11.50	

Table 2
(Continued)

FY 1988
LEGISLATIVE STAFF RECOMMENDATION
FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS

STATE WIDE SUMMARY

AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
AZ HISTORICAL SOCIETY	46.30	46.30	
PRESCOTT HIST SOCIETY	14.50	14.50	
SUBTOTAL EDUCATION	12,133.75	12,239.85	106.10-
PROTECTION & SAFETY			
DEPARTMENT OF CORRECTIONS	5,711.20	5,695.80	15.40-
DEPT OF EMER & MIL AFFRS	58.00	58.00	
BD OF PARDONS & PAROLES	43.00	43.00	
DEPT OF PUBLIC SAFETY	1,587.00	1,619.00	32.00
AZ CRIMINAL JUSTICE COMM	2.00	4.00	2.00
SUBTOTAL PROTECTION & SAFETY	7,401.20	7,419.80	18.60-
TRANSPORTATION			
DEPT OF TRANSPORTATION	3,098.00	2,982.00	116.00-
SUBTOTAL TRANSPORTATION	3,098.00	2,982.00	116.00

Table 2
(Continued)
FY 1988
LEGISLATIVE STAFF RECOMMENDATION
FULL TIME EQUIVALENT POSITION CHANGE ANALYSIS
STATE WIDE SUMMARY

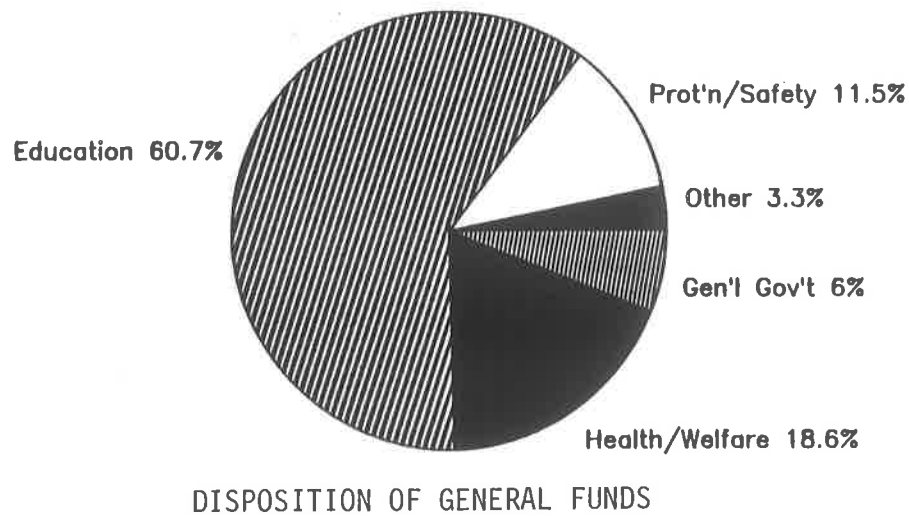
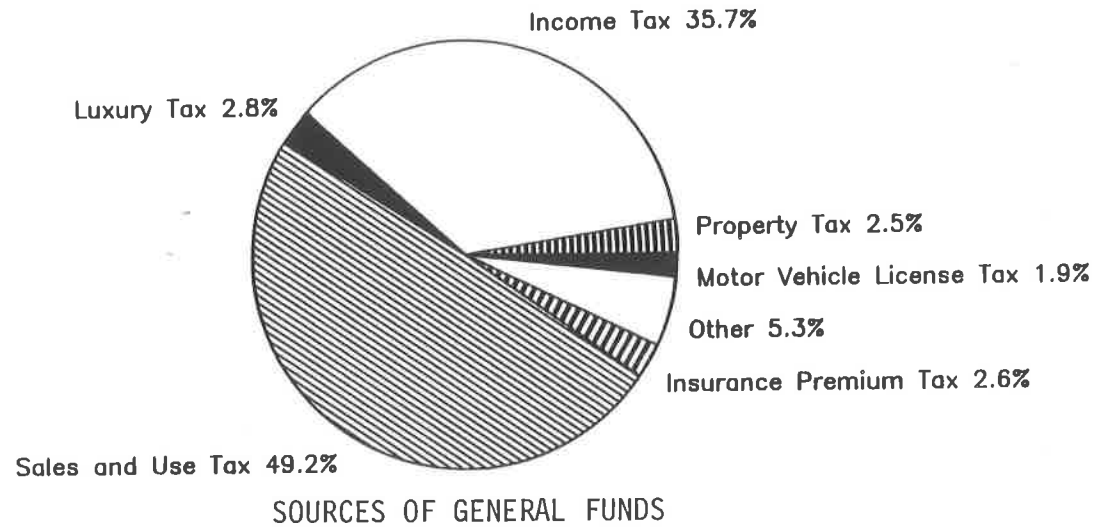
AGENCY / BUDGET UNIT	FY 1987 ESTIMATE	FY 1988 STAFF RECOMMENDED	DIFFERENCE
NATURAL RESOURCES			
GAME & FISH DEPARTMENT	264.00	268.00	4.00
COMM. ON AZ ENVIRONMENT	3.00		3.00-
STATE LAND DEPARTMENT	145.50	155.00	9.50
DEPT OF MINERAL RESOURCES	11.50	11.50	
OIL & GAS CONSERV. COMM.	4.00	4.00	
STATE PARKS BOARD	153.85	153.85	
SOLAR ENERGY COMMISSION	4.00	4.00	
DEPT OF WATER RESOURCES	217.20	217.20	
SUBTOTAL NATURAL RESOURCES	803.05	813.55	10.50-
TOTAL STATE OF ARIZONA	32,339.20	32,349.50	10.30

TABLE 3

FY 1988
JLBC STAFF RECOMMENDED
CAPITAL OUTLAY APPROPRIATIONS
GENERAL FUND

◦ Building Renewal Formula	\$8,689,000
◦ Arizona School for Deaf & Blind/ Lease-Purchase of Church Property (2nd of 3 years)	720,000
◦ DHS - State Hospital Street Repair	270,000
◦ Parks Board - Fire Suppression Systems	230,000
◦ Prescott Historical Society - Bashford House Painting and Lease-Purchase of adjacent land (2nd year)	30,000
◦ Arizona Historical Society - Phoenix Museum (restore FY 1987 cut)	1,000,000
◦ DPS Headquarters (restore FY 1987 cut)	1,260,000
◦ ASU-West (restore FY 1987 cut)	2,000,000
◦ ASU-West (1986 appropriation).	1,945,500
◦ Parks Board (restore FY 1987 cut).	2,000,000
◦ Veteran's Cemetary (restore FY 1987 cut)	500,000
◦ DWR - Water Projects - Pima County (restore FY 1987 cut)	<u>4,458,000</u>
TOTAL	\$23,102,500

SOURCES AND DISPOSITION OF GENERAL FUNDS FY 88 JLBC RECOMMENDATION



FEDERAL FUNDS

The Joint Legislative Budget Committee staff has recently issued a report entitled, "Legislative Appropriation of Federal Funds: Analysis and Recommendations." In the report, we recommend that the Legislature appropriate federal funds beginning with the FY 1989 budget.

The Legislature has long sought to improve its oversight of federal funds. The Members have approved legislation in prior sessions to accomplish this goal -- only to have Governor Bruce Babbitt veto the bills.

After an in-depth review of this issue, we have concluded that the need for federal funds appropriation remains as critical as ever. The State's federal grants total approximately \$900 million -- an amount equivalent to 28 percent of state appropriations. Without federal funds appropriation, a significant share of state agency operations escapes legislative review.

The Advantage of Federal Funds Appropriation Federal funds appropriation would permit several improvements in the Legislature's allocation of resources. The proposal would help a) reduce the duplication of state and federal funds and b) control the commitment of future state dollars as federal assistance declines.

Improved oversight is also advantageous because of the State's increased discretion to allocate federal funds. During the last decade, the federal government has permitted states more latitude to design programs to meet their particular needs. Within the Social Services block grant, for example, the State must decide whether to spend \$35 million on day care for the young, employment training for the able-bodied or home care for the elderly.

The Legislature would normally make this type of policy decision. Since Arizona does not appropriate federal funds, however, the Governor is left with that decision. As a result, he essentially has the authority to "appropriate" the federal grants.

The Experience of Other States Almost 75 percent of state legislatures have recognized the advantages of federal funds oversight and appropriate these monies. Several independent evaluations confirm that federal funds appropriation has been a positive experience in these states.

Numerous state courts have upheld legislative appropriation of federal funds. They view such appropriation as critical to maintaining the "separation of powers" between branches of government.

The Arizona Supreme Court had ruled in 1974 that federal funds, as custodial monies, are not subject to legislative appropriation. As already noted, states now play an increasingly active -- not custodial -- role in allocating federal grants. As a result, we believe the Legislature could now appropriate these dollars without violating the intent of the court ruling.

FEDERAL FUNDS
(Continued)

Recommendations The JLBC report also offers specific suggestions for implementing federal funds appropriation. For example, we recommend that:

- *the Legislature approve legislation outlining the federal funds appropriation process.* While current state law does not prohibit such appropriation, statutory language would help guarantee the permanent inclusion of these dollars in the budget.
- *the budget bill include a lump sum appropriation to cover unanticipated federal revenue received after the Legislature adjourns.* Any portion of this contingency appropriation would become available upon approval of the Joint Legislative Budget Committee.
- *appropriation of federal funds begin with the FY 1989 budget, thereby giving both the executive and legislative branch adequate lead time to implement this major initiative.*
- *the Appropriations Subcommittees review the agencies' federal funds estimates during their FY 1988 budget discussions.* The Subcommittees may want to establish non-binding FY 1988 federal expenditure guidelines. The JLBC staff would incorporate these estimates into the FY 1988 Appropriations Report.

To aid the Subcommittee's FY 1988 deliberations, we have included federal funds estimates for each agency program in the budget. These estimates appear in the non-appropriated funds section at the bottom of each program recommendation in the Analysis and Recommendations portion of our Annual Budget for FY 1988.

BUDGET STABILIZATION FUND

Like the national economy, the Arizona economy experiences expansions and contractions of varying magnitudes. During the recessionary phase of the business cycle, there is an increased need for state-provided services, particularly in the area of social services. However, the slow economic activity associated with a recession leaves the state with insufficient revenues to adequately fund such programs.

Recessions are an inherent part of our economic system. The need exists to plan for recessions and their ramifications upon state budgeting. In response to fluctuations in revenues and corresponding funding problems, twenty-nine states have enacted a variety of counter-cyclical fiscal policies, referred to as Budget Stabilization Funds.

Although there are several different types of Budget Stabilization Funds (generically referred to as "Rainy Day Funds"), all share a common theme: to set aside revenues during times of strong economic growth, and to draw upon these revenues during periods of weak or negative growth. Their common purpose is to provide a built-in revenue stabilizer in order to reduce the state's vulnerability to economic fluctuations.

JLBC Staff recommends the establishment of a Budget Stabilization Fund by law. There are several means of structuring such a Fund. The central design issues are: (a) how do revenues flow into the Fund, and (b) how does money flow out of the Fund. JLBC Staff recommends a Fund design in which inflows and outflows are formula-driven. A formula based upon Arizona real personal income growth is preferred.

The optimal size of a Budget Stabilization Fund is largely a function of the state's economic volatility. Inflows should accumulate sufficiently to fund outflows (as mandated by the formula) but not such that large reserve balances remain after funding the outflows. JLBC Staff has analyzed the effectiveness of several different formula options.

In contemplation of the enactment of such a Fund, JLBC Staff recommended last year that \$25 million be appropriated to a Budget Stabilization Fund, and that a formula be established by law to govern payments into and out of the Fund, to become operative in FY 1988. Of course, the FY 1987 budget became seriously unbalanced as the year progressed such that a Special Session was held in January 1987 to adopt a \$156.6 million deficit reduction package. Had \$25 million been set aside in a Budget Stabilization Fund during the budget process, the task would have been that much smaller.

Clearly, establishment of such a reserve makes even more sense now.

FY 1988
SUMMARY ANALYSIS AND COMPARISON OF
GOVERNOR'S RECOMMENDED GENERAL FUND BUDGET
TO JLBC STAFF RECOMMENDATION

Exhibit 1 provides a summary of estimated General Fund revenues and expenditures and year-end balances for FY 1987 and FY 1988. The differences in estimated revenues and projected expenditures are negligible for FY 1987. Consequently, the Governor's projected FY 1987 year-end balance and JLBC Staff estimates are quite close at \$1.4 million and \$0.2 million, respectively.

The projections and recommendations for FY 1988, however, are different in many respects, although when appropriate adjustments are made, the revenue estimates appear more similar. The Governor is proposing that the 1% Business Transaction Tax enacted in 1983 be eliminated as of December 1, 1987. This would result in a revenue loss of \$173.4 million in the executive estimate (\$188 million according to JLBC staff estimates). Aside from this major issue, the JLBC staff revenue estimate for FY 1988 is \$27.6 million more than the executive estimate.

With respect to General Fund spending there are marked differences between the Governor's recommendation and the JLBC Staff recommendation. Tables 1 and 2 compare, by agency, our respective General Fund operating budget recommendations.

Table 1 provides a straight, unadulterated comparison of our recommended operating budgets by agency. The JLBC Staff recommendation is \$194.2 million, or 7.6% greater than the Governor's recommendation. The major areas of difference are as follows:

In the Department of Education, we are recommending \$98.1 million more than the Governor, although this difference is more than explained by the Governor's proposal that school teachers' retirement costs be a local school district responsibility; the Universities, where our recommendation exceeds the Governor's by some \$32.1 million; Community Colleges, where our recommendation exceeds the Governor's by \$6.4 million; the Department of Public Safety, where our recommendation exceeds the Governor's by some \$31.7 million, with the difference largely explained by the Governor's proposal that we use \$25.6 million of highway funds to finance Highway Patrol activities, and by his proposal that some \$4 million worth of DPS law enforcement activities be made a local responsibility; the Department of Economic Security, where

our recommendation exceeds the Governor's by \$8.3 million, and where the Governor is proposing a 5% reduction in service levels for many of the programs benefiting individuals; the Department of Health Services where our recommendation exceeds the Governor's by \$8.8 million; and in State Agency rent, where the Governor did not recommend charging \$7.3 million of rent to agencies occupying State-owned space in the Capitol Mall, which is then deposited into the Capital Outlay Stabilization Account and is used to finance the building renewal formula, land acquisition, and projects along the Capitol Mall. These differences explain \$192.7 million, or 99% of the aggregate difference between our recommendations.

Table 2 makes a comparison between our recommendations after adjusting the Governor's budget recommendations in the following ways:

First, we have added to his Department of Education recommendation our estimated cost of Teachers' Retirement; second, we have added to his DPS recommendation the \$26.5 million requirement to make his recommendation 100% funded from the General Fund; and third, we have added to his recommendation \$7.3 million, representing the cost of continuing the practice of charging rent to State agencies occupying State-owned space in the Capitol Mall. When those adjustments are made, our operating budget recommendation nets down to a difference of \$43.8 million, or 1.7% more than the Governor.

Table 3 compares the Governor's and JLBC Staff recommended operating budgets for FY 1988 to the original and reduced agency operating budgets for FY 1987.

Our capital outlay recommendation exceeds the Governor's by \$13.3 million. The Governor funded less than one-fourth of the Building Renewal Formula requirement and he did not include restoration of FY 1987 reductions for DWR water projects in Pima County, the Arizona Historical Society Museum, State Parks, and Veteran's Cemetery Land Acquisition.

Finally, the Governor did not include any monies for any portion of the DOA Annual State Salary Plan. JLBC Staff has recommended \$3.8 million for the increased premiums for health and dental insurance. Presumably, if monies are not appropriated state employees will have to pay for the increase through increased payroll deductions.

EXHIBIT 1

GENERAL FUND SUMMARY
GOVERNOR'S AND JLBC RECOMMENDED
REVENUES AND EXPENDITURES
FISCAL YEAR 1988
(000's)

	<u>Executive Recommended</u>	<u>JLBC Staff Recommended</u>	<u>Difference</u>
REVENUES:			
- Beginning Balance	\$ 1,388.6	\$ 236.7	\$ (1,151.9)
- New Revenues	2,542,057.9	2,570,866.5	28,808.6
- Proposed Sales Tax Roll-Back	(173,400.0)	-0-	173,400.0
TOTAL RESOURCES	<u>\$ 2,370,046.5</u>	<u>\$ 2,571,103.2</u>	<u>\$ 201,056.7</u>
APPROPRIATIONS:			
- Recommended Appropriations			
-Operating Budgets	2,352,345.0	2,546,558.8	194,213.8
-Land, Bldgs. & Impr.	9,760.6	23,102.5	13,341.9
- State Empl. Pay Package	-0-	3,800.0	3,800.0
- Other Appropriations	15,483.7	-0-	(15,483.7)
- Administrative Adj., Emergencies, Transfers	5,672.4	8,500.0	2,827.6
- Revertments	(27,194.0)	(25,000.0)	2,194.0
TOTAL APPROPRIATIONS.	<u>\$ 2,356,067.7</u>	<u>\$ 2,556,961.3</u>	<u>\$ 200,893.6</u>
CARRY FORWARD.	<u>=====</u> \$ 13,978.8	<u>=====</u> \$ 14,141.9	<u>=====</u> \$ 163.1

TABLE 1

FY 1988 - GENERAL FUND OPERATING BUDGETS

COMPARISON OF RECOMMENDED BUDGETS

JLBC Staff and Executive without Adjustments

AGENCY	EXECUTIVE 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
-----	-----	-----	-----	-----
GENERAL GOVERNMENT				
Dept. of Administration a	25,073,000	26,684,900	1,611,900	6.04%
Atty. Gen. - Dept. of Law	16,493,400	16,646,600	153,200	0.92%
Dept. of Commerce/Tourism	9,087,300	5,935,200 b	(3,152,100)	-53.11%
Governor, Office of	2,650,000	2,650,000	0	0.00%
Office of Affirm. Action	191,900	204,000	12,100	5.93%
Judicial System	34,657,100	42,320,700	7,663,600	18.11%
Law Enforce. Merit Syst.	0 c	43,100	43,100	100.00%
Legislature	21,188,400	22,890,500	1,702,100	7.44%
Personnel Board	213,700	214,600	900	0.42%
Dept. of Revenue	31,728,000	31,525,400	(202,600)	-0.64%
Secretary of State	1,483,000	1,513,600	30,600	2.02%
Board of Tax Appeals	389,700	410,800	21,100	5.14%
Office of Tourism			0	
Treasurer	3,244,700	3,057,000	(187,700)	-6.14%
Uniform St. Laws	13,900	14,800	900	6.08%
			0	
-----	-----	-----	-----	-----
TOTAL-GEN. GOVT.	146,414,100	154,111,200	7,697,100	4.99%

a) Includes Weights and Measures, which the Governor proposes be established as a separate agency.

b) Combined JLBC recommendations for Commerce and Tourism. Shown for comparison purposes only.

(The JLBC recommendation for Tourism is \$3,453,000 and Commerce is \$2,626,500.)

c) The Governor has proposed eliminating this agency. JLBC staff is taking this proposal under review.

(TABLE 1 cont.)

AGENCY	GOVERNOR'S 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
HEALTH & WELFARE				
Rangers Pension	14,400	14,400	0	0.00%
Council for Hear. Impaired	120,100	124,900	4,800	3.84%
Dept. of Econ. Security	223,994,000	232,285,600	8,291,600	3.57%
Dept. of Health Services	90,626,700	99,433,700	8,807,000	8.86%
Dept. Env. Quality	10,532,500	9,710,700	(821,800)	-8.46%
AHCCCS	133,916,700	132,947,500	(969,200)	-0.73%
Comm. on Indian Affairs	0 d	164,500	164,500	100.00%
Pioneers' Home	2,626,600	2,659,200	32,600	1.23%
Vet.'s Service Commission	655,800	691,900	36,100	5.22%
TOTAL-HEALTH & WELFARE	462,486,800	478,032,400	15,545,600	3.25%

d) The Governor has proposed eliminating this agency.

EDUCATION

Comm. on the Arts	1,142,700	1,151,800	9,100	0.79%
Az. Hist. Society	1,746,300	1,774,900	28,600	1.61%
Community Colleges Bd.	63,473,100	69,842,400	6,369,300	9.12%
Deaf & Blind School	13,015,500 e	9,569,100	(3,446,400)	-36.02%
Dept of Education	961,808,900 f	1,059,951,300	98,142,400	9.26%
Student Loans	27,600	75,000	47,400	63.20%
Prescott Hist. Society	420,800	444,200	23,400	5.27%
Board of Regents/Post Sec. Ed	4,651,400	4,775,700	124,300	2.60%
ASU - Main	135,358,600	147,036,200	11,677,600	7.94%
ASU - West	5,339,700	6,272,900	933,200	14.88%
NAU	49,178,900	52,567,400	3,388,500	6.45%
U of A - Main	152,806,200	166,602,100	13,795,900	8.28%
U of A - Coll. of Med	37,005,000	39,350,000	2,345,000	5.96%
TOTAL-EDUCATION	1,425,974,700	1,559,413,000	133,438,300	8.56%

e) The Governor has proposed that voucher funding through DOE be eliminated and this agency be 100% general fund.

f) The Governor's recommendation does not include \$117,500,000 representing the estimated cost of Teacher Retirement and F.I.C.A. The Governor recommends shifting funding to local tax base.

(TABLE 1 cont.)

AGENCY	GOVERNOR'S 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
INSPECTION & REGULATION				
Agr. Employ. Rel. Bd.	194,500	197,300	2,800	1.42%
Ag. & Hort. Comm.	5,415,300	5,898,300	483,000	8.19%
Banking	2,927,700	3,103,600	175,900	5.67%
Registrar of Contractors	2,315,300	2,809,600	494,300	17.59%
Corporation Commission	4,613,300	4,974,700	361,400	7.26%
Dairy Commissioner	464,200	473,800	9,600	2.03%
Insurance Dept.	2,155,100	2,243,800	88,700	3.95%
Liq. Lic. & Cont.	2,080,800	2,073,700	(7,100)	-0.34%
Livestock Board	3,600,700	3,782,700	182,000	4.81%
Bldg. & Fire Safety	2,505,400	2,499,400	(6,000)	-0.24%
Mine Inspector	690,900	742,900	52,000	7.00%
OSHA Review	15,700	8,900	(6,800)	-76.40%
Dept. of Racing	2,684,900	2,602,200	(82,700)	-3.18%
Radiation Reg. Agency	1,147,500	1,208,400	60,900	5.04%
Real Estate Dept.	2,452,700	2,415,200	(37,500)	-1.55%
Boxing Comm	33,900	36,500	2,600	7.12%
TOTAL-INSP. & REGULATION	33,297,900	35,071,000	1,773,100	5.06%
PROTECTION & SAFETY				
Dept. of Corrections	209,500,000	212,517,600	3,017,600	1.42%
Emer.Svcs.& Mil.Affairs	3,751,500	3,669,300	(82,200)	-2.24%
Bd. of Pardons & Paroles	1,471,900	1,690,100	218,200	12.91%
Dept. of Public Safety	45,825,200 g	77,564,000	31,738,800	40.92%
TOTAL-PROTECT. & SAFETY	260,548,600	295,441,000	34,892,400	11.81%

g) The Governor has proposed diverting \$25,600,000 from the State Highway User Fund to finance the Highway Patrol activities.

(TABLE 1 cont.)

AGENCY	GOVERNOR'S 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
TRANSPORTATION				
Dept. of Transportation	81,100	84,800	3,700	4.36%
NATURAL RESOURCES				
Comm.on Ariz.Environment	0	0	0	
State Land Dept.	7,110,300	7,695,400	585,100	7.60%
Mines & Min.Res.	435,100	453,100	18,000	3.97%
Oil & Gas Cons. Comm.	182,800	186,800	4,000	2.14%
State Parks Board	5,233,300	5,222,200	(11,100)	-0.21%
Solar Energy Comm	0	306,400	306,400	100.00%
Dept.of Water Resources	10,580,000	10,541,500	(38,500)	-0.37%
TOTAL-NATURAL RESOURCES	23,541,500	24,405,400	863,900	3.54%

h) The Governor has proposed eliminating this agency and folding its responsibilities into the new Department of Environmental Quality. The JLBC staff concurs with this recommendation.

<u>TOTAL PROPOSED BUDGET</u>	<u>2,352,344,700</u>	<u>2,546,558,800</u>	<u>194,214,100</u>	<u>7.63%</u>
------------------------------	----------------------	----------------------	--------------------	--------------

TABLE 2

FY 1988 - GENERAL FUND OPERATING BUDGETS

COMPARISON OF RECOMMENDED BUDGETS

JLBC Staff and Executive with Adjustments

AGENCY	EXECUTIVE 1988 RECOMMENDATION	RENT	OTHER ADJUSTMENTS	EXECUTIVE 1988 ADJ. BUDGET	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
Dept. of Administration a	25,073,000	1,025,800		26,098,800	26,684,900	586,100	2.20%
Atty. Gen. - Dept. of Law	16,493,400	1,438,700		17,932,100	16,646,600	(1,285,500)	-7.72%
Dept. of Commerce/Tourism	9,087,300	167,000		9,254,300	5,935,200 b	(3,319,100)	-55.92%
Governor, Office of	2,650,000	137,500		2,787,500	2,650,000	(137,500)	-5.19%
Office of Affirm. Action	191,900	14,500		206,400	204,000	(2,400)	-1.18%
Judicial System	34,657,100	566,800		35,223,900	42,320,700	7,096,800	16.77%
Law Enforce. Merit Syst.	0 c			0	43,100	43,100	100.00%
Legislature	21,188,400			21,188,400	22,890,500	1,702,100	7.44%
Personnel Board	213,700			213,700	214,600	900	0.42%
Dept. of Revenue	31,728,000	319,300		32,047,300	31,525,400	(521,900)	-1.66%
Secretary of State	1,483,000	103,400		1,586,400	1,513,600	(72,800)	-4.81%
Board of Tax Appeals	389,700	35,200		424,900	410,800	(14,100)	-3.43%
Office of Tourism							
Treasurer	3,244,700	67,500		3,312,200	3,057,000	(255,200)	-8.35%
Uniform St. Laws	13,900			13,900	14,800	900	6.08%
TOTAL-GEN. GOVT.	146,414,100	3,875,700	0	150,289,800	154,111,200	3,821,400	2.48%

a) Includes Weights and Measures, which the Governor proposes be established as a separate agency.

b) Combined JLBC recommendations for Commerce and Tourism. Shown for comparison purposes only.

(The JLBC recommendation for Tourism is \$3,453,000 and Commerce is \$2,626,500.)

c) The Governor has proposed eliminating this agency. JLBC staff is taking this proposal under review.

(TABLE 2 cont.)

AGENCY	GOVERNOR'S 1988 RECOMMENDATION	RENT	OTHER ADJUSTMENTS	EXECUTIVE 1988 ADJ. BUDGET	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
Rangers Pension	14,400			14,400	14,400	0	0.00%
Council for Hear. Impaired	120,100			120,100	124,900	4,800	3.84%
Dept. of Econ. Security	223,994,000	283,000		224,277,000	232,285,600	8,008,600	3.45%
Dept. of Health Services	90,626,700	990,300		91,617,000	99,433,700	7,816,700	7.86%
Dept. Env. Quality	10,532,500			10,532,500	9,710,700	(821,800)	-8.46%
AHCCCS	133,916,700			133,916,700	132,947,500	(969,200)	-0.73%
Comm. on Indian	0 d	11,200		11,200	164,500	153,300	93.19%
Pioneers' Home	2,626,600			2,626,600	2,659,200	32,600	1.23%
Vet.'s Service Commission	655,800			655,800	691,900	36,100	5.22%
TOTAL-HEALTH & WELFARE	462,486,800	1,284,500	0	463,771,300	478,032,400	14,261,100	2.98%

d) The Governor has proposed eliminating this agency.

EDUCATION

Comm. on the Arts	1,142,700			1,142,700	1,151,800	9,100	0.79%
Az. Hist. Society	1,746,300			1,746,300	1,774,900	28,600	1.61%
Community Colleges Bd.	63,473,100			63,473,100	69,842,400	6,369,300	9.12%
Deaf & Blind School	13,015,500			13,015,500 e	9,569,100	(3,446,400)	-36.02%
Dept of Education	961,808,900		117,500,000 f	1,079,308,900	1,059,951,300	(19,357,600)	-1.83%
Student Loans	27,600			27,600	75,000	47,400	63.20%
Prescott Hist. Society	420,800			420,800	444,200	23,400	5.27%
Board of Regents/Post Sec. Ed	4,651,400			4,651,400	4,775,700	124,300	2.60%
ASU - Main	135,358,600			135,358,600	147,036,200	11,677,600	7.94%
ASU - West	5,339,700			5,339,700	6,272,900	933,200	14.88%
NAU	49,178,900			49,178,900	52,567,400	3,388,500	6.45%
U of A - Main	152,806,200			152,806,200	166,602,100	13,795,900	8.28%
U of A - Coll. of Med	37,005,000			37,005,000	39,350,000	2,345,000	5.96%
TOTAL-EDUCATION	1,425,974,700	0	117,500,000	1,543,474,700	1,559,413,000	15,938,300	1.02%

e) The Governor has proposed that voucher funding through DOE be eliminated and this agency be 100% general fund.

f) \$117,500,000 represents the estimated cost of Teacher Retirement and F.I.C.A. which Governor recommends shifting to local tax base.

(TABLE 2 cont.)

AGENCY	GOVERNOR'S 1988 RECOMMENDATION	RENT	OTHER ADJUSTMENTS	EXECUTIVE 1988 ADJ. BUDGET	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
INSPECTION & REGULATION							
Agr. Employ. Rel. Bd.	194,500	11,900		206,400	197,300	(9,100)	-4.61%
Ag. & Hort. Comm.	5,415,300	139,500		5,554,800	5,898,300	343,500	5.82%
Banking	2,927,700			2,927,700	3,103,600	175,900	5.67%
Registrar of Contractors	2,315,300	162,500		2,477,800	2,809,600	331,800	11.81%
Corporation Commission	4,613,600	426,400		5,040,000	4,974,700	(65,300)	-1.31%
Dairy Commissioner	464,200			464,200	473,800	9,600	2.03%
Insurance Dept.	2,155,100	11,300		2,166,400	2,243,800	77,400	3.45%
Liq. Lic. & Cont.	2,080,800			2,080,800	2,073,700	(7,100)	-0.34%
Livestock Board	3,600,700	83,200		3,683,900	3,782,700	98,800	2.61%
Bldg. & Fire Safety	2,505,400			2,505,400	2,499,400	(6,000)	-0.24%
Mine Inspector	690,900	13,200		704,100	742,900	38,800	5.22%
OSHA Review	15,700			15,700	8,900	(6,800)	-76.40%
Dept. of Racing	2,684,900			2,684,900	2,602,200	(82,700)	-3.18%
Radiation Reg. Agency	1,147,500			1,147,500	1,208,400	60,900	5.04%
Real Estate Dept.	2,452,700			2,452,700	2,415,200	(37,500)	-1.55%
Boxing Comm	33,900	3,600		37,500	36,500	(1,000)	-2.74%
TOTAL-INSP. & REGULATION	33,298,200	851,600	0	34,149,800	35,071,000	921,200	2.63%
PROTECTION & SAFETY							
Dept. of Corrections	209,500,000	799,600		210,299,600	212,517,600	2,218,000	1.04%
Emer.Svcs.& Mil.Affairs	3,751,500			3,751,500	3,669,300	(82,200)	-2.24%
Bd. of Pardons & Paroles	1,471,900	96,400		1,568,300	1,690,100	121,800	7.21%
Dept. of Public Safety	45,825,200		25,600,000 g	71,425,200	77,564,000	6,138,800	7.91%
TOTAL-PROTECT. & SAFETY	260,548,600	896,000	25,600,000	287,044,600	295,441,000	8,396,400	2.84%

g) The Governor has proposed diverting \$25,600,000 from the State Highway User Fund to finance the Highway Patrol activities.

(TABLE 2 cont.)

AGENCY	GOVERNOR'S 1988 RECOMMENDATION	RENT	OTHER ADJUSTMENTS	EXECUTIVE 1988 ADJ. BUDGET	JLBC 1988 RECOMMENDATION	JLBC minus EXEC	PCT. DIFF
TRANSPORTATION							
Dept. of Transportation	81,100			81,100	84,800	3,700	4.36%
NATURAL RESOURCES							
Comm. on Ariz. Environment	0	13,200		13,200	0	(13,200)	
State Land Dept.	7,110,300	374,700		7,485,000	7,695,400	210,400	2.73%
Mines & Min. Res.	435,100	8,400		443,500	453,100	9,600	2.12%
Oil & Gas Cons. Comm.	182,800			182,800	186,800	4,000	2.14%
State Parks Board	5,233,300			5,233,300	5,222,200	(11,100)	-0.21%
Solar Energy Comm	0	16,600		16,600	306,400	289,800	94.58%
Dept. of Water Resources	10,580,000			10,580,000	10,541,500	(38,500)	-0.37%
TOTAL-NATURAL RESOURCES	23,541,500	412,900	0	23,954,400	24,405,400	451,000	1.85%

h) The Governor has proposed eliminating this agency and folding its responsibilities into the new Department of Environmental Quality. The JLBC staff concurs with this recommendation.

<u>TOTAL PROPOSED BUDGET</u>	<u>2,352,345,000</u>	<u>7,320,700</u>	<u>143,100,000</u>	<u>2,502,765,700</u>	<u>2,546,558,800</u>	<u>43,793,100</u>	<u>1.72%</u>
------------------------------	----------------------	------------------	--------------------	----------------------	----------------------	-------------------	--------------

TABLE 3

FY 1988 - GENERAL FUND OPERATING BUDGETS

COMPARISON OF RECOMMENDED BUDGETS TO F.Y. 1987
BEFORE AND AFTER REDUCTIONS

JLBC Staff and Executive without Adjustments

AGENCY	1987 ESTIMATED BUDGET	S.B. 1002 BUDGET REDUCTION	FINAL 1987 BUDGET	EXECUTIVE 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION
GENERAL GOVERNMENT					
Dept. of Administration a	25,905,500	1,798,200	24,107,300	25,073,000	26,684,900
Atty. Gen. - Dept. of Law	16,531,100	334,700	16,196,400	16,493,400	16,646,600
Dept. of Commerce/Tourism b	6,326,400	473,800	5,852,600	9,087,300	5,935,200
Governor, Office of	2,872,700	168,700	2,704,000	2,650,000	2,650,000
Office of Affirm. Action	198,300	13,900	184,400	191,900	204,000
Judicial System	35,178,700	1,164,100	34,014,600	34,657,100	42,320,700
Law Enforce. Merit Syst.	51,400	5,100	46,300	0 c	43,100
Legislature	22,031,150	1,074,450	20,956,700	21,188,400	22,890,500
Personnel Board	214,400	21,400	193,000	213,700	214,600
Dept. of Revenue	31,629,200	1,581,500	30,047,700	31,728,000	31,525,400
Secretary of State	2,219,800	4,900	2,214,900	1,483,000	1,513,600
Board of Tax Appeals	415,900	31,700	384,200	389,700	410,800
Office of Tourism					
Treasurer	3,101,500	80,400	3,021,100	3,244,700	3,057,000
Uniform St. Laws	14,600	1,600	13,000	13,900	14,800
TOTAL-GEN. GOVT.	146,690,650	6,754,450	139,936,200	146,414,100	154,111,200

a) Includes Weights and Measures, which the Governor proposes be established as a separate agency.

b) Combined JLBC recommendations for Commerce and Tourism. Shown for comparison purposes only.

(The JLBC recommendation for Tourism is \$3,453,000 and Commerce is \$2,626,500.)

c) The Governor has proposed eliminating this agency. JLBC staff is taking this proposal under review.

(TABLE 3 cont.)

AGENCY	1987 ESTIMATED BUDGET	S.B. 1002 BUDGET REDUCTION	FINAL 1987 BUDGET	GOVERNOR'S 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION
HEALTH & WELFARE					
Rangers Pension	14,400	0	14,400	14,400	14,400
Council for Hear. Impaired	139,900	14,300	125,600	120,100	124,900
Dept. of Econ. Security	222,089,800	8,900,000	213,189,800	223,994,000	232,285,600
Dept. of Health Services	100,394,100	4,824,600	95,569,500	90,626,700	99,433,700
Dept. Env. Quality	7,865,300	364,300	7,501,000	10,532,500	9,710,700
AHCCCS	133,279,500	5,457,200	127,822,300	133,916,700	132,947,500
Comm. on Indian Affairs	163,800	9,800	154,000	0 ^d	164,500
Pioneers' Home	2,609,500	50,000	2,559,500	2,626,600	2,659,200
Vet.'s Service Commission	875,800	72,600	803,200	655,800	691,900
TOTAL-HEALTH & WELFARE	467,432,100	19,692,800	447,739,300	462,486,800	478,032,400

d) The Governor has proposed eliminating this agency.

EDUCATION

Comm. on the Arts	1,171,100	30,700	1,140,400	1,142,700	1,151,800
Az. Hist. Society	1,773,900	106,400	1,667,500	1,746,300	1,774,900
Community Colleges Bd.	67,708,000	3,609,000	64,099,000	63,473,100	69,842,400
Deaf & Blind School	9,720,900	583,000	9,137,900	13,015,500 ^e	9,569,100
Dept of Education	1,018,558,900	21,028,900	997,530,000	961,808,900 ^f	1,059,951,300
Student Loans	96,000	12,000	84,000	27,600	75,000
Prescott Hist. Society	413,900	19,600	394,300	420,800	444,200
Board of Regents/Post Sec. Ed	4,105,000	197,100	3,907,900	4,651,400	4,775,700
ASU - Main	149,464,000	10,680,700	138,783,300	135,358,600	147,036,200
ASU - West	5,333,400	155,100	5,178,300	5,339,700	6,272,900
NAU	53,259,700	3,728,100	49,531,600	49,178,900	52,567,400
U of A - Main	170,181,600	11,912,700	158,268,900	152,806,200	166,602,100
U of A - Coll. of Med	38,566,500	2,699,600	35,866,900	37,005,000	39,350,000
TOTAL-EDUCATION	1,520,352,900	54,762,900	1,465,590,000	1,425,974,700	1,559,413,000

e) The Governor has proposed that voucher funding through DOE be eliminated and this agency be 100% general fund.

f) The Governor's recommendation does not include \$117,500,000 representing the estimated cost of Teacher Retirement and F.I.C.A. The Governor recommends shifting funding to local tax base.

(TABLE 3 cont.)

AGENCY	1987 ESTIMATED BUDGET	S.B. 1002 BUDGET REDUCTION	FINAL 1987 BUDGET	GOVERNOR'S 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION
INSPECTION & REGULATION					
Agr. Employ. Rel. Bd.	195,300	3,800	191,500	194,500	197,300
Ag. & Hort. Comm.	5,948,600	356,900	5,591,700	5,415,300	5,898,300
Banking	3,043,700	304,400	2,739,300	2,927,700	3,103,600
Registrar of Contractors	2,534,200	152,100	2,382,100	2,315,300	2,809,600
Corporation Commission	5,255,400	367,900	4,887,500	4,613,300	4,974,700
Dairy Commissioner	439,200	26,400	412,800	464,200	473,800
Insurance Dept.	2,245,000	157,100	2,087,900	2,155,100	2,243,800
Liq. Lic. & Cont.	2,045,600	143,200	1,902,400	2,080,800	2,073,700
Livestock Board	3,802,500	266,200	3,536,300	3,600,700	3,782,700
Bldg. & Fire Safety	2,524,900	176,700	2,348,200	2,505,400	2,499,400
Mine Inspector	747,900	44,000	703,900	690,900	742,900
OSHA Review	16,700	1,000	15,700	15,700	8,900
Dept. of Racing	2,721,500	238,900	2,482,600	2,684,900	2,602,200
Radiation Reg. Agency	1,293,300	129,300	1,164,000	1,147,500	1,208,400
Real Estate Dept.	2,413,300	168,900	2,244,400	2,452,700	2,415,200
Boxing Comm	38,700	300	38,400	33,900	36,500
TOTAL-INSP. & REGULATION	35,265,800	2,537,100	32,728,700	33,297,900	35,071,000
PROTECTION & SAFETY					
Dept. of Corrections	205,719,000	19,750,000	185,969,000	209,500,000	212,517,600
Emer.Svcs.& Mil.Affairs	3,689,400	240,200	3,449,200	3,751,500	3,669,300
Bd. of Pardons & Paroles	1,640,700	98,400	1,542,300	1,471,900	1,690,100
Dept. of Public Safety	77,908,700	4,671,200	73,237,500	45,825,200 g	77,564,000
TOTAL-PROTECT. & SAFETY	288,957,800	24,759,800	264,198,000	260,548,600	295,441,000

g) The Governor has proposed diverting \$25,600,000 from the State Highway User Fund to finance the Highway Patrol activities.

(TABLE 3 cont.)					
AGENCY	1987 ESTIMATED BUDGET	S.B. 1002 BUDGET REDUCTION	FINAL 1987 BUDGET	GOVERNOR'S 1988 RECOMMENDATION	JLBC 1988 RECOMMENDATION
TRANSPORTATION					
Dept. of Transportation	89,700	9,000	80,700	81,100	84,800
NATURAL RESOURCES					
Comm.on Ariz.Environment	122,800	9,100	113,700	0 h	0
State Land Dept.	7,488,500	0	7,488,500	7,110,300	7,695,400
Mines & Min.Res.	452,300	9,900	442,400	435,100	453,100
Oil & Gas Cons. Comm.	189,000	13,200	175,800	182,800	186,800
State Parks Board	5,475,400	438,000	5,037,400	5,233,300	5,222,200
Solar Energy Comm	310,100	29,700	280,400	0	306,400
Dept.of Water Resources	11,298,790	755,700	10,543,090	10,580,000	10,541,500
TOTAL-NATURAL RESOURCES	25,336,890	1,255,600	24,081,290	23,541,500	24,405,400

h) The Governor has proposed eliminating this agency and folding its responsibilities into the new Department of Environmental Quality. The JLBC staff concurs with this recommendation.

<u>TOTAL PROPOSED BUDGET</u>	<u>2,484,125,840</u>	<u>109,771,650</u>	<u>2,374,354,190</u>	<u>2,352,344,700</u>	<u>2,546,558,800</u>
------------------------------	----------------------	--------------------	----------------------	----------------------	----------------------

THE U.S. ECONOMY

The U.S. economy underwent a second consecutive year of rather lethargic economic growth in 1986. In real terms (inflation-adjusted), the U.S. economy expanded by 2.5 percent in 1986 and 2.7 percent in 1985.* This is the slowest the economy has grown since the 1981-82 recession. The reasons for the economy's rather dismal performance in 1986 are examined below. In addition, the short term and long term outlook for the U.S. economy is presented. This is followed by a brief discussion of certain forecasting risks which might disrupt the economic outlook.

I. 1986 IN REVIEW

The performance of the U.S. economy in 1986 was unspectacular. Table 1 illustrates the principal components of GNP in each quarter of 1986 with annual averages provided in the last column. Table 2 shows the quarterly rate of growth of real GNP and its components in 1986. These are stated at annual rates. Also shown is JLBC's prior year forecast of economic growth in 1986. This forecast was high because of the unforeseen decline in oil prices which depressed economic growth in many resource-intensive states.

Consumer spending was primarily responsible for keeping the economy afloat in 1986. For the entire year, consumption increased by 4.0 percent or \$94.1 billion in real terms. Much of this increase was fueled by consumer purchases of new cars in September and October when automakers were providing substantial financial incentives. Tax-law changes effective January 1, 1987 also stimulated consumer spending on other durable goods in 1986. Finally, declining gasoline prices provided consumers with additional spending power by reducing the rate of inflation and raising real disposable income.

Government and residential construction spending also contributed to economic growth in 1986. Government spending was up \$26.8 billion or 3.7 percent in 1986. \$17 billion of this increase, however, was attributable to state and local government spending. The remainder (\$9.8 billion) was from increased federal government spending. Defense spending was up \$15.3 billion in 1986, while nondefense spending was reduced \$5.5 billion.

Residential fixed investment, on the other hand, increased by \$16.7 billion or 9.4 percent in 1986. The decline in home mortgage rates was undoubtedly responsible for much of this increase.

On the negative side, three factors constrained economic growth in 1986. First, the trade deficit increased by \$41.5 billion in 1986 to a level of \$149.7 billion. Imports of goods and services increased by 10.7 percent in 1986, from \$470.5 billion in 1985 to \$521.0 billion in 1986. Exports, on the other hand, increased by only 2.5 percent in 1986, from \$362.3 billion in 1985 to \$371.4 billion in 1986.

*1986 is based upon a preliminary estimate of GNP in the fourth quarter of 1986.

I. 1986 IN REVIEW
(Continued)

Table 1

GNP - 1986
(SAAR, Billions of 1982 Dollars)

	JLBC Forecast ^{1/} 1986					Actual 1986
		Q1	Q2	Q3	Q4	
Real GNP	3,692.8	3,655.9	3,661.4	3,686.4	3,702.4	3,676.5
Consumption		2,372.7	2,408.4	2,448.0	2,445.1	2,418.6
Nonresidential Investment		457.8	456.8	454.4	451.0	455.0
Residential Investment		186.3	192.7	197.2	199.3	193.9
Inventory Investment		39.9	15.1	(0.3)	(11.5)	10.8
Government		725.2	742.2	750.4	774.1	748.0
Net Exports		(125.9)	(153.9)	(163.3)	(155.6)	(149.7)

Table 2

GNP - 1986
Annual Rates of Change

	JLBC Forecast ^{1/} 1986					Actual 1986
		Q1	Q2	Q3	Q4	
Real GNP	3.0	3.8	.6	2.8	1.7	2.5
Consumption		3.6	6.2	6.7	(0.5)	4.0
Nonresidential Investment		(15.1)	(.9)	(2.1)	(3.0)	(1.4)
Residential Investment		11.0	14.5	9.7	4.3	9.4
Exports		7.1	(9.8)	13.3	16.1	2.5
Imports		.2	15.8	17.3	4.8	10.7
Government		(12.3)	9.7	4.5	13.2	3.7

^{1/} Forecast dated December, 1985.

I. 1986 IN REVIEW (Continued)

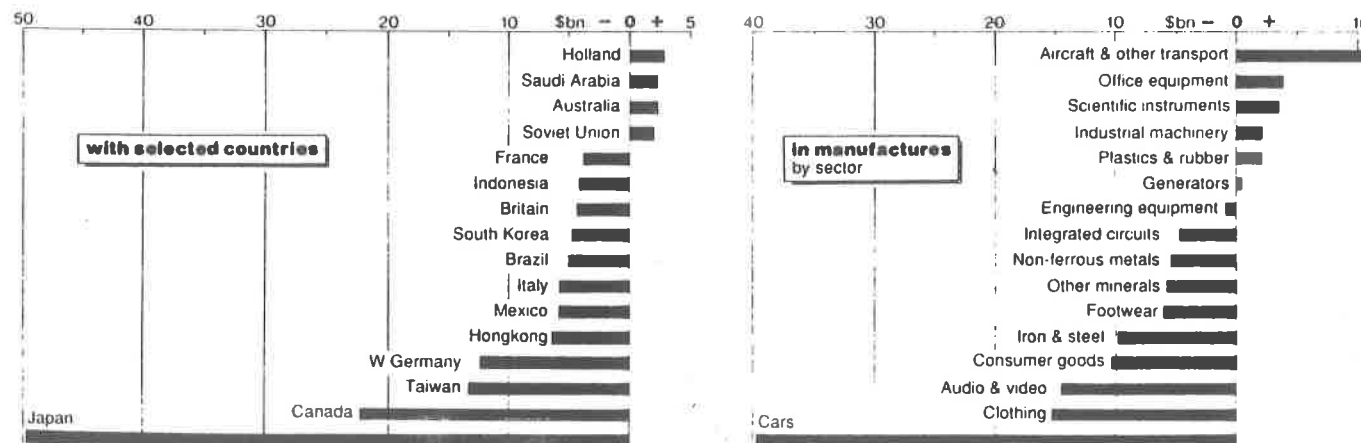
The products which primarily account for our trade problems are automobiles, clothing, consumer electronic goods, iron and steel, shoes, minerals, nonferrous metals, and integrated circuits. The U.S. has a balance of trade surplus in aircraft and other transportation equipment, office equipment, scientific instruments, industrial machinery, plastics, synthetic rubber and other miscellaneous products. The primary countries which have a trade surplus with the U.S. are Japan, Canada, Taiwan, W. Germany, Hongkong, Mexico, Italy, Brazil, S. Korea, Britain, Indonesia and France. Table 3 illustrates our trade balance with selected countries and in selected industries in 1985.

Second, nonresidential investment spending declined by \$6.4 billion in 1986. Business spending on plant and equipment was relatively flat in 1986 because of uncertainty concerning tax reform legislation, slow sales growth, rising corporate debt levels and retroactive elimination of the investment tax credit to January 1, 1986.

Third, economic growth was hampered in many resource- and agriculture-dependent states. Declining oil prices and commodity prices significantly constrained personal income growth in those states. Consequently, consumer spending was impaired.

In summary, the U.S. economy experienced lackluster growth in 1986. Consumer spending kept the economy going for a second straight year. Residential construction spending and government spending also contributed to economic growth in 1986 however. The trade deficit continued to be the biggest deterrent to economic growth in 1986.

Table 3
United States Trade Balance, 1985



Sources: IMF, US Department of Commerce

II. ECONOMIC OUTLOOK

The U.S. economy is not expected to show much improvement in 1987. Economic growth in the first half of 1987 is forecast to be very modest because of the uncertain impact of tax reform on consumer and investment spending and because of the listless turnaround in the trade deficit. Economic growth in the second half of 1987 is, however, expected to accelerate as the trade balance improves and consumer spending picks up.

Tables 3 and 4 below compare various economic forecasts for 1987 and 1988. Clearly, there is some uncertainty concerning economic growth in 1987. Chase Econometrics is forecasting 2.3 percent growth, while the University of Michigan's Research Seminar in Quantitative Economics (RSQE) is projecting 3.3 percent growth. One notable difference between these forecasts is the impact of net exports on real GNP in 1987 and 1988. Both Chase and Wharton are forecasting an improvement in net exports. On the other hand, RSQE sees almost no improvement in the trade deficit. Instead, they expect consumption and residential investment spending to remain strong because of tax-law changes which will boost consumer spending power and continued low interest rates.

The economy is expected to perform somewhat better in 1988. Chase, once again is more bearish, projecting a 2.6 percent rate of growth in real GNP. Wharton and RSQE are more optimistic, however, projecting 3.6 and 3.2 percent rates of growth respectively.

Table 6 presents forecasts of other key economic variables. In general, the rate of unemployment is expected to decline modestly in the next two years. Estimates of the civilian unemployment rate in 1988 range from 6.5 percent to 6.9 percent. The rate of inflation, measured by the GNP implicit price deflator, is forecast to increase between 3.5 and 4.3 percent in 1988. Finally, interest rates are expected to decline slightly in 1987 and then increase very modestly through 1988. Wharton Econometrics estimates that the three-month treasury bill rate will decline to 5.42 percent in 1987 and then increase to 5.92 percent in 1988. However, RSQE estimates that the three-month treasury bill rate will decline to 4.8 percent in 1987 and remain roughly at the level through 1988.

In summary, the U.S. economy appears to be headed for another slow growth year in 1987. Consumer spending will subside in early 1987 as consumers retrench from major purchases made in late 1986 on automobiles and other durable goods. However, tax-law changes should boost consumer spending in the second half of 1987. Investment spending on plant and equipment will remain stagnant or decline slightly in 1987, and residential construction spending should increase modestly. The trade deficit is expected to shrink, although there is some uncertainty concerning the magnitude of this decline. Given that consumer and business spending will be less than robust, the actual performance of the economy in 1987 will depend very much upon what happens to the trade deficit.

1988 is expected to be marginally better than 1987. The trade deficit should continue to rebound and consumer spending is forecast to remain strong. Inflation and interest rates will begin to increase slightly, and the unemployment rate will decline modestly.

II. ECONOMIC OUTLOOK
(Continued)

Table 4
Economic Forecasts

	Chase ^{1/}		Wharton ^{2/}		RSQE ^{3/}	
	1987	1988	1987	1988	1987	1988
Real GNP	3,764.2	3,863.1	3,775.2	3,911.5	3,790.6	3,904.6
Consumption	2,473.2	2,539.7	2,475.4	2,553.8	2,484.6	2,554.8
Nonresidential Investment	452.2	461.0	457.3	479.4	454.1	471.9
Residential Investment	191.3	188.6	199.1	204.7	210.7	226.0
Inventory Change	20.6	22.9	18.9	28.2	31.1	34.5
Government Spending	762.9	769.8	759.5	763.4	763.2	768.4
Federal			324.3	320.7		
State and Local			435.3	442.6		
Net Exports	(136.0)	(118.8)	(135.1)	(117.9)	(152.9)	(150.9)
Exports			399.9	436.1	392.9	422.1
Imports			535.0	554.0	545.8	573.0

Table 5
Percent Change in Economic Forecasts

	Chase ^{1/}		Wharton ^{2/}		RSQE ^{3/}	
	1987	1988	1987	1988	1987	1988
Real GNP	2.3	2.6	2.7	3.6	3.1	3.0
Consumption	2.4	2.7	2.4	3.2	2.9	2.8
Nonresidential Investment	(1.1)	2.0	0.3	4.8	0.0	3.9
Residential Investment	(1.0)	(1.4)	3.0	2.8	8.5	7.3
Inventory Change						
Government Spending	2.4	0.9	2.1	0.5	2.4	0.7
Federal			(1.0)	(1.1)		
State and Local			4.6	1.7		
Net Exports						
Exports			8.1	9.1	6.7	7.4
Imports			3.3	3.6	5.7	5.0

^{1/} Chase Econometrics, December, 1986.

^{2/} Wharton Econometrics, January, 1987.

^{3/} University of Michigan, RSQE, December, 1986.

II. ECONOMIC OUTLOOK
(Continued)

Table 6
Key Economic Variables

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Real GNP (% Change)			
Wharton/JLBC <u>1/</u>	2.6	2.7	3.6
Chase <u>2/</u>	2.6	2.3	2.6
RSQE <u>3/</u>	2.6	3.1	3.0
Blue Chip <u>4/</u>		2.4	3.3
GNP Implicit Price Deflator (% Change)			
Wharton/JLBC <u>1/</u>	2.8	3.4	4.3
Chase	2.8	2.8	3.5
RSQE	2.7	3.3	4.1
3-Month Treasury Bill Rate (%)			
Wharton/JLBC <u>1/</u>	6.0	5.4	6.6
Chase	6.0	5.1	5.9
RSQE	6.0	4.8	4.7
Civilian Unemployment Rate (%)			
Wharton/JLBC <u>1/</u>	7.0	6.9	6.5
Chase	7.0	7.0	6.9
RSQE	7.0	7.0	6.8
Blue Chip		7.0	6.6
Money Supply - M ₂ (% Change)			
Wharton/JLBC <u>1/</u>	8.9	6.6	6.6
Chase	7.9	8.2	8.5
RSQE	8.0	10.8	10.4
Fed Deficit (Fiscal Year - \$ Billions)			
Wharton/JLBC <u>1/</u>	210.5	173.7	170.0
RSQE	215.8	172.7	165.2
Chase		185.4	164.4

1/ JLBC's economic forecast is consistent with Wharton Econometrics' Baseline Forecast of January, 1987.

2/ Chase Econometrics, December, 1986.

3/ University of Michigan, RSQE, December, 1986.

4/ Blue Chip Economic Indicators, January, 1987.

III. FORECAST RISKS

The economic outlook for 1987 and 1988 is subject to various forecasting risks. Two principal risks confronting the current economic outlook are the trade deficit and consumer confidence. First, the trade deficit is projected to shrink over the next two years and, thereby, contribute to economic growth. An improvement in the trade deficit is anticipated as the value of the dollar declines relative to other foreign currencies. Table 7 illustrates the United States' balance of trade since 1980.

The trade balance has shown only incremental signs of rebounding even though the dollar has depreciated significantly against the Japanese yen and West German deutschemark. Since February 1985 the dollar has declined 42 percent against the yen and 48 percent against the deutschemark. While a decline in the value of the dollar may be a necessary condition to reduce our trade deficit, it is not a sufficient condition. Several factors, listed below, have tended to exacerbate our trade problems.

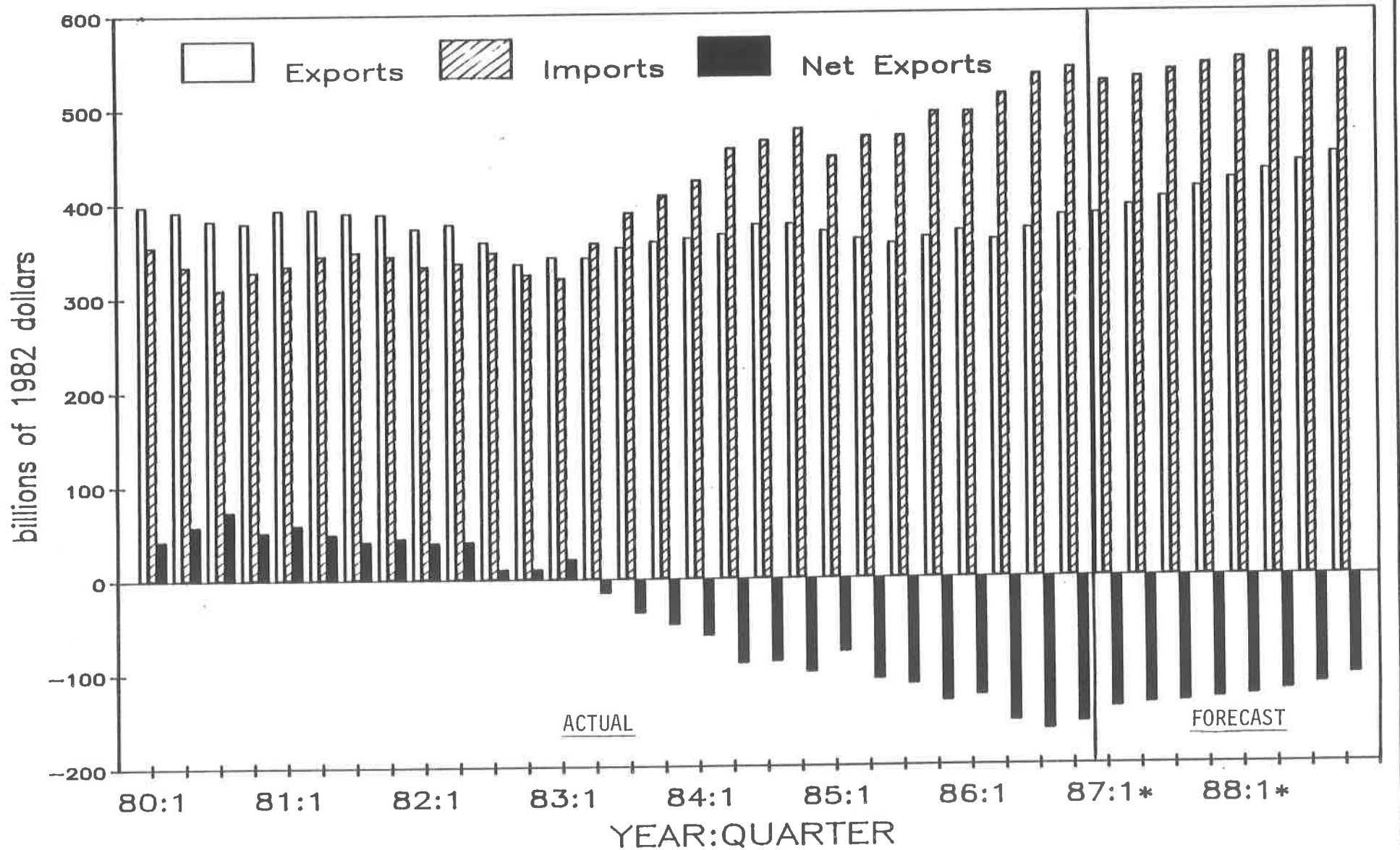
- The dollar has not significantly declined (or has appreciated) in relation to other currencies such as Canada, Mexico, Singapore, Hongkong, S. Korea, and Taiwan.
- Some importers have elected to cut prices to maintain their share of the market.
- Some domestic manufacturers have elected to raise prices to recapture profits which were lost to foreign competitors in earlier periods.
- Slow growth in Japan, W. Germany, and other major U.S. trading countries has hindered our ability to export more goods and services.
- Foreign manufacturers are shifting production to cheaper Third World countries to be able to further cut prices.

Second, the impact of tax reform is expected to stimulate consumer spending through 1988. While the provisions of the tax bill seem to justify this outcome, it may not be as expansionary as originally expected. Tax reform will have an adverse impact upon business investment spending. This is because it provides less generous depreciation allowances and eliminates the investment tax credit.

Moreover, consumers may not continue to spend at record levels. Consumer debt relative to personal income has grown quite dramatically in the past three years. If consumers decide to retrench and repay some of their debts, economic growth will suffer.

And finally, consumers effectively received a tax cut in 1986 when oil prices declined. If OPEC is able to maintain their agreement to cut oil production, it will adversely affect consumer spending in 1987 and 1988 by shrinking real disposable income.

TABLE 7 UNITED STATES TRADE BALANCE



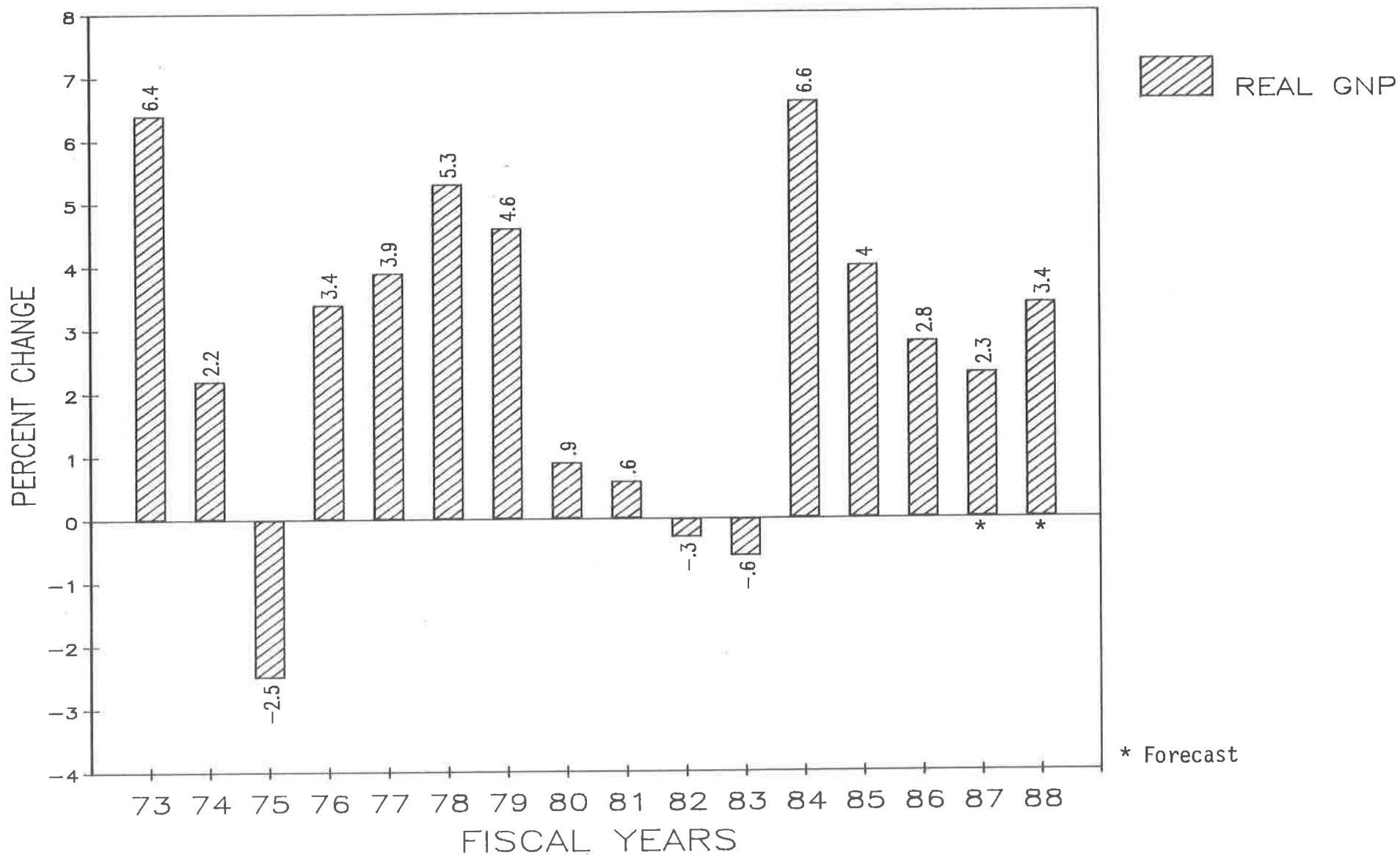
* WHARTON FORECAST

III. FORECAST RISKS (Continued)

In summary, the U.S. economy is expected to grow sluggishly in 1987 and somewhat faster in 1988. This unspectacular outlook could be seriously damaged if the U.S. trade deficit does not improve and/or consumer spending begins to subside. The first half of 1987 is particularly critical given the uncertain impact of tax reform on consumer and business spending. Also, the magnitude of the turnaround in the trade deficit should become evident in early 1987.

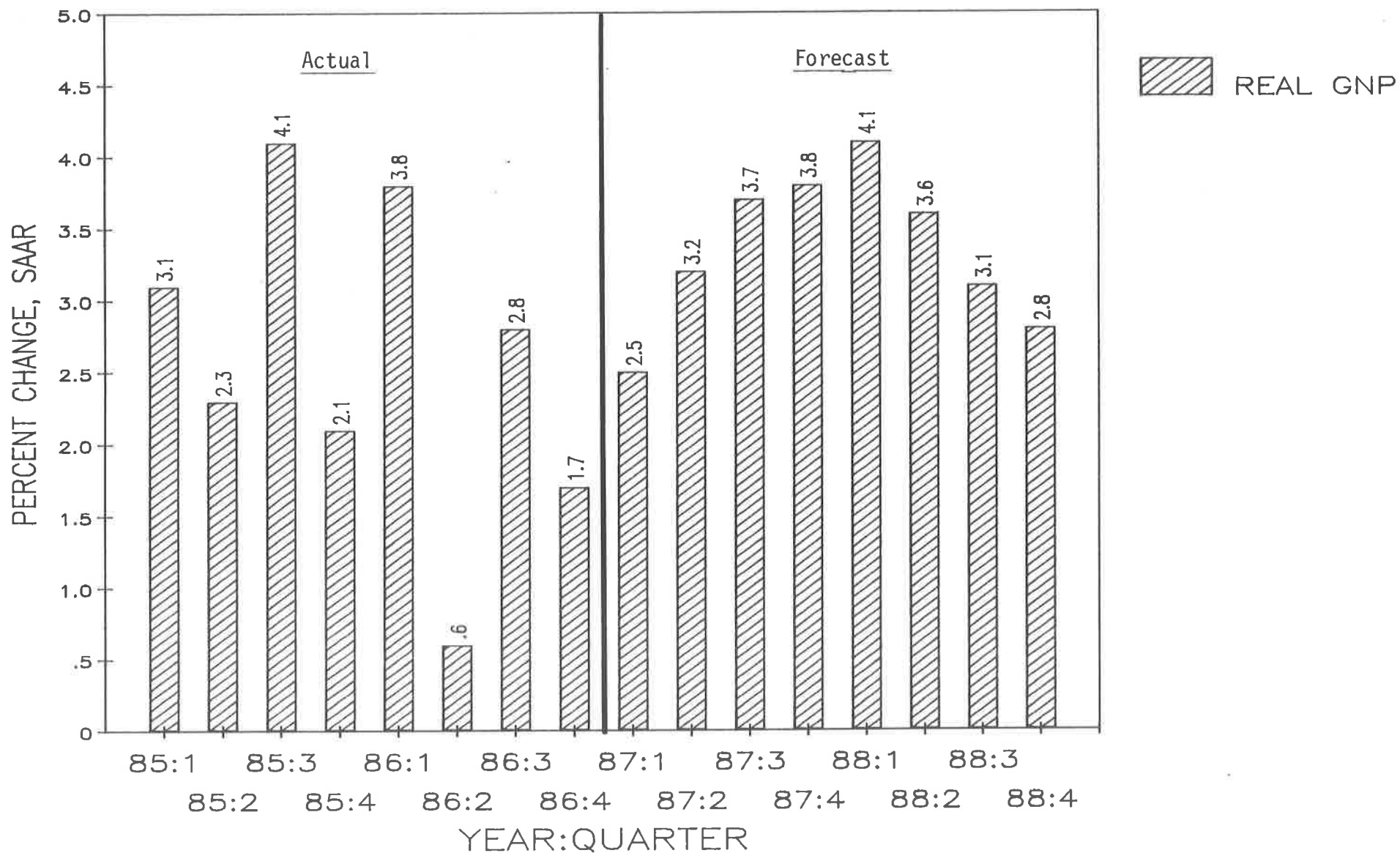
If an improvement in our trade deficit fails to materialize or if consumer spending is more sluggish than expected, then economic growth in 1987 will be considerably less than expected.

US REAL GROSS NATIONAL PRODUCT FISCAL YEARS 1973 - 1988



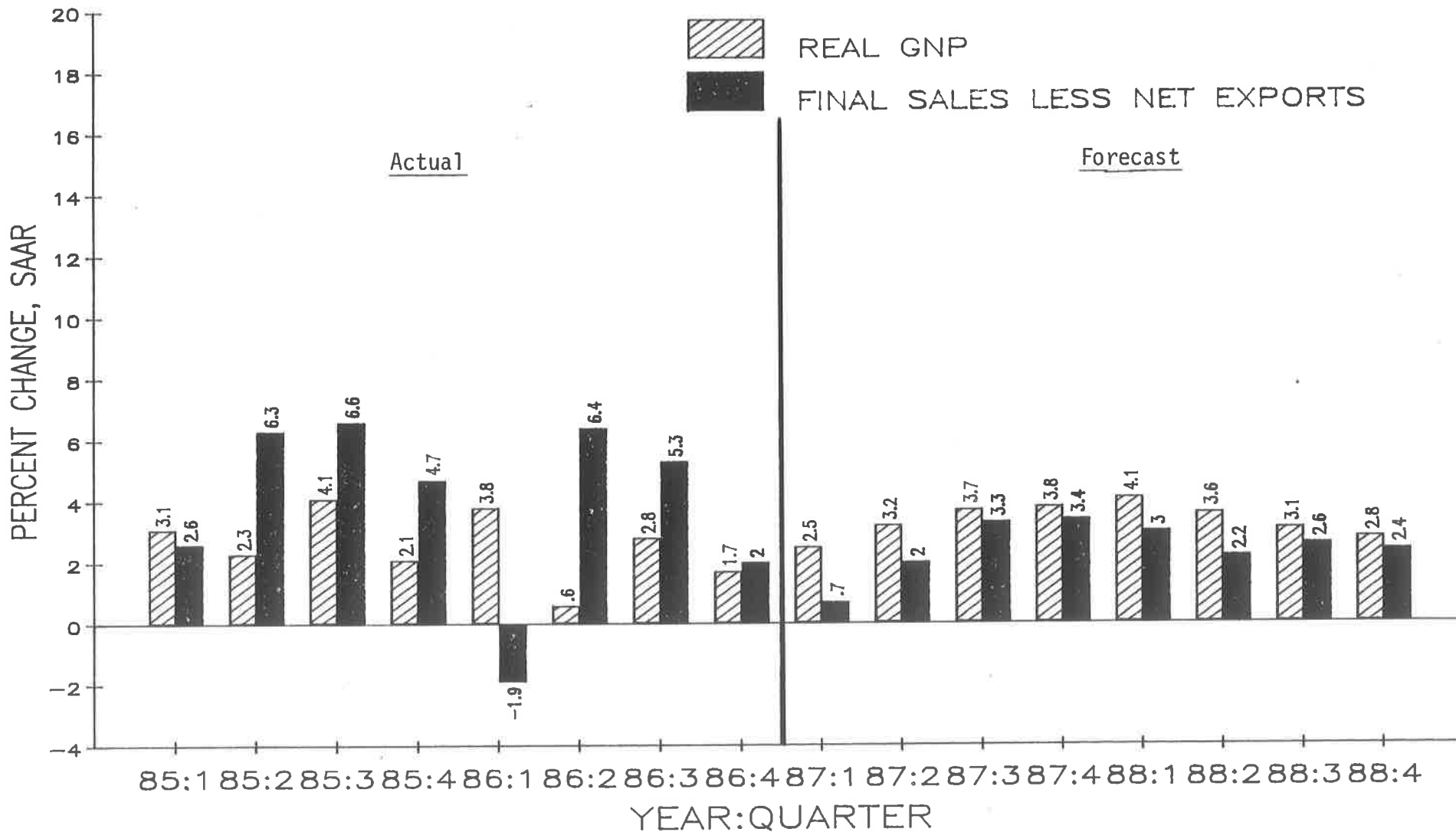
Prepared by: JLBC Staff, 2/1/87

US REAL GROSS NATIONAL PRODUCT QUARTERLY, 1985 THROUGH 1988



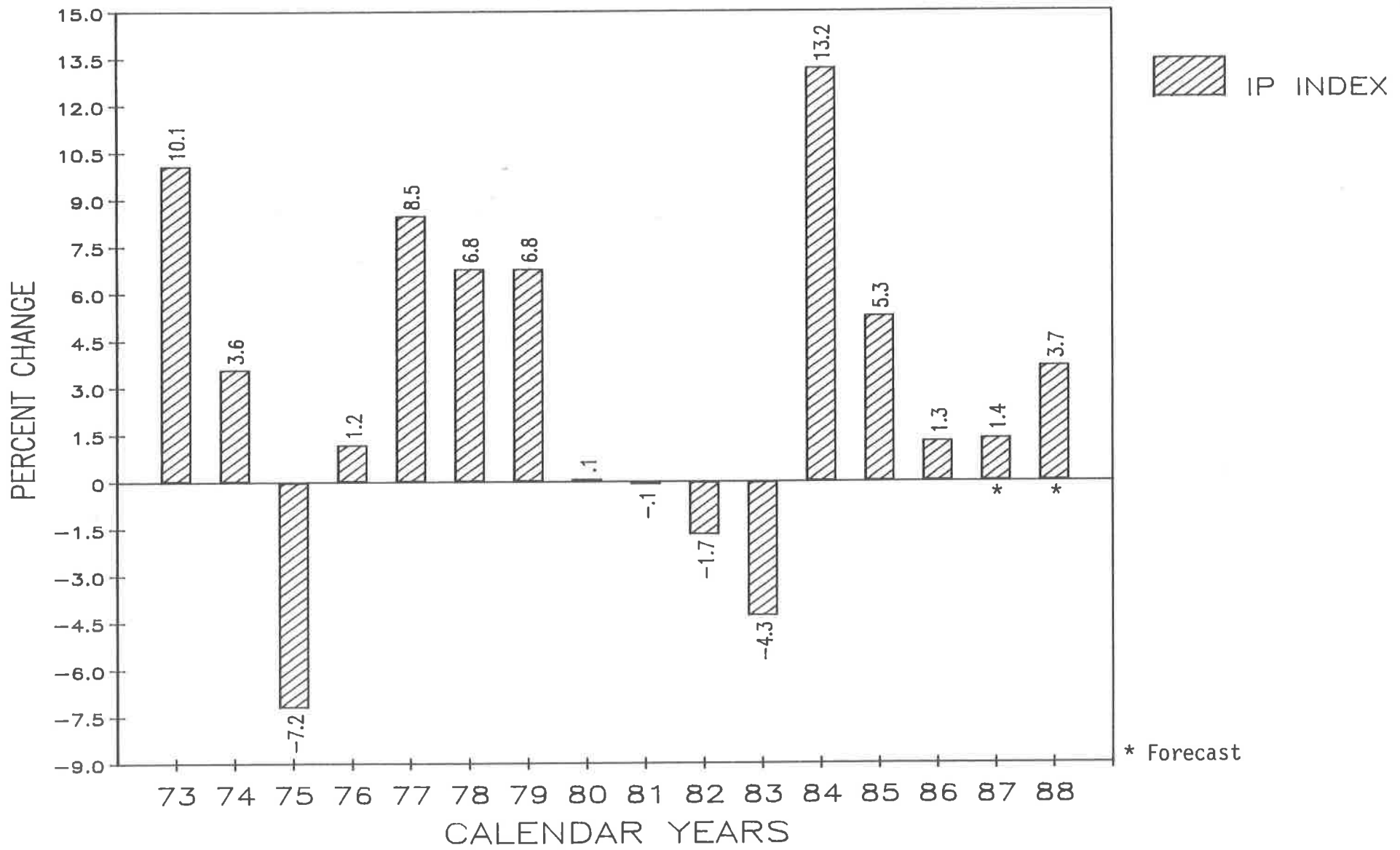
Prepared by: JLBC Staff, 2/1/87

GROWTH OF REAL GNP AND FINAL SALES LESS NET EXPORTS QUARTERLY, 1985 THROUGH 1988



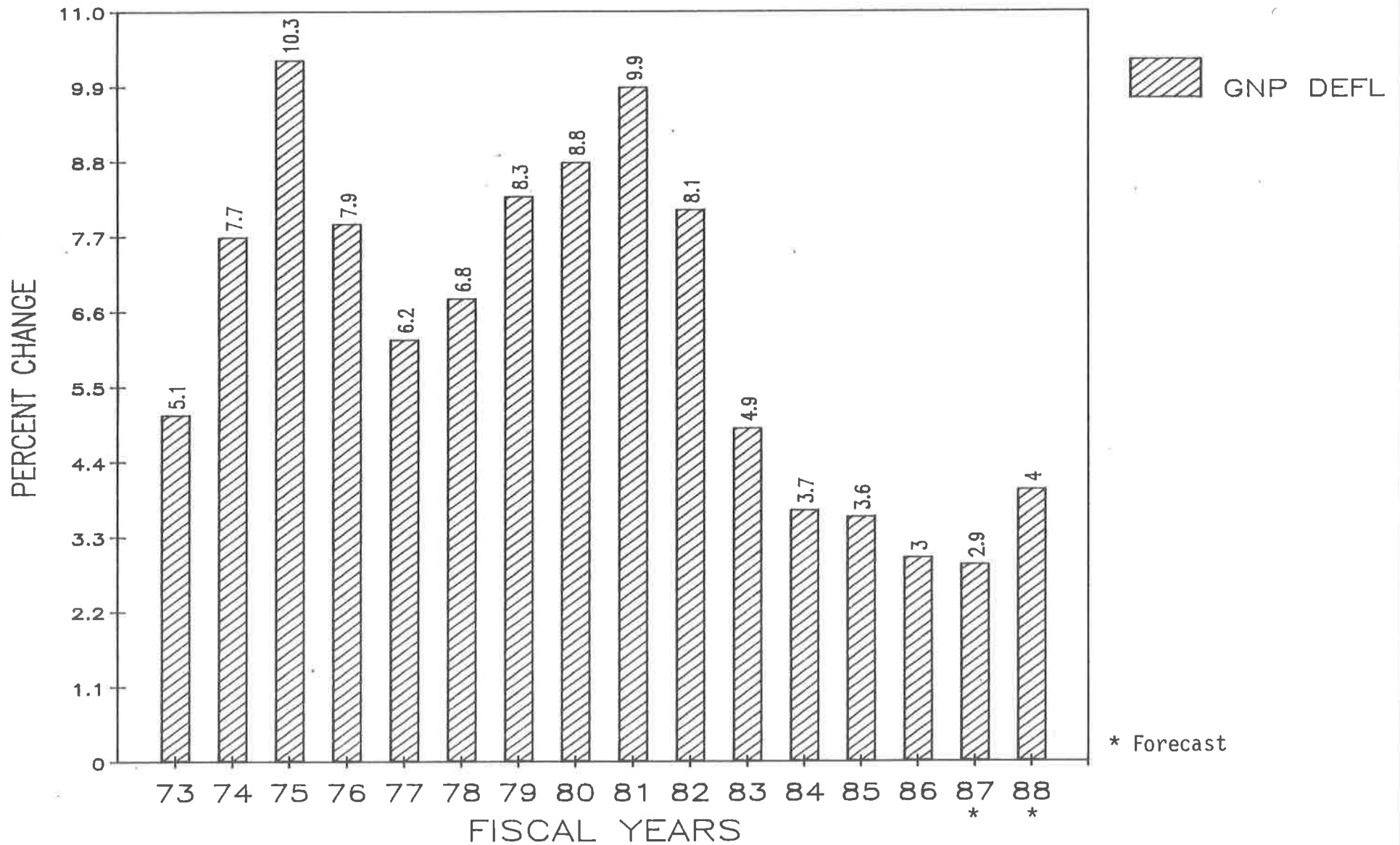
Prepared by: JLBC Staff, 2/1/87

FRB INDUSTRIAL PRODUCTION INDEX FISCAL YEARS 1973 - 1988



Prepared by: JLBC Staff, 2/1/87

GNP PRICE DEFLATOR FISCAL YEARS 1973 - 1988

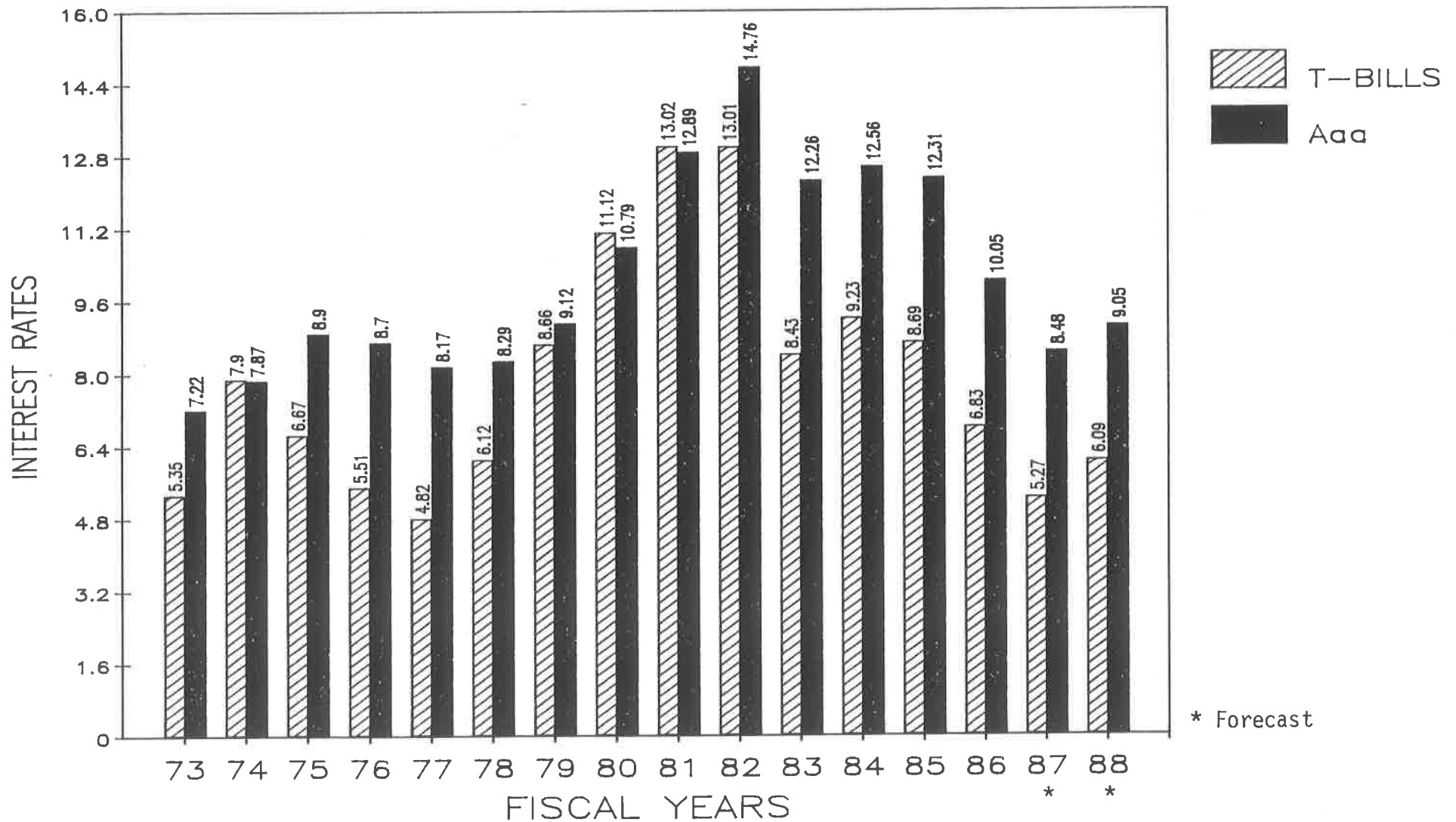


Prepared by: JLBC Staff, 2/1/87

INTEREST RATES

3 MO. T-BILLS and Aaa CORPORATE BONDS

FISCAL YEARS 1973 - 1988



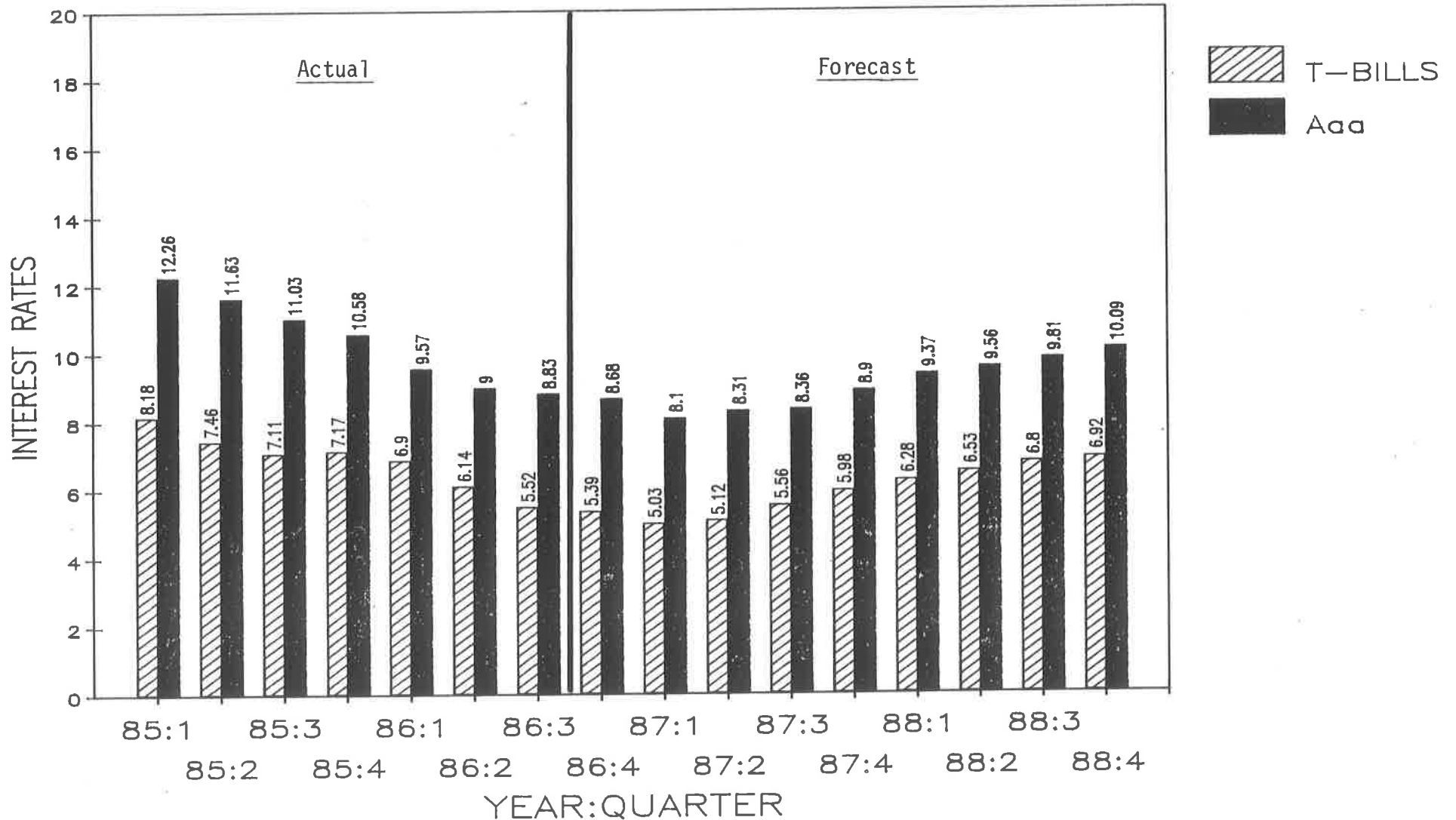
* Forecast

Prepared by: JLBC Staff, 2/1/87

INTEREST RATES

3 MO. T-BILLS and Aaa CORPORATE BONDS

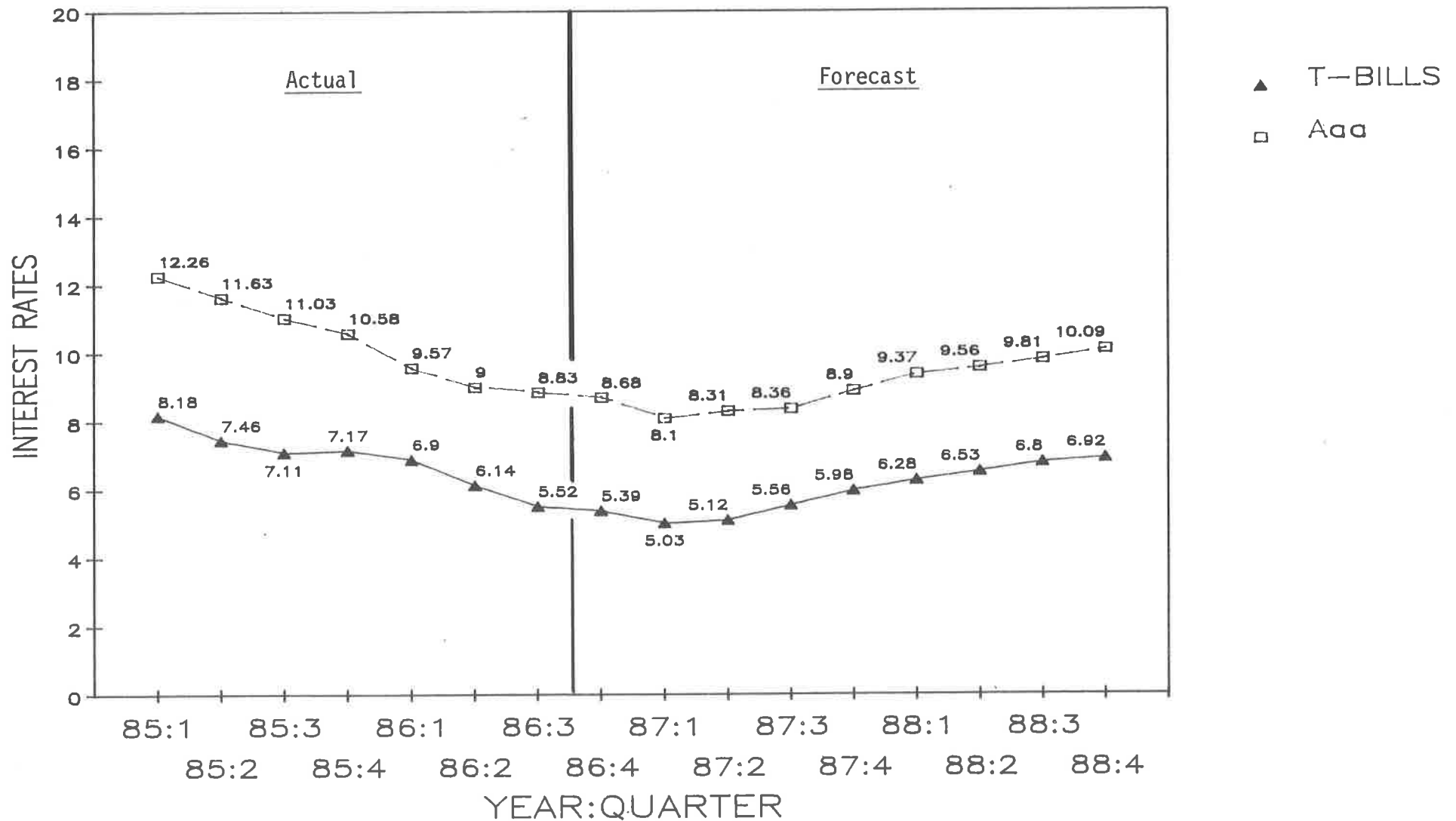
QUARTERLY, 1985 THROUGH 1988



Prepared by: JLBC Staff, 2/1/87

INTEREST RATES

3 MO. T-BILLS and Aaa CORPORATE BONDS QUARTERLY, 1985 THROUGH 1988



Prepared by: JLBC Staff, 2/1/87

THE ARIZONA ECONOMY

THE OUTLOOK ONE YEAR AGO

Our outlook for FY 1987 has changed since January 1986. In general, certain strengths in both the national and Arizona economies did not materialize. Arizona personal income, perhaps the best overall measure of the state of the Arizona economy was forecasted to increase by 8.6 percent. Our new forecast for FY 1987 is 7.7 percent.

In terms of employment, our forecast for total wage and salary employment was very close to our new forecast of an increase for FY 1987 of 4.7 percent. In the important Goods Producing sector, growth in all three components^{1/} has been revised downward in our current forecast. Of particular interest is our forecast for the "high-tech" industry (computer, semiconductor and electronic manufacturers). One year ago we expected this industry to end its decline in late FY 1986 and resume its upward growth in FY 1987. We still believe this but in our current forecast it happens one year later.

One year ago we expected FY 1987 would be the year of increased competitiveness of Arizona industries due to the declining value of the dollar. This, too, is in our current forecast but it is now expected to happen in FY 1988.

Retail sales for FY 1987 were expected to increase by 9.3 percent one year ago. Our current forecast is for only 4.5 percent growth.

Other indicators which have moved in a negative direction were population from 3.2 percent to a 2.9 percent increase and the unemployment rate, which moved from 6.0 percent to 7.2 percent.

THE CURRENT FORECAST

Arizona's economy continued to lose momentum as calendar 1986 drew to a close. Exhibit I, ARIZONA WAGE AND SALARY EMPLOYMENT compares job growth in December 1986 with that of one year earlier in December 1985. We estimate that as of December 1986, the important goods producing^{1/} sector showed a slight decline over December 1985. Service providing^{2/} jobs, while more robust than goods producing, declined from a year over year growth of 7.7 percent at the end of 1985 to year over year growth of 4.8 percent in December 1986.

^{1/} Manufacturing, construction, mining

^{2/} Transportation, communications, public utilities, trade, finance, insurance, real estate, services, government

THE ARIZONA ECONOMY
(Continued)

THE CURRENT FORECAST

The outlook for Arizona remains positive, however, but we anticipate that growth in our forecast period will be slower than earlier in the recovery. Relative to other states, the outlook is good. Arizona should be among the leaders in employment growth.

The Manufacturing sector was in the doldrums during FY 1986 with an average growth in employment of 2.1 percent, down from 9.0 percent in FY 1985. The "high-tech" industry (computer, semiconductor and electronic manufacturers) has been depressed since late 1984. We expect this industry to bottom out early in 1987 and resume its upward growth for FY 1988. Because of federal budget cutting, growth in employment in defense related industries has begun to decline and we expect a declining rate of growth in these industries during our forecast period.

Overall, employment in Manufacturing is expected to increase at an average of 3.6 percent during FY 1987 and FY 1988.

Mining, which at one time employed over 27,000 persons was down to 10,700 in December 1986. The December 1986 figure represented a decline of 8.5 percent from the previous December. In FY 1986, mining employment declined 7.4 percent and we expect a further decline during FY 1987. For FY 1988 we anticipate no change in employment.

Construction employment reached its peak during calendar 1986 and is now declining. For our forecast period, construction activity promises to be a mixed bag. Areas of overbuilding, complicated by a new tax law which makes construction less attractive than under the old tax law will combine to cause declining employment. Arizona has two significant areas of overbuilding, offices and apartments.

A study by Valley National Bank indicated that by the end of 1986, Greater Phoenix would have a two and one-half year supply of office space and Tucson would have a three year supply. This over-supply implies a substantial reduction in the construction of office buildings for the rest of our forecast period. The study also suggests a significant decline in the construction of multi family housing.

Two sectors of construction which should continue to do well are highway-road construction and single family home construction where declining mortgage rates and gains in income have combined to push affordability of single family housing to a high level.

The net effect of this good news-bad news scenario is declining employment in construction for FY 1987 and for FY 1988.

ARIZONA WAGE AND SALARY EMPLOYMENT

	Estimated ^{1/} December 1985		Estimated ^{1/} December 1986	
	<u>Employment</u>	<u>% Change</u> ^{2/}	<u>Employment</u>	<u>% Change</u> ^{2/}
<u>Goods Producing</u>				
Manufacturing	181,700	0.5%	187,400	3.1%
Mining	11,700	(2.5)	10,700	(8.5)
Construction	<u>114,300</u>	12.7	<u>108,000</u>	(5.5)
Total Goods Producing	<u>307,700</u>	4.6	<u>306,100</u>	(0.5)
<u>Service Providing</u>				
Transp., Communication, etc.	64,900	5.7	70,000	7.9
Trade	329,900	7.1	339,700	3.0
Finance, Insurance, etc.	84,800	12.8	91,400	7.8
Services	313,700	10.9	332,400	6.0
Government	<u>229,700</u>	3.1	<u>238,800</u>	4.0
Total Service Providing	<u>1,023,000</u>	7.7	<u>1,072,300</u>	4.8
<u>Total Wage and Salary Employment</u>	<u>1,330,700</u>	<u>7.0%</u>	<u>1,378,400</u>	<u>3.6%</u>
 Memo: Certain Manufacturing Sectors				
Machinery	65,600	(7.9)%	63,900	(2.6)%
Aircraft and Missiles	25,100	23.6	27,600	10.0

^{1/} These employment numbers will be rebenchmarked this month. Amounts shown include an estimate of the effect of rebenchmarking.

^{2/} Percentage change column shows change from corresponding month in prior year.

THE ARIZONA ECONOMY
(Continued)

THE CURRENT FORECAST

The service providing sector accounts for about three-quarters of the employment in Arizona. With the exception of government, growth has been robust in all areas of the service providing sector. Although the slowdown in the goods producing sector is bound to reflect in a slower rate of growth in the service providing sector, certain areas such as tourism and business services will do well. For FY 1988 we expect a further enhancement of the Arizona tourism industry due to the declining value of the U.S. dollar bringing more U.S. and foreign tourists to the state.

Exhibits II and III summarize the staff view of significant positive and negative factors for fiscal years 1987 and 1988. An important aspect of the Arizona economy, in the last half of FY 1987, should be the end of the decline in the computer and semi-conductor industries. Although FY 1987 will see an end to the decline, activity will be at a low level. For FY 1988 we anticipate a resumption of growth in these industries. In both forecast years, tourism will be strong due to (1) increased number of resort hotels and (2) more foreign and American tourists as a result of the declining value of the dollar. It is likely that the latter effect will be more pronounced in FY 1988.

Exhibit IV shows the staff forecast for five key Arizona variables. We expect growth in Arizona personal income, in both current dollars and constant dollar terms, to decline over the forecast period.

Retail sales are expected to rebound in FY 1988 after a relatively weak FY 1987.

Population growth is forecast to be in the 3 percent area for FY 1987 and FY 1988, down somewhat from the 3.9 percent increase of FY 1986.

Exhibit V ARIZONA WAGE AND SALARY EMPLOYMENT, PERCENT GROWTH OVER PRIOR YEAR shows anticipated employment growth in each sector for FY 1987 and 1988 together with estimated actual growth in FY 1986.

Chart I is a bar chart which compares growth rates for current and constant dollar Arizona personal income for FY 1973 through FY 1988.

Chart II is a bar chart which compares growth rates for U.S. and Arizona nominal personal income for FY 1973 through FY 1988.

Chart III is a bar chart which compares growth rates for U.S. and Arizona real personal income for FY 1973 through FY 1988.

Chart IV is a line graph which compares U.S. and Arizona unemployment rates for 1974 through 1988.

ARIZONA OUTLOOK - FY 1987

FY 1987 Summary: No significant improvement from the current pattern of relatively sluggish growth. The continuing construction decline will overcome any improvements.

FY 1987:	Positive Factors	Negative Factors
	<ul style="list-style-type: none"> 1) End of decline in computer and semi-conductor industries 2) Strong construction activity in single family homes and in highways 3) Strong tourism 	<ul style="list-style-type: none"> 1) Declining employment in construction 2) Overbuilt condition in multi-family housing and office building 3) Relatively slow growth in retail sales 4) Low level of activity in computer and semi-conductor industries

ARIZONA OUTLOOK - FY 1988

FY 1988 Summary: The Arizona economy should reflect growth in the national economy including the effect of a declining U.S. dollar. Arizona growth will be negatively affected by a depressed Construction industry.

FY 1988:

Positive Factors	Negative Factors
1) Resumption of growth in computer and semi-conductor industries	1) Continued decline in growth rate of defense related employment
2) Continued strong construction activity in single family homes and highways	2) Resumption of growth in inflation - but still far below historic highs
3) Increased competitiveness of Arizona industries due to declining value of U.S. dollar	3) Continued decline in construction employment
4) More foreign and American tourists due to declining value of U.S. dollar	4) Little construction activity in multi-family housing and in office buildings.

FORECAST OF KEY
ARIZONA ECONOMIC INDICATORS

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Forecast</u>	<u>FY 1988</u> <u>Forecast</u>
Personal Income - Current Dollars ^{1/}	9.4	7.7	7.4
Personal Income - Constant Dollars ^{1/}	6.1	4.7	3.3
Retail Sales ^{1/2/}	7.3	4.5	7.5
Population ^{1/3/}	3.9 ^{4/}	2.9	2.8
Unemployment Rate	6.8	7.2	6.6

^{1/} Rates of Change.

^{2/} With FY 1985 and FY 1986 adjusted to a FY 1987 accounting basis.

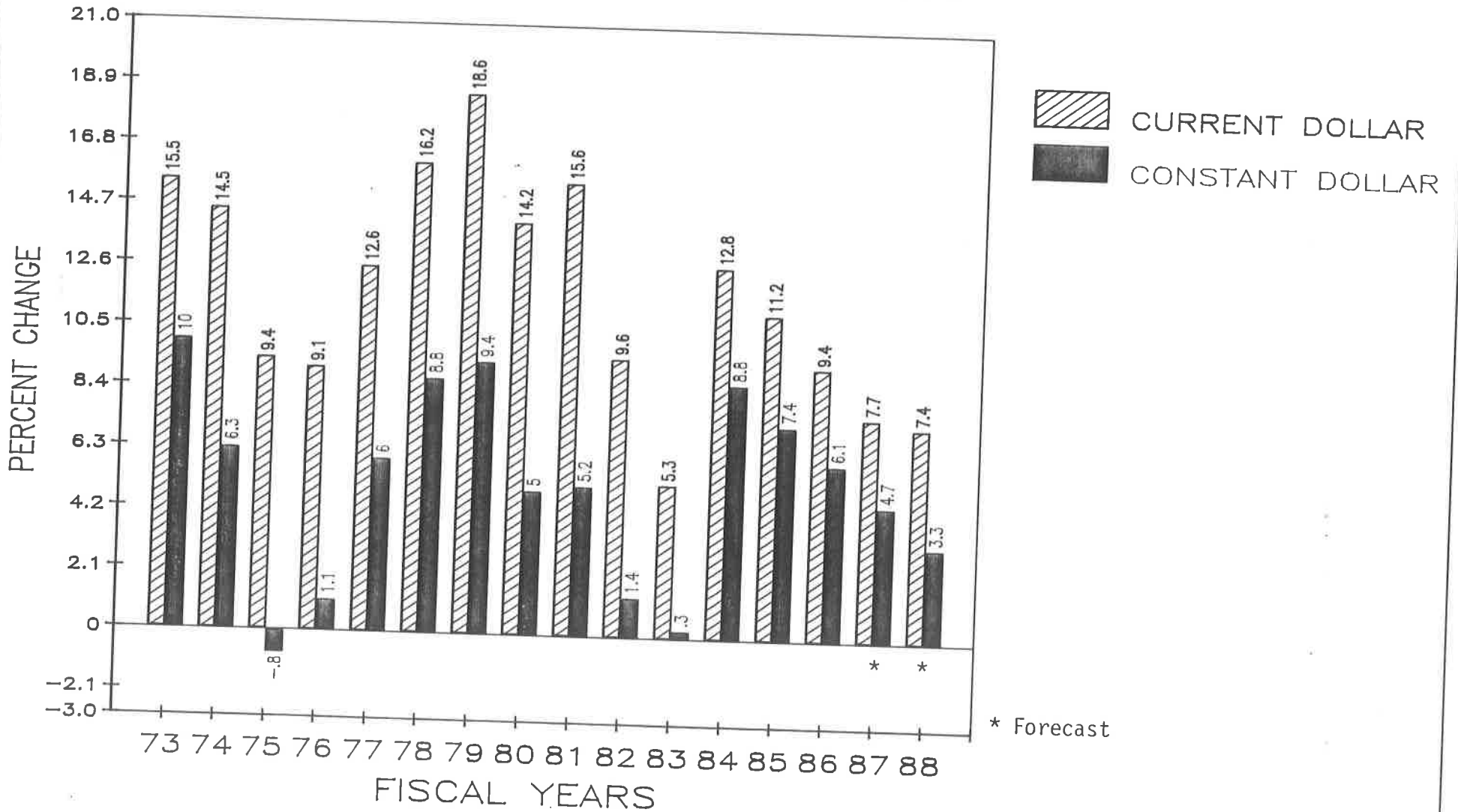
^{3/} Population as of July 1, the start of the fiscal year.

^{4/} Forecast.

ARIZONA WAGE AND SALARY EMPLOYMENT
PERCENT GROWTH OVER PRIOR YEAR
 (BASED ON AVERAGE EMPLOYMENT)

	<u>FY 1986</u> <u>Estimated</u>	<u>FY 1987</u> <u>Forecast</u>	<u>FY 1988</u> <u>Forecast</u>
<u>Goods Producing</u>			
Manufacturing	2.1%	3.6%	3.6%
Mining	(7.4)	(5.4)	0.0
Construction	7.8	(3.7)	(5.2)
Total Goods Producing	3.7	0.6	0.4
<u>Service Providing</u>			
Transp., Communic., and Public Utilities	5.3	5.0	4.9
Trade	6.0	5.0	5.0
Finance, Insurance, Real Estate	12.2	8.0	4.8
Services	10.4	7.9	8.1
Government	4.1	4.5	3.9
Total Service Providing	7.4	6.0	5.7
<u>Total Wage and Salary Employment</u>	<u>6.5%</u>	<u>4.7%</u>	<u>4.4%</u>

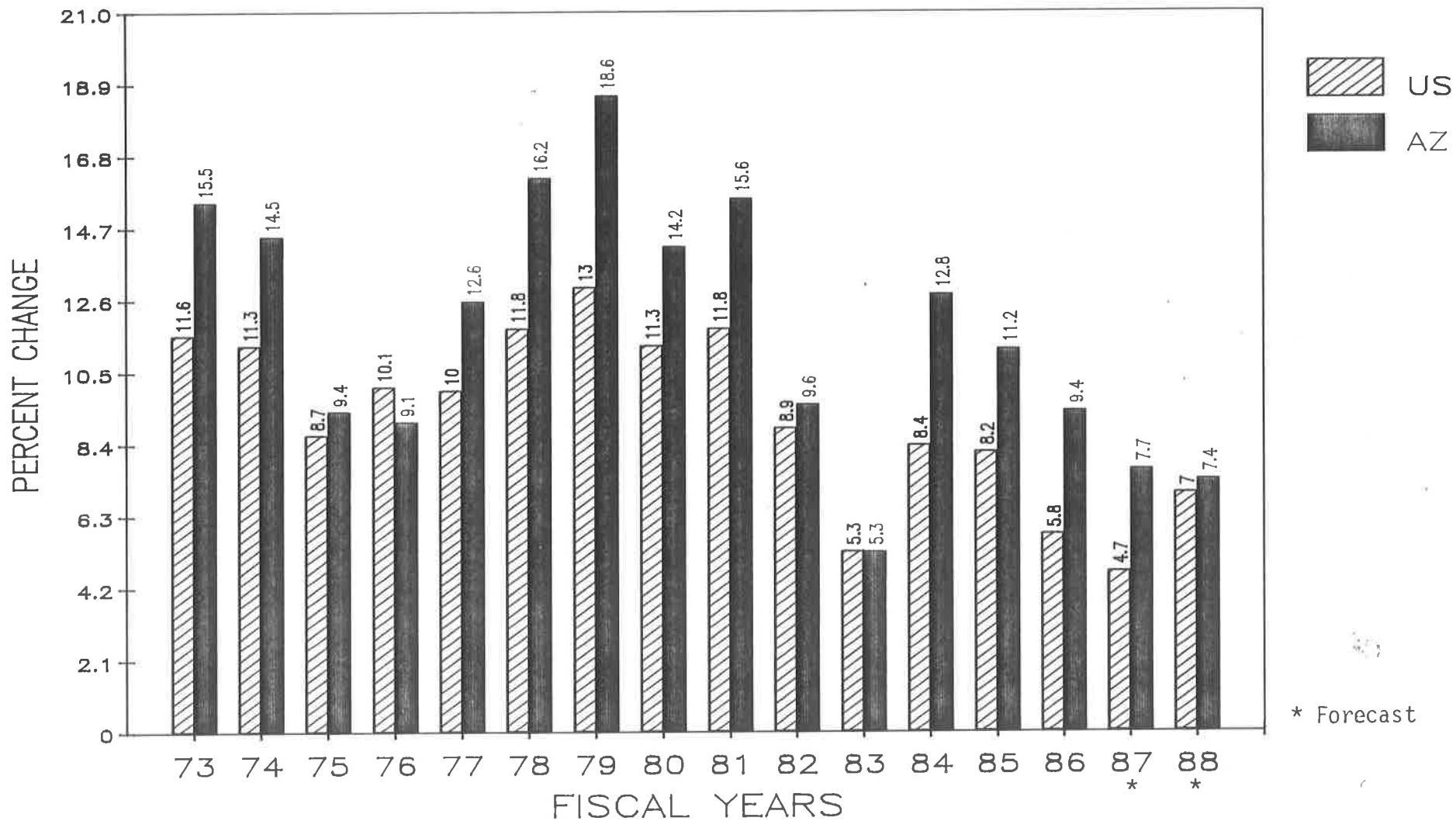
ARIZONA PERSONAL INCOME CURRENT AND CONSTANT DOLLAR GROWTH RATES



* Forecast

Prepared by: JLBC Staff, 2/1/87

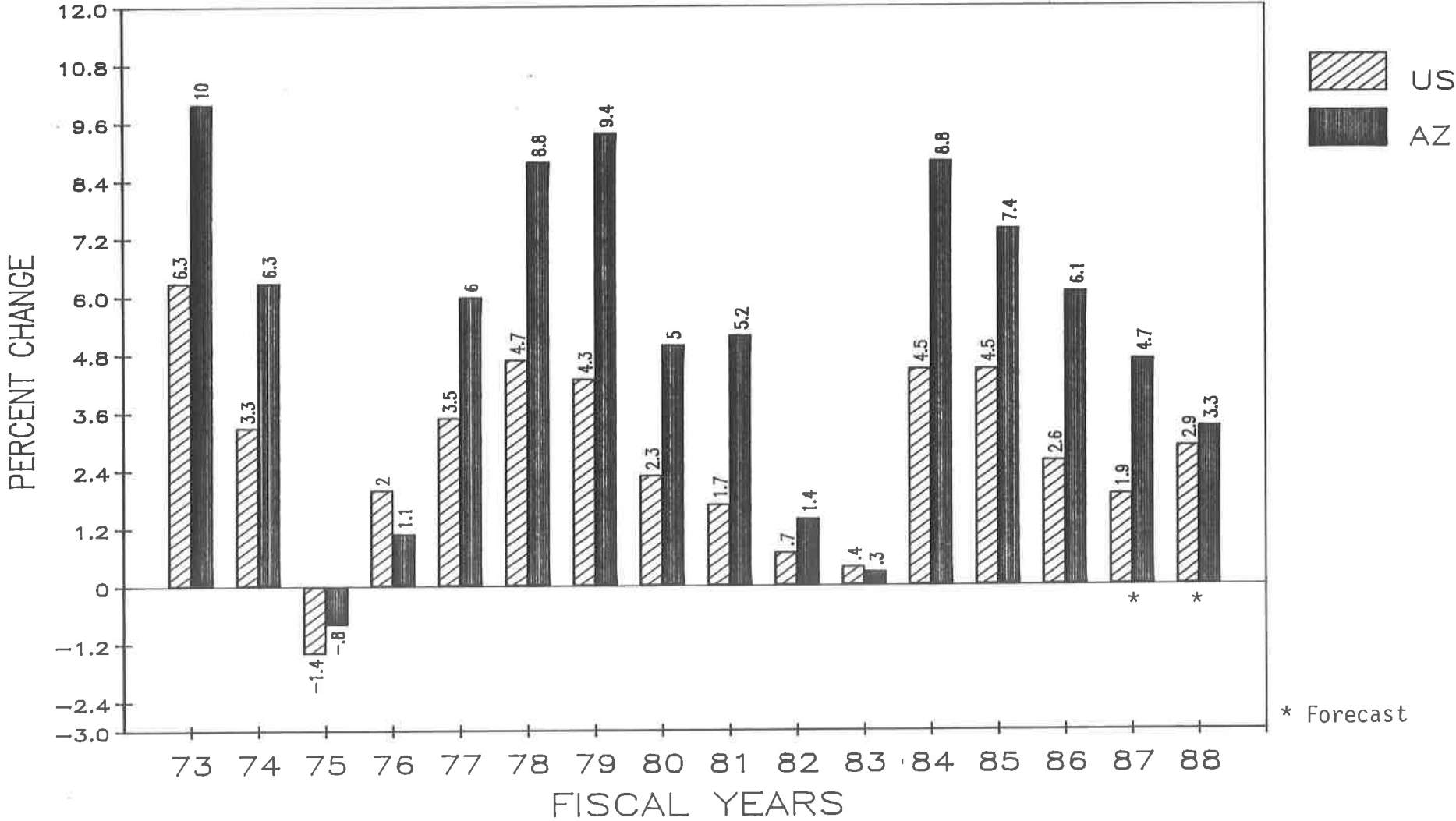
US AND ARIZONA NOMINAL PERSONAL INCOME GROWTH RATES



* Forecast

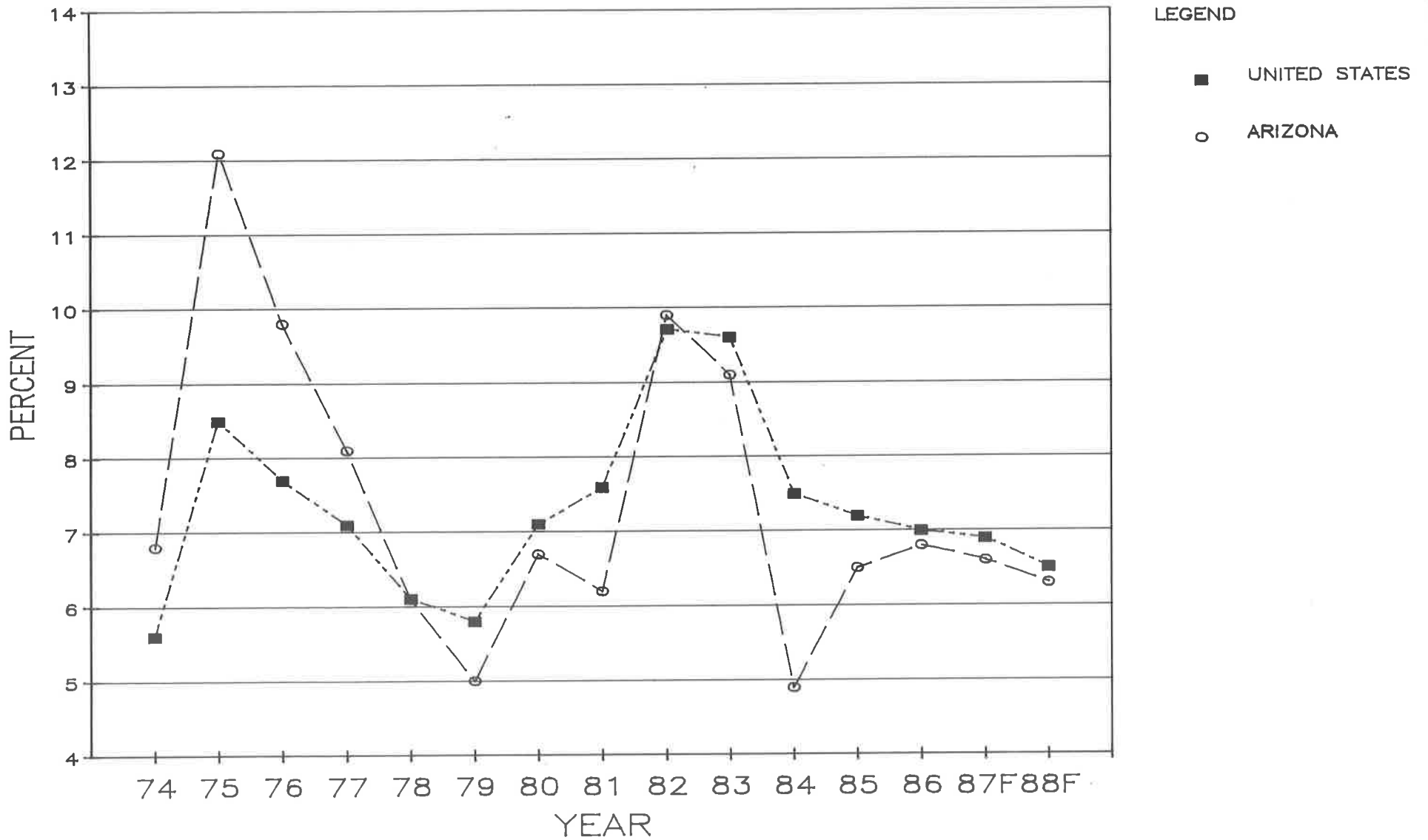
Prepared by: JLBC Staff, 2/1/87

US AND ARIZONA REAL PERSONAL INCOME GROWTH RATES



* Forecast

UNEMPLOYMENT RATES UNITED STATES and ARIZONA



GENERAL FUND REVENUE

FY 1987 DEVELOPMENTS

In January 1987 a special session of the Arizona legislature passed legislation to correct a fiscal imbalance resulting from a FY 1987 revenue shortfall. Exhibit I, (COMPARISON OF PROJECTED REVENUE AND EXPENDITURES) shows a new revenue shortfall of approximately \$119 million. This, together with a net increase in expenditures of approximately \$33 million resulted in the passage of a deficit reduction package aggregating \$156.6 million.

While the U.S. and Arizona economies are still doing reasonably well, the strength which was expected did not fully materialize. This was an important factor in the revenue shortfall. Exhibit II, SELECTED ECONOMIC VARIABLES shows the extent of the decline in the anticipated growth rate from our January 1986 estimate to our January 1987 estimate. While it is clear that a portion of the revenue shortfall can be explained by errors in the economic forecast, it is also clear that size of the revenue shortfall (4.8 percent) is not justified by the shortfall in economic activity.

Of particular importance in the revenue shortfall was the reduction in inflation. On the national level, the GNP deflator is now expected to be at the 2.9 percent level, a drop of 1.2 percent from the 4.1 percent forecasted at this time one year ago. Locally, there has been an even greater decline in inflation. The Metropolitan Phoenix consumer price index is now expected to show an unusually low increase of 1.9 percent for FY 1987. One year ago we were expecting the FY 1987 increase to be even higher than the expected national rate of 4.1 percent.

Essentially, there were three major problem areas relative to the revenue shortfall.:

1. Failure of the National and Arizona economies to be as strong as anticipated.
2. Lower than expected rate of inflation nationally and particularly in Arizona.
3. Difficulty on the part of corporations in determining amount of estimated payments. This impacted on the forecasters ability to estimate refunds.

In addition, there are certain other areas which we are unable to quantify which contributed to reduced elasticities and reduced revenue growth.

Lower inflation has an important impact on two major sources of General Fund revenue, Income Taxes and Sales and Use Taxes.

GENERAL FUND REVENUE
(Continued)

FY 1987 DEVELOPMENTS

The Retail Sales Tax (a component of Sales and Use Taxes) might, on the average, be expected to have an elasticity of 1.0. This means that the increase for FY 1987 might be expected to be 1.0 times the increase in Arizona personal income or 7.7 percent. With FY 1986 adjusted to a 1987 accounting basis, an increase of 7.7 percent in FY 1987 would yield (net to the state) \$582.2 million. On the same basis, actual Retail collections for the first six months of FY 1987 have increased at only a 3.3 percent rate. If this rate were to continue for FY 1987 with our forecasted rate of increase in Arizona Personal Income, the increase in elasticity would be only .43, a very low level. At the 3.3 percent level, collections (net to the state) would aggregate \$558.4 million, \$23.8 million below the amount at the 1.0 elasticity.

The effect of inflation on Sales and Use Taxes comes about because, in general, inflation is reflected in the price of taxable goods. When inflation is less than anticipated, revenue collections are also less than anticipated. In addition to the inflation effect, it also appears that, for whatever reason, the consumer is not spending.

In the individual income tax, lower inflation results in lower wage increases and reduced "bracket creep" into higher income brackets. The reduction in interest rates also reduces bracket creep. In calendar 1986, the elasticity of the individual income tax dropped significantly, to approximately 1.15. In earlier years, the elasticity for average years ran in the 1.4 to 1.5 range. For FY 1987, each drop in elasticity of .1 would reduce revenue by approximately \$7 million, suggesting a loss of approximately \$21 million due to lower income tax elasticity.

FY 1987 AND FY 1988 FORECAST

Our forecast reflects the slowing of revenue collections experienced to date during FY 1987, with Total New Revenue forecast to increase by 4.8 percent, as compared to our original forecast of 8.9 percent. FY 1988 shows a moderately higher rate of increase, 7.8 percent. However, when adjusted for the impact of federal tax reform on state withholding collections (see below), forecasted revenue growth for FY 1987 becomes 5.9 percent and FY 1988 is an even more modest 5.8 percent.

The Sales and Use Tax category is forecast to increase by only 3.8 percent in FY 1987 and by 5.9 percent in FY 1988. With the slowing of construction activity, we anticipate declining collections in the Contracting Tax over the rest of FY 1987 and FY 1988. Two other related areas which are problems in FY 1987 are the Use Tax which, for the first six months of FY 1987, is 15.6 percent below the same period in FY 1986 and the Retail Tax which, with FY 1986 adjusted to a FY 1987 accounting basis, is only 3.3 percent ahead of the last year.

GENERAL FUND REVENUE
(Continued)

FY 1987 AND FY 1988 FORECAST

Income Tax collections will show a growth of 7.4 percent in FY 1987, slightly improved from the low 5.6 percent in FY 1986. Contributing to the slow growth in FY 1987 are a 24.7 percent increase in Urban Revenue Sharing and an estimated withholding loss of \$24 million related to the new federal withholding tables issued after federal income tax reform. An increase of 10.9 percent is forecast for FY 1988. The forecast for FY 1988 includes recovery of the \$24.0 million lost in FY 1987. A general problem which affects both fiscal years is the difficulty of estimating the impact of the new federal tax legislation.

Property Taxes show growth rates 7.6 percent and 7.7 percent in FY 1987 and FY 1988 respectively. The reduction in the property tax rate from \$.40 to \$.38 per hundred dollars of assessed valuation is reflected in both years.

Growth in the Luxury Tax has slowed in recent years, particularly, in FY 1987. We expect FY 1987 to reflect an increase of 2 percent, similar to that of FY 1986.

Growth in Insurance Premium Tax collections in FY 1987 is flat primarily because of a non-recurring increase in FY 1986 due to a change in the timing of the advance payments. Strong growth has been built into the forecast for both FY 1987 and FY 1988. Significant amounts have been deducted from the forecast in Fiscal Years 1986, 1987 and 1988 due to large Guaranty Fund assessments.

Growth in the Motor Vehicle License Tax has been slowed in FY 1987 primarily because of large increases in amounts transferred to Highway related funds. In addition, both FY 1987 and FY 1988 reflect slow new car sales.

With respect to non-tax revenues, slow growth in Interest collections is primarily a function of declining interest rates. Lottery collections to the General Fund declined primarily because, in FY 1986, the General Fund received \$7.65 million that in subsequent years must go to the County Assistance Fund. Lottery revenues are now distributed to (1) Local Transportation Assistance Fund (\$23 million) (2) County Assistance Fund (\$7.65 million) and (3) General Fund. Amounts going to the first two categories are fixed with the General Fund being the residual beneficiary. This could produce large swings in revenue growth both positive and negative.

GENERAL FUND REVENUE
(Continued)

FY 1987 AND FY 1988 FORECAST

The following exhibits and charts follow this narrative:

Exhibit III, STATEMENT OF PROJECTED NEW REVENUE, LEGISLATIVE STAFF ESTIMATE has been discussed previously in some detail. Essentially, the exhibit compares each of the three years shown with the preceding year.

Exhibit IV STATEMENT OF NEW REVENUE, COMPARISON OF EXECUTIVE AND LEGISLATIVE STAFF ESTIMATES shows that, although there are individual differences the FY 1987 forecasts are fairly similar with the major difference being in the Sales and Use Taxes. In FY 1988 the Legislative Staff forecast exceeds that of the Executive (before the Proposed Sales Tax Reduction) by approximately \$29 million, with the major difference in Income Taxes. When the Governor's proposed sales tax reduction is included, however, the legislative staff estimate exceeds the Governor's estimate of "available revenues" by \$202.2 million. Furthermore, if the one percent sales tax reduction were effective December 1, 1987, as the Governor has proposed, we estimate the likely loss to be \$188 million, or \$15 million more.

Chart I shows, in graphic form, the percent growth in FY 1988 over FY 1987 for significant categories of General Fund revenue based on Legislative Staff estimates.

Chart II shows, for FY 1988, major categories of General Fund revenue as a percent of total New Revenue.

Chart III shows, for 13 years, dollars of General Fund revenue as a bar chart and percent change as a line graph. In terms of percent change, Arizona has had strong years and years which exhibited very low or negative growth. Fortunately, years of the latter category are rare in Arizona. It should be noted that the Fiscal Years 1979 through 1982 were years when the CPI showed at or near double digit inflation. The Legislative Staff estimate shows "mid-stream" growth in FY 1987 and FY 1988 and is consistent with our current and forecasted low inflation economic environment.

GENERAL FUND
COMPARISON OF PROJECTED REVENUE AND EXPENDITURES
FY 1987

(Amounts in Millions)

	<u>As Enacted</u>	<u>Current</u>	<u>Difference</u>
<u>Revenue</u>			
Beginning Balance	\$ 8.8	\$ (15.8)	\$ (24.6)
New Revenue	<u>2,503.7</u>	<u>2,384.4</u>	<u>(119.3)</u>
Total Available	<u>\$2,512.5</u>	<u>\$2,368.6</u>	<u>\$(143.9)</u>
<u>Appropriations and Other Expenditures</u>			
Appropriations	2,523.0	2,523.0	-
Supplemental Appropriations		10.0	10.0
Revertments	(37.0)	(20.0)	17.0
Administrative Adjustments and Emergencies	6.0	12.0	6.0
Deficit Reduction Package	<u>-</u>	<u>(156.6)</u>	<u>(156.6)</u>
Total Appropriations and Other Expenditures	<u>2,492.0</u>	<u>2,368.4</u>	<u>(123.6)</u>
<u>Ending Balance</u>	<u>\$ 20.5</u>	<u>\$.2</u>	<u>\$(20.3)</u>

JLBC Staff
2/10/87
12:45 P.M.
R-CPR/10

SELECTED ECONOMIC VARIABLES
JANUARY 1986 FORECAST VS JANUARY 1987 FORECAST
FY 1987

	<u>January^{1/}</u> <u>1986</u>	<u>January^{1/}</u> <u>1987</u>
Real Gross National Product	3.5%	2.3%
GNP Deflator	4.1%	2.9%
Personal Income - U.S.	7.7%	4.7%
- Arizona	8.6%	7.7%
3 Month T-Bill Rate	7.0%	5.3%
Net Exports ^{2/}	\$(94.0)	\$(147.1)
Retail Sales - Arizona	9.0%	4.5%

1/ Percentage Change from FY 1986

2/ In billions of current dollars

JLBC Staff
 2/9/87
 3:30 P.M.
 R-SEV/10

STATE OF ARIZONA
GENERAL FUND
STATEMENT OF PROJECTED NEW REVENUE
LEGISLATIVE STAFF ESTIMATE
(Thousands)

	Actual FY 1986		Forecast FY 1987		Forecast FY 1988	
	Amount	% Change	Amount	% Change	Amount	% Change
<u>Taxes</u>						
Sales and Use	\$1,150,176.8	7.5%	\$1,194,000.0	3.8%	\$1,264,500.0	5.9%
Income	771,448.6	5.6	828,187.4	7.4	918,846.5	10.9
Property	55,750.9	1.4	60,000.0	7.6	64,600.0	7.7
Luxury	69,470.8	1.8	70,000.0	0.8	71,400.0	2.0
Insurance Premium	60,636.6	22.3	61,000.0	0.6	68,000.0	11.5
Motor Vehicle License	51,595.4	10.1	46,800.0	(9.3)	48,400.0	3.4
Pari Mutuel	8,145.0	5.5	7,000.0	(14.1)	7,315.0	4.5
Estate	13,168.7	(10.8)	18,800.0	42.8	18,800.0	0.0
Other Taxes	4,719.2	36.3	6,130.0	29.9	5,530.0	(9.8)
Sub-Total - Taxes	<u>2,185,112.0</u>	6.8	<u>2,291,917.4</u>	4.9	<u>2,467,391.5</u>	7.7
<u>Other Revenues and Transfers</u>						
Lottery	14,000.0	-	13,000.0	(7.1)	20,000.0	53.8
Licenses, Fees, and Permits	25,785.7	23.5	30,300.0	17.5	33,100.0	9.2
Interest	20,998.0	(22.9)	18,875.0	(10.1)	19,375.0	2.6
Sales and Services	7,002.7	10.2	8,000.0	14.2	9,400.0	17.5
Miscellaneous, Transfers, Reimbursements	21,280.9	(7.6)	22,300.0	4.8	21,600.0	(3.1)
Sub-Total - Other Revenues	<u>89,067.3</u>	14.9	<u>92,475.0</u>	3.8	<u>103,475.0</u>	11.9
<u>Total New Revenue</u>	<u>\$2,274,179.3</u>	7.1%	<u>\$2,384,392.4</u>	4.8%	<u>\$2,570,866.5</u>	7.8%

JLBC Staff
2/10/87
1:00 P.M.
GF-SPNR

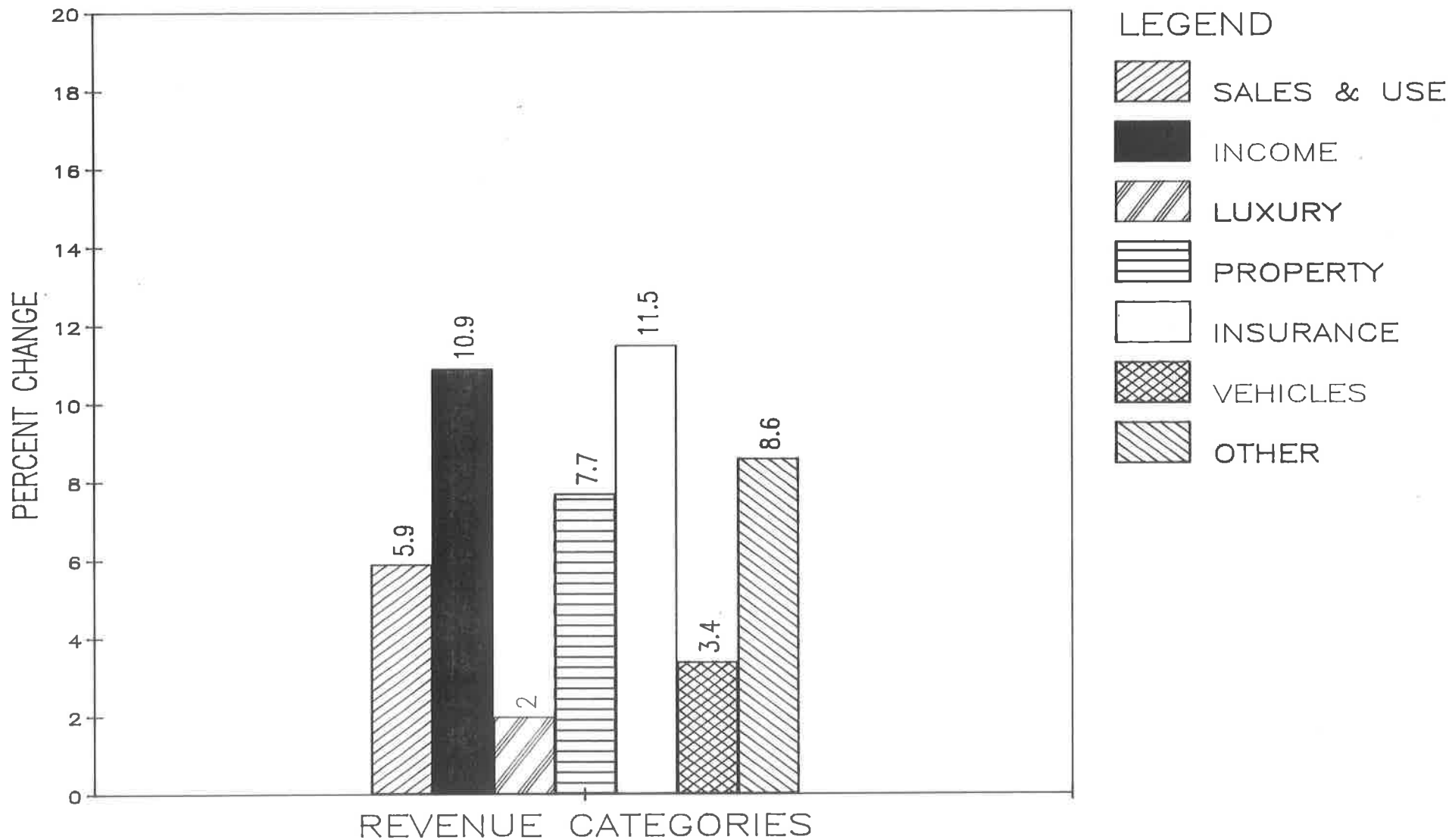
STATE OF ARIZONA
GENERAL FUND
STATEMENT OF PROJECTED NEW REVENUES
COMPARISON OF EXECUTIVE AND LEGISLATIVE STAFF ESTIMATES
(Thousands)

	FY 1987			FY 1988		
	Executive Estimate	Leg. Staff Estimate	Difference	Executive Estimate	Leg. Staff Estimate	Difference
<u>Taxes</u>						
Sales and Use	\$1,207,020.0	\$1,194,000.0	\$(13,020.0)	\$1,268,570.0	\$1,264,500.0	\$ (4,070.0)
Income	824,620.0	828,187.4	3,567.4	901,930.0	918,846.5	16,916.5
Property	59,000.0	60,000.0	1,000.0	64,000.0	64,600.0	600.0
Luxury	70,500.0	70,000.0	(500.0)	71,500.0	71,400.0	(100.0)
Insurance Premium	64,000.0	61,000.0	(3,000.0)	66,200.0	68,000.0	1,800.0
Motor Vehicle License	45,600.0	46,800.0	1,200.0	46,500.0	48,400.0	1,900.0
Pari Mutuel	6,660.0	7,000.0	340.0	6,730.0	7,315.0	585.0
Estate	13,000.0	18,800.0	5,800.0	13,000.0	18,800.0	5,800.0
Other Taxes	5,350.0	6,130.0	780.0	5,500.0	5,530.0	30.0
Sub-Total - Taxes	<u>2,295,750.0</u>	<u>2,291,917.4</u>	<u>(3,832.6)</u>	<u>2,443,930.0</u>	<u>2,467,391.5</u>	<u>23,461.5</u>
<u>Other Revenues and Transfers</u>						
Lottery	13,150.0	13,000.0	(150.0)	19,720.0	20,000.0	280.0
Licenses, Fees and Permits	26,309.1	30,300.0	3,990.9	28,997.3	33,100.0	4,102.7
Interest	21,000.0	18,875.0	(2,125.0)	18,000.0	19,375.0	1,375.0
Sales and Services	8,299.3	8,000.0	(299.3)	8,763.6	9,400.0	636.4
Miscellaneous, Transfers, Reimbursements	21,979.3	22,300.0	320.7	22,647.0	21,600.0	(1,047.0)
Sub-Total - Other Revenues and Transfers	<u>90,737.7</u>	<u>92,475.0</u>	<u>1,737.3</u>	<u>98,127.9</u>	<u>103,475.0</u>	<u>5,347.1</u>
<u>Total New Revenue - Before Proposed Sales Tax Reduction</u>	<u>2,386,487.7</u>	<u>2,384,392.4</u>	<u>(2,095.3)</u>	<u>2,542,057.9</u>	<u>2,570,866.5</u>	<u>28,808.6</u>
Proposed Sales Tax Reduction	-	-	-	(173,400.0)	-	173,400.0
<u>Total New Resources - After Proposed Sales Tax Reduction</u>	<u>\$2,386,487.7</u>	<u>\$2,384,392.4</u>	<u>\$(2,095.3)</u>	<u>\$2,368,657.9</u>	<u>\$2,570,866.5</u>	<u>\$202,208.6</u>

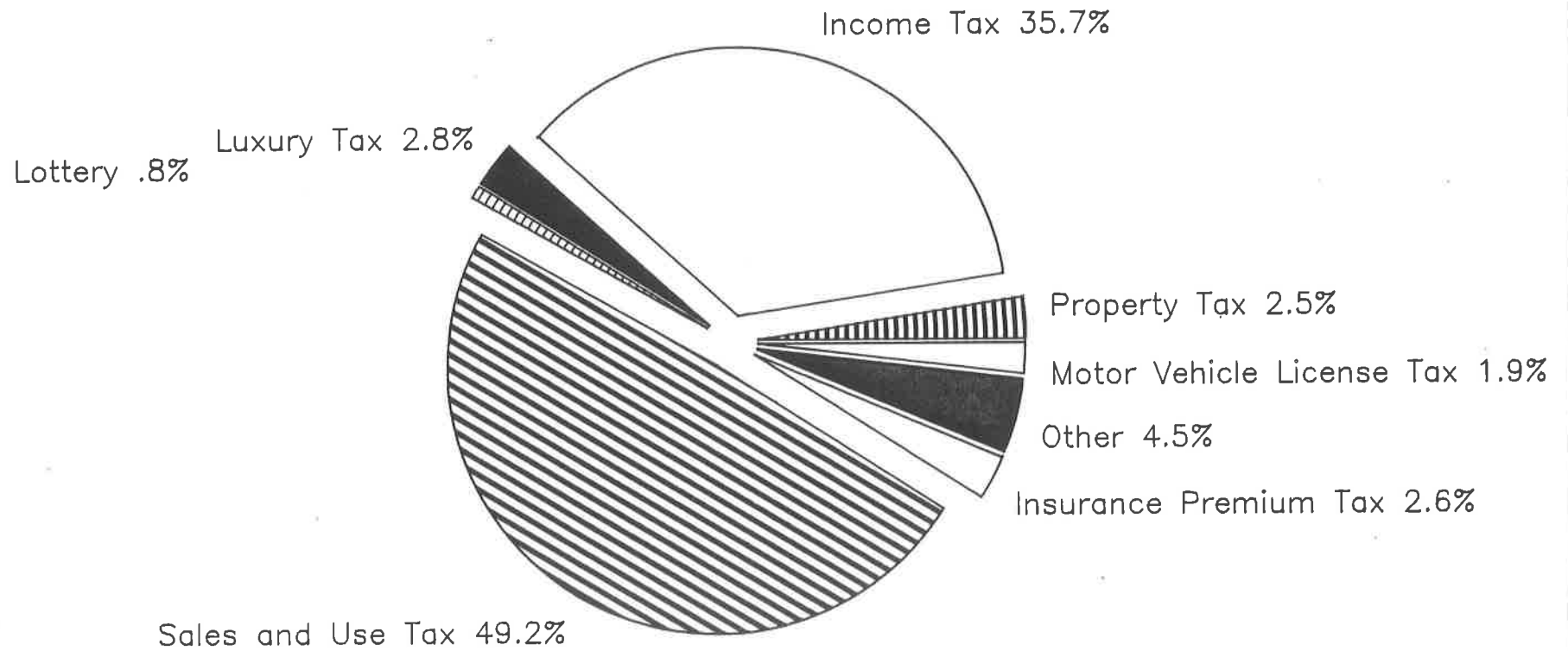
JLBC Staff
2/10/87
12:50 P.M.
GF-SPNR2

FY 1988 GENERAL FUND NEW REVENUE

PERCENT CHANGE FROM PRIOR YEAR
Legislative Staff Estimate



General Fund New Revenue Sources as a Percent of Total Legislative Staff Estimate



FY 1988

GENERAL FUND REVENUE AVAILABLE* Legislative Staff Estimate

