ANNUAL BUDGET

FY 1993

SUMMARY OF RECOMMENDATIONS

AND

ECONOMIC AND REVENUE FORECAST

Prepared By

JOINT LEGISLATIVE BUDGET COMMITTEE

SENATOR JAIME GUTIERREZ
Chairman 1992

REPRESENTATIVE JOHN WETTAW
Chairman 1991

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JLBC

JOINT LEGISLATIVE BUDGET COMMITTEE

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

Representative John Wettaw, Chairman - 1991	Senator Jaime Gutierrez Chairman - 1992
Representative Carmen Cajero	Senator Lela Alston
Representative Ruth Eskesen	Senator David C. Bartlett
Representative Leslie Whiting Johnson	Senator A. V. "Bill" Hardt
Representative Mark Killian	Senator Armando Ruiz
Representative Dave McCarroll	Senator Carol Springer
Representative Bob McLendon	Senator Alan Stephens
Representative Polly Rosenbaum	Senator Doug Todd

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 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.

STATE OF ARIZONA

Joint Legislative Budget Committee

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THEODORE A. FERRIS
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January 22, 1992

The Honorable Jane Dee Hull
Speaker of the House
and
The Honorable Peter Rios
President of the Senate
State Capitol
State of Arizona

Dear Speaker Hull and President Rios:

On behalf of Senator Jaime Gutierrez, Representative John Wettaw, and the Staff of the Joint Legislative Budget Committee, it is my pleasure to transmit to you and the entire 40th Legislature of the State of Arizona, our Budget Analysis and Recommendations for Fiscal Year 1993.

I believe you will find numerous, innovative ways to contain costs, limit the growth of General Fund spending, and provide for a more secure financial future included in these recommendations.

Our recommendations are contained in three volumes:

(1) This Summary of Recommendations and Economic Revenue Forecast;
(2) An Analysis and Recommendations book, which contains recommendations, by agency, and by program;
(3) A Non-Appropriated Funds book, which provides an explanation of those funds not subject to legislative appropriation.

The Staff of the Joint Legislative Budget Committee looks forward to working with you, the Senate and House Appropriations Committees, and the entire 40th Arizona Legislature in developing the state budget for FY 1993.

Sincerely,

Ted Ferris

Theodore A. Ferris
Director and
Legislative Budget Analyst

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OVERVIEW

Against a backdrop of continued uncertainty regarding the future course of the U.S. and Arizona economies, the JLBC Staff is once again recommending a tight budget that does not require a tax increase. Nevertheless, the Staff-recommended budget is some $98 million greater than the Governor's budget. It is higher because we more fully fund certain statutory mandates, primarily for K-12 Education, Community Colleges, and AHCCCS. The additional resources enabling us to do so are largely attributable to: 1) a revenue forecast that is $31 million higher than the Governor's; and, 2) not including a $60 million income tax cut, as recommended by the Governor.

In fact, for 38 of 74 General Fund agencies (51%), the JLBC Staff recommendation is lower than the Governor; and for 34 of 74 agencies (46%), the Staff recommendation is lower than their FY 1992 appropriation. Some $99 million of the higher spending for FY 1993 is for K-12, Community Colleges, and AHCCCS. The JLBC Staff recommendation for the "Non-Big 10" agencies is actually $10 million lower than the Governor.

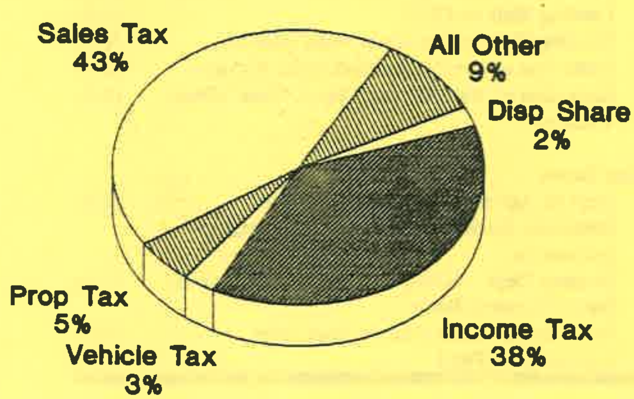
APPROPRIATIONS

Agency/Activity	$ Change From FY 92	JLBC Staff FY 93 Rec.
	($ Millions)	
• Dept. of Education (K-12)	$95.9	$1,401.5
• Universities	5.8	539.8
• AHCCCS	47.9	418.6
• Dept of Economic Security	15.9	375.1
• Dept of Corrections	(1.5)	253.5
• Dept of Health Services	1.5	200.3
• Community Colleges	6.6	92.5
• Courts	3.6	76.2
• Dept of Revenue	(2.4)	48.5
• Dept of Public Safety	(7.2)	38.9
• All Other	(2.1)	232.0
TOTAL	164.2	3,677.0

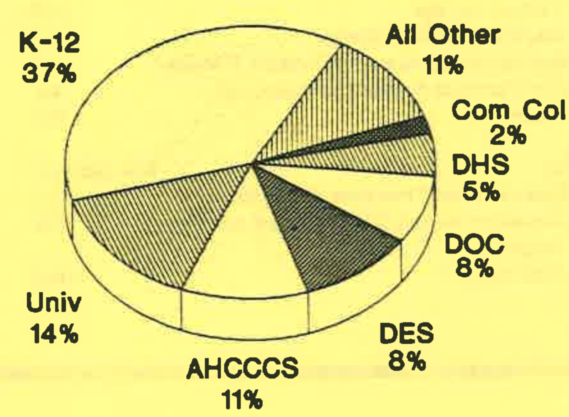
REVENUES AND YEAR-END BALANCES

	Executive	JLBC Staff	Difference
	($ Millions)		
REVENUES:			
•Balance Forward	$5.0	$5.0	$0.0
•Base Revenues	3,606.8	3,637.7	30.9
•Disproportionate Share Fund	81.9	87.9	6.0
•Other Revenues	(1.4)	6.3	7.7
•Governor's Income Tax Cut	(60.0)	0.0	60.0
Subtotal - Revenues	$3,632.2	$3,736.8	$104.5
EXPENDITURES:			
•Prior Session Appropriations	$4.9	$4.9	$0.0
•Operating Budgets	3,593.7	3,677.0	83.3
•State Employee Pay	18.0	25.0	7.0
•Capital Outlay	5.0	4.4	(0.6)
•Other Expenditures	0.0	5.1	5.1
•Admin. Adj. & Emergencies	21.0	21.0	0.0
•Revertments	(35.0)	(36.8)	(1.8)
•Budget Stabilization Pay-In	0.0	5.4	5.4
Subtotal - Expenditures	$3,607.5	$3,706.0	$98.4
RECOMMENDED SURPLUS	$24.7	$30.8	$6.1

Where It Comes From



Where It Goes



Prepared for Members of the Arizona State Legislature by the Joint Legislative Budget Committee Staff

MAJOR FACTORS BEHIND CHANGE IN GENERAL FUND OPERATING BUDGETS DIFFERENCE FROM FY 1992

Department of Education — **$95.9 Million**

- Base Adjustments - Fund FY 1992 Shortfall — $17.2
- Student Growth (252 new preschool handicapped students, 15,577 new elementary students, 1,600 new high school students) — 56.6
- 1% GNP Deflator — 21.8
- Reduced "Homeowners' Rebate" Buy-down — (5.4)
- Decrease in Endowment Revenue — 3.1
- Expand Preschool Pilot Program — 1.0
- Achievement Testing — 0.7
- Other Adjustments — 0.9

AHCCCS — **$47.9 Million**

- 48,985 New Member Years--13.7% Growth, Includes $12.2M savings from higher federal reimbursement by shifting MNMI eligibility to state from counties — $47.6
- Medical Inflation and Capitation Increase — 17.2
- Higher Federal Reimbursement — (17.0)
- Transfer of Eligibility Workers from DES plus New Staff — 3.0
- Other Adjustments — (2.9)

Department of Economic Security — **$15.9 Million**

- 29,677 New AFDC Recipients--16.4% Growth/ Benefit Increase of 3.6% — $14.9
- 861 New GA Recipients--10% Growth — 5.1
- Transfer of Eligibility Workers to AHCCCS — (1.6)
- DD Program - Client Conversion to Federal Long Term Care/Incorporate FY '92 Surplus — (3.9)
- LTC Program - 6% growth, Client Conversion, Federal Funding for 1 added Coolidge Cottage — 2.0
- Social Services - 8.5% Child Services Growth — 4.2
- Other Reductions — (4.8)

Community Colleges — **$6.6 Million**

- 1% GNP Deflator — $0.7
- Fund 50% of Actual Student Growth — 2.5
- Increase in Equalization Aid — 0.4
- Economic Development Training — 3.0

Universities — **$5.8 Million**

- Tuition and Fee Collections Adjustment — $13.2
- Teaching Incentive Grant — 5.4
- Funding Reduction through Productivity Gain — (21.4)
- Vacancy Savings — (5.3)
- Employee Benefit Changes — 4.4
- Equipment Replacement Formula Funding — 4.5
- New Facilities Support/Annualization — 4.6
- Other — 0.4

Courts — **$3.6 Million**

- Probation and Treatment Programs — $3.7
- Annualize Judges' Salary Increase and New Judges — 0.5
- Fund Shift — (0.6)

Department of Health Services — **$1.5 Million**

- New Chronically Mentally Ill Services Funding — $10.5
- Funding for 45 Community Geriatric Treatment Beds — 3.3
- Funding Shift to Disproportionate Share Funds — (11.6)
- Increased Federal Offset for Children's Rehabilitative Services — (0.7)
- Medical Inflation--5% — 0.4
- Other — (0.4)

Department of Administration — **$1.5 Million**

- ENSCO Payment — 3.8
- Reductions in Central Operations, Facilities Mgmt and General Services — (0.8)
- Shift AFIS II cost to Data Processing Revolving Fund — (0.9)
- Other — (0.6)

Department of Youth Treatment and Rehabilitation — **$(0.6) Million**

- Transfer Alamo Youth to Community/Savings from Federal Title XIX Offset — $(0.5)
- Increased Purchase of Care Funding — 0.9
- Funding Shifts — (0.6)
- One-time Equipment Costs — (0.6)
- Other — 0.2

Department of Corrections — **$(1.5) Million**

- 641 New Prisoners--4.2% Growth — $2.1
- Opening 800 New Prison Beds - Florence — 7.8
- Funding the New Prison Addition at Safford — 4.1
- Special Pay Package - Correctional Officers — 1.0
- Annualization of 1992 Prison Openings — 0.6
- Close 282 Correctional Release Center Beds — (2.0)
- Funding Shift - Corrections Fund — (15.0)
- Other — (0.1)

Department of Revenue — **$(2.4) Million**

- Removal of Recanvassing Program and PIER II and Other One-time Expenditures — $(3.1)
- Centrally Valued Property Audit Program, yielding $2.75 Million in Revenue/Reduced Costs — 0.1
- Other — 0.6

Department of Public Safety — **$(7.2) Million**

- Funding Shift to Highway User Revenue Fund — (5.0)
- Funding Shift to CJEF — (1.0)
- Funding Shift to Donations Fund (RICO) — (0.2)
- Reduction of Air Rescue Helicopter Service — (0.5)
- Reduction of Vehicles and Use of "Take Home" Vehicles — (0.5)

Other Issues

- Dept of Agriculture - Eliminate Border Inspection Stations and Reduce Livestock Inspections — (1.4)
- Banking Dept. - Reduce 27 FTE's with Loss of State-Chartered Banks — (1.2)
- Parks Board - Shift Cost to State Lake Improvement Fund — (1.0)

FY 1993
COMPARISON OF MAJOR POLICY ISSUES

MAJOR ISSUES	EXECUTIVE RECOMMENDATION	JLBC STAFF RECOMMENDATION
Size and Scope of General Fund Budget	• $80.9 Million Increase in General Fund Operating Budget • $24.7 Million Surplus • 463 FTE Position Increase	• $164.2 Million Increase in General Fund Operating Budget • $30.8 Million Surplus/$5.4 Million Budget Stabilization Fund Pay-In • 78 FTE Position Increase
Revenue Related Issues	• $60 Million Income Tax Cut	• $4.9 Million change in Property and Casualty Ins. Prem. Tax Credit and $2.8 Million from DOR - Centrally Assessed Property Auditors
Agency Consolidations	2 Agencies Eliminated through Consolidation for a savings of $442,500	2 Agencies Eliminated through Consolidation for a savings of $331,000
State Employees' Pay	• $18 Million for 1.75% General Adjustment on 7-1-92 • No Provision for Higher Health and Dental Insurance	• $25 Million for $1,300 per FTE <u>or</u> 4% General Adjustment, on 1-1-93 (Mid-Year) • $4 Million to Mitigate Higher Health and Dental Insurance Costs for Employees.
Inflation	No General Inflation; 5% Medical; 5% Utilities	No General Inflation; 5% Medical
Rent/State Space	Charge $11 per sq. ft. Rent to only <u>Non</u> General Fund Agencies in State Space	Charge $11 per sq. ft. Rent to <u>All</u> Agencies, Added $6.5 M offsets Gen. Fund Capital Budget
AHCCCS MN/MI	Eliminates Coverage for 21-64 yr. olds, except pregnant women, at a Savings of $80 Million	Transfers Eligibility from County to State to Enhance Enrollment in Federal Programs at a Savings of $12 Million
AFDC	Adds $7.8 Million for 11.2% Growth and no Benefit Increase	Adds $14.9 Million for 16.4% Growth and 3.6% Benefit Increase
Behavioral Health Funding	• Adds $7.8 Million for New Services and $2.2 Million for 30 Community Geriatric Beds. • No Disproportionate Share Hospital (DSH) Payment Recommendation	• Adds $10.5 Million for New Services, $3.3 Million for 45 Community Geriatric Beds • Allocates $2.5 Million of DSH for ASH Capital and Operating Needs and $11.6 Million to Offset Behavioral Health General Fund budget
K-12 "Roll-Over"	• Continue Roll-Over of $142.5 Million	• Continue Roll-Over of $142.5 Million
K-12 Basic State Aid	• Fund 15,162 Pupil Growth at $39.9 Million • No Inflation Adjustment • Fund Sudden Growth and Rapid Decline at 64%	• Fund 17,429 Pupil Growth at $56.6 Million • Fund 1% Inflation Factor at $21.8 Million • Fund Sudden Growth and Rapid Decline at 64%
Permanent Land Fund Investment	None	• Define Capital Gains as Expendable Income • Broaden Investments to Include Equities
Community Colleges	• Eliminate Capital Outlay Aid - $(10.3) Million • No Inflation nor FTSE Growth	• Retain current Capital Outlay Funding Formula - Defer Scheduled Increase to FY 1994 • Fund 1/2 FTSE Growth and 1% Inflation
Border Inspection Stations	• Eliminates 60 Border Inspection FTE's and Adds 15 FTE's for Interior Inspections	• Eliminates 60 Border Inspection FTE's and Adds 15 FTE's for Interior Inspections
Economic Development	• Adds $3 Million for Job Training • Adds $280,000 for Foreign Trade Offices	• Adds $3 Million for Job Training • Adds $142,200 for Foreign Trade Offices
DPS Funding Shifts	• Fund Shift to CJEF, $1 Million	• Fund Shift to HURF, $5 Million; CJEF, $1.0 Million; and RICO, $200,000 • Reduce Take-Home Vehicles and Helicopter Service for $1 Million savings
Bldg. Renewal Formula	• Fund 28% of DOA & 11% of Universities' BRF	• Fund 45% of Both DOA and Universities' BRF
Project SLIM	Adds $4.5 Million for FY 1993 above existing $2.5 Million Appropriation	Adds No Funding for FY 1993 above existing $2.5 Million Appropriation

CURRENT YEAR (FY 1992) BUDGET UPDATE

In December 1991, we informed the 40th Legislature that the current year, General Fund budget was prospectively in deficit by some $76-96 million, as compared to a projected $51 million surplus at the time the budget was enacted. This reflected an insurance premium tax shortfall of $38 million due to insurance company insolvencies, a $37 million lottery revenue shortfall, and a relatively sharp reduction in our estimate for the sales and use tax of some $48 million. Subsequently, the output of the 4th Special Session included legislation to reduce and extend the period of time in which an insurance premium tax credit could be taken in a way which eliminated the $38 million shortfall for FY 1992.

Also contributing to the current year estimated deficit are projected supplemental appropriations requirements for K-12 Education ($18-24 million) and AHCCCS ($10-20 million), which are largely attributable to higher-than-expected counts for the populations they serve.

On the plus side, various other estimate revisions, on both sides of the ledger, add $16-20 million to the ending balance.

With the insurance premium tax problem resolved for this fiscal year, the FY 1992 deficit has been reduced to a range of approximately $40-60 million. The Governor is currently reviewing and updating his deficit forecast and preparing a budget-balancing proposal to submit to the Legislature. If budget cuts are the preferred option, the size of the cuts could range from 1.2% to 4%, depending upon which agencies are subject to the cuts and which are not.

When the Governor's proposal is received, the JLBC Staff will analyze his proposal and, where appropriate, recommend alternatives. Also, by early February we should have final figures on January 1992 tax receipts, including the important holiday sales results. December was a surprisingly strong month so considerable attention will be given to January results to see whether the deficit forecast needs to be changed.

OVERVIEW OF THE JLBC STAFF RECOMMENDED GENERAL FUND BUDGET FOR FISCAL YEAR 1993

Because Statutory Mandates are More Fully Funded, the JLBC Staff Budget is $98.5 Million Higher Than Governor's and 5.8% Above FY 1992

Because of differences in our revenue forecasts, our assumed gains from the AHCCCS disproportionate share plan and the Governor's proposed income tax cut, the JLBC Staff budget incorporates some $104.5 million more revenue than the Governor. As shown in the balance sheet below, the additional revenues are primarily allocated to agency operating budgets (an additional $83.3 million), state employee pay (an additional $7 million), the first required payment to the Budget Stabilization Fund ($5.4 million), and a higher ending balance or contingency (an additional $6.1 million).

The greater level of operating budgets generally reflects higher funding of statutory mandates in several large agencies. In terms of individual agency operating budgets the major differences of JLBC Staff over the Governor are: K-12, +$35.7 million (with $21.8m for a 1% inflation adjustment); AHCCCS, +$49.7 million (we do not concur with the Governor's $80 million MN/MI cut); Community Colleges, +$14 million (we do not recommend eliminating capital aid of $10.3m). For the "non-Big 10" agencies taken as a group, the JLBC Staff recommendation is $2.1 million below FY 1992 and $9.7 million below the Executive recommendation. The JLBC Staff recommendation would leave some 34 of 74 agencies with smaller General Fund budgets in FY 1993 than they had in FY 1992. Furthermore, the JLBC Staff recommendation for 38 agencies (over half) is lower than the Governor's.

FY 1993 GENERAL FUND BALANCE SHEET

	EXEC REC	JLBC REC	$ DIFF
REVENUES:			
-Balance Forward	$5,000,000	$5,000,000	$0
-Base Revenues	3,606,789,800	3,637,650,000	30,860,200
-Medical Deduct on Income Tax	(1,438,000)	(1,438,000)	0
-AHCCCS Disproportionate Share Holding Fund	31,886,300	31,886,300	0
-AHCCCS Disproportionate Share for FY 93	50,000,000	56,000,000	6,000,000
-DOR Centrally-Assessed Property Auditors	0	2,755,000	2,755,000
-Extend Prop & Casualty Ins Premium Tax Credit	0	4,900,000	4,900,000
-Governor's Proposed Income Tax Cut	(60,000,000)	0	60,000,000
Subtotal-Revenues	$3,632,238,100	$3,736,753,300	$104,515,200
EXPENDITURES:			
-Prior Session Appropriations	$4,879,700	$4,879,700	$0
-Operating Budgets	3,593,659,500	3,676,989,300	83,329,800
-State Employee Pay Increase	18,000,000	25,000,000	7,000,000
-Permanent Fund Earnings Proposal	0	(4,000,000)	(4,000,000)
-Capital Outlay	5,000,000	4,381,000	(619,000)
-Incr. Risk Mgmt. Charges	0	5,100,000	5,100,000
-Incr. Health Insurance	0	4,000,000	4,000,000
-Admin. Adj. & Emerg.	21,000,000	21,000,000	0
-Revertments	(35,000,000)	(36,800,000)	(1,800,000)
-Pay-In to Budget Stabilization Fund	0	5,400,000	5,400,000
Subtotal-Expenditures	$3,607,539,200	$3,705,950,000	$98,410,800
RECOMMENDED SURPLUS (Contingency)	$24,698,900	$30,803,300	$6,104,400

The JLBC Staff Recommended Budget for FY 1993 is Based Upon Forecasted Revenue Growth of $151.5 Million, or 4.3%

Although both of our economic forecasts can be characterized as "lackluster", the JLBC Staff forecast of revenue is $30.9 million higher than the Governor's estimate. This reflects our forecast for slightly more income and job growth for Arizona than contained in the Governor's forecast. However, because of anticipated gains from our recently enacted AHCCCS disproportionate share plan, our total General Fund resources are expected to further grow by $102 million in FY 1993. While the combination of revenue growth and disproportionate share gains provides an overall increase in resources of $253.5 million, these same resources are just $186.5 million greater than current appropriations for FY 1992. This distinction is important, because the current year revenues are forecast to fall $63.5 million short of the budget projection and, accordingly, the first $63.5 million of revenue growth in FY 1993 will be necessary just to support the base level of funding of the prior fiscal year.

Number of Full-Time Equivalent Positions Essentially Flat

Aside from additional positions in the Department of Corrections to open facilities which are coming on line next year, and positions in AHCCCS to attend to their fast-growing caseloads, most agencies would experience flat or declining FTE counts. In terms of total appropriated funds, total FTE positions would increase by 78, or 2/10 of 1%. The Executive recommends an additional 463 FTE positions, a 1.2% increase.

STATE EMPLOYEE COMPENSATION

State Employee Pay Would Increase at Mid-Year (January 1, 1993)

The Governor has proposed that $18 million be appropriated to provide a 1.75% increase for state covered employees effective July 1, 1992. The JLBC Staff, on the other hand, recommends that the sum of $25 million be appropriated to provide a mid-year pay increase for all state employees. This would allow us to do far more for *state employees whose pay increases over the past 5 years have averaged just 2.3% and have trailed the other 49-state average of 4.7%* (based upon an annual JLBC survey of all 50 states).

In fact, as shown in the table below, the average state salary increase of 2.3% has trailed the average inflation rate of 4.5%, resulting in a *loss of purchasing power of over 10% during the past 5 years.* This is in sharp contrast to the 4-year period from FY 1984 through FY 1987, when the average salary increase of 6.2% exceeded the inflation rate of 3.2%, leaving an average "real" gain in income of 3% per year. The dramatic difference is due, in part, to the fact that the earlier increases were effective on January 1st and mid-year increases are viewed as costing half as much in the year in which they take effect. Beginning in FY 1988, the increases were effective on July 1st, which has had a dampening effect on the size of the increases since then.

ANNUAL INCREASES IN STATE EMPLOYEES' SALARIES AS COMPARED TO ANNUAL RATES OF INFLATION						
FY	GEN'L	MERIT	CMR	TOTAL	CPI-U	DIFF
1984	5.0	0.0	0.0	5.0	3.7	1.3
1985	5.0	2.5	0.0	7.5	3.9	3.6
1986	4.0	1.3	0.7	6.0	2.8	3.2
1987	3.0	3.0	0.2	6.2	2.2	4.0
4-Yr Avg	4.3%	1.7%	0.2%	6.2%	3.2%	3.0%
1988	1.5	0.0	0.0	1.5	4.1	(2.6)
1989	3.5	0.0	0.1	3.6	4.7	(1.1)
1990	0.0	1.3	0.3	1.5	4.7	(3.2)
1991	4.5	0.0	0.3	4.8	5.5	(0.8)
1992	0.0	0.0	0.0	0.0	3.5	(3.5)
5-Yr Avg	1.9%	0.3%	0.1%	2.3%	4.5%	(2.2)%

Gen'l=General Pay Adjustment; Merit=Performance Pay;
CMR=Classification Maintenance Review; CPI-U Consumer Price Index

JLBC Staff Recommends Additional $4 Million for State Employee Health and Dental Insurance, Governor Recommends No Additional Funding

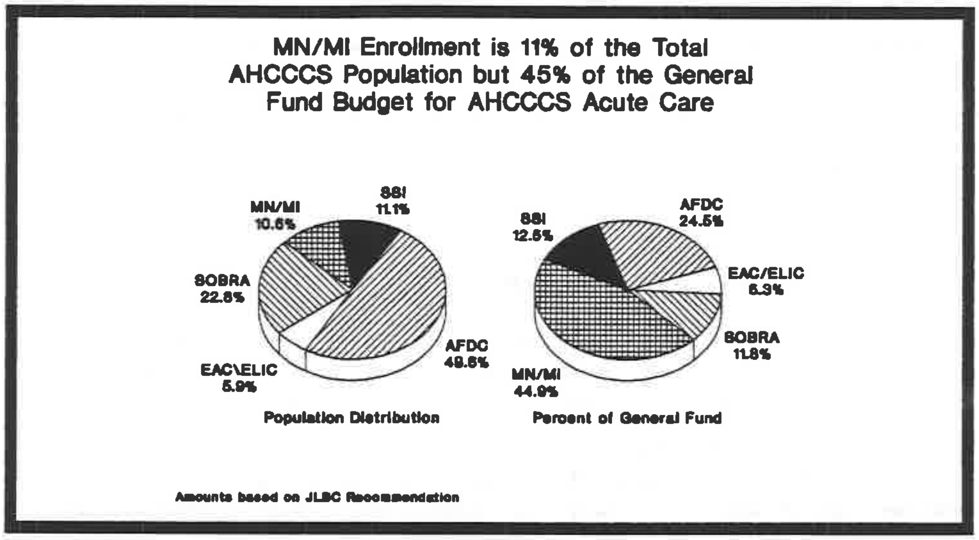
The JLBC Staff recommends setting aside $4 million from the General Fund to cover an estimated 5% net increase in state employee health and dental rates. We do not recommend any change in the state employee contribution level. The Executive is providing no funding for rate increases as it believes favorable negotiations with health insurance carriers will result in no net increase in costs. However, in the event that does not occur, the added funds in the JLBC Staff recommendation will help mitigate the effect of the increased premiums on the employee share of costs.

HEALTH & WELFARE

Governor Would Eliminate Eligibility for Two-Thirds of AHCCCS Medically-Needy/Medically Indigent (MN/MI's) -- JLBC Staff Recommends Shifting All Eligibility Determination to the State

The Governor has recommended restricting AHCCCS eligibility in the Medically Needy/Medically Indigent (MN/MI) program to pregnant women, children up to age 21, and individuals aged 65 and over for a savings of $80 million. The JLBC Staff opposes the Executive proposal as it does not actually reduce escalating health care costs, but instead shifts the problem to counties and the private sector.

The JLBC Staff is proposing a structural change to the eligibility determination process that will help maximize the enrollment of AHCCCS applicants in federally supported groups. The Staff proposal would consolidate all eligibility work with DES, moving MN/MI eligibility determinations from the counties to the state. Evidence collected by AHCCCS in a preliminary survey of county MN/MI case files indicated that about 15% of those cases could have been enrolled in a federal categorical group. The Staff has estimated net General Fund savings of $12.2 million through moving a portion of the MN/MI population, a group funded entirely with state funds, to Aid to Families with Dependent Children (AFDC), a federal categorical group. Savings would be realized because the federal government pays for 65% of the cost of services received by categorically eligible enrollees, plus the monthly capitation rate paid for AFDC enrollees is half the MN/MI capitation rate. While considerable work would need to be done to sort out issues of administrative and residual programmatic costs between the state and county, it is our recommendation that this proposal be "revenue-neutral" for the counties.

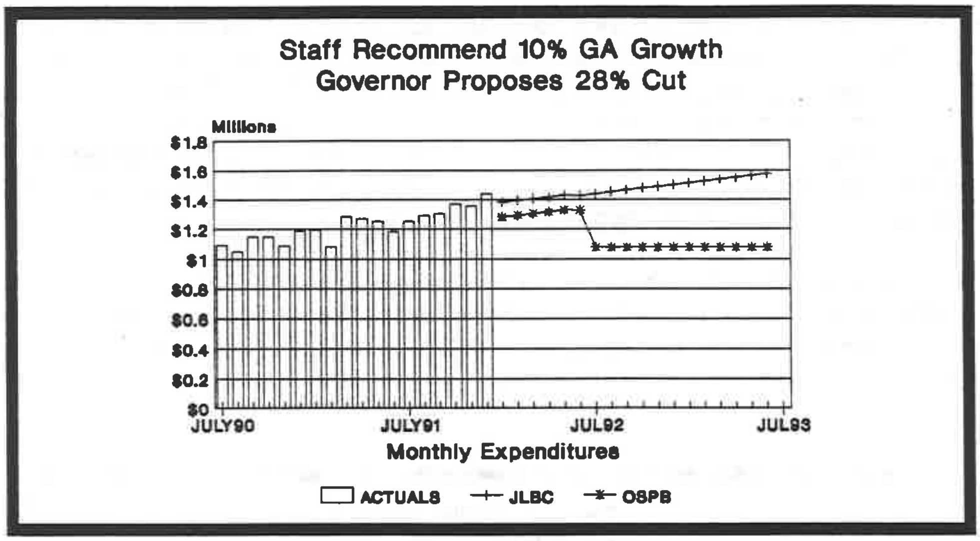


Governor Would Eliminate Scheduled 1993 AFDC Grant Increase and Cap the Costs for the State's General Assistance Population at the Original FY 1992 Level

The JLBC recommendation provides $3.2 million for a statutory, 3.6% increase in Aid to Families with Dependent Children (AFDC) benefits. Despite the Legislature's affirmation in the September special session to continue with the annual inflation adjustments authorized under Laws 1991, Chapter 405, the Governor proposes to repeal the FY 1993 benefit adjustment.

Based on recent caseload data, the JLBC Staff recommendation would fund 29,677 AFDC recipients, an increase of 16.4%. The Governor's projected growth of 11.2% would seem overly optimistic, given that caseload increases have not been below 12% since 1986.

The JLBC Staff recommends an additional $5.1 million and a total of $18.1 million for the General Assistance Program. The Governor proposes to freeze the program at its original FY 1992 appropriation of $12.9 million, which ignores both the projected current year shortfall of $3.6 million and the likelihood of a double-digit increase in population again next year. The Governor offers no specific plan to achieve his proposal. Most likely, his proposal would require a $44, or 28.5%, cut in monthly benefits or a 2,700 reduction in recipients, or some combination of benefit cut and caseload caps.



JLBC Staff Recommendation Would Increase Overall Spending for the Chronically Mentally Ill More Than the Governor

The JLBC Staff recommendation provides an additional $10.5 million for the Chronically Mentally Ill (CMI) and $3.3 million for 45 community geriatric beds to reduce the Arizona State Hospital (ASH) population. The Governor included a $7.8 million increase for CMI services, and $2.2 million for 30 community geriatric beds. In total, the JLBC Staff recommends $3.8 million more than the Governor.

In addition, the JLBC Staff recommends another $2.5 million above the Executive for other behavioral health-related services--$2,000,000 for capital improvements at ASH and $500,000 for operating costs at ASH. The JLBC Staff recommendation also reflects a net General Fund savings of $11,600,000 through use of FY 1992 and FY 1993 federal disproportionate share payments for ASH. The Governor did not address the use of these funds.

CORRECTIONS

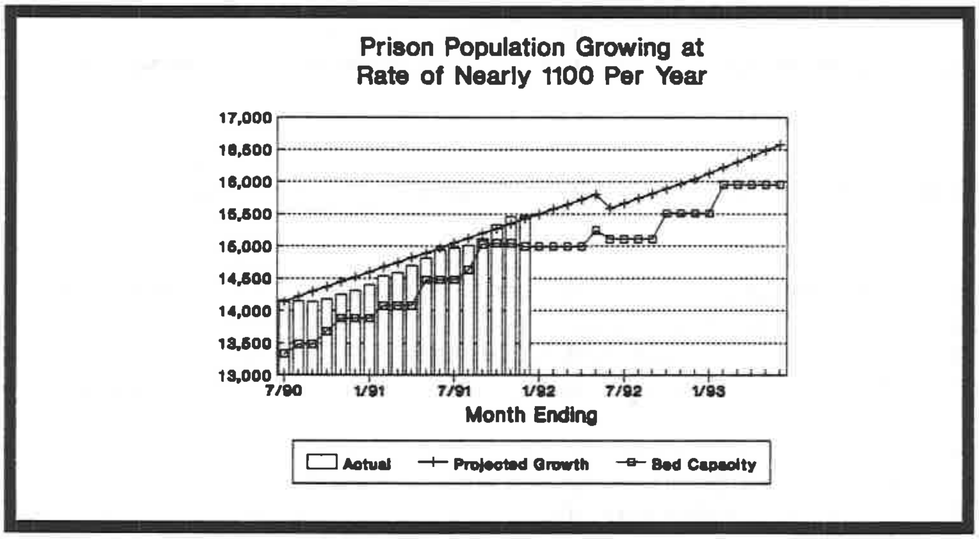
Both the Governor and JLBC Staff Recommend Using Corrections Fund Money to Finance the Growth of the Department's Operating Budget in FY 1993, and to Use Lease-Purchase Financing to Construct New Prison Beds -- JLBC Staff Does Not Include Governor's Privatization Proposal

The state prison population is growing at the rate of approximately 90 per month, or nearly 1,100 inmates per year. Currently, all prisons are operating in excess of their capacity and the women's facilities, in particular, are badly overcrowded. This continued growth has placed a major financial burden on the state, such that General Fund resources are no longer sufficient to sustain the required annual operating budget. To bridge the gap, both the Governor and the JLBC Staff recommend:

-- Closing 3 correctional release centers. Savings from these closures will be used to make additional space available for the more serious criminals. The Southern Arizona Correctional Release Center would be converted to a women's prison to alleviate the female overcrowding problem.
-- Appropriating $15 million from the Corrections Fund to fund the increased operating costs of the state's prison system, thereby, saving the General fund a like amount.

-- Constructing 1,050 new prison beds; 250 for women and 800 for men. This construction will need to be financed through the use of Certificates of Participation (COP) if the Corrections Fund monies are used for the operating budget. The future revenue stream from the Corrections Fund (beginning in FY 1994) can serve as the repayment mechanism for the COP's. The state has a statutory obligation to incarcerate convicted felons sentenced by the courts. Although revisions to the Criminal Code to reduce prison populations are envisioned by some, any changes enacted in 1992 are unlikely to reduce the anticipated growth of our prison population over the next 2 years.

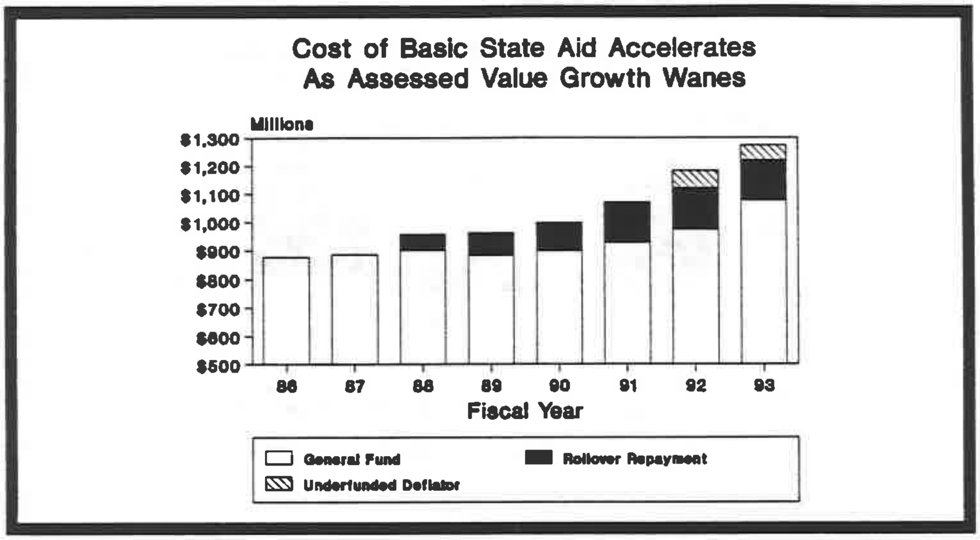
The JLBC does not concur, however, with the Governor's proposal to contract for 200 release-to-custody (RTC) beds and 250 DUI beds at a cost of $40 per day per inmate per facility. Instead, we provide additional funds for a higher average daily population, and leave the policy issue of private prison beds up to the Legislature, as an authorizing bill is required.



EDUCATION

The JLBC Staff Recommends $35.7 Million More Than the Governor for K-12 Education, Including a 1% Inflation Adjustment, the Same as FY 1992 -- Governor Recommends No Inflation Adjustment.

Full funding of the formulas for K-12 education has become increasingly difficult. To help balance the FY 1988 state budget, the Legislature deferred $56,100,000 in Basic State Aid payments to the following fiscal year. The "rollover" has been continued and increased in each succeeding year, until it reached $142,500,000 in FY 1991 where it has remained for the last 2 years. The graph below indicates the effect that the rollover has had on General Fund appropriations for K-12. In essence, while the rollover was increasing, it was absorbing increases due to student growth and declining assessed value growth. Since the rollover has been maintained at a constant level, growth in students has accelerated and assessed value growth has disappeared, necessitating even larger General Fund appropriations. In effect, in both FY 1992 and FY 1993, the state is having to finance 100% of the increased cost of equalization.



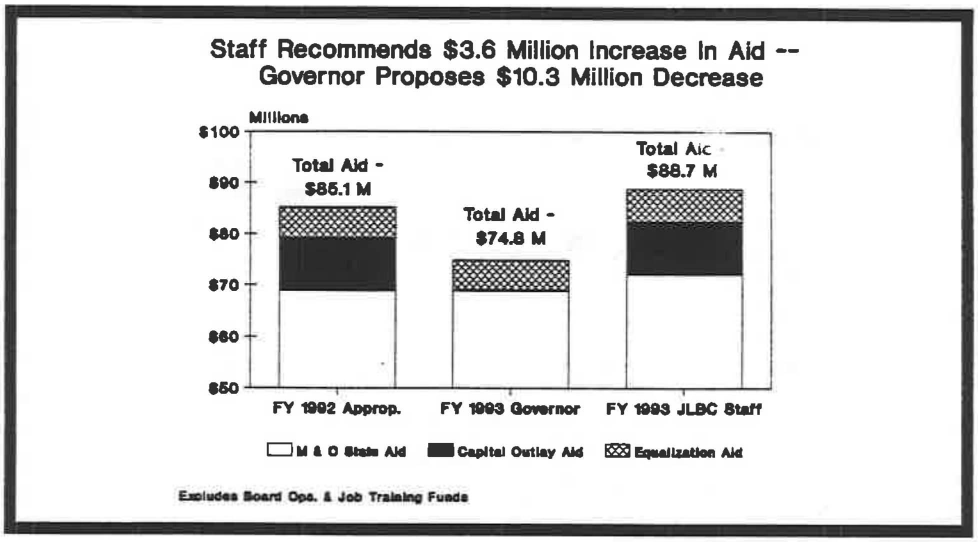
The JLBC Staff recommendation includes an overall increase of $99.5 million for Basic State Aid, which would fund:

-- a 1% GNP Price Deflator adjustment at a cost of $21.5 million. Fully funding the inflation adjustment requires $52.7 million above the JLBC Staff recommendation. The Governor's budget does not include any GNP Price Deflator adjustment.
-- Full student enrollment growth at a cost of $56.6 million, which would fund an additional 252 preschool handicapped, 15,577 elementary students and 1,600 secondary students. The Governor's budget recommendation includes approximately $39.9 million for student growth. JLBC Staff analysis indicates that the amount included in the Governor's budget is approximately $10 million short of funding his growth assumptions.
-- 64% of the requirement for "Sudden Growth" and "Rapid Decline" student count adjustments at a cost of $12.5 million. The Governor concurs. Full funding of these 2 adjustments requires $7 million above the JLBC Staff recommendation.

JLBC Staff Recommends $14.0 Million More for Community Colleges Than the Governor, for an Increase of $6.6 Million Over FY 1992.

The Governor proposes no increases in Operating State Aid or Equalization Aid for FY 1993 and recommends completely eliminating Capital Outlay Aid -- which amounts to a $10.3 million reduction in FY 1992. On the other hand, the JLBC Staff recommends:

-- A 1% inflationary increase and half of the actual total FTSE growth of 7.3% at a cost of $3.2 million, or 4.7% in Operating State Aid. This method of funding Operating State Aid is consistent with the method recently recommended by the Joint Legislative Study Committee on Community College Finance, albeit at a reduced level.
-- An additional $375,300, or 6.4%, for Equalization Aid, reflecting a proposed change in current law.
-- Maintaining Capital Outlay Aid at the FY 1992 approved level.
-- Concurring with the Governor's proposal to provide an additional $3 million of job training funds to the community college districts.



JLBC Staff Recommends Additional Funding for the Universities -- The Governor Recommends No Increase

The JLBC Staff recommends a $5.8 million increase for the Universities, whereas the Governor's proposal maintains funding at the FY 1992 level. The Governor recommends reducing the state's contribution rate for faculty and staff optional retirement from 7% to 3.59%, while the JLBC Staff recommendation maintains the current contribution rate. The JLBC Staff recommendation also includes additional funding to enhance the quality of undergraduate education by providing Teaching Incentive Grants equivalent to 2% of the FY 1992 Instructional Faculty Personal Services base. However, a 4% reduction in personnel costs is recommended to encourage productivity enhancements at the universities.

CAPITAL OUTLAY

The Charging of General Fund Rent for State-Owned Space Would be Restored in the JLBC Staff Recommendation, but Not in the Governor's

The JLBC Staff recommends the resumption of charging rent to General Fund agencies for state-owned office and storage space. The estimated $8 million to be collected from this charge will be deposited into the Capital Outlay Stabilization Account and used to fund the capital outlay recommendations made by the JLBC Staff. In addition to providing a dedicated source of revenue for capital projects, charging agencies for their office space increases Legislative oversight of state-owned space, by requiring them to be budgeted for this space prior to absorbing added square footage.

JLBC Staff Recommends Additional Funding of Building Renewal Formula

The JLBC Staff recommends $12.9 million for funding the Building Renewal Formula (BRF), more than double the Governor's recommendation of $5.7 million. However, due to our recommended policy of depositing rent charges into the Capital Outlay Stabilization Account (COSA), we are able to offset $8 million of the cost to the General Fund through the appropriation of COSA monies.

A.R.S. § 41-793.01 establishes guidelines for a BRF, based on the age, size and replacement value of state buildings. This formula was established in 1986 to provide a source of funding for the maintenance and repair of state buildings. Since its inception, the General Fund share of this formula has been funded at an average of 45%. The Governor's FY 1993 recommendation for the General Fund share of building renewal is based on 11% support of this formula for the Board of Regents and 28% for the Department of Administration building system. On the other hand, the JLBC Staff recommendation for building renewal is based on 45% support of the General Fund share for both building systems.

REVENUE-RELATED ISSUES

JLBC Staff Recommends Statutory Changes to Broaden Investment Opportunities for Permanent Funds and to Increase Expendable Income

In order to increase expendable earnings from investment of the state's land endowment funds, the JLBC Staff recommends 3 statutory changes, including a Congressional revision to Arizona's Enabling Act. First is an Arizona statutory change to establish that capital gains from the sale of securities should be included as income to the Expendable Fund and not added to the corpus of the Permanent Land Fund. This change is estimated to add $4 million annually to the Public Schools Expendable Fund in FY 1993. The income from investment of the Permanent Land Fund directly offsets the state's General Fund contribution to K-12. The second change requires a revision to both Arizona statutes and Arizona's Enabling Act, one that would permit investment of the Permanent Land Fund in stocks and other equities. Currently, the Permanent Fund may be invested only in interest-bearing securities.

Arizona could realize an additional $20 million annually by increasing the rate of return on the $500 million Permanent Land Trust Fund by roughly 4 percentage points. Indeed, had these changes been in effect since FY 1985, and if the portion of the Permanent Fund dedicated to Common Schools had an investment portfolio over the past 8 years that matched that of the State Retirement Fund, the savings to the General Fund during the 8 years ending in FY 1992 would have been about $114 million.

JLBC Staff Recommends Conforming Changes for Insurance Premium Tax Credits Related to Property and Casualty Guaranty Fund Assessments to Gain $4.9 Million

Sudden and historically large losses in the life insurance industry recently caused the Fourth Special Session of the 40th Legislature to revise the schedule of tax credits available to licensed Arizona life and disability insurance companies. These tax credits are generated when annual assessments are charged to solvent Arizona licensed companies to pay the insurance and other claims on insolvent companies. The previous system allowed companies to write-off these assessments at 20% per year for 5 years. The new law amended A.R.S. § 20-692 by lowering the annual credits in the first years and extending the period in which credits are taken. These new credits are: 7% of assessments in 1991, 9% in 1992, 11% in 1993, 13% in 1994, and 20% each year from 1995 to 1997. An administrative decision was also made by the Department of Insurance to defer extraordinarily large assessments in 1991 until calendar 1992. The result is that insurance premium tax revenues will be about $90 million in FY 1992, and an unanticipated loss to the General fund of $37.5 million was avoided.

However, significant problems are now appearing in property and casualty companies. Tax credits for assessments on these companies are still 20% per year over 5 years. Just a week after the end of the 4th Special Session, the Insurance Commissioner informed us of a prospective $4.7 million loss of revenue in FY 1993 due to the insolvency of Old Hickory Life Insurance, which wrote property and casualty business in addition to life products. There may be other bankruptcies of property and casualty companies that will increase this amount. Therefore, the JLBC Staff is recommending a tax credit system for property and casualty insurers similar to the recently passed statutes for life companies. Such a change would save the General Fund $4.9 million in FY 1993.

Governor's Income Tax Reduction Proposal

The Department of Revenue (DOR) calculates that the Governor's income tax proposal will provide $60 million in tax relief for the 1992 tax year. The tax proposal contains three major elements:

(1) Raise the allowable exemption for taxpayers age 65 or over from $1,500 to $2,000;
(2) Maintain the six year phase-in of full medical deductibility as passed by the 40th Legislature during the 4th Special Session;
(3) Lower all individual income tax rates.

However, the gain in disposable income for Arizona residents will be less than $60 million. Because state income taxes paid can be taken as an itemized deduction on the federal income tax return, Arizona taxpayers will have lower deductions and, in turn, pay more federal income tax. JLBC Staff estimates that most filers will itemize deductions. This translates into an offsetting loss of $14.2 million in federal income tax savings. In addition, a part of the tax reduction will flow out-of-state to non-residents and part-year residents who pay Arizona income tax. This results in *a net disposable income gain of $44.47 million for Arizona residents* that is available for consumption.

While it is likely that a tax cut would have a positive economic impact on our economy, it is doubtful that the effect would be noticeable. One reason is that not all the extra disposable income will be spent on goods and services: many will pay down debts and some will save more, anticipating possible layoffs. Furthermore, not all the disposable income gain will be spent on Arizona businesses. Approximately, 10% to 15% of the income gain will be exported outside of the state. More importantly, the tax reduction is too small to change consumer confidence or economic behavior. The $44.5 million gain in disposable income is tiny when compared to our estimate for FY 1993 state personal income of $69 billion: this is 6/100ths of 1%. Arizona's current economic malaise is driven by a variety of complex factors, most of which are dominated by the national situation. Thus, small state tax cuts or increases, for that matter, usually cannot significantly influence our economy.

Moreover, there is, in economic terms, an "opportunity cost" associated with the tax proposal: an estimated $60 million in state spending for goods and services will be foregone. For example, the JLBC Staff FY 1993 budget recommendations already underfunds the statutory education requirement by $195.2 million (by lowering the GNP Deflator to save $52.7 million, and maintaining the "Rollover" to save $142.5 million). Yet, the Governor's recommended K-12 budget is $35.7 million lower than JLBC's.

Finally, another aspect of the tax proposal is the prospective loss of $7.7 million in state revenue sharing by cities and towns. Though this would not occur until FY 1995, the Urban Revenue Sharing to cities was reduced by the Tax Reform Act of 1990 to keep cities from receiving any of the tax increase. A consistent policy for returning a portion of the tax increase would be to readjust the percentage of income tax revenues allocated to cities, to hold them "harmless" from the tax reduction.

OTHER ISSUES

Governor Recommends Additional $4.5 Million for Operation "SLIM"--JLBC Staff Does Not

The Governor is recommending an additional $4.5 million be appropriated in FY 1993 for the Statewide Long-term Improved Management Study ("Project SLIM"). This amount would be in addition to the $2.5 million already appropriated for SLIM and the approximate $800,000 value of the 24 senior level state employees on loan to SLIM. In other words, the Governor is recommending that total resources committed to SLIM be increased to over $7.8 million--an amount significantly larger than the resources devoted to other studies such as "Mini-Grace", $1.5 million and "Fiscal 2000," $600,000.

The JLBC Staff does not recommend the additional $4.5 million for the following reasons: First, the Governor has not provided a budget nor any rationale for the additional $4.5 million; Secondly, the 24 loaned employees and directors of the affected agencies can be charged by the Governor with implementation of SLIM recommendations, particularly those which are administrative and do not require legislative action; Thirdly, any SLIM recommendations requiring legislative action will be analyzed by legislative staff including the JLBC Staff and the Legislative Auditor General and, subsequently, reviewed by the relevant standing committees of both houses of the Legislature -- if implementation monies are required, they can be provided through the appropriations process; Finally, the consultant contract with Coopers-Lybrand for $1,533,000 should entail some implementation responsibilities.

Ultimately, to be successful, Project SLIM recommendations will have to be judged worthy of implementation by state elected officials and state employees will have to make it happen. It is not clear that $4.5 million of additional funds need to be provided on top of the $3.3 million already committed to this effort.

JLBC Staff Recommends Additional $5.1 Million for Risk Management

JLBC Staff recommends Risk Management rates of $45.9 million, an increase of $9.8 million, or 27% above the FY 1992 rates. This substantial increase is due primarily to a significant rise in projected liability and property claims, which has proven to be a rapidly growing problem in the last several years. Arizona is only one of 9 states which does not have some type of limit on such claims against state and local government entities.

The JLBC Staff recommends distributing the projected $9.8 million increase proportionally across fund sources in line with actuarial experience. This proposal would cost the General Fund, $5.1 million, Other Appropriated Funds, $4 million, and Non-Appropriated Funds, $700,000. The Governor recommends an increase of $9.5 million, with only $650,000 of the increase from the General Fund. This artificial cap on the General Fund contribution distorts the Risk Management Division's fund allocation system amongst agencies and funds, which is designed to reflect differing loss experience and actuarially projected claims.

JLBC Staff Forecast for the Budget Stabilization Fund (BSF)

Under our current expectations of a rebound in the economy and personal income growth in the latter half of CY 1992 and accelerating throughout CY 1993, the first required "pay-in" to the BSF will be at the beginning of FY 1993. If personal income grows as expected, the amount of the pay-in is forecasted at $5.4 million, reflecting estimated growth in our economy that is just barely above the 7-year trend that is used in the BSF formula. For FY 1994, however, the required pay-in is estimated to jump to $60 million, reflecting the substantial acceleration of growth being forecasted for CY 1993.

It is important for fiscal planning purposes to note that these required pay-in's must be appropriated to the BSF at the time the General Appropriations Bill is enacted. Thereafter, an adjustment can be made the following year based upon EEC calculations and initial reports of CY 1992 Arizona Personal Income from the U.S. Department of Commerce.

For an explanation of the history and operation of the BSF, please refer to the Table of Contents of this report.

Calculation of the State Appropriations Limit for FY 1993

Article IX, Section 17 of the Arizona State Constitution establishes a limit on state appropriations. Under this limit, the appropriation of certain state revenues may not exceed 7.18% of Arizona Personal Income (a slightly different percent in FY 1992, pursuant to Chapter 296, Laws of 1991). A preliminary assessment of the JLBC Staff Recommended FY 1993 budget and the State Appropriations Limit suggests that appropriations subject to the limit are at least $400 million below the limit.

A detailed estimate will be prepared and will be transmitted to the legislature within two weeks.

Funding Shifts

To help formulate a balanced General Fund budget for FY 1993, the JLBC Staff have recommended a number of funding shifts to offset General Fund dollars. Some of the major funding shifts are shown below:

Operating Budgets	($ Millions)
•AHCCCS--Shift 15% of MN/MI's to Federally-Matched	$ 12.2
•DES--Dev. Disabled Client Conversion to Fed LTC	3.9
--Fed Funds from 6th Cottage at Coolidge	0.9
•Courts--Unclaimed Lottery for Ct. Appointed Special Advocates	0.6
•DHS--Use AHS Disproportionate Share Payment Fund	11.6
--CRS Increased Title XIX Match	0.7
•Youth Treatment and Rehab--Federal Title XIX Match	0.6
•Corrections--Use Corrections Fund for Incr. Operating Costs	15.0
•DPS--Further Shift to HURF Monies to Fund Highway Patrol	5.0
--Fund Shift to CJEF for AZ Fingerprint ID System	1.0
--Fund Shift to RICO for Aviation Activities	0.2
•State Parks--Use Portion of State Lake Improvement Funds to Operate Water-based Parks	1.0
Capital Outlay Budget	
•Building Renewal Formula--Use Capital Outlay Stabilization Monies from Charging Rent on State-Owned Buildings as a Funding Source for BSF	8.0

Accordingly, when considering the JLBC Staff recommendation, it is important to note those agencies whose budgets are actually larger when viewed on a "Total Funds" basis. Most notable are the operating budgets for the Departments of Health Services, Corrections, and Public Safety, as follows:

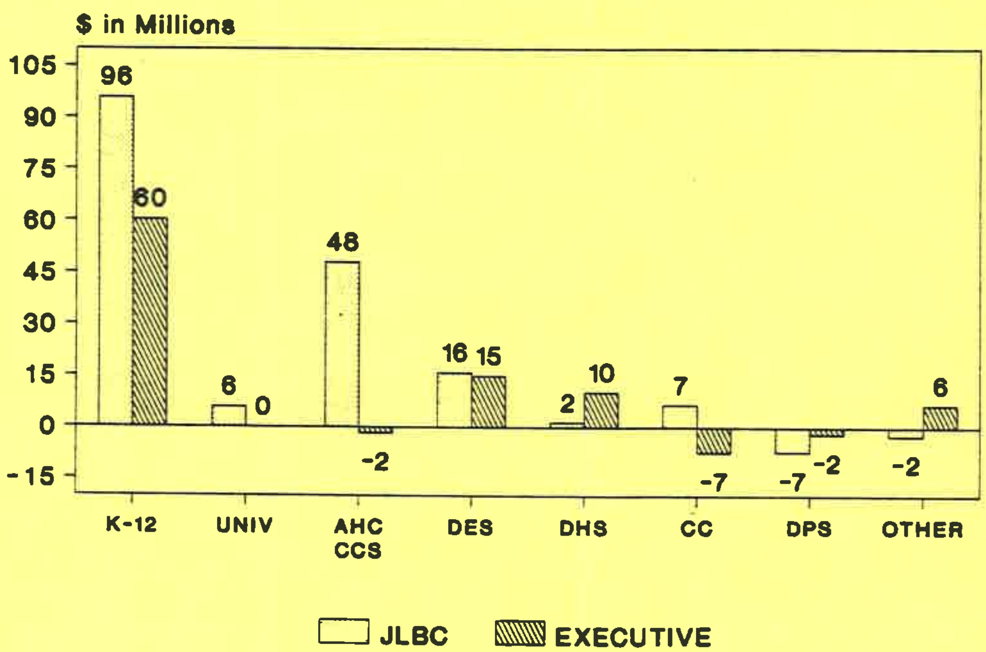
	($ Millions) Change from FY 1992		
Agency	Executive	JLBC	Diff
Health Services			
General Fund	$10.2	$1.5	$(8.7)
Total Funds	9.8	13.2	3.4
Corrections			
General Fund	0.0	(1.5)	(1.5)
Total Funds	15.0	13.5	(1.5)
Public Safety			
General Fund	(2.0)	(7.2)	(5.2)
Total Funds	(0.7)	(0.7)	0.0

TABLES AND GRAPHS

TEN LARGEST GENERAL FUND AGENCIES
FY 1993 JLBC STAFF RECOMMENDATION
COMPARISON WITH EXECUTIVE RECOMMENDATION AND FY 1992 APPROPRIATIONS

AGENCY	FY 1992 Appropriation	FY 1993 Executive Recommendation	FY 1993 JLBC Staff Recommendation	$ Difference JLBC - Executive	$ Difference JLBC - FY 1992
K-12	1,305,539,800	1,365,778,100	1,401,460,900	35,682,800	95,921,100
UNIVERSITIES	533,988,700	533,988,700	539,828,400	5,839,700	5,839,700
AHCCCS	370,645,900	368,887,300	418,575,800	49,688,500	47,929,900
DEPT OF ECONOMIC SECURITY	359,125,500	374,125,500	375,050,200	924,700	15,924,700
DEPT OF CORRECTIONS	255,025,400	255,025,400	253,531,200	(1,494,200)	(1,494,200)
DEPT OF HEALTH SERVICES	198,802,400	209,061,700	200,319,700	(8,742,000)	1,517,300
COMMUNITY COLLEGES	85,888,200	78,502,200	92,501,600	13,999,400	6,613,400
COURTS	72,632,900	73,700,900	76,247,300	2,546,400	3,614,400
DEPT OF REVENUE	50,902,200	48,700,000	48,493,300	(206,700)	(2,408,900)
DEPT OF PUBLIC SAFETY	46,123,500	44,176,200	38,936,000	(5,240,200)	(7,187,500)
ALL OTHER	234,128,400	241,713,500	232,044,900	(9,668,600)	(2,083,500)
TOTAL	3,512,802,900	3,593,659,500	3,676,989,300	83,329,800	164,186,400

JLBC STAFF vs EXECUTIVE RECOMMENDATION
DOLLAR CHANGE FROM FY 1992

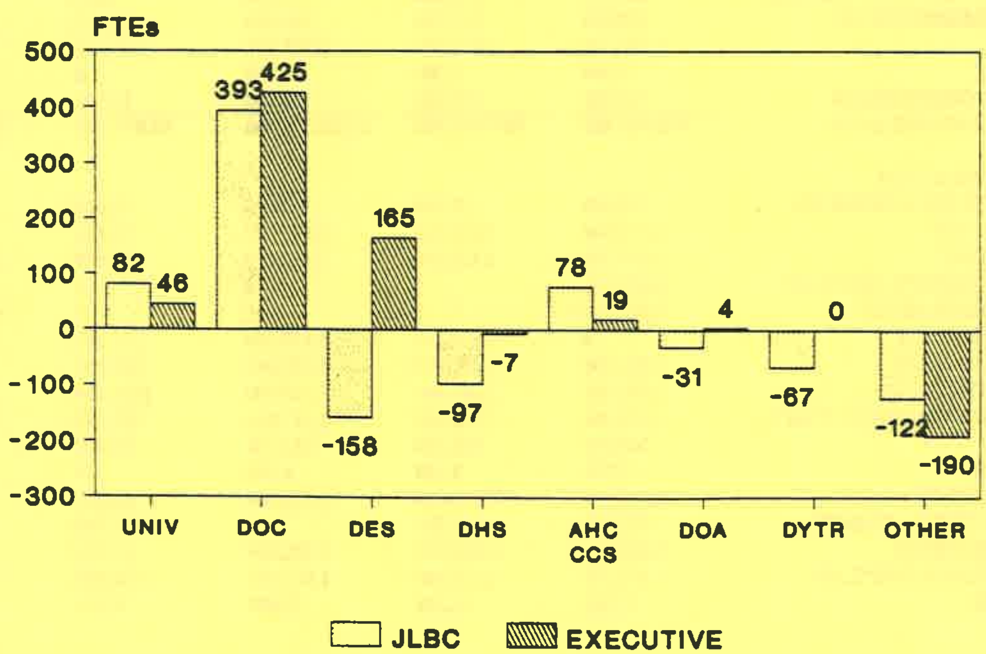


FULL-TIME EQUIVALENT POSITIONS - TOTAL APPROPRIATED FUNDS
TEN LARGEST AGENCIES
FY 1993 JLBC STAFF RECOMMENDATION
COMPARISON WITH EXECUTIVE RECOMMENDATION AND FY 1992 APPROPRIATIONS

AGENCY	FY 1992 Estimate	FY 1993 Executive Recommend. 1/	FY 1993 JLBC Staff Recommend.	# Difference JLBC - Executive	# Difference JLBC - FY 1992
UNIVERSITIES	13,351.50	13,397.30	13,433.10	35.80	81.60
DEPT OF CORRECTIONS	6,062.40	6,487.80	6,455.40	(32.40)	393.00
DEPT OF TRANSPORTATION	3,295.30	3,295.10	3,314.00	18.90	18.70
DEPT OF ECONOMIC SECURITY	2,834.80	3,000.20	2,677.15	(323.05)	(157.65)
DEPT OF HEALTH SERVICES	1,717.81	1,710.80	1,621.06	(89.74)	(96.75)
DEPARTMENT OF PUBLIC SAFETY	1,616.80	1,617.00	1,611.00	(6.00)	(5.80)
DEPT OF REVENUE	1,277.80	1,244.80	1,242.00	(2.80)	(35.80)
AHCCCS	878.70	897.80	956.50	58.70	77.80
DEPT OF ADMINISTRATION	638.50	642.50	607.50	(35.00)	(31.00)
DEPT OF YOUTH TRTMENT. & REHAB	653.10	653.10	586.10	(67.00)	(67.00)
ALL OTHER	5,432.50	5,275.90	5,333.20	57.30	(99.30)
TOTAL	37,759.21	38,222.30	37,837.01	(385.29)	77.80

1/ Executive recommendation has been adjusted for comparability with the JLBC Staff recommendation

JLBC STAFF vs EXECUTIVE RECOMMENDATION
FTE CHANGE FROM FY 1992



GENERAL FUND SUMMARY

	ESTIMATE FY 1992	EXEC REC FY 1993	JLBC REC FY 1993	DIFF JLBC-OSPB	DIFF JLBC-FY 1992
GENERAL GOVERNMENT					
ADMINISTRATION, DEPARTMENT OF	26,975,600	30,606,100	28,519,200	(2,086,900)	1,543,600
ATTORNEY GENERAL	17,711,300	17,754,900	18,015,600	260,700	304,300
COMMERCE, DEPARTMENT OF	3,746,600	4,803,200	3,540,200	(1,263,000)	(206,400)
Court of Appeals	7,934,000	8,217,500	8,012,800	(204,700)	78,800
Comm on Appellate and Trial Court Appts	3,500	3,500	3,500	0	0
Commission on Judicial Conduct	138,600	138,600	139,900	1,300	1,300
Superior Court	53,911,000	54,628,700	57,356,400	2,727,700	3,445,400
Supreme Court	10,645,800	10,712,600	10,734,700	22,100	88,900
COURTS - TOTAL	72,632,900	73,700,900	76,247,300	2,546,400	3,614,400
GOVERNOR, OFFICE OF THE	3,369,200	3,369,200	3,558,500	189,300	189,300
GOVERNOR - AFFIRMATIVE ACTION	224,700	230,300	241,700	11,400	17,000
GOVERNOR - OSPB	2,431,400	6,968,900	2,434,400	(4,534,500)	3,000
LAW ENFORCEMENT MERIT SYS COUNCIL	41,800	41,600	41,100	(500)	(700)
Senate	6,270,900	5,932,000	5,932,000	0	(338,900)
House of Representatives	7,360,300	7,085,800	7,085,800	0	(274,500)
Legislative Council	2,640,800	2,592,300	2,587,100	(5,200)	(53,700)
Joint Legislative Budget Committee	1,673,300	1,673,300	1,735,000	61,700	61,700
Auditor General	7,250,700	7,518,200	7,462,000	(56,200)	211,300
Library, Archives & Public Records	4,725,100	4,933,400	4,669,700	(263,700)	(55,400)
LEGISLATURE - TOTAL	29,921,100	29,735,000	29,471,600	(263,400)	(449,500)
PERSONNEL BOARD	216,200	216,400	230,400	14,000	14,200
REVENUE, DEPARTMENT OF	50,902,200	48,700,000	48,493,300	(206,700)	(2,408,900)
SECRETARY OF STATE	2,649,100	4,550,000	4,379,800	(170,200)	1,730,700
TAX APPEALS, BOARD OF	696,400	701,000	686,000	(15,000)	(10,400)
TOURISM, OFFICE OF	5,727,300	5,859,600	5,639,700	(219,900)	(87,600)
TREASURER, STATE	3,133,900	3,226,800	3,242,900	16,100	109,000
UNIFORM STATE LAWS, COMMISSION ON	22,900	23,800	23,600	(200)	700
TOTAL - GENERAL GOVERNMENT	**220,402,600**	**230,487,700**	**224,765,300**	**(5,722,400)**	**4,362,700**
HEALTH AND WELFARE					
AHCCCS	370,645,900	368,887,300	418,575,800	49,688,500	47,929,900
ECONOMIC SECURITY, DEPARTMENT OF	359,125,500	374,125,500	375,050,200	924,700	15,924,700
ENVIRONMENTAL QUALITY, DEPT OF	11,602,900	11,948,900	11,108,400	(840,500)	(494,500)
HEALTH SERVICES, DEPARTMENT OF	198,802,400	209,061,700	200,319,700	(8,742,000)	1,517,300
HEARING IMPAIRED, COUNCIL FOR THE	203,000	200,100	199,500	(600)	(3,500)
INDIAN AFFAIRS, COMMISSION OF	159,800	157,700	156,400	(1,300)	(3,400)
PIONEERS' HOME	2,653,400	2,815,700	2,648,400	(167,300)	(5,000)
RANGERS' PENSIONS	9,200	9,500	9,500	0	300
VETERANS' SERVICE COMMISSION	751,800	737,100	751,800	14,700	0
TOTAL - HEALTH AND WELFARE	**943,953,900**	**967,943,500**	**1,008,819,700**	**40,876,200**	**64,865,800**
INSPECTION AND REGULATION					
AGRIC. EMPLOYMENT RELATIONS BD.	175,600	175,600	168,000	(7,600)	(7,600)
AGRICULTURE, DEPT. OF	9,944,800	9,069,300	9,097,700	28,400	(847,100)
BANKING DEPARTMENT	3,599,200	2,435,200	2,428,600	(6,600)	(1,170,600)
BUILDING AND FIRE SAFETY, DEPT. OF	2,800,300	0	0	0	(2,800,300)
CONTRACTORS, REGISTRAR OF	3,847,900	0	0	0	(3,847,900)
BUILDING SAFETY, DEPT. OF	0	6,429,400	6,418,100	(11,300)	6,418,100
CORPORATION COMMISSION	4,861,800	4,897,900	5,127,000	229,100	265,200
INSURANCE, DEPARTMENT OF	3,082,700	3,387,400	3,152,000	(235,400)	69,300
LIQUOR LICENSES AND CONTROL, DEPT.	1,992,000	1,985,300	1,917,800	(67,500)	(74,200)
MINE INSPECTOR	569,500	583,100	621,100	38,000	51,600
OSHA REVIEW BOARD	9,100	9,100	9,100	0	0
RACING, DEPARTMENT OF	2,392,500	2,410,000	2,502,800	92,800	110,300
RADIATION REGULATORY AGENCY	937,800	997,500	0	(997,500)	(937,800)
REAL ESTATE DEPARTMENT	2,868,600	2,800,000	2,792,300	(7,700)	(76,300)
WEIGHTS AND MEASURES, DEPT. OF	2,167,200	2,158,300	1,967,500	(190,800)	(199,700)
BOXING COMMISSION	27,300	42,500	51,800	9,300	24,500

GENERAL FUND SUMMARY

	ESTIMATE FY 1992	EXEC REC FY 1993	JLBC REC FY 1993	DIFF JLBC-OSPB	DIFF JLBC-FY 1992
RESPIRATORY CARE EXAMINERS BOARD	50,000	0	0	0	(50,000)
TOTAL - INSPECTION & REGULATION	**39,326,300**	**37,380,600**	**36,253,800**	**(1,126,800)**	**(3,072,500)**
EDUCATION					
ARTS, COMMISSION ON THE	1,359,500	1,374,700	1,306,700	(68,000)	(52,800)
COMMUNITY COLLEGES	85,888,200	78,502,200	92,501,600	13,999,400	6,613,400
DEAF AND THE BLIND, SCHOOL FOR THE	13,320,500	14,483,800	14,951,700	467,900	1,631,200
EDUCATION, DEPARTMENT OF	1,305,539,800	1,365,778,100	1,401,460,900	35,682,800	95,921,100
HISTORICAL SOCIETY, ARIZONA	3,219,000	3,252,800	3,235,800	(17,000)	16,800
HISTORICAL SOCIETY, PRESCOTT	517,500	517,300	510,100	(7,200)	(7,400)
MEDICAL STUDENT LOANS BOARD	1,000	1,000	1,000	0	0
Board of Regents	6,757,000	7,100,400	6,898,200	(202,200)	141,200
University of Arizona - Main	200,608,700	199,632,200	201,914,500	2,282,300	1,305,800
University of Arizona - Medicine	45,470,500	45,265,200	45,283,400	18,200	(187,100)
Arizona State University - Main	181,714,100	182,557,000	184,135,500	1,578,500	2,421,400
Arizona State University - West	27,496,500	26,751,900	27,169,400	417,500	(327,100)
Northern Arizona University	71,941,900	72,682,000	74,427,400	1,745,400	2,485,500
UNIVERSITIES - TOTAL	533,988,700	533,988,700	539,828,400	5,839,700	5,839,700
TOTAL - EDUCATION	**1,943,834,200**	**1,997,898,600**	**2,053,796,200**	**55,897,600**	**109,962,000**
PROTECTION AND SAFETY					
CORRECTIONS, DEPARTMENT OF	255,025,400	255,025,400	253,531,200	(1,494,200)	(1,494,200)
CRIMINAL JUSTICE COMMISSION, ARIZONA	2,500,000	2,000,000	2,000,000	0	(500,000)
EMRG. & MILITARY AFFAIRS, DEPT. OF	4,073,700	4,226,300	4,123,300	(103,000)	49,600
PARDONS AND PAROLES, BOARD OF	1,996,000	1,996,700	2,077,400	80,700	81,400
PUBLIC SAFETY, DEPARTMENT OF	46,123,500	44,176,200	38,936,000	(5,240,200)	(7,187,500)
YOUTH TREATMENT REHAB., DEPT OF	28,947,800	28,721,900	28,383,700	(338,200)	(564,100)
TOTAL - PROTECTION AND SAFETY	**338,666,400**	**336,146,500**	**329,051,600**	**(7,094,900)**	**(9,614,800)**
TRANSPORTATION					
TRANSPORTATION, DEPARTMENT OF	67,300	71,000	69,600	(1,400)	2,300
NATURAL RESOURCES					
ENVIRONMENT, COMMISSION ON THE AZ	100,500	100,900	107,100	6,200	6,600
GEOLOGICAL SURVEY, ARIZONA	621,400	715,200	626,100	(89,100)	4,700
LAND DEPARTMENT	8,149,300	8,122,600	8,054,100	(68,500)	(95,200)
MINES & MINERAL RESOURCES, DEPT.OF	339,000	0	613,600	613,600	274,600
PARKS BOARD	5,636,800	4,626,600	4,705,100	78,500	(931,700)
WATER RESOURCES, DEPARTMENT OF	11,705,200	11,416,300	11,377,100	(39,200)	(328,100)
TOTAL - NATURAL RESOURCES	**26,552,200**	**24,981,600**	**25,483,100**	**501,500**	**(1,069,100)**
AGENCY TOTAL	**3,512,802,900**	**3,594,909,500**	**3,678,239,300**	**83,329,800**	**165,436,400**
Less Prior Session Appropriations - OSPB	0	(1,250,000)	(1,250,000)	0	(1,250,000)
OPERATING BUDGET TOTAL	**3,512,802,900**	**3,593,659,500**	**3,676,989,300**	**83,329,800**	**164,186,400**

OTHER APPROPRIATED FUNDS SUMMARY

	ESTIMATE FY 1992	EXEC REC FY 1993	JLBC REC FY 1993	DIFF JLBC-OSPB	DIFF JLBC-FY 1992
GENERAL GOVERNMENT					
ADMINISTRATION, DEPARTMENT OF 1/	66,269,700	75,596,600	70,976,000	(4,620,600)	4,706,300
ATTORNEY GENERAL	0	0	700,000	700,000	700,000
COLISEUM AND EXPOSITION CENTER	13,808,800	10,101,900	13,101,900	3,000,000	(706,900)
COMMERCE, DEPARTMENT OF	1,499,000	1,551,900	1,903,900	352,000	404,900
SUPERIOR COURT	0	0	635,000	635,000	635,000
GOVERNOR, OFFICE OF THE	800,000	0	0	0	(800,000)
Senate	200,000	0	0	0	(200,000)
House of Representatives	200,000	0	0	0	(200,000)
LEGISLATURE - TOTAL	400,000	0	0	0	(400,000)
LOTTERY, ARIZONA	41,243,000	34,900,000	36,261,200	1,361,200	(4,981,800)
RETIREMENT SYSTEM	4,933,800	4,841,200	4,887,100	45,900	(46,700)
TOTAL - GENERAL GOVERNMENT	128,954,300	126,991,600	128,465,100	1,473,500	(489,200)
HEALTH AND WELFARE					
ECONOMIC SECURITY, DEPARTMENT OF	627,300	634,700	634,100	(600)	6,800
ENVIRONMENTAL QUALITY, DEPT	104,800	0	2,257,300	2,257,300	2,152,500
HEALTH SERVICES, DEPARTMENT OF	2,947,500	2,472,100	14,600,300	12,128,200	11,652,800
VETERANS' SERVICE COMMISSION	386,200	388,000	387,000	(1,000)	800
TOTAL - HEALTH AND WELFARE	4,065,800	3,494,800	17,878,700	14,383,900	13,812,900
INSPECTION AND REGULATION					
AGRICULTURE, DEPT. OF	1,786,300	1,655,600	1,526,400	(129,200)	(259,900)
CORPORATION COMMISSION	5,673,300	5,581,700	5,655,600	73,900	(17,700)
INDUSTRIAL COMMISSION	12,197,700	12,051,500	11,996,800	(54,700)	(200,900)
RACING, DEPARTMENT OF	358,900	352,100	346,600	(5,500)	(12,300)
RADIATION REGULATORY AGENCY	90,300	92,200	0	(92,200)	(90,300)
RESIDENTIAL UTILITY CONSUMER OFFICE	1,018,100	1,002,100	1,010,700	8,600	(7,400)
WEIGHTS AND MEASURES, DEPT. OF	247,600	632,700	451,200	(181,500)	203,600
ACCOUNTANCY, BOARD OF	733,200	719,200	730,200	11,000	(3,000)
APPRAISAL, BOARD OF	219,800	204,000	220,000	16,000	200
BARBER, BOARD OF	134,700	132,200	135,100	2,900	400
BEHAVIORAL HEALTH EXAMINERS, BD	178,900	183,900	203,800	19,900	24,900
BOXING COMMISSION	28,800	13,500	0	(13,500)	(28,800)
CHIROPRACTIC EXAMINERS, BOARD OF	218,000	214,400	218,000	3,600	0
COSMETOLOGY, BOARD OF	563,500	595,200	583,000	(12,200)	19,500
DENTAL EXAMINERS, BOARD OF	436,200	409,000	431,800	22,800	(4,400)
FUNERAL DIRECTORS & EMBALMERS, BD	178,500	154,600	162,700	8,100	(15,800)
HOMEOPATHIC EXAMINERS, BOARD OF	18,400	18,700	18,400	(300)	0
MEDICAL EXAMINERS, BOARD OF	2,276,900	2,268,700	2,286,100	17,400	9,200
NATUROPATHIC PHYSICIANS BOARD	26,000	25,700	25,300	(400)	(700)
NURSING, BOARD OF	1,049,700	1,062,100	1,024,100	(38,000)	(25,600)
NURSING CARE INSTITUTIONAL ADMIN. BD.	66,400	64,400	61,600	(2,800)	(4,800)
OCCUPATIONAL THERAPY EXAM., BOARD	35,100	49,200	52,600	3,400	17,500
OPTICIANS, BOARD OF DISPENSING	62,100	55,500	56,600	1,100	(5,500)
OPTOMETRY, BOARD OF	99,400	96,100	94,400	(1,700)	(5,000)
OSTEOPATHIC EXAMINERS, BOARD OF	258,400	251,800	247,500	(4,300)	(10,900)
PHARMACY, BOARD OF	625,300	628,800	615,100	(13,700)	(10,200)
PHYSICAL THERAPY EXAMINERS, BOARD	66,500	64,000	66,100	2,100	(400)
PODIATRY EXAMINERS, BOARD OF	42,900	43,600	44,000	400	1,100
PRIVATE POSTSECONDARY EDUCATION	144,200	130,500	134,900	4,400	(9,300)
PSYCHOLOGIST EXAMINERS, BOARD OF	123,600	160,900	164,200	3,300	40,600
RESPIRATORY CARE EXAMINERS BOARD	74,800	107,600	117,400	9,800	42,600
STRUCTURAL PEST CONTROL COMM	1,021,600	957,500	1,037,600	80,100	16,000
TECHNICAL REGISTRATION, BOARD OF	782,000	856,600	777,600	(79,000)	(4,400)
VETERINARY MED EXAMINING BOARD	152,500	155,100	156,300	1,200	3,800
TOTAL - INSPECTION & REGULATION	30,989,600	30,990,700	30,651,700	(339,000)	(337,900)
EDUCATION					
University of Arizona - Main	62,791,500	0	57,230,900	57,230,900	(5,560,600)

OTHER APPROPRIATED FUNDS SUMMARY

	ESTIMATE FY 1992	EXEC REC FY 1993	JLBC REC FY 1993	DIFF JLBC-OSPB	DIFF JLBC-FY 1992
University of Arizona - Medicine	2,153,600	0	2,245,900	2,245,900	92,300
Arizona State University - Main	57,965,500	0	50,894,800	50,894,800	(7,070,700)
Arizona State University - West	3,816,500	0	3,843,100	3,843,100	26,600
Northern Arizona University	19,467,600	0	18,822,800	18,822,800	(644,800)
UNIVERSITIES - TOTAL 2/	146,194,700	0	133,037,500	133,037,500	(13,157,200)
TOTAL - EDUCATION	**146,194,700**	**0**	**133,037,500**	**133,037,500**	**(13,157,200)**
PROTECTION AND SAFETY					
CORRECTIONS, DEPARTMENT OF	936,400	15,936,400	15,936,400	0	15,000,000
CRIMINAL JUSTICE COMMISSION, ARIZONA	505,300	525,800	510,300	(15,500)	5,000
PUBLIC SAFETY, DEPARTMENT OF	41,770,500	43,045,200	48,236,500	5,191,300	6,466,000
YOUTH TREATMENT REHAB., DEPT OF	2,904,200	2,404,200	2,992,800	588,600	88,600
TOTAL - PROTECTION AND SAFETY	**46,116,400**	**61,911,600**	**67,676,000**	**5,764,400**	**21,559,600**
TRANSPORTATION					
TRANSPORTATION, DEPARTMENT OF	**188,916,700**	**197,867,200**	**194,170,300**	**(3,696,900)**	**5,253,600**
NATURAL RESOURCES					
GAME AND FISH DEPARTMENT	15,959,500	16,274,200	16,137,900	(136,300)	178,400
PARKS BOARD	1,900,000	2,090,000	3,090,000	1,000,000	1,190,000
WATER RESOURCES, DEPARTMENT OF	535,000	0	0	0	(535,000)
TOTAL - NATURAL RESOURCES	**18,394,500**	**18,364,200**	**19,227,900**	**863,700**	**833,400**
AGENCY TOTAL	**563,632,000**	**439,620,100**	**591,107,200**	**151,487,100**	**27,475,200**

ECONOMIC AND REVENUE FORECAST

THE U. S. ECONOMY

FY 1991 in Review

The fiscal year ending June 30, 1991 was disappointing. National economic growth had already slowed as that year started. The National Bureau of Economic Research has looked back at the statistics and said, indeed, the first recession since 1982-1983 began in July 1990, just as the fiscal year opened. Then, the Gulf War and a large number of uncertainties faced consumers. Consumer confidence plunged at the fastest rate in at least 20 years after the start of the conflict. The growth rate of consumer purchases slowed and then declined.

Real Gross National Product (GNP), adjusted for inflation, increased at a sluggish annual rate of 1.4% in the third quarter (July through September) of 1990, but then declined 2.5% in the fourth quarter primarily as a result of the uncertainty created by the Iraq invasion of Kuwait. It declined again by 2.8% in the first quarter of 1991 when the brief Gulf War transpired. It rose only 0.3% in the second quarter as the state fiscal year ended. Two out of the four quarters were negative. As the year passed, the recession was sustained mainly, by varying degree from quarter to quarter, by declines in consumer purchases of durable goods, especially autos, continued weakness in an overbuilt commercial construction sector, and reduced spending on inventories by businesses. These depressed profits led to rapidly rising unemployment.

Consumer and business uncertainty increased during the year because of events other than just the Gulf War. In an effort to reduce the federal budget deficit, Congress passed tax increases in late 1990, the first time this had happened in a weak economy. The Soviet Union's economy was unraveling, and it appeared chaotic. The German unification process was becoming more difficult and expensive than promised. Finally, there were questions about the health of the U.S. banking system and the availability of credit for business, a so-called "credit crunch", which many people still believe is a problem today.

The Gulf War ended decisively from the U.S. military point of view in early 1991. It was hoped that with 500,000 victorious troops returning home, consumers would be in the mood to resume spending; but this was not the case. While consumer confidence rose sharply immediately after the end of the War, consumers were not ready to start spending. In fact, consumer and business confidence resumed their slide to levels below the lows established at the start of the Gulf War. High debts left over from the 1980's and nervousness about jobs kept consumers from making major purchases such as autos or housing. The rate of unemployment had been 5.3% at the beginning of the fiscal year, but had risen to 6.8% as the fiscal year ended. Real GNP ended the fiscal year 1.1% lower than at its start; and, on average, there was 0.2% negative growth during the fiscal year (see Table 1).

The Outlook for FY 1992

FY 1992 has been off to a better start. The average length of all recessions since WWII has been 11 months. Starting from July 1990, this would have put the end of the recession about May or June of 1991. In fact, the Bureau of Economic Analysis now believes that May of 1991 marked the trough of the decline. Real GNP grew at 2% per annum in the third quarter of 1991, being the first quarter of the fiscal year. This was welcome news, but nonetheless a somewhat disappointing performance. The first quarter of growth of real GNP coming out of the typical post WWII recession has been in the 4% to 6% range.

The consensus of economists is that GNP growth in the fourth quarter of 1991 was 1.8% or less. Auto and housing sales have been disappointing so far in this recovery. While most economists believe the U.S. economy will not go back into recession, there are concerns about a prolonged, anemic U.S. recovery. After rebounding sharply after the end of the Gulf War, consumer sentiment has weakened in recent months. Some of the most discouraging news has continued to come from the employment sector, which is barely growing out of the recessionary levels of the past year. Major corporations have been announcing large payroll cutbacks on a weekly basis. Strong economic growth is probably going to wait until the rate of job growth increases, and the timing of this is uncertain with some of the structural changes going on in U.S. industry.

Economic growth, although presently weak, is still expected to continue for the next 12 to 18 months for several reasons (See Chart 1). Business inventories are beginning to pick up from low recessionary levels. Most of the growth in GNP in the third quarter of 1991 was due to inventory buildup by companies. Aggregate real personal incomes and consumption started to grow again, but growth rates started to slow as the fourth quarter progressed though. Consumer confidence has weakened but is expected to increase with the recovery, but at a slower pace than hoped for earlier. (See Chart 2).

Two other areas favorable for a sustained recovery are the inflation rate and exports. The Consumer Price Index is now increasing at about 3.6% per year. The Producer Price Index for the calendar year ended 1991 actually declined about 0.8%, the first decline in many years. An increase in inflation in the economy is not expected because of the current oversupply of oil, and moderate increases in food costs. This low rate of inflation should continue over the next year. Exports should also continue to show strong growth due to the weakness of the dollar against many major currencies. (See Charts 5-7).

The apparent loss of momentum in the recovery in the fourth quarter caused the Federal Reserve Board to cut its discount rate from 5% to 4.5% on November 6th. The "Fed" further surprised analysts and the public when it slashed the discount rate a full point to 3.5% on December 20. This is the lowest rate in 28 years, since 1963. This has caused the interest rate for "federal funds", short term funds loaned between banks, to decline to the lowest levels since about that time also. The result is that almost all interest rates, especially the important home mortgage rates, have declined to date and may continue to fall further. (See Chart 6).

It is hoped that one result of such low interest rates could be a boom in refinancing of home mortgages over the next year. Indeed, recent evidence shows the volume of refinancing to be 4 to 5 times higher than two years ago. Refinancing mortgages at lower rates will increase the amount of monthly cash in many homeowners' pockets by $100 to several hundred dollars, depending on the original mortgage interest rate and size of the mortgage. This extra money may be used for extra purchases that will start to stimulate the economy by late spring. A negative side of the decline in interest rates is that persons living largely on interest earnings have seen their incomes decline recently.

The "Fed" has found itself in a quandary now. The federal deficit continues to grow and may reach $360 billion for the fiscal year that started in September. Because of the federal deficit problem, monetary and interest rate policies are the main tools used to attempt to move the economy. The Fed has been easing interest rates steadily for the past several years while slowing the growth of the money supply. Some people have blamed the slow growth of the economy on a slow growth of the money supply. However, money supply growth has increased in the last two quarters. (See Chart 5.)

New unemployment claims are still running at a very high level. Capital spending by business has turned positive but is still barely growing. Investment in new commercial construction is currently at the lowest level since 1978-79. Real estate sales and the property market in most parts of the U.S. are still very slow, although recovery in the residential sector is probably only a quarter or two away (see Charts 9 & 10). The Administration thinks interest rates should continue to decline.

Commercial banks remain reluctant to loan to anyone but the most creditworthy customers. They are taking advantage of lower interest rates to earn a large spread between the cost of their funds and loan rates. These profits help them to make up for past loan mistakes and also help restore their balance sheets and ratios to conform with what regulators want today in order to make them more competitive in the near future.

As mentioned above, a debate continues about the "credit crunch." The growth of borrowing by consumers and corporations has been very low. However, this is probably not one of the major reasons for continuing economic weakness. It is true that banks have been placing a greater percent of their assets in government bonds, but this is because loan demand has been low in a weak economy. Borrowers and lenders alike are cautious today. Many U.S. banks, including some of the largest, currently have high levels of loans that are not paying as originally agreed, which might result in losses. The result is that lenders have been cautious, and much of the increase in production and investment may come from internal cash flow of corporations and increased savings by consumers (see Chart 8).

Government fiscal policy offered no significant relief for the economy in the recession. As mentioned above, the Congress raised taxes in late 1990 during the recession. Also, FY 1991 witnessed a record increase for state taxes in one year, at over $17 billion. Previous recessions were characterized by a smaller federal budget deficit that allowed some fiscal easing (tax cuts or spending increases) to help economic growth, but not this time. The deficit in the federal fiscal year that began in October 1991 is expected to soar to $350 to $360 billion, 5.8% of GNP, a record high percentage. There were no tax cuts or special spending programs in this recession, because of the budget deficit problem.

The end of the Cold War in the last two years has also caused a new arms race in the U.S. and other western countries--one to disarm. The U.S. defense budget could be cut from its current 4.7% of GNP to as low as 2% in the next several years. President Bush has already called for cuts in tactical nuclear weapons, and the manpower count in the defense sector will certainly come steadily down. Congress currently seems more interested in spending the potential savings from the "peace dividend" rather than shrinking the huge national debt, now estimated at $3.8 trillion, 66% of current dollar GNP. Reduction in the federal deficit will probably not occur because of defense cutbacks. Savings on defense will probably be diverted into increased non-defense purchases, expanded entitlement programs, or even a small tax cut.

Now, the possibility of a modest tax cut for middle income taxpayers, a capital gains tax cut and a surcharge for the top 1% of incomes are options being discussed by the administration and Congress. However, by the time tax cuts could take effect, the result for the economy could be uncertain for at least two reasons. First, the addition to aggregate incomes may come at the wrong time in the business cycle, and it is also never known whether consumers will spend or save the extra money from tax cuts. Second, financial markets in the U.S. and around the world know that with the U.S. federal deficit now well over $300 billion annually, any tax cut would increase it further unless it were financed by equal reductions in other federal expenditures. Unless that happens, the increased deficit would automatically increase borrowing by the Treasury and possibly increase the rate of interest on longer maturity Treasury bonds in order to induce their sale. This could cause long term interest rates to increase when it is hoped they will continue to decline. The benefits from a tax cut might be offset by the negative effects of higher rates on housing and auto sales.

GNP should grow by 0.7% in FY 1992, which is much lower than had been anticipated earlier. Inflation should remain very low by historical standards of the last 20 years. Interest rates will remain low until the economy picks up steam. This period will remain the best time to buy a house or refinance a mortgage in almost 20 years.

Industrial production is already increasing and should gather momentum from the recessionary low base year. Unemployment, however, will remain a problem and may continue to rise for a while due to the continuing restructuring of the U.S. economy. There may be a 0.3% decline in total wage and salary jobs in FY 1992. Nonetheless, by most measures the latest recession has been mild when compared to previous recessions and a recovery appears sustainable. (See Charts 9-12.)

The Outlook for FY 1993

While FY 1993 will not start for another six months, it should be a relatively good one for the national economy, when compared to recent years. While the recovery may be a weak one, it should be sustained through that year. Consumers and corporations will continue to take advantage of low interest rates to refinance homes and, bonds, and other loans. Housing, an important sector of the economy, should have an excellent year.

Real GNP is expected to increase by as much as 3% in FY 1993, while inflation will remain low. Profits should be on an upswing, which will help to boost employment by 1.9%. These growth rates are low by historical standards, but nonetheless will be a welcome relief when compared to the last few years.

Risks to the Forecast

Positive Alternative-Stronger Growth Than Anticipated

Looking at the rest of FY 1992 and into the first half of FY 1993, the higher growth alternative rests on a near term increase in corporate profits and an increase in the rate of hiring, resulting in a sharp reduction in unemployment. Housing and manufacturing should be leading sectors as the recovery builds. Consumer confidence would begin to increase again in the spring of 1992 due to the low interest rates. Growth in the rest of the world would continue to be strong and continue to help U.S. exports, as well as provide foreign investment in U.S. assets. If inflation can remain low, then interest rates will stay low and real consumer incomes should start to improve more than expected.

Negative Alternative-Delayed Recovery and Continued Weak Growth

A major crisis overseas, perhaps in the Soviet Union, may cause a further erosion of confidence. Consumer spending could also remain weak because people may choose to pay down debts further or save more. Many business firms could remain too cautious about consumer demand, continue to keep their inventory to sales ratio low, and also reduce fixed investment plans. The result would be continued anemic employment and sales growth in this recovery.

Table 1

KEY U.S. ECONOMIC INDICATORS

	Actual FY 1986	Actual FY 1987	Actual FY 1988	Actual FY 1989	Actual FY 1990	Actual FY 1991	Forecast FY 1992	Forecast FY 1993
Real Gross National Product 1/	3.5%	2.2%	4.7%	3.3%	1.6%	(0.1)%	0.7%	3.0%
GNP Deflator 1/	2.7	3.2	2.9	4.1	3.9	4.1	3.1	3.0
Consumer Price Index 1/	2.8	2.2	4.1	4.6	4.7	5.5	3.6	3.4
Industrial Production 1/	1.1	2.2	6.1	4.3	1.1	(0.6)	0.6	2.2
Three Month T-Bill 2/	6.8	5.5	6.0	7.9	7.8	6.5	4.8	4.9
Aaa Corporate Bonds 2/	10.0	8.8	9.8	9.7	9.1	9.1	8.4	8.0
Wage and Salary Employment 1/	2.5	2.2	3.1	3.1	2.1	0.1	(0.3)	1.9
Manufacturing Employment 1/	(1.7)	(1.0)	1.6	1.3	(0.7)	(3.0)	(1.9)	1.7
Unemployment Rate 2/	7.1	6.7	5.8	5.3	5.3	6.2	6.9	6.5

1/ Annual Percent Change.
2/ Average Rate for Year.

GROSS NATIONAL PRODUCT
1987 DOLLARS

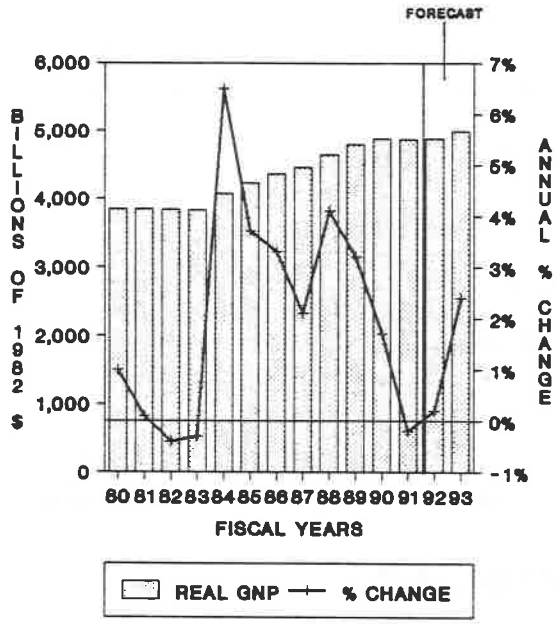
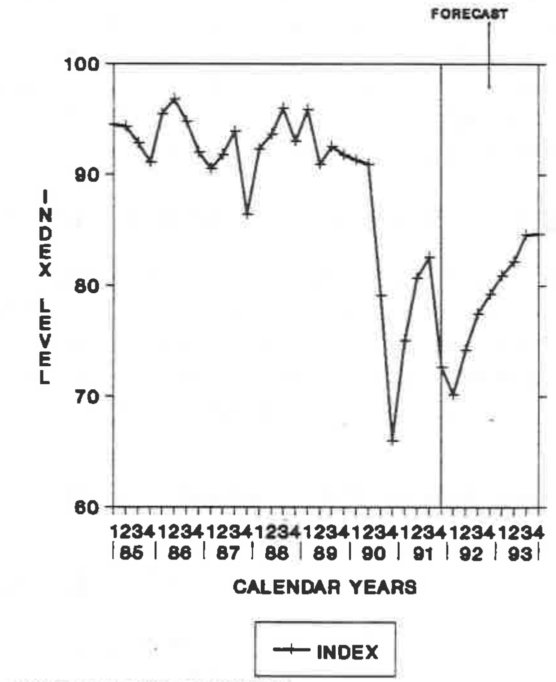


CHART 1

CONSUMER CONFIDENCE
INDEX



SOURCE: UNIVERSITY OF MICHIGAN

CHART 2

REAL PERSONAL INCOME
1987 DOLLARS

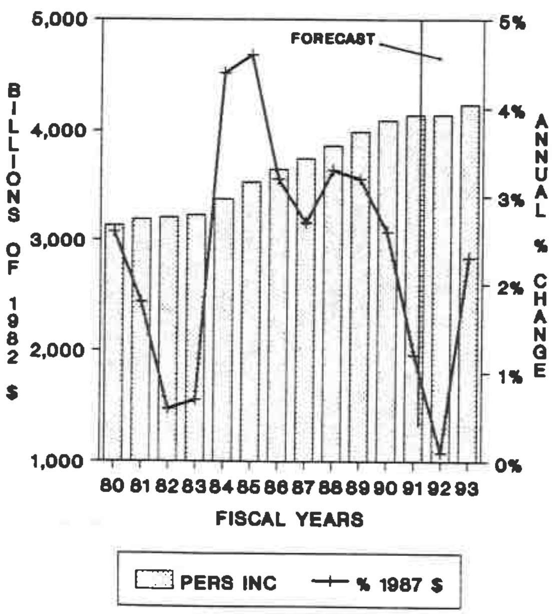


CHART 3

TOTAL CONSUMPTION
1987 DOLLARS

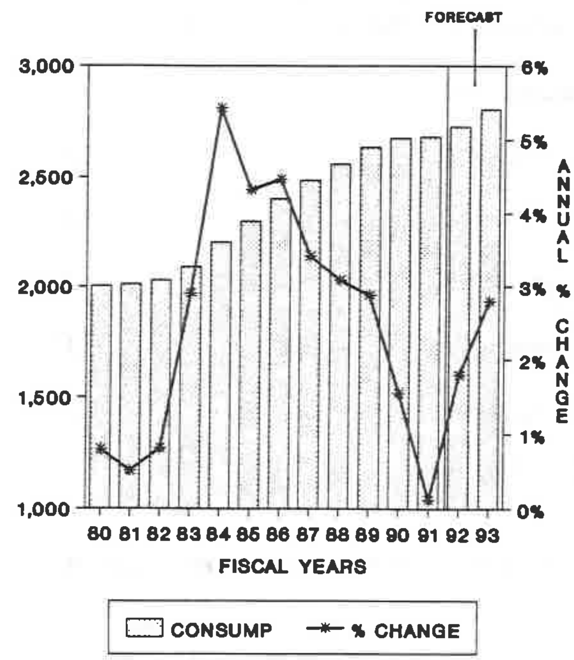


CHART 4

U.S. MONEY SUPPLY GROWTH

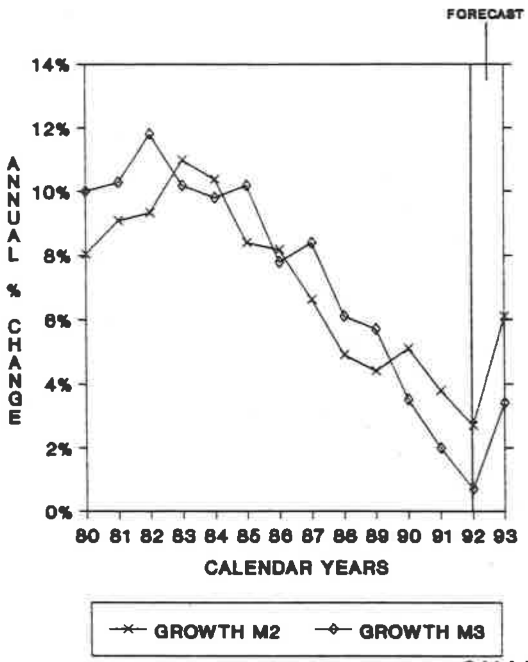


CHART 5

KEY INTEREST RATES

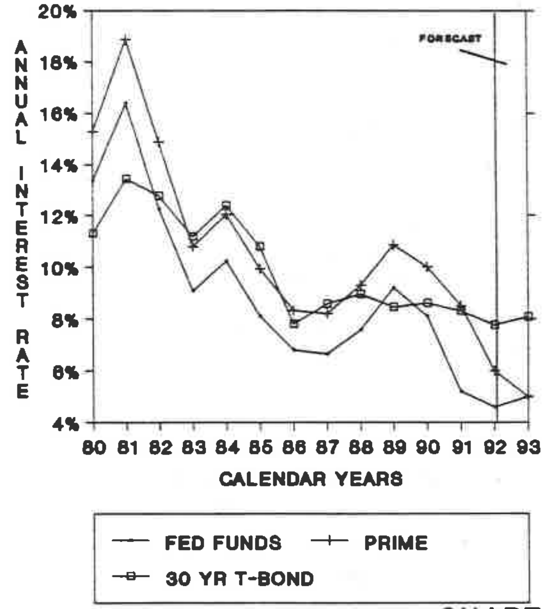


CHART 6

CONSUMER & PRODUCER PRICE INDEX CHANGES

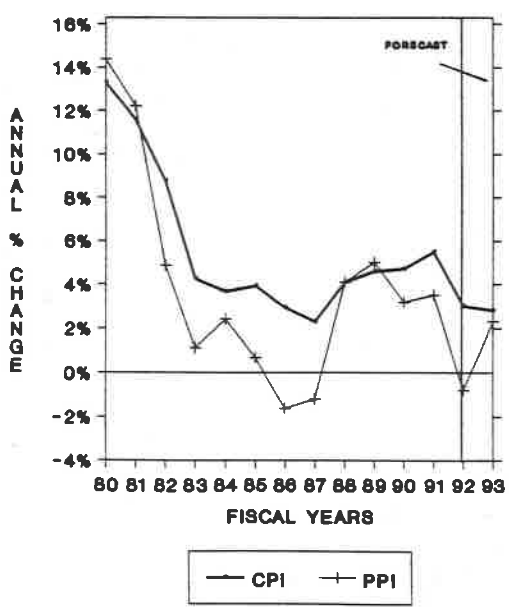


CHART 7

INDUSTRIAL PRODUCTION INDEX AND PERCENT CHANGE

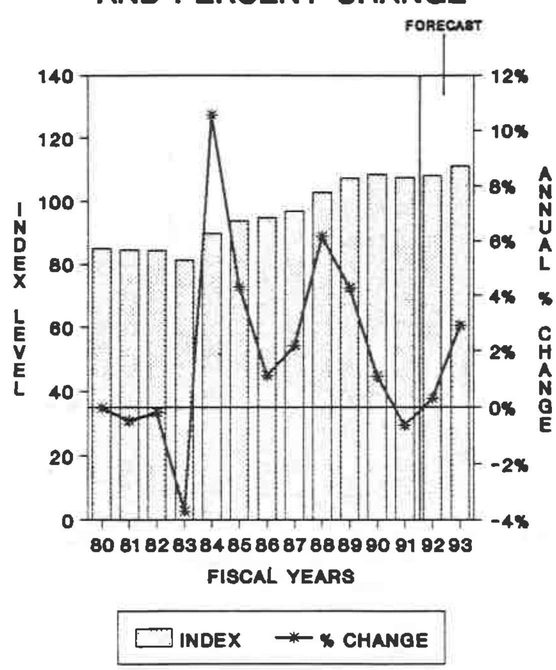


CHART 8

CHANGE IN TOTAL HOUSES SOLD AND HOUSING STARTS

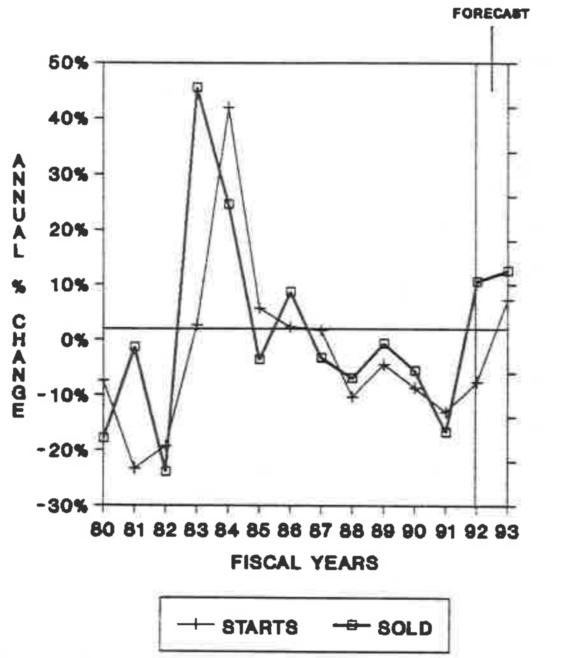


CHART 9

UNEMPLOYMENT RATE

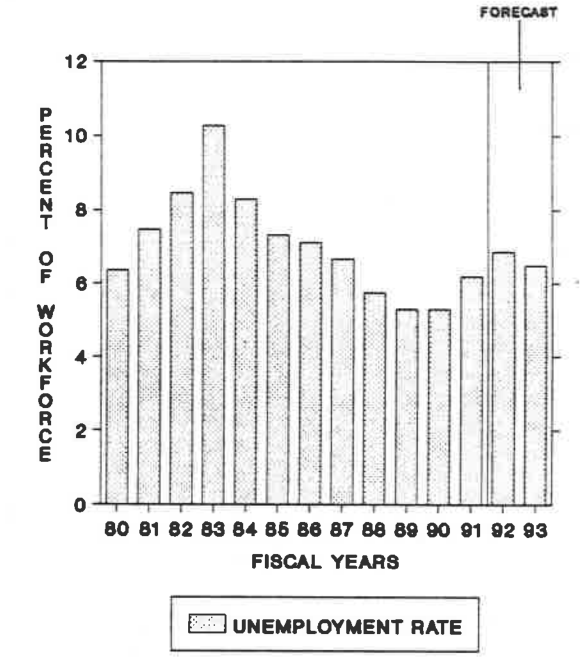
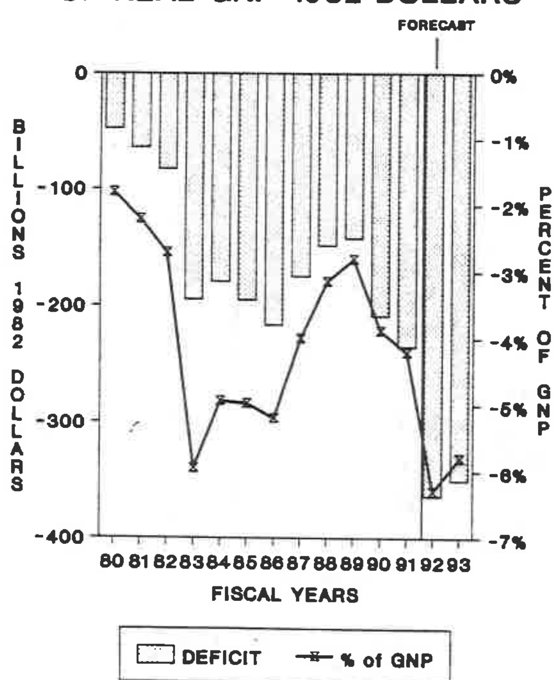


CHART 10

FEDERAL DEFICIT AND PERCENT OF REAL GNP-1982 DOLLARS



UNIFIED BUDGET BASIS

CHART 11

STATE/LOCAL GOVERNMENT SURPLUS AND PERCENT CHANGE

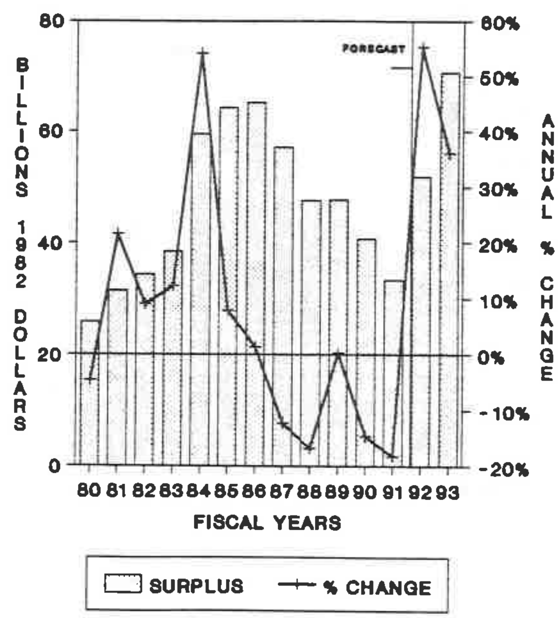


CHART 12

THE ARIZONA ECONOMY

FY 1991 in Review

In a nutshell, FY 1991 turned out to be an economically-disappointing year which was not significantly different from that of the past several years with employment in the important Goods Producing [1/] sector again declining and employment in the Service Producing [2/] sector showing a low rate of growth.

In terms of growth in Personal Income, FY 1991 was just marginally different from FY 1990 as shown below:

	FY 1990	FY 1991
Personal Income - Current	5.5%	5.9%
- Constant Dollars	1.6%	1.8%
- Per Capita - Constant Dollars	(0.4)%	(0.2)%

It should be noted that Per Capita Personal Income in Constant Dollars (adjusted for inflation), which is probably our best measure of the state of the Arizona economy, showed a decline in both years.

The number of jobs in the Goods Producing sector declined in FY 1991 as it has in the four prior years. The Service Producing sector, while not showing negative growth, has been on a reduced growth trend since FY 1985. As might be expected, Total Wage and Salary Employment also has been declining, showing growth of 8.9% in FY 1985 and 1.7% in FY 1991.

In FY 1991, the Real Estate and Finance-related areas continued to experience difficulty. Construction reached its peak in June 1986, and by June 1991, 38,700 construction jobs had been lost, a decline of 33% over five years. In FY 1991, average construction employment declined by 5%, after having declined by 6.7% in FY 1990.

In recent years, the Manufacturing sector has been another problem child of the Arizona economy, with a decline in employment in each of the three years of FY 1989 through FY 1991 and relatively slow growth in the three years before that. During this period, at least prior to FY 1991, the problem was essentially localized in Durable Goods Manufacturing employment. This was not true in FY 1991, however, when total manufacturing jobs declined 3%, Durable Goods Manufacturing declined 2.9%, and Nondurable Goods Manufacturing declined 3.4%. The decline in Durable Goods Manufacturing has been fairly broad based and includes weaknesses in high tech and defense employment. In addition, manufacturing is still being negatively impacted by the construction decline.

Mining has been a bright spot in the Arizona economy in recent years, with employment increasing by 4.1% in FY 1991. Mining, while still a significant positive factor in the Arizona economy, has undergone a considerable downsizing since its peak employment of over 27,000. Mining employment in FY 1991 averaged 12,800.

In FY 1991, the narrowly defined Services sector showed some strength with an employment increase of 4.6%, down slightly from 4.8% in the year before. This was despite a weak Tourism sector and very low growth in employment in lodging places.

1/ Manufacturing, Construction, and Mining.

2/ Transportation, Communications, Public Utilities (TCPU); Trade; Finance, Insurance, Real Estate (FIRE); Services; and Government.

Government employment also showed surprisingly high growth of 4.9% during FY 1991, with employment in education the major contributor to this growth.

Table 2, ARIZONA WAGE AND SALARY EMPLOYMENT, PERCENT GROWTH OVER PRIOR YEAR, RECENT HISTORY, shows employment growth from FY 1985 through FY 1991.

Table 2

ARIZONA WAGE AND SALARY EMPLOYMENT
PERCENT GROWTH OVER PRIOR YEAR
RECENT HISTORY
(Based on Average Employment)

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
Goods Producing							
Manufacturing	9.2%	2.1%	2.2%	1.0%	(0.1)%	(0.7)%	(3.0)%
Mining	(11.5)	(7.9)	(2.7)	5.9	3.1	1.5	4.1
Construction	19.0	8.9	(5.9)	(9.1)	(8.6)	(6.7)	(5.0)
Total Goods Producing	11.3	4.1	(1.0)	(2.4)	(2.7)	(2.5)	(3.3)
Service Producing							
Transportation/Communication & Public Utilities	4.5	4.6	7.3	6.7	2.4	6.0	2.1
Trade	9.7	6.0	4.7	3.8	3.7	2.1	0.8
Finance/Insurance/Real Estate	10.5	12.4	7.5	3.7	(2.7)	0.9	(0.1)
Services	10.2	9.8	6.1	7.3	5.9	4.8	4.6
Government	3.8	4.1	3.0	3.1	2.7	4.0	4.9
Total Services Producing	8.2	7.2	5.2	4.9	3.6	3.6	2.9
Total Wage/Salary Employment	8.9%	6.4%	3.7%	3.3%	2.2%	2.3%	1.7%

The Outlook for FY 1992

Last spring, when our FY 1992 forecast was finalized, the consensus view was that FY 1992 would be the year when, for both the U.S. and Arizona, our economic and fiscal health would begin to improve. The national recession would have run its course, and both the U.S. and Arizona economies would begin upward movement. Arguably, the U.S. recession bottomed out in May. The national economic recovery since has been anemic, and a growing number of economists believe that a "double dip" economic recession is a distinct possibility. Consumer and business confidence is, once again, falling to levels below that found in the early stages of the Gulf War.

Arizona may outperform many other states, but with the U.S. economy in its current state of disarray, the best we can hope for is a continuation of the slow growth pattern of Arizona's recent years.

Table 3, ARIZONA WAGE AND SALARY EMPLOYMENT, PERCENT GROWTH OVER PRIOR YEAR shows, by sector, our current forecast for FY 1992.

The Outlook for FY 1993

Arizona will begin to show improved but modest growth. In general, Arizona's economic well-being is strongly influenced by the state of the U.S. economy; and we expect that by the time FY 1993 arrives, the U.S. economy will have recovered from its current malaise.

FY 1993 should see the improvement in the Goods Producing sectors. Manufacturing, a sector which should be the bedrock of a stable, growing Arizona, has been a source of weakness in recent years, with FY 1986 through FY 1988 showing very slow growth in employment and FY 1989 through FY 1991 showing declining employment. In FY 1992, we expect the sector to again show negative growth. In FY 1993, we expect positive growth of 1.8%, largely the result of an expanding national economy. On the downside, Arizona's defense related employment will be under siege from Washington.

The Mining sector should be relatively stable, with employment for both FY 1992 and FY 1993 in the 3% to 4% range.

The Construction sector will not show a total return to health during our forecast period, but employment will bottom out in FY 1992 and show positive growth in FY 1993 of 4.0%.

In FY 1985, the Service Producing sectors accounted for 75.9% of the employment in Arizona. Today, despite a generally declining growth rate, the Service Producing sectors account for over 81% of the employment in Arizona. Weakness in the Goods Producing sectors accounts for the increased share of the Service Providing sectors. Over time, the share will probably move back in the direction of the 75.9% share, but not during our forecast period.

Our forecast is for the Service Providing sector to account for approximately 82% of Arizona employment in FY 1993. The relative weakness in the Goods Producing sector may be partially to blame for our poor revenue picture in recent years. On average, the Service sector pays lower wages than the Goods Producing sector and generates more jobs (i.e., is more labor intensive).

Table 3, ARIZONA WAGE AND SALARY EMPLOYMENT, PERCENT GROWTH OVER PRIOR YEAR, shows anticipated employment growth for the forecast years of FY 1992 and FY 1993, together with actual growth in FY 1991. FY 1991 employment is subject to change in the rebenching of employment which takes place early in each calendar year. FY 1991 will not be fully rebenched until CY 1992.

Table 4, KEY ARIZONA ECONOMIC INDICATORS, shows the JLBC Staff forecast for nine Arizona variables. We expect growth in Arizona Personal Income to be at 5.9% for FY 1992 and 7.6% for FY 1993 in current dollar terms, with growth in constant dollar terms at 2.7% in FY 1992 and 4.5% in FY 1993. Per Capital Arizona Personal Income in current dollar terms is expected to be 0.4% in FY 1992 and 2% in FY 1993.

Chart 13 is a line chart showing employment for FY 1980 through FY 1993 for the Service Providing and Goods Producing sectors together with Total Wage and Salary Employment. Of particular note is the declining number of jobs in the Goods Producing sector for the period FY 1986 through FY 1992.

Chart 14 is a bar chart which compares U.S. and Arizona growth rates for Constant Dollar (inflation-adjusted) Per Capita Personal Income. In recent years, Arizona growth has shown a substantial slowing relative to the U.S. Starting with FY 1991, this trend has reversed itself slightly. In general, this chart shows that the Arizona economy is dependent upon population growth. Actually, much of Arizona's publicized strong growth is illusory, in that it reflects our strong population growth. Per capita income in Arizona remains some 10% below the U.S. average.

Chart 15 is a line chart showing, for the period FY 1986 through FY 1993, the percent change each year over the preceding year for:

Arizona Personal Income - Current Dollars
Arizona Personal Income - Constant Dollars (Inflation Adjusted)
Per Capita Arizona Personal Income - Constant Dollars

TABLE 3

ARIZONA WAGE AND SALARY EMPLOYMENT
PERCENT GROWTH OVER PRIOR YEAR
FORECAST
(Based on Average Employment)

		Forecast	
	FY 1991	FY 1992	FY 1993
Goods Producing			
Manufacturing	(3.0)%	(2.0)%	1.8%
Mining	4.1	4.0	3.5
Construction	(5.0)	(1.2)	4.0
Total Goods Producing	(3.3)	(1.4)	2.5
Service Producing			
Transportation, Communication and Public Utilities	2.1	0.2	3.7
Trade	0.8	1.3	3.2
Finance, Insurance, Real Estate	(0.1)	0.2	3.3
Services	4.6	3.4	5.5
Government	4.9	2.9	2.9
Total Services Producing	2.9	2.2	4.0
Total Wage and Salary Employment	1.7%	1.5%	3.7%

Table 4

KEY ARIZONA ECONOMIC INDICATORS

	Actual FY 1986	Actual FY 1987	Actual FY 1988	Actual FY 1989	Actual FY 1990	Actual FY 1991	Forecast FY 1992	Forecast FY 1993
Personal Income- Current $ 1/	10.1%	8.9%	8.1%	7.3%	5.5%	5.9%	5.9%	7.6%
- Constant $ 1/	7.3	5.7	5.0	3.1	1.6	1.8	2.7	4.5
- Per Capita Constant $ 1/	3.0	1.0	1.3	0.8	(0.4)	(0.2)	0.4	2.0
Retail Sales 1/2/	7.3	3.9	4.8	5.7	4.2	2.6	3.9	5.5
Population 1/	4.2	4.6	3.7	2.2	2.0	2.0	2.3	2.4
Wage and Salary Employment 1/	6.4	3.7	3.3	2.2	2.3	1.7	1.5	3.7
Manufacturing Employment 1/	2.1	2.2	1.0	(0.1)	(0.7)	(3.0)	(2.0)	1.8
Construction Employment 1/	8.9	(5.9)	(9.1)	(8.6)	(6.7)	(5.0)	(1.2)	4.0
Unemployment Rate 3/	6.8	6.9	5.9	5.9	5.2	5.1	6.0	5.0

1/ Annual Percent Change.
2/ Based on DOR definition of Retail Sales.
3/ Average Rate for Year.

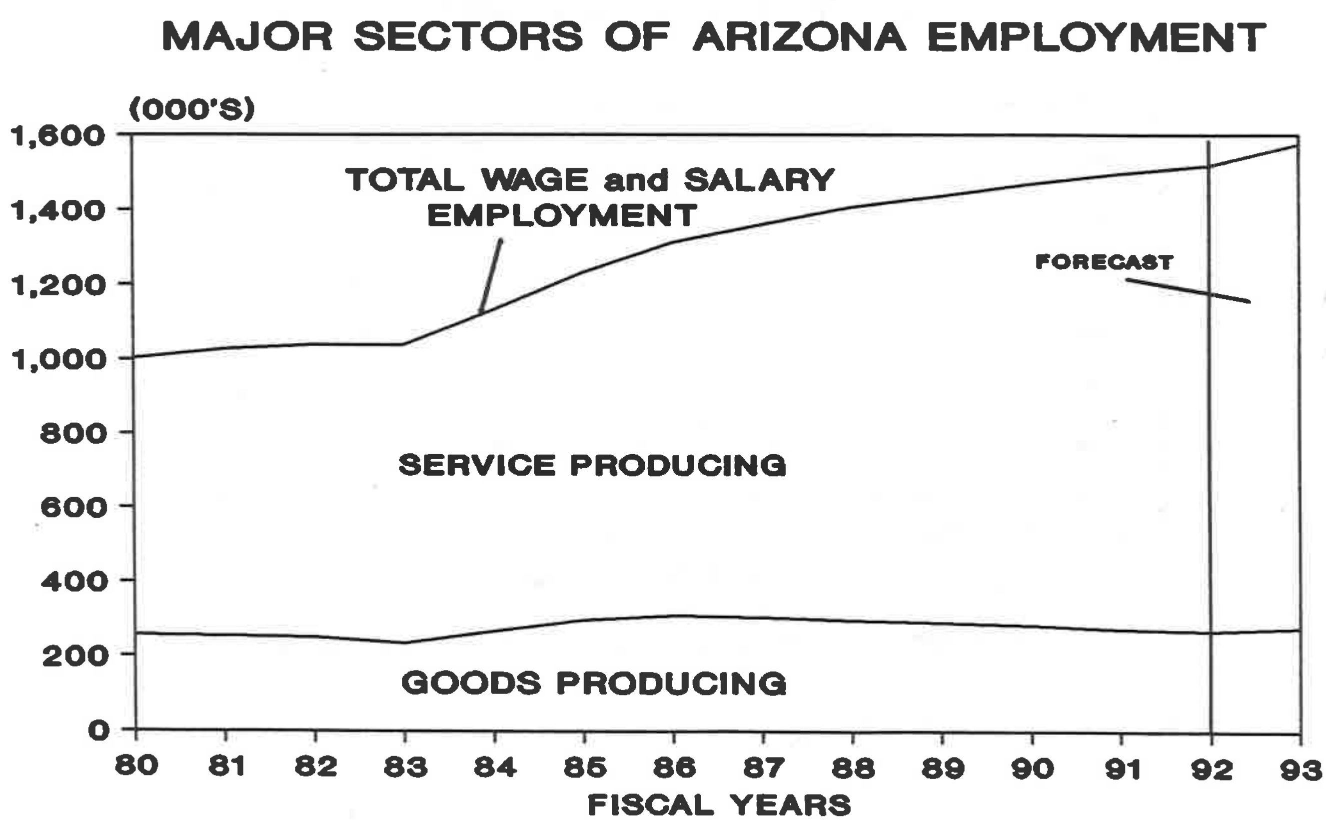
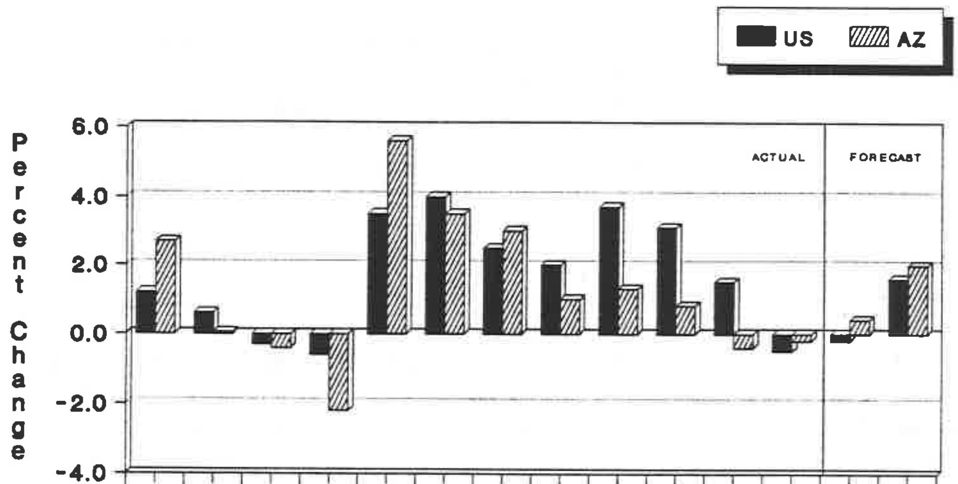


CHART 13

U.S. and ARIZONA
REAL PER CAPITA INCOME



	80	81	82	83	84	85	86	87	88	89	90	91	92	93
US	1.2	0.6	-0.3	-0.6	3.5	4.0	2.5	2.0	3.7	3.1	1.5	-0.5	-0.2	1.6
AZ	2.7	0.1	-0.4	-2.2	5.6	3.5	3.0	1.0	1.3	0.8	-0.4	-0.2	0.4	2.0

FISCAL YEARS

CHART 14

ARIZONA PERSONAL INCOME
FY 1986 TO FY 1993

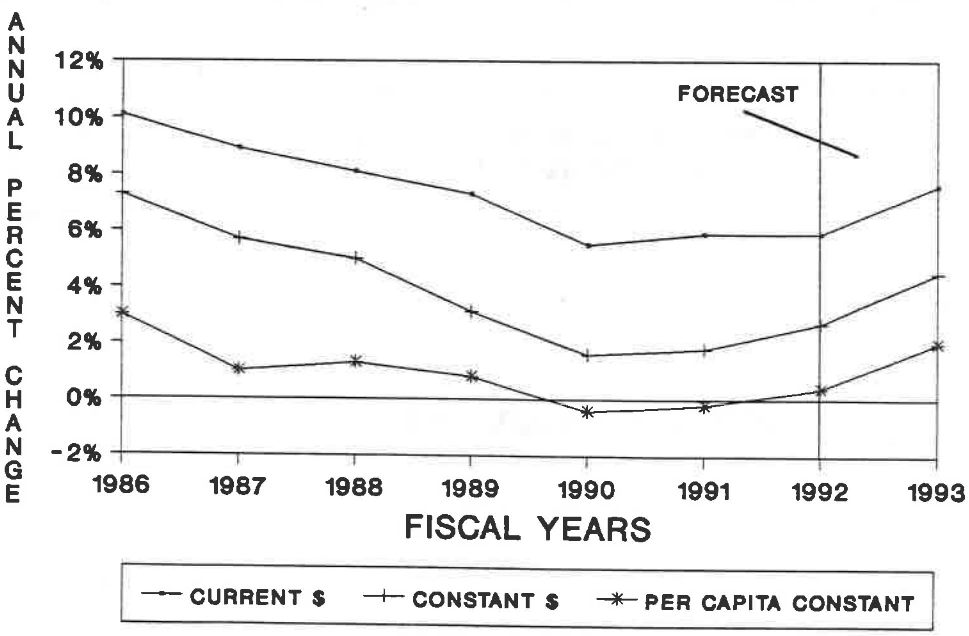


CHART 15

GENERAL FUND REVENUE

FY 1992 Forecast

The current JLBC Revenue Forecast is shown on Table 5. The forecast for FY 1992 implies a revenue shortfall of $63.5 million compared with the consensus forecast used during the session last spring. At the time the consensus revenue forecast was prepared, it was believed that both the U.S. and Arizona economies were ready to start a period of modest growth in FY 1992. Unfortunately, the U.S. economy has sputtered, and as a result, FY 1992 has become another year in the Arizona economy's series of slow growth years. Details of the revenue shortfall are as follows ($ in millions):

	Original Consensus Forecast	Current JLBC Forecast	Shortfall
Beginning Balance	$ 37.2	$ 45.0	$ 7.8
Sales Taxes	1,546.8	1,499.0	(47.8)
Income Taxes	1,300.7	1,309.3	8.6
Lottery	65.9	28.5	(37.4)
Property Taxes	187.1	182.0	(5.1)
Estate Taxes	26.0	22.5	(3.5)
Interest	24.0	15.5	(8.5)
Gen. Fund Share of Health Ins. Trust Fund	0.0	11.8	11.8
Miscellaneous	31.0	35.3	4.3
Transfers and Reimbursements	19.0	27.0	8.0
Other	317.0	315.3	(1.7)
Total	$3,554.7	$3,491.2	$(63.5)

Sales Taxes

The sales tax was forecast to grow by 5.9% based upon rising consumer confidence, a moderately paced U.S. economic recovery, and increased outlays for consumer durables such as automobiles, trucks, and major appliances. Unfortunately, after rising sharply immediately after the conclusion of the Gulf War, consumer confidence has resumed its downward spiral.

Motor vehicle sales are running 2.6% below the depressed levels of a year ago. Fiscal year-to-date (six months) sales/use tax collections are only 2.6 % above FY 1991. Consequently, we are lowering our sales/use tax estimate by $47.8 million, leaving a net growth rate of only 3.7%.

The following charts relate to the Arizona economy in general, but are shown primarily to illustrate our problems in the Sales/Use Tax area:

Chart 16 relates the changes in Consumer Confidence and Arizona Retail Sales and shows an apparently strong correlation between the two.

Chart 17 shows the depressed level of Retail Sales collected by the Department of Revenue in recent quarters. For the six months year-to-date of FY 1992, Retail Sales are only 3.2% ahead of the same period last year.

Chart 18 shows Restaurants and Bars Sales growth as collected by the Department of Revenue. Relative to Retail, Restaurants and Bars Sales are doing reasonably well with a 7.1% increase for the six months year-to-date in FY 1992.

Chart 19 shows Hotel/Motel Sales collected by the Department of Revenue. For FY 1991, Hotel/Motel Sales were up only 0.8%. For the six months year-to-date in FY 1992, we are up 6%. It is too early to tell how the depressed national economy will affect our winter tourism.

Chart 20 shows the depressed level of Contracting Sales collected by the Department of Revenue. For the six months year-to-date of FY 1992, Contracting is below the same period last year by 6.7%.

Chart 21 shows employment growth for Total Wage and Salary, Contracting and Manufacturing. The flat but slightly positive growth for total Wage and Salary and the declines in Manufacturing and Construction are evidence of the weak Arizona economy and the consequent weak revenue collections.

Income Taxes

Although we have not made a forecast adjustment to the Individual Income Tax, we do have concerns relative to this area of revenue, since, for the six months year-to date, we are below the forecast by $9.5 million.

While the Corporation Income Tax is ahead of the forecast by $25.6 million for the six months year-to-date, we have increased our forecast for the year by only $8.6 million since we are concerned with a possible upsurge in refunds or lower corporate tax receipts for the balance of FY 1992.

Lottery Revenue

We raised concerns about certain problems with the Arizona Lottery and lottery revenues nearly two years ago. Subsequently, we expressed doubt when the administration proposed a new weekly game last spring and estimated that the new game would generate $7.5 million in additional revenue. While we stated that the "Fantasy 5" game would be hugely successful in terms of ticket sales, we estimated that it would be at the expense of existing "pick" and "instant" game sales. This has been the case in the first 12 weeks of the new game.

The JLBC also warned that player interest in the lottery had been waning for nearly two years, if underlying trends were properly examined and identified. For these reasons, the JLBC reported to the Legislature in September, 1991, that our current year estimate of lottery revenue for the General Fund should be lowered by $15 to $20 million. Unfortunately, we are even more pessimistic today. We now estimate that lottery revenues deposited in the General Fund will be $37.4 million less than estimated last June and $14.3 million below last year, despite the introduction of the new game on October 1.

Health Insurance Trust Fund

The $11.8 million included in our revenue forecast for FY 1992 is an estimate of the General Fund share of the Health Insurance Trust Fund at the end of FY 1992.

FY 1993 Forecast

We expect FY 1993 to be the turnaround year in which the Arizona Economy returns to an upward path, and the FY 1993 revenue forecast reflects this. Total Base Revenue is expected to increase by 5.6%, up from the 3% increase in FY 1992. However, when adjusted for one time revenue differences, the comparable growth rates of Total Base Revenue are 4.2% for FY 1992 and 5.6% for FY 1993. Total General Fund Revenue (Total Base Revenue plus Beginning Balance) is expected to increase by only $151.5 million. One significant difference, apart from modest improvement in the U.S. and Arizona economies, is the beginning balance of $45 million in FY 1992 versus our assumed $5 million beginning balance for FY 1993, a difference of $40 million. Details of the JLBC revenue forecast are shown in Table 5.

The Sales and Use Tax category has been forecast to increase by 6.7% in FY 1993 and, in general, is the result of modestly improved economic conditions. Another factor is return to positive growth of tax collections in the Contracting category. While Contracting will not return to normalcy in our forecast period, we will be moving in that direction.

Individual Income Tax collections, too, are influenced by modestly improved economic conditions, as well as by certain action on the federal level, which will impact favorably on collections.

For the Property Tax, we are forecasting an increase of 6%. This increase is primarily due to a rate increase for certain school districts from 75% to 85% of the Qualifying Tax Rate. We are forecasting zero growth in assessed valuation.

During the Special Session, which dealt with the insurance premium tax problem, it was believed that the problem was only in the Life and Health Insurance side. It has now been disclosed that problems also exist in the Property and Casualty Insurance side; and in addition to the residual FY 1993 loss of $2.7 million from the Life and Health solution, our FY 1993 forecast provides for a loss of $4.7 million from Property and Casualty insurance companies. However, our budget recommendation proposes legislation to extend property and casualty insurance tax credits in the same manner as was enacted for Life and Health Insurance tax credits to gain $4.9 million.

Table 6 compares the JLBC and Governor's revenue forecasts for FY 1992 and for FY 1993. A summary of differences in Total General Fund Revenue for FY 1993 is as follows (amounts in millions):

	FY 1993 GENERAL FUND REVENUE		
	Governor	JLBC	Difference
Beginning Balance	$ 5.0	$ 5.0	$ 0.0
Sales & Use Tax	1,575.6	1,599.0	23.4
Income Tax - Individual	1,385.0	1,381.0	(4.0)
- Corporation	200.0	207.0	7.0
- Urban Revenue Sharing	(183.7)	(183.7)	0.0
Property Tax	188.1	193.0	4.9
Other Revenue	441.8	441.4	(0.4)
TOTAL	$3,611.8	$3,642.7	$30.9

The major difference for FY 1993 is in the Sales and Use category and is the result of lower expectations for the Arizona economy on the part of the Governor. While the JLBC Staff forecast for FY 1993 calls for $30.9 million or less than 1% more revenue than the Governor's estimate, it should be noted that our FY 1992 estimate for taxes is $13.7 million lower than the Governor (see Table 6). In other words, we are slightly more pessimistic in the short-run, but more optimistic for 18 months from now than the Governor.

Chart 22 shows, for 15 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 very strong years and also some years which exhibited much lower growth. It should be noted that the FY 1979 through FY 1982 were years when the Consumer Price Index was near or at double digit inflation. Also shown are "underlying growth rates" (after elimination of enhancements) for FY 1989 through FY 1993.

Chart 23 shows as a line chart, General Fund Base Revenue collections for major tax sources for the period FY 1971 through FY 1993.

Chart 24 shows, for FY 1993, major categories of General Fund revenue as a percent of total General Fund revenue.

Chart 25 shows, in graphic form, the percent and dollar growth in FY 1993 over FY 1992 for significant categories of General Fund revenue based on JLBC Staff estimates.

Chart 26 shows major General Fund tax sources as a percent of total General Fund base revenue.

TABLE 5

STATE OF ARIZONA
GENERAL FUND
STATEMENT OF PROJECTED TOTAL REVENUE
JLBC STAFF ESTIMATE
(Thousands)

	Actual FY 1991 Amount	Actual FY 1991 % Change	Forecast FY 1992 Amount	Forecast FY 1992 % Change	Forecast FY 1993 Amount	Forecast FY 1993 % Change
Beginning Balance	$ 34,396.8	-- %	$ 45,009.0	30.9%	$ 5,000.0	(88.9)%
Taxes						
Sales and Use	1,445,914.9	0.4	1,499,000.0	3.7	1,599,000.0	6.7
Income - Individual	1,243,227.4	24.8	1,286,300.0	3.5	1,381,000.0	7.4
- Corporation	191,672.3	7.6	199,000.0	3.8	207,000.0	4.0
- Urban Revenue Sharing	(166,863.3)	10.8	(176,000.0)	5.5	(183,700.0)	4.4
Property	169,251.6	30.0	182,000.0	7.5	193,000.0	6.0
Luxury	70,403.5	7.2	71,200.0	1.1	71,200.0	0.0
Insurance Premium	92,533.4	(20.7)	91,000.0	(1.7)	85,600.0	(5.9)
Motor Vehicle License - Regular	105,199.9	2.4	105,000.0	(0.2)	106,500.0	1.4
- HURF Transfer	(16,631.4)	9.4	0.0	--	0.0	--
Pari-Mutuel	4,844.0	(14.2)	4,800.0	(0.9)	4,900.0	2.1
Estate	29,001.2	21.3	22,500.0	(22.4)	25,000.0	11.1
Other Taxes	1,676.2	11.7	1,775.0	5.9	1,850.0	4.2
Subtotal - Taxes	3,170,229.7	9.5	3,286,575.0	3.7	3,491,350.0	6.2
Other Non-Tax Revenues						
Lottery	42,784.0	(45.9)	28,500.0	(33.4)	35,000.0	22.8
License, Fees and Permits	34,922.4	6.8	37,200.0	6.5	38,000.0	2.2
Interest	23,830.8	8.4	15,500.0	(35.5)	17,500.0	12.9
Sales and Services	4,263.1	4.4	4,300.0	0.9	4,400.0	2.3
Other Miscellaneous	44,999.3	112.1	35,300.0	(21.6)	32,400.0	(8.2)
Transfers and Reimbursement	25,103.4	(33.8)	27,000.0	(27.9)	19,000.0	(29.6)
Gen. Fund Share of Health Ins. Trust Fund	0.0	--	11,800.0	--	0.0	--
Subtotal - Other Non-Tax Revenues	175,903.0	(10.7)	159,600.0	(9.4)	146,300.0	(8.3)
TOTAL BASE REVENUE	3,346,132.7	8.2	3,446,175.0	3.0	3,637,650.0	5.6
TOTAL GENERAL FUND REVENUE	$3,380,529.5	9.3%	$3,491,184.0	3.3%	$3,642,650.0	4.3%

TABLE 6

STATE OF ARIZONA
GENERAL FUND
STATEMENT OF PROJECTED TOTAL REVENUE
COMPARISON OF GOVERNOR'S AND JLBC STAFF ESTIMATES
(Thousands)

	FY 1992			FY 1993		
	Governor's Estimate	JLBC Staff Estimate	Difference	Governor's Estimate	JLBC Staff Estimate	Difference
Beginning Balance	$ 45,009.0	$ 45,009.0	$ 0.0	$ 5,000.0	$ 5,000.0	$ 0.0
Base Revenue						
Taxes						
Sales and Use	1,508,390.0	1,499,000.0	(9,390.0)	1,575,600.0	1,599,000.0	23,400.0
Income - Individual	1,296,653.5	1,286,300.0	(10,353.5)	1,385,000.0	1,381,000.0	(4,000.0)
- Corporation	195,206.5	199,000.0	3,793.5	200,000.0	207,000.0	7,000.0
- Urban Revenue Sharing	(176,000.0)	(176,000.0)	0.0	(183,670.0)	(183,700.0)	(30.0)
Property	179,110.0	182,000.0	2,890.0	188,080.0	193,000.0	4,920.0
Luxury	71,000.0	71,200.0	200.0	70,000.0	71,200.0	1,200.0
Insurance Premium	90,500.0	91,000.0	500.0	85,300.0	85,600.0	300.0
Motor Vehicle Licenses - Regular	105,370.0	105,000.0	(370.0)	106,080.0	106,500.0	420.0
- HURF Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Pari Mutuel	5,300.0	4,800.0	(500.0)	5,300.0	4,900.0	(400.0)
Estate	23,000.0	22,500.0	(500.0)	24,000.0	25,000.0	1,000.0
Other Taxes	1,700.0	1,775.0	75.0	1,700.0	1,850.0	150.0
Subtotal - Taxes	3,300,230.0	3,286,575.0	(13,655.0)	3,457,390.0	3,491,350.0	33,960.0
Other Non-Tax Revenues						
Lottery	29,000.0	28,500.0	(500.0)	36,900.0	35,000.0	(1,900.0)
Licenses, Fees and Permits	36,319.9	37,200.0	880.1	37,900.0	38,000.0	100.0
Interest	15,200.0	15,500.0	300.0	16,800.0	17,500.0	700.0
Sales and Services	6,799.8	4,300.0	(2,499.8)	6,799.8	4,400.0	(2,399.8)
Miscellaneous	31,100.0	35,300.0	4,200.0	33,000.0	32,400.0	(600.0)
Transfers and Reimbursements	27,020.0	27,000.0	(20.0)	18,000.0	19,000.0	1,000.0
Gen. Fund Share of Health Ins. Trust Fund	0.0	11,800.0	11,800.0	0.0	0.0	0.0
Subtotal - Other Non-Tax Revenues	145,439.7	159,600.0	14,160.3	149,399.8	146,300.0	(3,099.8)
TOTAL BASE REVENUE	3,445,669.7	3,446,175.0	505.3	3,606,789.8	3,637,650.0	30,860.2
TOTAL GENERAL FUND REVENUE	$3,490,678.7	$3,491,184.0	$ 505.3	$3,611,789.8	$3,642,650.0	$30,860.2

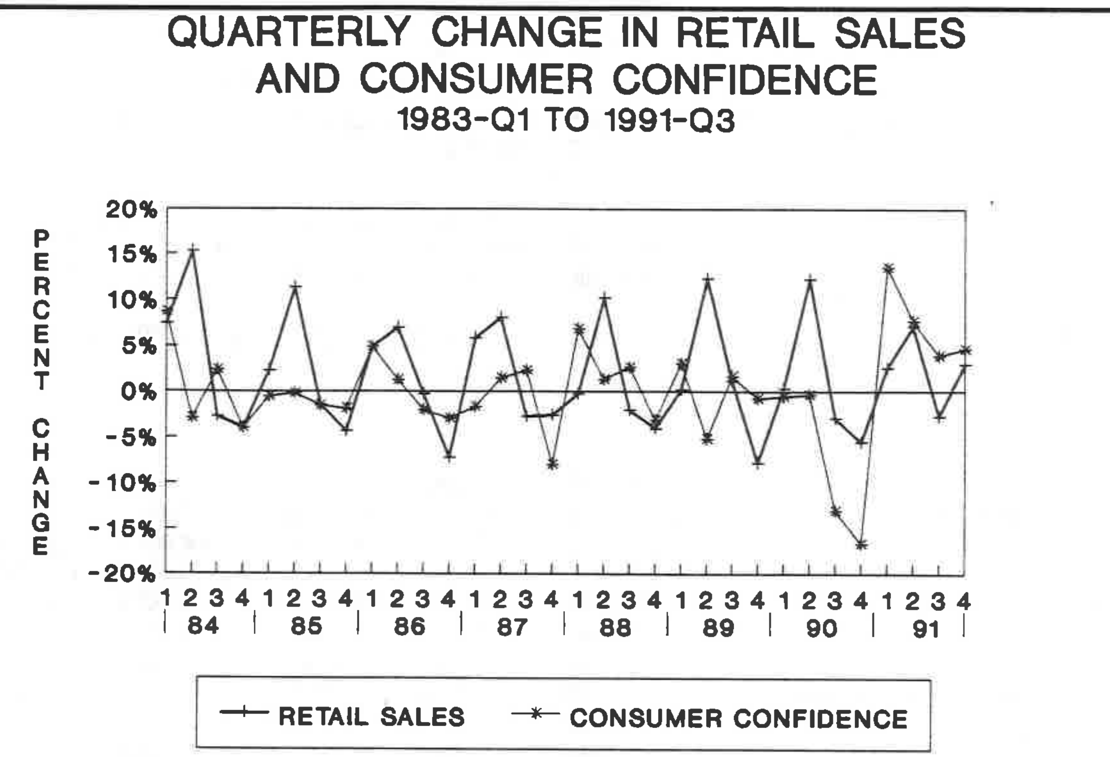
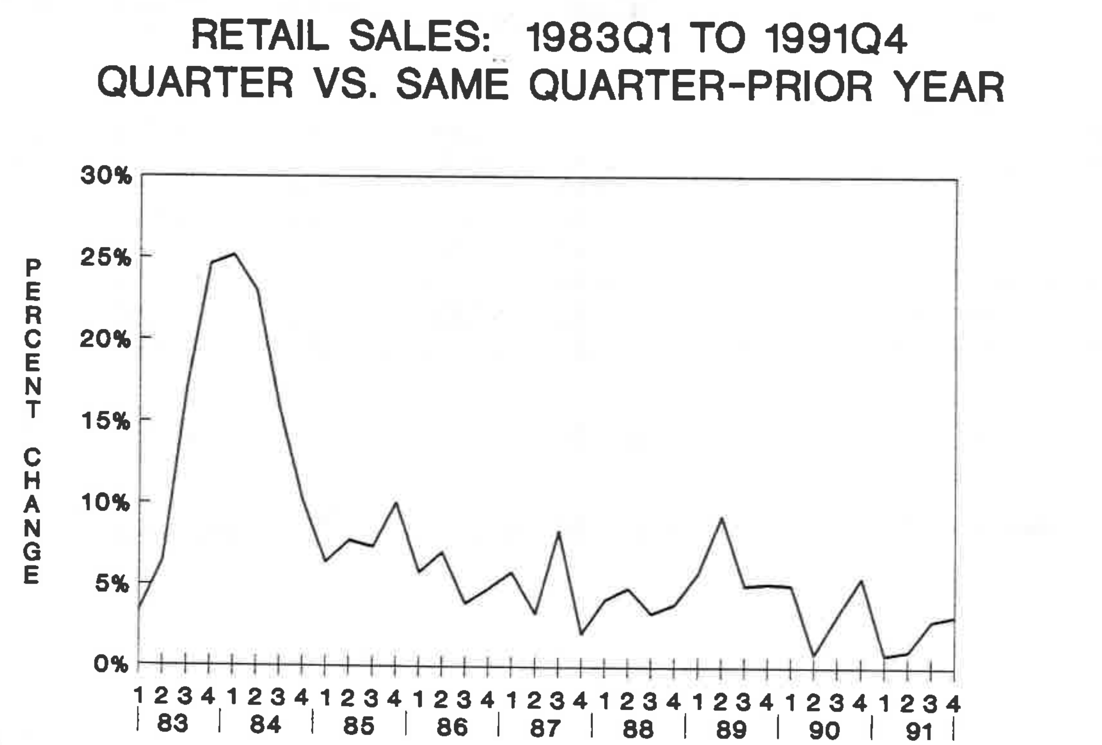


CHART 16



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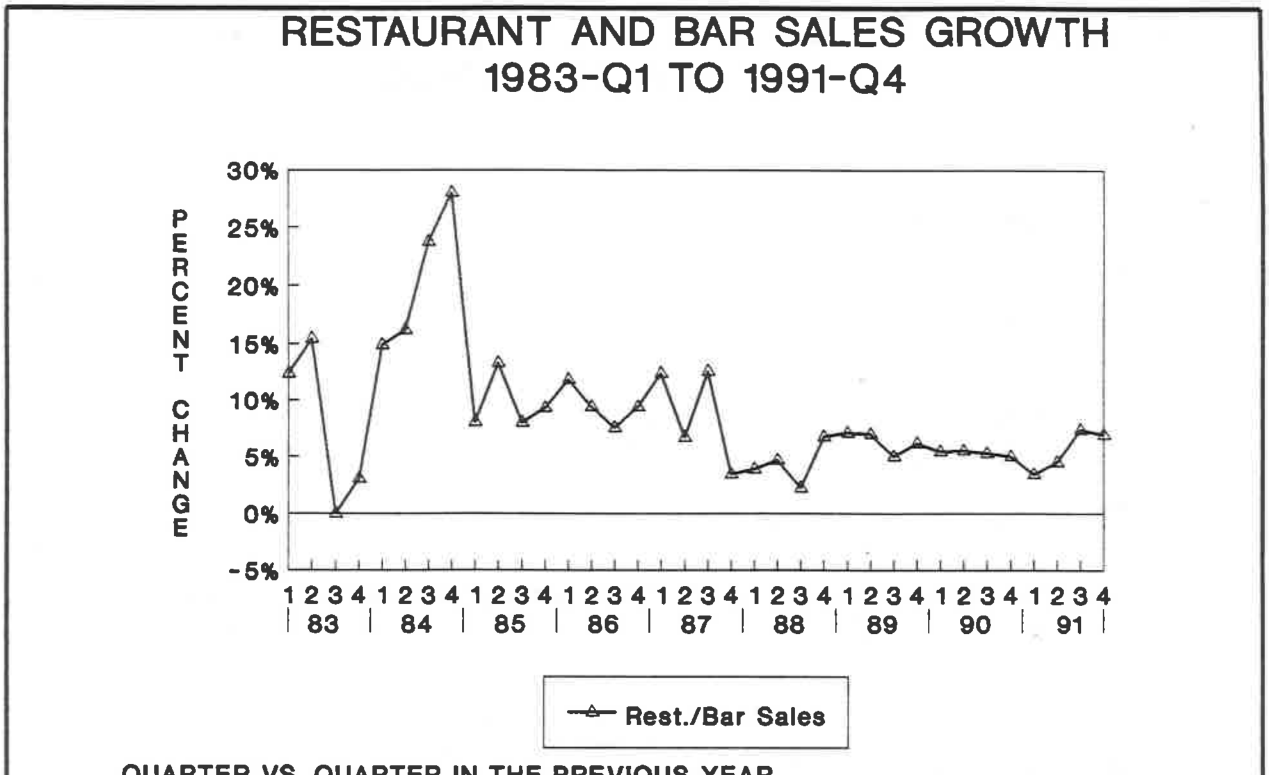

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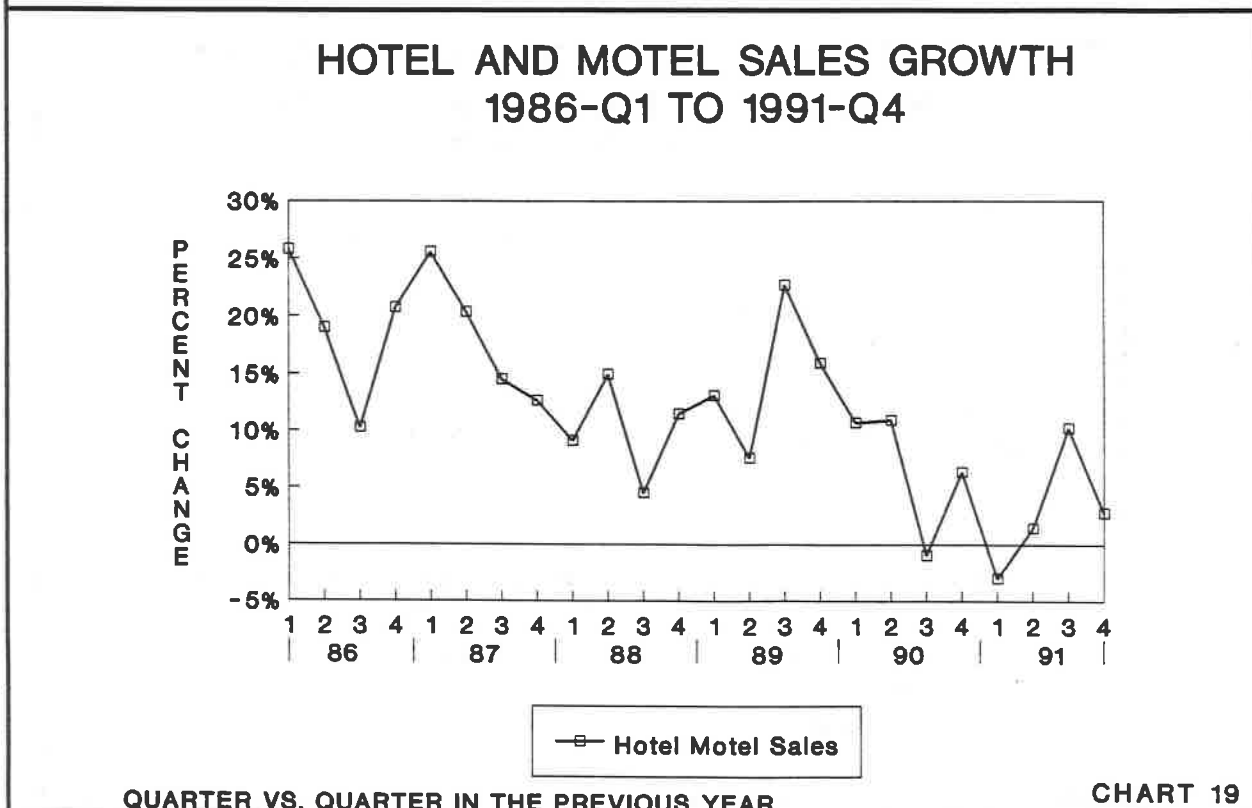

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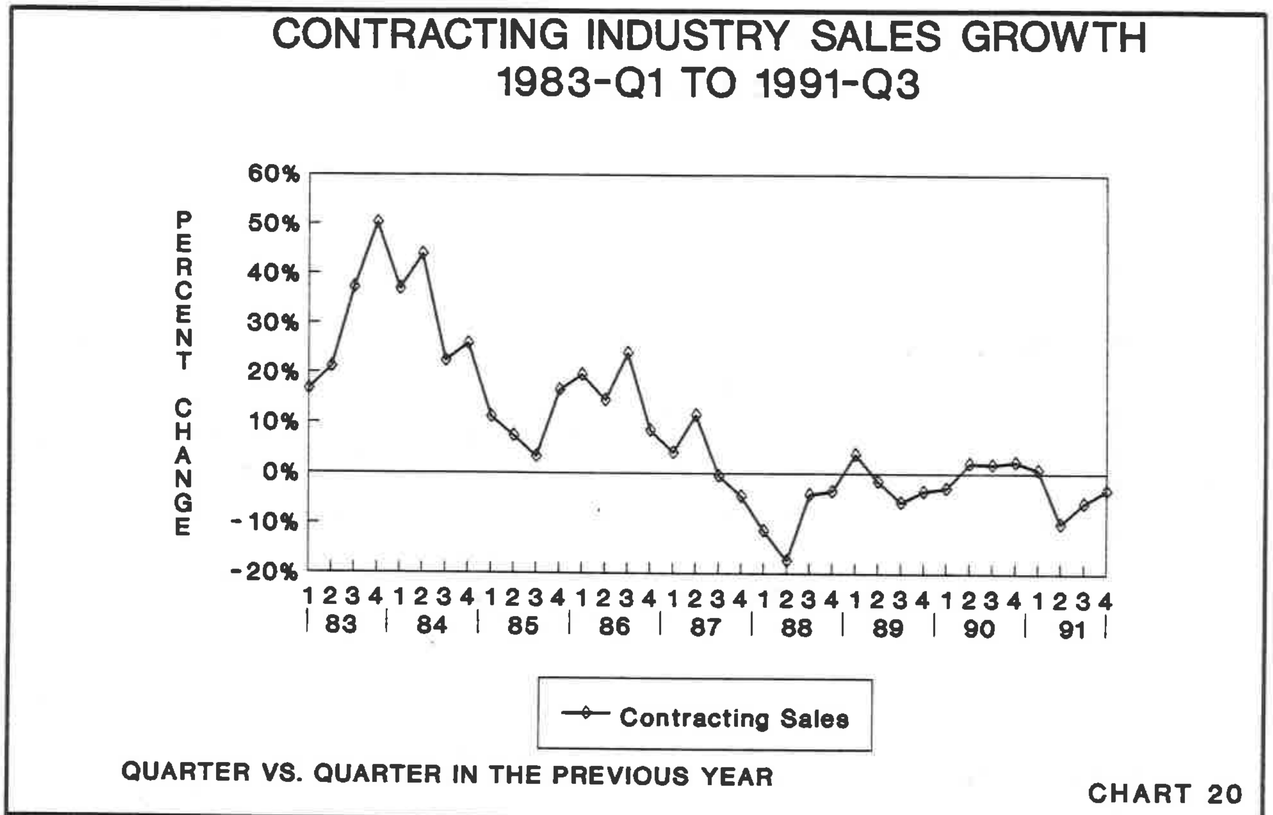
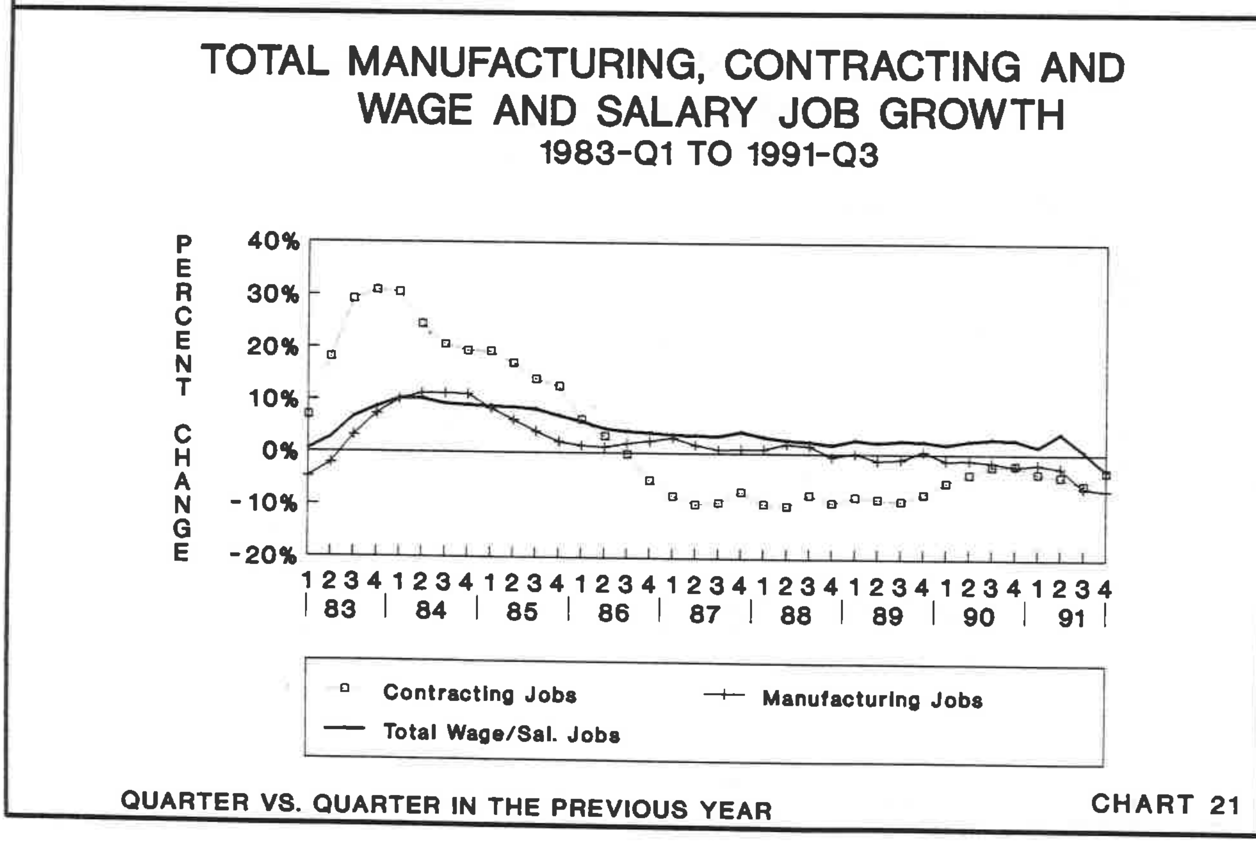


CONTRACTING INDUSTRY SALES GROWTH
1983-Q1 TO 1991-Q3
PERCENT CHANGE
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4
83 84 85 86 87 88 89 90 91
Contracting Sales
QUARTER VS. QUARTER IN THE PREVIOUS YEAR
CHART 20



TOTAL MANUFACTURING, CONTRACTING AND
WAGE AND SALARY JOB GROWTH
1983-Q1 TO 1991-Q3
PERCENT CHANGE
40%
30%
20%
10%
0%
-10%
-20%
1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4 1 2 3 4
83 84 85 86 87 88 89 90 91
Contracting Jobs
Manufacturing Jobs
Total Wage/Sal. Jobs
QUARTER VS. QUARTER IN THE PREVIOUS YEAR
CHART 21

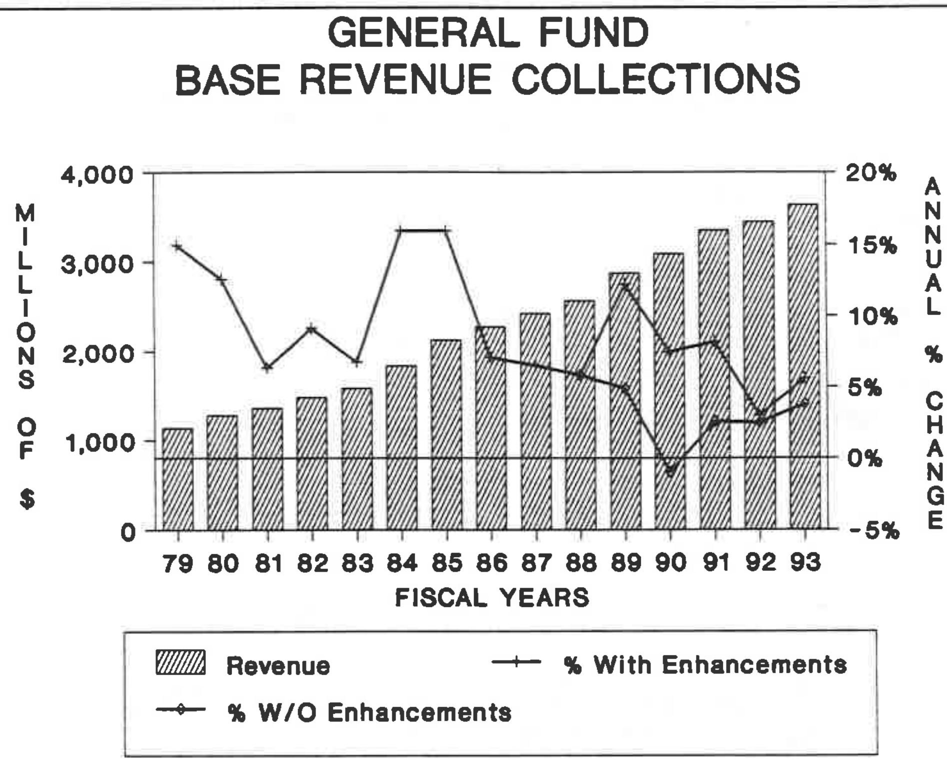


CHART 22

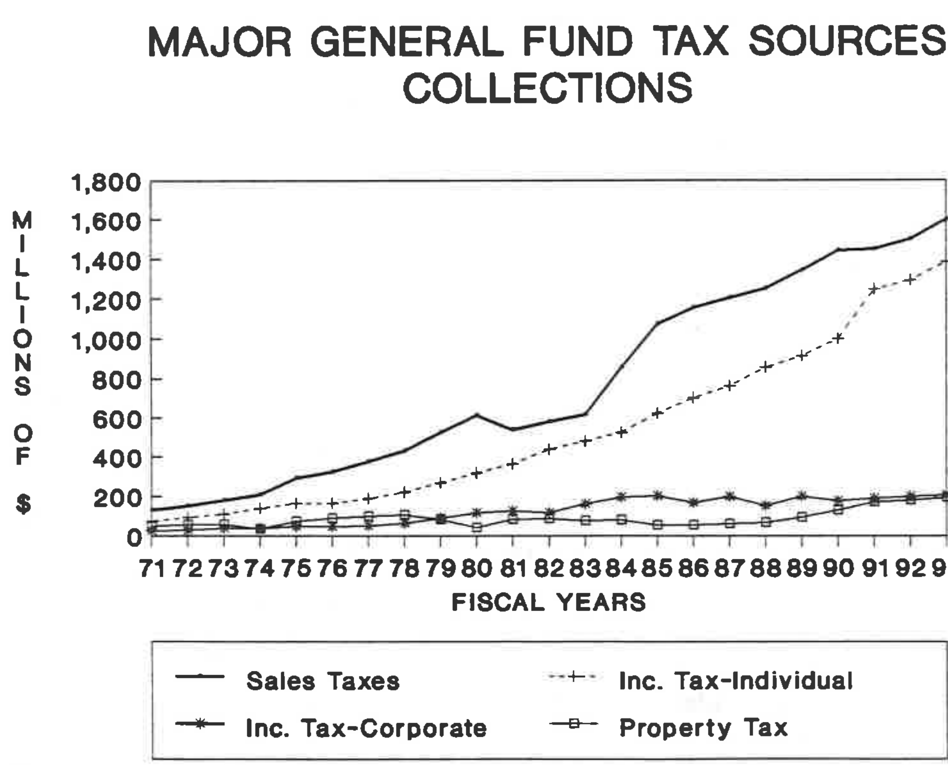


CHART 23

GENERAL FUND REVENUE SOURCES AS A PERCENT OF TOTAL BASE REVENUE

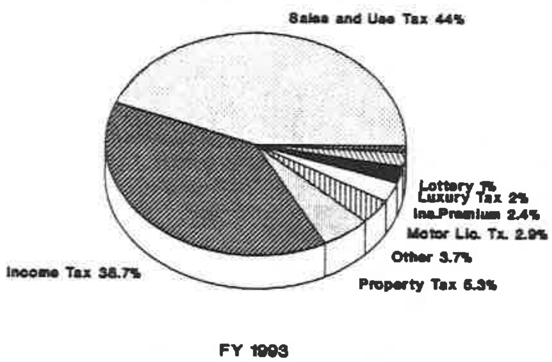


CHART 24

FY 1993 MAJOR REVENUE SOURCES DOLLAR AND PERCENT CHANGE FROM FY 1992

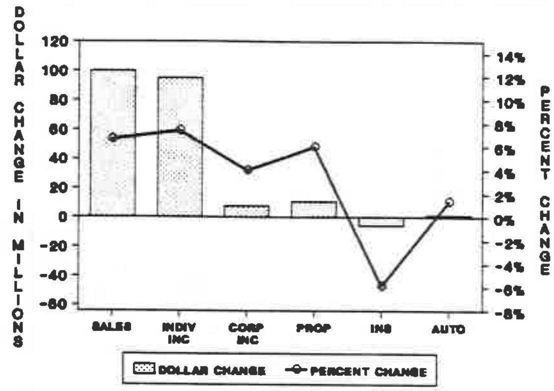


CHART 25

MAJOR TAX SOURCES AS A PERCENT OF TOTAL GENERAL FUND BASE REVENUE

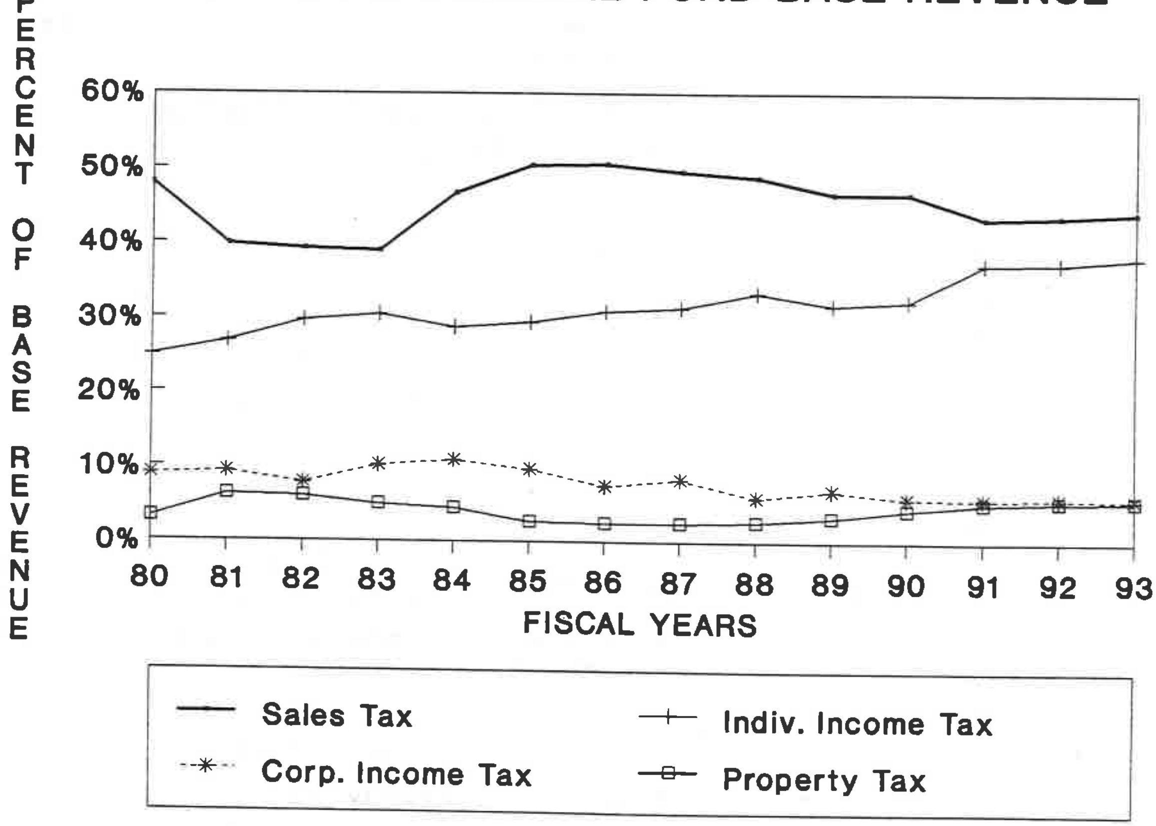


CHART 26

ARIZONA'S BUDGET STABILIZATION FUND

Description

The Budget Stabilization Fund (BSF) for Arizona was passed during the 1990 Third Special Session (A.R.S. § 35-144). The Fund is a separate account administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. Interest earnings from monies in the BSF will accrue to the Fund and will not revert to the General Fund. Under the economic formula which drives the Budget Stabilization Fund, the first payment into the Fund is expected to occur in July 1993 at the beginning of Fiscal 1994.

The BSF is designed to set revenue aside during times of strong economic growth and to spend this revenue during times of weak growth or decline. It is designed to provide revenue stabilization during a typical business cycle. Arizona is one of the most recent states to join the majority of states (now 39) to implement some form of counter-cyclical fiscal plan.

The Arizona BSF can be summarized as follows:

- The Pay-In (or Pay-Out) for a given fiscal year would be determined by comparing the annual growth rate of real, inflation adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of real, adjusted AZPI for the most recent seven years.
- If the annual growth rate exceeds the trend growth rate, the excess multiplied by General Fund revenue of the fiscal year ending in the calendar year would equal the amount to be paid into the BSF in the fiscal year in which the calendar year ends.
- If the annual growth rate is less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the fiscal year ending in the calendar year would equal the amount to be withdrawn from the BSF in the fiscal year in which the calendar year ends.
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, could decrease a "pay-in" or increase a "pay-out".
- Although interest earnings accrued to the BSF, the State Treasurer may "dis-invest" the fund balance on a day-to-day basis, if necessary, to avoid a negative cash balance in operating monies.
- The BSF balance is limited to no more than 15% of prior year revenue.

Estimates of required "pay-ins" and "pay-outs" are made by both OSPB and JLBC Staff with annual budget submissions.

Final estimates would be made by the Economic Estimates Commission (EEC) based upon economic data supplied by the U.S. Department of Commerce, Bureau of Economic Analysis, and testimony received from Staff of the EEC, JLBC, and OSPB.

First Official Calculations

The first BSF calculations were done for FY 1991 by the EEC and reported to the Governor and Legislative Leadership in June 1991. As expected, the recession in the U.S. and Arizona caused the growth of inflation-adjusted personal income to grow only 0.9% in CY 1990, far below Arizona's seven year average growth rate of 5.3%. As this year was below the trend, the result would have been a significant pay-out by the Treasurer from the BSF to the General Fund on June 30, 1991 (FY 1991). However, the Fund has not yet received an initial transfer so a payment to the General Fund was not made at that time. A transfer out of the Fund would also be expected for FY 1992, but this will not occur because of lack of a balance in the Fund.

JLBC Staff Forecast for the Budget Stabilization Fund

Under the current expectations of a rebound in the economy and personal income growth in the latter half of CY 1992 and accelerating throughout CY 1993, the first required pay-in to the BSF will be at the beginning of FY 1993. If personal income grows as expected, the amount of the pay-in is forecasted at $5.4 million, reflecting estimated growth in our economy that is just barely above the 7-year trend that is used in the BSF formula. For FY 1994, however, the required pay-in is estimated to jump to $60 million, reflecting the substantial acceleration of growth being forecasted for CY 1993.

It is important for fiscal planning purposes to note that these required pay-ins must be appropriated to the BSF at the time the General Appropriations Bill is enacted. Thereafter, an adjustment can be made the following year based upon EEC calculations and initial reports of CY 1992 Arizona Personal Income from the U.S. Department of Commerce.

For an explanation of the history and operation of the BSF, please refer to the Table of Contents of this report.