

IN MEMORY

The JLBC Staff dedicates this book to the memory of Jack Neisent, our friend and associate. Jack was our Principal Fiscal Analyst for the Department of Education budget. Jack had been with our office for nearly 12 years and was known not only for his knowledge and skill as a fiscal analyst, but also for his "calm under fire" and friendly demeanor. We will miss him greatly.

JLBC

ANNUAL BUDGET

FY 1994

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

Prepared By

JOINT LEGISLATIVE BUDGET COMMITTEE

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JLBC

JOINT LEGISLATIVE BUDGET COMMITTEE

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

Robert "Bob" Burns
Chairman 1993

Brenda Burns
Carmen Cajero
Lisa Graham
Leslie W. Johnson
Bob McLendon
Greg Patterson
Polly Rosenbaum

Carol Springer
Chairman 1994

Lela Alston
Gus Arzberger
A. V. "Bill" Hardt
Bev Hermon
Matt Salmon
John Wettaw
Pat Wright

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

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

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



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January 13, 1993

The Honorable John Greene
President of the Senate
and
The Honorable Mark Killian
Speaker of the House
State Capitol
State of Arizona

Dear President Greene and Speaker Killian:

On behalf of Senator Carol Springer, Representative Bob Burns, and the Staff of the Joint Legislative Budget Committee, it is my pleasure to transmit to you and the entire 41st Legislature of the State of Arizona, our Budget Analysis and Recommendations for Fiscal Year 1994.

The preparation of the JLBC Staff recommended budget for FY 1994 proved to be the most challenging in our 26-year history. It may represent the most constrained budget we have seen over this period as well. In General Fund dollar terms, this is essentially a "no-growth budget". If adjusted for inflation, it represents a decline of nearly 3%. When the necessary hires to open new prisons are excluded, this budget calls for some 475 fewer state employees than the current fiscal year.

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 41st Arizona Legislature in developing the state budget for FY 1994.

Sincerely,

Ted Ferris
Director
TF:lm

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EXECUTIVE SUMMARY

FISCAL YEAR 1994 - GENERAL FUND BUDGET

JLBC STAFF RECOMMENDATION

OVERVIEW

The preparation of the JLBC Staff recommended budget for FY 1994 proved to be the most challenging in our 26 year history. It may represent the most constrained budget we have seen over this period as well.

In General Fund dollars terms, this is essentially a "no-growth budget". If adjusted for inflation, it represents a decline of nearly (3)%. When necessary hires to open new prisons are excluded, this budget calls for some (475) fewer state employees than in the current year.

Both the Executive and JLBC Staff recommended budgets are based upon the same, very cautious estimate of revenue. The JLBC Staff Recommendation, however, generates a 3% or \$111.5 million reserve, versus the \$60.5 million reserved for tax cuts and carry-forward in the Governor's budget. While both budgets represent the smallest spending increases in memory, the JLBC Staff recommends spending \$43 million less than the Executive.

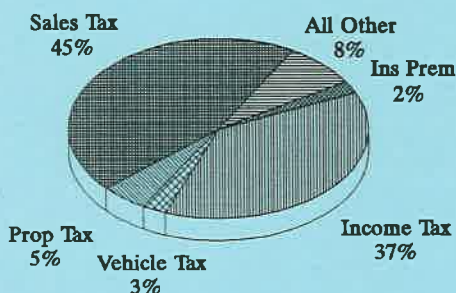
OPERATING APPROPRIATIONS

Agency/Activity	\$ Change From FY 93	JLBC Staff FY 94 Rec.
	(\$ Millions)	
• Dept. of Education (K-12)	\$57.7	\$1,429.2
• Universities	(11.7)	521.3
• AHCCCS	(1.8)	454.1
• Dept of Economic Security	(14.3)	352.2
• Dept of Corrections	25.0	278.8
• Dept of Health Services	0.3	200.6
• Community Colleges	(1.0)	85.3
• Courts	4.8	83.6
• Dept of Revenue	0.5	47.6
• Dept of Public Safety	(2.5)	35.7
• All Other	<u>(11.7)</u>	<u>219.7</u>
TOTAL	45.3	3,708.1

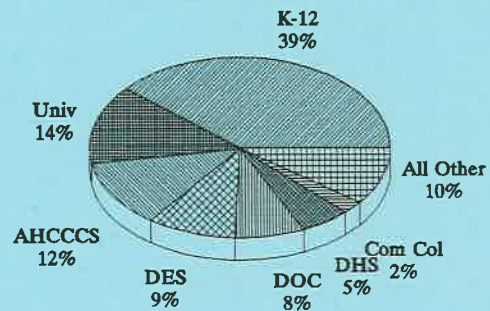
REVENUES AND YEAR-END BALANCES

	Governor	JLBC	Difference
	(\$ Millions)		
REVENUES:			
• Beginning Balance	\$5.0	\$5.0	\$0.0
• Consensus Estimate	3,799.5	3,799.5	0.0
• Staff Rec. Policy Issues	0.0	8.4	8.4
• SLIM Revenues from DOR	<u>3.5</u>	<u>3.5</u>	<u>0.0</u>
Equals: Available Revenues	\$3,808.0	\$3,816.4	\$8.4
EXPENDITURES:			
• Baseline Operating Budgets	\$3,736.5	\$3,708.1	\$(28.4)
• Prior Session Appropriations	5.1	5.1	0.0
• Capital Outlay	10.0	7.3	(2.7)
• Incr. Risk Mgmt. Charges	10.9	10.9	0.0
• State Employee Health Ins. Incr.	3.0	5.0	2.0
• One Day Furlough	0.0	(3.5)	(3.5)
• Freeze Actuarials for ASRS	0.0	(9.0)	(9.0)
• Other Bills	1.0	0.0	(1.0)
• Admin. Adj. & Emerg.	21.0	21.0	0.0
• Revertments	<u>(40.0)</u>	<u>(40.0)</u>	<u>0.0</u>
Equals: Estimated Expenditures	\$3,747.5	\$3,704.9	\$(42.7)
SET-ASIDE FOR CONTINGENCIES, ROLLOVER REDUCTION, OR TAX CUTS	<u>\$60.5</u>	<u>\$111.5</u>	<u>\$51.0</u>

Where It Comes From



Where It Goes



**MAJOR FACTORS BEHIND CHANGE IN GENERAL FUND OPERATING BUDGETS
DIFFERENCE FROM ORIGINAL FY 1993 ESTIMATES**

Department of Education	\$57.7 Million	Community Colleges	\$(1.0) Million
• New Students - 15,577 New K-8 Students (3.5% Growth) 5,599 New 9-12 (3.5%); 210 New Preschool Disabled (25%)	\$76.9	• Reduce Operating State Aid and Equalization Aid; No Change in Capital	\$(1.0)
• Base Adjustments - Fund FY 93 Shortfall	11.2	AHCCCS	\$(1.8) Million
• 1% Decline in Assessed Valuation	8.4	• 40,582 New Member Years—9.8% Growth	\$50.2
• Reduce Cash Balance Reversion - 27% to 18%	7.0	• Capitation Increase and Medical Inflation	21.1
• Sudden Growth - Hold at 64%	1.5	• Lower Federal and Interest Offsets	7.8
• Program Phase Out/Eliminations	(1.1)	• Other Acute Care and Administrative Changes	1.3
• Rapid Decline - Cut Floor from 95% to 90%	(1.3)	• Revise Disproportionate Share Allocation	(1.6)
• Block Grants/Program Reductions	(3.6)	• "Roll Back" SOBRA Coverage to 133%	(2.4)
• Unified School Equity	(8.0)	• Restore County Support of Acute Care to 1/3 of Overall State Match	(34.6)
• Teacher Experience Index - 2 year Phase Out	(9.5)	• Only Emergency Services for Undocumented Aliens	(43.6)
• Reduced "Homeowner's Rebate" Buydown	(10.3)		
• Career Ladder - 2 year Phase Out	(11.9)	Department of Public Safety	\$(2.5) Million
• Other Adjustments	(1.6)	• Employee Related Expenses	\$0.7
Department of Corrections	\$25.0 Million	• Annualization of Pay Adjustment	0.5
• Open 650 New Prison Beds & Complex Staff	\$9.0	• Reduced Use of HURF and Highway Funds	0.2
• Annualization of FY 1993 Pay Adjustment	5.6	• FTE Position Reductions	(0.8)
• Annualization of 450 Community Beds	4.8	• Project SLIM Implementation	(3.1)
• 1,050 New Prisoners—6.5% Growth	3.3		
• Annualization of 1993 Prison Openings	3.3	Parks Board	\$(4.6) Million
• Special Pay Package - Correctional Officers	1.5	• Shift Operating Costs to Heritage Fund	\$(4.6)
• Funding Shift - Corrections Fund	(2.5)		
Courts	\$4.8 Million	Universities	\$(11.7) Million
• Probation and Treatment Programs	\$4.9	• Annualization of Pay Adjustment	\$11.4
• Law Clerk Parity - Court of Appeals	(0.2)	• Student Enrollment Growth of 1,725 (2%)	4.8
• Other	0.1	• Facilities Annualization	2.8
Department of Youth Treatment and Rehabilitation	\$2.4 Million	• Employee Related Expenses	2.7
• Annualization of Pay and Other	\$1.1	• Vacancy Savings	(0.3)
• Program Improvements	1.0	• AHEC/WICHE Reduction	(0.4)
• Lower Other Fund Offsets	0.4	• Cut Employee Tuition/Fee Waivers	(1.8)
• Elimination of Task Force	(0.1)	• Lump Sum Reduction	(30.9)
Department of Administration	\$2.0 Million	Department of Economic Security	\$(14.3) Million
• RTC/Distressed Property Management	\$1.1	• AFDC - 26,503 New Recipients (12.7% Growth); No Benefit Increase; Reduce Benefits if No Shelter Costs (\$2.9M Savings)	\$7.6
• Annualization of ENSCO Lease-Purchase	0.8	• DD Long Term Care Program - 5% Caseload Growth	2.4
• Annualization of Pay Adjustment	0.4	• Annualization of Pay Adjustment	2.3
• Other	(0.3)	• Social Services - 10% Children Services Growth (including Federal Funds); Freeze Adoption, Child Care & Elderly Services, at Current Level	1.6
Department of Revenue	\$0.5 Million	• Transfer MEDICS Funding to AHCCCS	(0.9)
• Annualization of Pay Adjustment	\$1.0	• Employee Related Expenses	(1.6)
• Personal Services/ERE Adjustments	(0.1)	• Higher Vacancy Factor	(3.0)
• Employee Related Expenses	(0.4)	• General Assistance - Limit Eligibility to 1 Year	(7.0)
Department of Health Services	\$0.3 Million	• LTC Program - Increased Federal Rates	(14.9)
• Children's Behavioral Health	\$5.0	• Other Reductions	(0.8)
• Annualization of Pay Adjustment	1.4		
• Lower Disproportionate Share Offset	1.2		
• Employee Related Expenses	(1.5)		
• Public Health Program Reductions (State WIC, County Grants, Other)	(2.8)		
• Federal and Other Cost Shifts	(3.0)		

**FY 1994
COMPARISON OF MAJOR POLICY ISSUES**

MAJOR ISSUES	EXECUTIVE RECOMMENDATION	JLBC STAFF RECOMMENDATION
Parameters of General Fund Budget	<ul style="list-style-type: none"> • \$74 Million Increase in General Fund Operating Budget • 406 FTE Position Increase; or 100 FTE Decrease; Excluding Corrections • \$50 Million Tax Cut • \$10.5 Million Surplus 	<ul style="list-style-type: none"> • \$45 Million Increase in General Fund Operating Budget • 141 FTE Position Decrease; or 475 FTE Decrease, Excluding Corrections • \$111.5 Million Reserved for Carry-Forward, Tax Cuts, or Decreasing the K-12 Rollover
State Employee Issues	<ul style="list-style-type: none"> • Annualizes the FY 1993 Pay Increase at a Cost of \$27 Million • No Further Cost Shift to Employees for Health & Dental • Special Pay Increase for A.G. Attorneys, \$717,000 and DPS Officers, \$1.9 Million • Maintain Retirement Contribution for ASRS at 3.59% 	<ul style="list-style-type: none"> • Annualizes the FY 1993 Pay Increase at a Cost of \$27 Million • No Further Cost Shift to Employees for Health & Dental • Special Pay Increase for Corrections Service Officers at a Cost of \$1.5 Million • Retirement Contribution for ASRS at 3.14%; Freeze Actuarial Assumptions Pending Actuarial Audit to Save \$9 Million • 1 Furlough Day for All State Employees to Save \$3.5 Million
Budget Stabilization	<ul style="list-style-type: none"> • Recommends Statutory Change to Avoid Required Pay-In in FY 1994 	<ul style="list-style-type: none"> • Forecast for Real Personal Income Growth in 1993 is Higher than Governor's • Will Wait for End of February Revenue Forecast Revision Before Making a Specific Recommendation • Current Estimate of Pay-in is \$25.5 Million
AGENCIES		
AHCCCS	<ul style="list-style-type: none"> • Eliminates full MN/MI Coverage (100% State Funds) for 35,000 Recipients With Incomes Below \$5,400 - Family of 4; Converts Another 11,000 MN/MI to Federal Categories • Provides Emergency Services to 14,000 Federally-Reimbursed Undocumented Aliens • Adds 69,000 Recipients by Extending SOBRA Coverage (Feds Pay 65%) for Pregnant Women and Children up to 6 Years Old to 185% of Fed Poverty Level (\$25,000 for a Family of 4) • Eliminates County Residuality and MN/MI Eligibility Determination • Net Savings to State of \$88 Million in FY 1994 and \$190 Million in FY 1995 	<ul style="list-style-type: none"> • Conforms to Federal Title XIX policy by Funding only Emergency Services for 18,000 Undocumented Aliens, Eliminates Regular MN/MI Coverage for that Population • Rolls-back SOBRA Coverage (Feds Pay 65%) for Pregnant Women and Infants up to 1 Year Old from 140% to 133% of Federal Poverty Level (\$18,000 for a Family of 4) • Restores County Acute Care Contribution to 1/3 of Total State Match; Increases by \$34.5 Million, Saving General Fund a Like Amount • Net Savings to State of \$81 Million in FY 1994 and \$103 Million in FY 1995
K-12	<ul style="list-style-type: none"> • Does Not Fund GNP Deflator of 2.7% to Save \$64 Million • Funds 32% of Current Rapid Decline Formula to Save \$1.5 Million 	<ul style="list-style-type: none"> • Does Not Fund GNP Deflator of 2.7% to Save \$64 Million • Phases Out Career Ladders and Teacher Experience Index Over 2 Years, Saves \$21.4 Million in FY 1994 • Requires Basic State Aid to be Calculated on a Unified Basis (K-12) Requiring Minimum Local School Operating Levy of \$4.72 (QTR), Saves the State \$8 Million • Lowers Rapid Decline Floor to 90% to Save \$1.4 Million • Combine 6 Non-Formula Programs into a Block Grant and Reduce by 20%

MAJOR ISSUES	EXECUTIVE RECOMMENDATION	JLBC STAFF RECOMMENDATION
Universities	<ul style="list-style-type: none"> • Net Reduction of 1.9% from FY 1993 	<ul style="list-style-type: none"> • Net Reduction of 2.2% from FY 1993 • Eliminates Tuition Waiver for Employees and their Families to Save \$1.8 Million
Community Colleges	<ul style="list-style-type: none"> • Reduction of \$3.5 Million or 4% from FY 1993 	<ul style="list-style-type: none"> • Reduction of \$1 Million or 1% from FY 1993
Economic Security	<ul style="list-style-type: none"> • Eliminates Scheduled AFDC Grant Increase for July 1, 1993 to Save \$3.1 Million • Increased Fed Funds Reimbursement for D.D. Long-Term Care to Save \$15.4 Million • Restore Previous Shelter Deduction Policy to Save \$3 Million • Transfer Elderly Services to Counties For a Savings of \$2.2 Million, Add \$2.5 Million to Adoption Services • Restructure General Assistance Program to Save \$14 Million of \$17 Million Budget 	<ul style="list-style-type: none"> • Eliminates Scheduled AFDC Grant Increase for July 1, 1993 to Save \$3.1 Million • Increased Fed Funds Reimbursement for D.D. Long-Term Care to Save \$14.9 Million • Restore Previous Shelter Deduction Policy to Save \$2.9 Million • Cap Elderly and Adoption Services at FY 1993 Level to Save \$4.6 Million • One Year Time Limit for General Assistance to Save \$7 Million
Health Services	<ul style="list-style-type: none"> • No New SMI Monies • Annualize Children's Behavioral Health Shortfall of \$4 Million • \$2 Million Cut in Non-SMI Adult Mental Health and \$0.8 Million in Public Health Cuts 	<ul style="list-style-type: none"> • No New SMI Monies • Annualize Children's Behavioral Health Shortfall of \$4 Million • Public and Family Health Reductions to Save \$2.8 Million (State WIC, County Health Grants, Other)
Corrections	<ul style="list-style-type: none"> • Annualize and Open New Prisons at a Cost of \$24.8 Million, Including Population Growth • Additional Corrections Fund Offset of \$0.4 Million 	<ul style="list-style-type: none"> • Annualize and Open New Prisons at a Cost of \$20.4 Million, Including Population Growth • Additional Corrections Fund Offset of \$2.5 Million • Special CSO Salary Increase of \$1.5 Million
DPS	<ul style="list-style-type: none"> • SLIM and Other Changes to Save \$3 Million 	<ul style="list-style-type: none"> • SLIM and Other Changes to Save \$3 Million
Agriculture	<ul style="list-style-type: none"> • Full-Year Savings from Closing Border Inspection Stations to Save \$0.6 Million 	<ul style="list-style-type: none"> • Full-Year Savings from Closing Border Inspection Stations to Save \$0.6 Million • 2 Year Phase-Out of Brand Inspections to Save \$1.1 Million in FY 1994 (\$2.1 Million in FY 1995)
State Parks	<ul style="list-style-type: none"> • Retain General Fund Support at Current Level 	<ul style="list-style-type: none"> • Use Up to 50% of Heritage Fund for Parks Operations to Save \$4.7 Million in General Fund
Capital Outlay	<ul style="list-style-type: none"> • General Fund, \$10 Million; Building Renewal: Fund 67% of DOA and 27% of Universities Formula 	<ul style="list-style-type: none"> • General Fund, \$7.3 Million; Building Renewal: Fund 41% of DOA and 17% of Universities Formula

CURRENT YEAR (FY 1993) BUDGET UPDATE

Background

The enacted FY 1993 General Fund budget was predicated upon a beginning balance of \$9.7 million and concluded with a year-end surplus of \$11.4 million. Actually, the carry-forward from FY 1992 was \$4.5 million less. This loss, however, was more than offset by other budget assumption revisions which have the effect of improving the FY 1993 year-end surplus by \$5.9 million. Thus, prior to any revenue estimate revisions, supplemental appropriations, or other changes impacting upon this year's bottom-line, the projected ending balance would be \$12.8 million.

Executive Proposal

On January 7th, the Governor issued a midyear budget review with instructions for certain agencies to reduce planned spending to produce savings of up to 2% of their original General Fund appropriations. In sum, these savings would lower General Fund spending by \$18 million with nearly \$11 million or 60% of the cuts being borne by the universities, which account for 15% of the budget. However, the Governor pointed toward the state's improving revenue collections pattern as reason for optimism that we may be able to avoid midyear budget cuts after 6 consecutive years of midyear revisions to the budget.

The JLBC Staff has been more optimistic on this year's revenue collections from the very beginning, and at this time are more confident that the emerging pattern of revenue collections should allow us to avoid midyear budget cuts. We would agree with the Governor's strategy of waiting until late in the month of February or early March before formally taking action to amend this year's general appropriation bill. After 6 years of budget uncertainty, we believe a high premium should be placed on breaking the string of midyear budget cuts, and ending the year with the original agency budgets intact, wherever possible.

Revenue Estimate Revisions

Through November, year-to-date General Fund revenue collections exceeded the JLBC Staff estimate by some \$20 million. The preliminary indications are that December receipts were very strong and exceeded the staff estimate for the month by nearly \$20 million. In total, our preliminary numbers would show collections for the first half of the year being approximately \$40 million over forecast.

In order to be cautious, our revised FY 1993 revenue forecast has only been increased by \$4.8 million, in spite of the obvious strength in collections. The Executive, on the other hand, has lowered their forecast for current year revenues by \$21.2 million, led by a downward revision of \$19.3 million in the individual income tax. Thus, there is a difference of \$26 million between the Executive and JLBC Revenue Estimates for this year.

With 1992 employment and income gains being small and disappointing, we would agree that caution is in order for the balance of this fiscal year. Nonetheless, this difference in the revenue forecast alone would suggest that the Governor's targeted midyear cuts of \$18 million may be unnecessary.

Supplemental Appropriations

The Executive has identified 4 areas that may require supplemental appropriations: AHCCCS, the Department of Education (Basic State Aid), the Department of Health Services, and the Health Insurance Trust Fund. However, they have indicated that they will only support support supplementals for AHCCCS, for \$19.5 million, and the HITF, for \$0.5 million.

The JLBC Staff estimates an AHCCCS shortfall of \$16.2 million and pending further review would agree with the \$0.5 million for the HITF.

Other Changes

Certain other changes, chiefly an increase in unanticipated transfers and reimbursements to the General Fund related to federal funds received by AHCCCS and the Department of Economic Security (\$29.8 million), will have the combined impact of improving our current year bottom-line by \$17.6 million. Additionally, the federal government's recent decision to increase our disproportionate share payments by \$12 million (state match requirement of \$6 million) may provide some further benefit to this year's projected ending balance.

Summary

Both the Executive and JLBC Staff budget recommendations for FY 1994 assume a carry-forward from the current fiscal year of \$5 million. Based upon the current Executive estimates of revenue and supplemental appropriations, midyear budget cuts of nearly \$18 million would be required, but formal action is being deferred until the latter part of February. However, if further review substantiates the current JLBC Staff estimates of revenue and supplemental appropriations, we will be able to avoid midyear budget cuts for the first time since FY 1986.

**OVERVIEW OF THE JLBC STAFF RECOMMENDED
GENERAL FUND BUDGET FOR FISCAL YEAR 1994**

The JLBC Staff Recommendation Generates a 3% Reserve or \$111.5 Million versus the \$60.5 Million Reserved for Tax Cuts and Carry-Forward in the Governor's Budget.

After 6 consecutive years of midyear budget revisions, a high priority is placed upon having a larger surplus to address the inherent uncertainties in state budgets. Due to higher than budgeted revenue collections this year, it appears we may be able to avoid midyear budget cuts for the first time since FY 1986. Both the Executive and JLBC Staff recommended budgets assume a \$5 million carry-forward at the end of FY 1993. However, after setting aside \$50 million for his proposed tax cuts, the Governor's budget only leaves \$10.5 million, or 3/10ths of 1% as a contingency. The JLBC Staff recommendation reserves \$111.5 million, or nearly 3% of the estimated General Fund total for the Legislature to address the issues of carry-forward, K-12 "rollover" reduction, or tax cuts. While the 3% is substantially more than the budgeted surpluses of the past decade, which have all been less than 1%, it is still less than the 5% cushion that Wall Street bond rating agencies like to see as a prudent reserve.

FY 1994 GENERAL FUND BALANCE SHEET

	<u>EXECUTIVE</u>	<u>JLBC STAFF</u>	<u>\$ DIFF</u>
REVENUES:			
-Beginning Balance	\$5,000,000	\$5,000,000	\$0
-Consensus Estimate	3,799,504,600	3,799,504,600	0
-Revenue from Staff Recommended Policy Issues	0	8,361,800	8,361,800
-SLIM Revenues from DOR	<u>3,500,000</u>	<u>3,500,000</u>	<u>0</u>
Equals: Available Revenues	\$3,808,004,600	\$3,816,366,400	\$8,361,800
EXPENDITURES:			
-Baseline Operating Budgets	\$3,736,526,100	\$3,708,116,700 ✓	\$(28,409,400)
-Prior Session Appropriations	5,129,700	5,129,700 ✓	0
-Capital Outlay	10,000,000	7,300,000 ✓	(2,700,000)
-Incr. Risk Mgmt. Charges	10,857,300	10,857,300 ✓	0
-Health Insurance Incr./Chg. in Cont. Approps.	3,000,000	4,956,000 ✓	1,956,000
-One Day Furlough for All State Employees	0	(3,500,000)	(3,500,000)
-Freeze and Audit Actuarial Assumptions for State Retirement	0	(9,000,000)	(9,000,000)
-Other Bills	1,000,000	0	(1,000,000)
-Admin. Adj. & Emerg.	21,000,000	21,000,000	0
-Revertments	<u>(40,000,000)</u>	<u>(40,000,000)</u>	<u>0</u>
Equals: Estimated Expenditures	\$3,747,513,100	\$3,704,859,700	\$(42,653,400)
SET-ASIDE FOR CONTINGENCIES			
*ROLLOVER REDUCTION OR TAX CUTS	<u>\$60,491,500</u>	<u>\$111,506,700</u>	<u>\$51,015,200</u>

Both Budgets are Based upon the Same, Very Cautious Estimate for Revenue

In early December, the JLBC Staff and Governor's Office of Strategic Planning and Budget (OSPB) reviewed our respective revenue forecasts for FY 1993 and FY 1994. The JLBC Staff's General Fund revenue forecasts were higher than OSPB's for both years by approximately \$26 million. Despite rather rosy results on year-to-date revenue collections, the JLBC Staff agreed to base our FY 1994 budget recommendations on the lower Executive revenue forecast, in order to have convergence on a very cautious revenue forecast.

At the same time, we agreed that both budget offices would reconvene in the latter part of February to review the Holiday-related sales tax collections and preliminary 1992 individual income tax refunds, to determine whether any revision to the forecast is warranted, prior to final action on the FY 1994 budget. At this time, the JLBC Staff is cautiously optimistic that the evidence will support our earlier, higher revenue forecast for both years.

While Both the Executive and JLBC Staff Recommended Budgets for FY 1994 Represent the Smallest Spending Increases in Memory, the JLBC Staff Recommends Spending \$43 Million Less than the Executive

The difference in large part reflects \$28.4 million less in agency operating budgets, \$2.7 million less for capital outlay, a \$3.5 million savings from a mandatory furlough day for all state employees, and a \$9.0 million savings by freezing the assumptions governing retirement contributions at the FY 1993 level (see further explanation below).

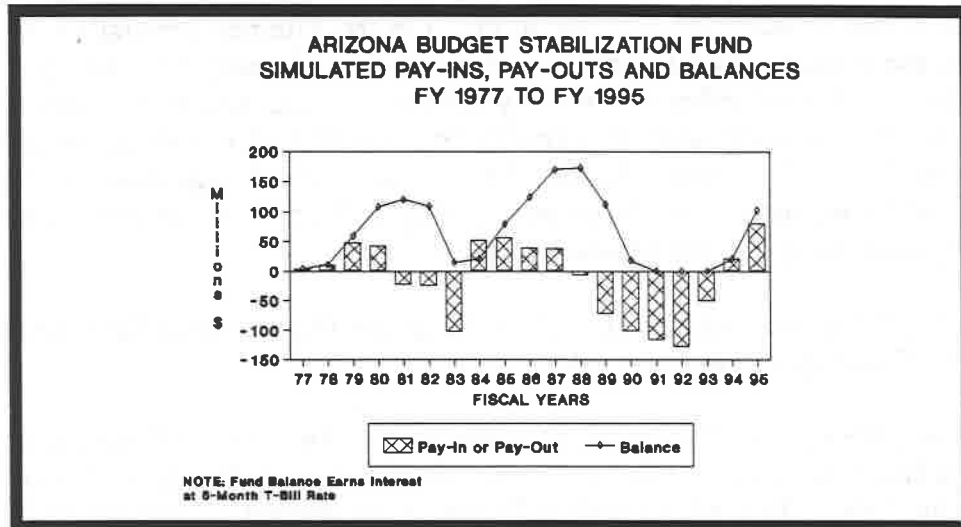
The JLBC Staff Economic Forecast calls for more Real Growth in Arizona Personal Income in 1993 and if proven accurate, would Require an Estimated \$25 Million Pay-in to Arizona's Budget Stabilization Fund

Arizona's Budget Stabilization Fund (BSF) is unique in the Nation in that it is based upon an economic formula that compares current growth with a 7-year trend growth rate. In calendar years when real (inflation-adjusted) economic growth exceeds the trend growth rate, the difference is multiplied by General Fund revenue to determine a required pay-in to the BSF for the fiscal year in which that calendar year ends; conversely, when real economic growth is below trend, the difference is multiplied by revenue to determine an amount which shall be transferred from the BSF to the General Fund if necessary to balance the budget.

The Executive budget does not include an estimate for a BSF pay-in. However, there is a recommendation to suspend the provisions of A.R.S. § 35-144 that may require a pay-in in FY 1994 in order to avoid a possible pay-in to the BSF. The JLBC Staff would oppose this action as our economic forecast, on the other hand, calls for slightly-above-trend real economic growth and, therefore, a *first-ever pay-in* to the fund of some \$25.5 million in FY 1994. Such a pay-in would either have to come from the \$111.5 million set-aside in the Staff recommendation or, from a higher estimate of revenue if warranted when the forecast is revised at the end of February (see above narrative on the revenue estimate).

A failure to make the first required pay-in to our BSF, according to the economic formula established in A.R.S. § 35-144, would send the wrong signal to a variety of interests, most notably our creditors. It would be an admission that we are not prepared to manage our resources well as our economy and state revenue picture improves and, therefore, will once again face the unpleasant choice of tax increases or budget cuts when the next economic recession arrives.

For a more detailed explanation of Arizona's Budget Stabilization Fund see the last section of this Summary Book.



STATE EMPLOYEE ISSUES

State Work Force Would Decline under the JLBC Staff Recommendation

The state work force would decline by 141 full time equivalent (FTE) positions under the JLBC Staff recommendation. In part, this reduction is due to the general policy of eliminating excess unfunded positions. After excluding the additional positions in the Department of Corrections, to open facilities which are coming on line next year, the work force would decline by 475, or approximately 1.3% of total appropriated FTE positions. On a comparable basis with the Staff recommendation, the Governor is recommending an overall increase of 406 FTE positions, which becomes a decrease of 100 FTE positions, excluding the Department of Corrections.

The \$27 Million Cost of Annualizing the FY 1993 Pay Increase of \$1,000 per Employee is Incorporated into Both Budget Proposals; No Further General Pay Increase in FY 1994; Different Special Pay Increases are Incorporated into Each Budget Proposal

In the FY 1993 General Appropriation Act, the Legislature authorized a \$1,000 annual pay increase for each state employee on April 1, 1993. The flat dollar amount was designed to

provide the largest percentage pay increase at the lowest pay levels, and to be a smaller percentage increase at progressively higher salary levels. For FY 1993, only one-fourth, or \$9 million of the estimated cost of the pay increase had to be budgeted. For FY 1994, the remaining three-fourths of the cost, or some \$27 million must be added to agency budgets to annualize this cost. The necessary annualization is included in both the Executive and JLBC budgets.

Due to fiscal constraints, and the high cost of annualizing the FY 1993 pay increase, a further general pay increase is not provided in either budget for FY 1994. Special pay increases are recommended, for certain agencies, in the respective budgets. The Executive recommends a special salary increase for attorneys in the Attorney General's office at a cost of \$717,000 and a special DPS Officer Pay Plan at a cost of nearly \$1.9 million. The JLBC Staff does not recommend either of these pay actions. Instead, and as the highest priority for special pay action, the JLBC Staff recommends the sum of \$1.5 million as the first step in improving pay for the Corrections Services Officer series of job classifications within the Department of Corrections. This department is plagued by high turnover and exceptionally high training costs related to the turnover problem.

The JLBC Staff Recommendation calls for 1 Furlough Day for each State Employee which would be the Friday after Thanksgiving

In order to help offset the \$27 million annualization cost for the \$1,000 per employee pay increase scheduled for April 1, 1993, it is recommended that each state employee be furloughed for 1 day. This will provide a General Fund savings of approximately \$3.5 million. In order to minimize the negative impact on public services, it is recommended that the furlough day be fixed as the Friday after Thanksgiving Day. This will have the added benefit of providing some savings (utilities, maintenance, etc.) from having state government shut down for a 4-day holiday weekend. For those agencies and institutions having to stay open and be staffed such as the State Hospital, state prisons, and so forth, the employees scheduled to work that Friday would have to take their furlough day at some other time during the year.

Health and Dental Insurance Increases are Expected to be Paid from State Funds with No Further Cost Shifting to State Employees

The JLBC Staff recommendation would fund any additional expense for the employer share of employee health insurance from the existing balance in the Health Insurance Trust Fund. Actual FY 1993 health insurance costs are proving to be at least 5% below budgeted levels, thereby increasing the unobligated balance in the Trust Fund. With the exception of the Universities, the state share of employer health insurance is transferred from agency budgets to the Trust Fund.

The JLBC Staff has recommended an additional \$5 million for health insurance as a technical change in continuing appropriations associated with the use of the Trust Fund balance to pay for potential FY 1994 rate increases. This increase has been offset by reductions in individual agency budgets to reflect the actual lower cost of health insurance, as compared to

the budgeted FY 1993 amounts. The Executive is setting aside an additional \$3 million from the General Fund and \$1.6 million from Other Appropriated funds for a potential rate increase.

A precise estimate of the FY 1994 rate increase will not be known until at least mid-February. At the current time, neither the JLBC Staff nor the Executive recommendations presume an increase in the employee share of the cost.

The Actuarial Assumptions would be Frozen Pending an Actuarial Audit; The Contribution Rate for Employers and Employees into the Public Employees Retirement System Would Decline from 3.59% to 3.14% in the JLBC Staff Recommendation

In 1991, the Legislature directed that the Retirement System actuary perform an experience study of the Retirement Fund. This study included a comparison between the Retirement Fund's actuarial assumptions and the Fund's experience during the previous 5 years. In response to the results of this study's recommendations, the Retirement Board adopted a revised set of assumptions at its June 1992 meeting. The most significant change was a substantial reduction in the assumed withdrawal rate (the rate at which employees leave the system), which had the effect of increasing the contribution rate.

Utilizing these revised actuarial assumptions, the state retirement actuary (Wyatt & Co.) completed the FY 1992 actuarial valuation. The result of this valuation is a recommended contribution rate in FY 1994 of 4.09%, an increase from the current rate of 3.59%. This increase would cost the state's General Fund an additional \$10 million. The actuary has determined that the effect of adopting the new assumptions resulted in an increase of 95 basis points, or 0.95%, to the recommended rate. Without the change in assumptions, the rate would be 3.14%, which would provide an estimated \$9 million in FY 1994 General Fund savings as compared to the current 3.59% rate.

The JLBC Staff believes that the assumptions regarding *investment yield, withdrawal rates and retirement rates* deserve closer scrutiny.

The current assumed *investment yield* is 8%. The average annual, non-compounded rate of return on Retirement Fund investments for the 10-year period ending June 30, 1992 is 16.5%. Retirement Fund investment return has met or exceeded the assumed 8% level for 4 of the past 5 years, 8 of the past 10 years, and 10 of the past 15 years. Investment yield for FY 1992 was 14.6%. Despite obvious and conclusive evidence that investment returns have indeed, substantially exceeded the assumed 8% rate-of-return, the Retirement Board did not change this assumption.

Withdrawal rate assumptions are important to the actuarial valuation for 2 reasons: 1) members who withdraw forfeit the contribution made on their behalf by their employer, and 2) members who do not withdraw remain potential retirees, who will require benefits. Thus, when withdrawal rates fall short of expectations, fewer members are leaving behind contributions, and more members remain potential retirement beneficiaries.

The experience study found that withdrawal rates were below assumed rates by about 25%. Or, for every 100 members expected to withdraw from the System during the past five years, only 75 actually did. While this represents a significant departure from expectations, it appears unusual to us to entirely replace the previous assumption for withdrawal rates, which presumably had some historical basis, with the experience of only the past 5 years.

The experience study also revealed that *retirement rates* were slightly below expected levels; specifically, 94.2% of those expected to retire actually did. If the assumption for the rate of retirement had been adjusted to reflect the experience and this trend of working longer, the contribution rate would decline. Yet the experience study recommended no change to these rates.

The logic used to develop recommendations based on the experience study is inconsistent. On the one hand, the actuary tempers his recommendation for investment yield and retirement rate assumptions with a consideration of historic experience that spans a few decades. On the other hand, the actuary recommends a complete replacement of withdrawal rates with the experience of only the past 5 years, completely disregarding historic rates.

In sum, it would appear that factors that would serve to increase the contribution rate were emphasized in the experience study recommendations, while factors that would reduce the rate were minimized or simply ignored. Therefore, the JLBC Staff recommends that we *freeze actuarial assumptions* at their FY 1993 levels, that we utilize a contribution rate of 3.14% for FY 1994 and, furthermore, that we secure the services of an independent, nationally-known actuary to conduct an *actuarial audit* of the assumptions as most recently recommended by the Wyatt Company and approved by the State Retirement Board. The Executive budget uses a contribution rate of 3.59%, the same as FY 1993.

HEALTH & WELFARE

The Executive Budget Would Eliminate Eligibility for AHCCCS MN/MI's While Expanding Coverage for SOBRA Pregnant Women and Children--JLBC Staff Recommends Conforming with Federal Policy by Funding Only Emergency Services for Undocumented Aliens and Re-Establishing the Counties' Responsibility for Nearly One-Third of the State Match

Without any statutory changes, the AHCCCS program is expected to grow by \$80.3 million in FY 1994 as the result of caseload growth and inflation. The JLBC Staff is recommending statutory changes that would save \$82.1 million, for a net decrease of \$1.8 million in the AHCCCS budget.

The JLBC Staff proposes changes in eligibility for undocumented aliens in the AHCCCS program to conform with the federal policy of funding only emergency services. Undocumented aliens now receiving full medical services through AHCCCS would be converted to "emergency services only" eligibility, generating estimated FY 1994 General Fund savings of \$43.6 million. This proposal would affect approximately 18,000 undocumented aliens, or 30% of the MN/MI and ELIC populations.

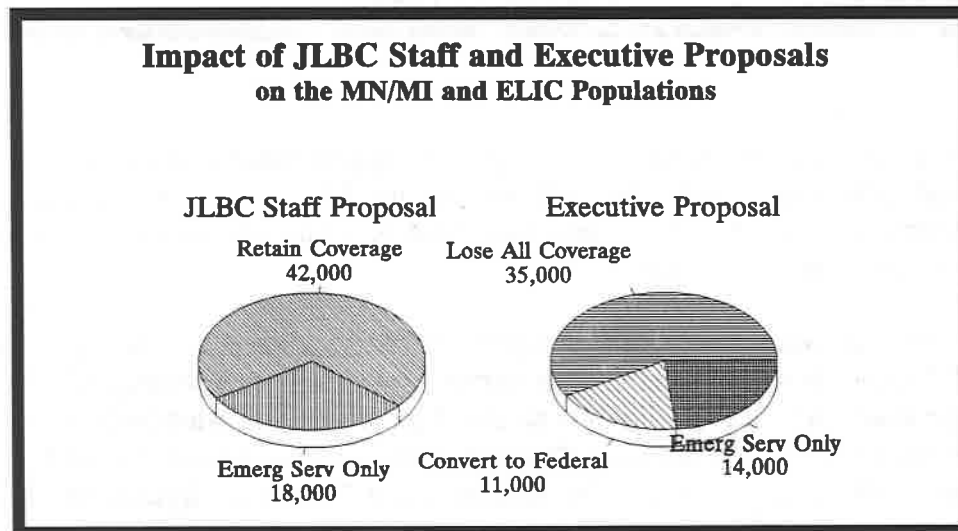
A second JLBC Staff proposal for AHCCCS would restore county support of the Acute Care program to a level more in line with earlier county support of the program. The JLBC Staff recommends that the county Acute Care contribution be increased by \$34.6 million, to \$99.6 million for FY 1994. County support of AHCCCS averaged about one-third of the total state matching cost during the first 3 years of the AHCCCS program; but even with the addition of county responsibility for long-term care matching dollars, that level of support has dropped to 27% in FY 1993. Further, while the net change in county support of the AHCCCS Acute Care program has been essentially flat over the past 10 years, state General Fund expenditures for Acute Care have grown by over 450%.

A third JLBC Staff proposal would lower the income eligibility limit for pregnant women and infants to 133% of the Federal Poverty Level, or the minimum income level required for the federal SOBRA program. Arizona now covers pregnant women and infants up to 140% of FPL. This proposal would affect about 5% of the SOBRA women and infants population, generating General Fund savings of \$2.4 million.

The Executive would expand federal eligibility to provide coverage for more pregnant women, infants, and children under age 6. This proposal would increase eligibility by 69,000 recipients. The Executive has also proposed the elimination of the Medically Needy/Medically Indigent and Eligible Low Income Children programs, 2 programs funded entirely with state dollars. Of the 60,000 people now enrolled as MN/MI's or ELIC's, the Executive's proposal assumes that 11,000 may eventually convert to federal eligibility, 14,000 undocumented aliens would receive only emergency services coverage, leaving 35,000 MN/MI's and ELIC without state-funded medical care.

The Executive's proposals are estimated to generate \$86.8 million in first year savings. However, that savings could grow by another \$100 million by FY 1995 as the MN/MI and ELIC programs are completely phased out. Other aspects of the Executive's proposals include the elimination of county residual responsibility, and eliminating the 10% "quick pay" discount in the hospital reimbursement system.

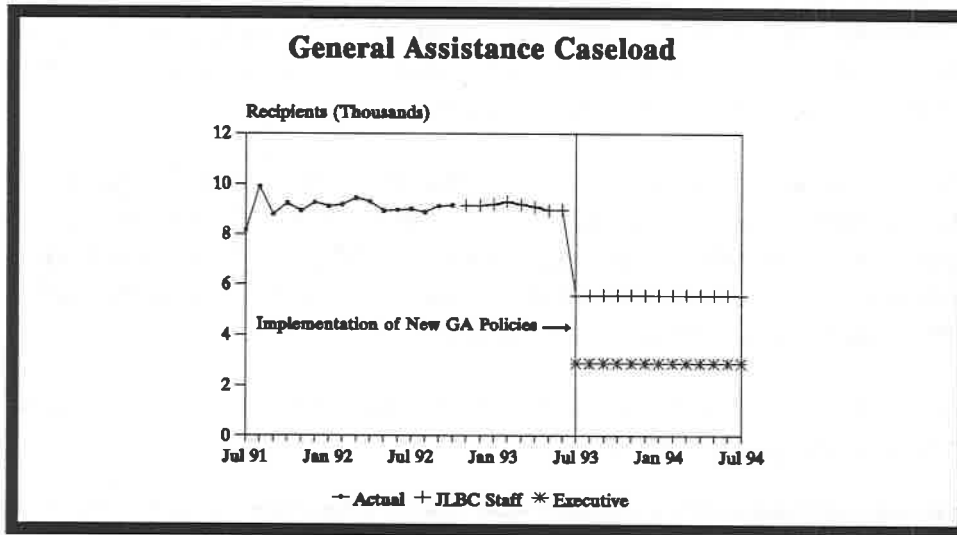
A more detailed analysis of the JLBC Staff and Executive recommendations can be found in the Analysis and Recommendations volume.



Both the Governor and the JLBC Staff recommend significant restructuring of several Department of Economic Security (DES) programs. The JLBC Staff recommendation is \$14.3 million lower than FY 1993, and the Executive recommendation is \$12.2 million lower.

The JLBC Staff recommendation provides \$11.0 million for 12.7% caseload growth in the Aid to Families with Dependent Children (AFDC) program, but would eliminate the scheduled 2.9% July benefit increase for a savings of \$3.1 million. The JLBC Staff further recommends that AFDC benefits be adjusted downward for families without shelter costs, the so-called "A1/A2" issue, for a savings of \$2.9 million. The Governor is proposing similar adjustments.

General Assistance provides approximately a \$155 monthly benefit to aid low-income individuals who are unemployable due to a disability. The JLBC Staff proposal will save \$7.0 million by restructuring General Assistance into a short-term disability program with a 1-year time limit. The program will also provide long-term disability clients with temporary assistance while they await enrollment in the federal Supplemental Security Income (SSI) program. This restructuring would eliminate 39% of the caseload, or approximately 3,500 recipients. The Governor would impose further restrictions, eliminating 70% of the caseload at a savings of \$14.0 million.



Both the Governor and JLBC Staff have incorporated approximately \$15 million in savings from increased federal rate reimbursements for the Title XIX Long Term Care program for the developmentally disabled. The federal reimbursement rate has not been adjusted since the program's inception in FY 1989.

The JLBC Staff also recommends eliminating the entitlement status of Adoption and Adult Services and funding these program at their current year level for a savings of \$4.6 million. The Governor would add \$2.6 million for caseload growth in Adoption Services and would reduce Adult Services by \$2.2 million. The Executive proposal would also shift approximately 1,900 elderly clients to the Arizona Long Term Care System (ALTCS), where the federal government would pay two-thirds and the counties one-third of the cost of care.

Both the Governor and JLBC Staff Recommend No Increase in Funding for Seriously Mentally Ill Services and Both Annualize Supplemental Costs of Children's Behavioral Health Title XIX State Matching Funds

The JLBC Staff and the Governor both recommend a moratorium on funding increases for the Seriously Mentally Ill (SMI) while systemic problems are rectified. Current estimates indicate that the Children's Behavioral Health Title XIX State Match (CBHXIX) program requires additional funding of approximately \$4 million for FY 1993. Both the JLBC Staff and the Governor have annualized this cost for FY 1994 to avoid any future shortfall.

The Governor Reduces Mental Health Expenditures by \$2 million, and Public Health Programs by \$800,000, While the JLBC Staff Maintains Current Mental Health Funding and Reduces Public Health Programs by \$2.8 million

The Governor reduces funding for the non-SMI adult mental health population by \$2 million, or 20%, from current levels. The Governor also eliminates 3 public health programs, Medical Malpractice, Rural Obstetrics, and Reimbursements to Counties. The JLBC Staff does not reduce mental health funding. The JLBC Staff eliminates or reduces the same 3 public health programs as the Governor, but also eliminates 5 additional programs, the Health Effects Studies, Direct Grants, Prenatal Outreach, WIC Supplemental Funding and Nutrition Subventions. These programs are either newly created or expanded, primarily privately or federally funded, or are primarily county responsibilities.

EDUCATION

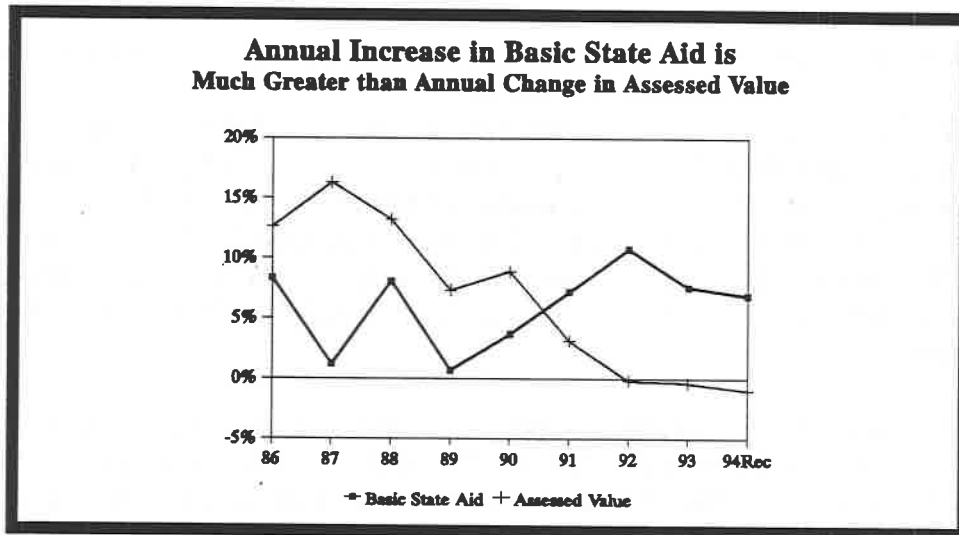
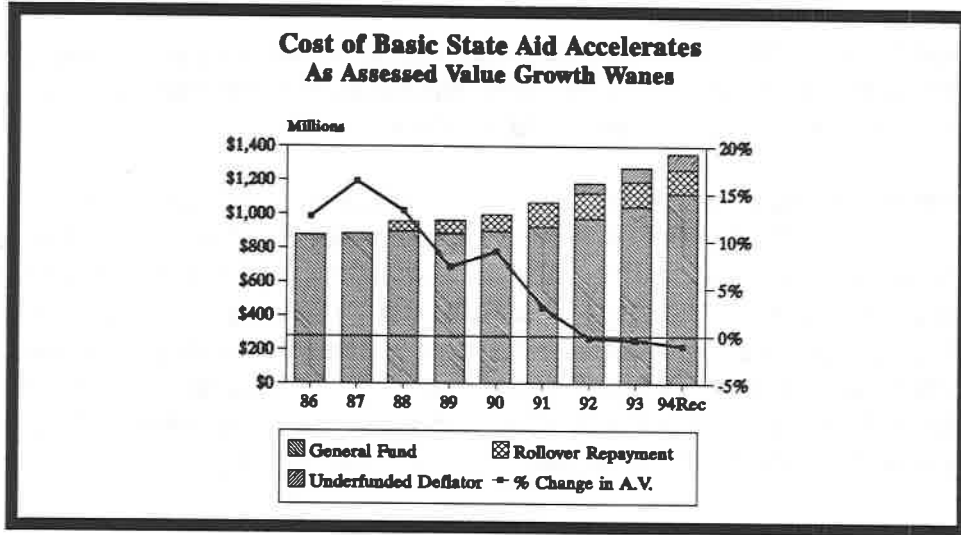
The JLBC Staff Recommends ^{\$16}~~\$37~~ Million Less for K-12 Education than the Executive

Both Recommendations Fully Fund Student Growth, but do not Fund the GNP Deflator

The JLBC Staff recommendation includes an increase of \$76.9 million to fund 25% growth in preschool disabilities, 3.5% growth in elementary and 3.5% growth in the high school student count. The Executive recommendation includes \$77.3 million to fund 20% growth in preschool disabilities, 3.2% in elementary and 3.5% at the high school level. The estimated 2.7% GNP Price Deflator is not funded in either recommendation. To fund the adjustment would require an increase of \$63.7 million to the JLBC Staff recommendation.

The JLBC Staff recommendation assumes a 1% decline in statewide assessed value, while the Executive budget assumes no change. The JLBC Staff considers the trend decline in assessed value and its impact on state financing of K-12 education to be one of the most critical budgetary problems facing the Legislature today. The framers of the Basic State Aid formula did not contemplate a time when assessed value growth would be less than the sum of pupil growth and inflation, yet alone a time when statewide assessed value would actually decline from the prior year as we now expect it will for a 3rd consecutive year. This fact is essential to understanding our current and prospective difficulty in fully funding the Basic State Aid formula.

In very simple terms, when assessed value grows by more than the sum of pupil growth and inflation (currently 3.5% and 2.7%, respectively, or 6.2% collectively), the state general fund cost will grow by less than the sum of the two; conversely, when assessed value grows by less than the sum of the two, the state cost increases by more than the sum of pupil growth and inflation. It should be noted that each 1% of assessed value growth is worth over \$8 million to the state's cost of Basic State Aid. Thus, if statewide assessed value growth were 6.2% instead of a decline of 1%, the cost to the state would be reduced by approximately \$60 million.



The JLBC Staff Recommends Phasing Out Career Ladders and Teacher Experience Index over 2 Years

The JLBC Staff recommendation includes a reduction of \$11.9 million for Career Ladders and \$9.5 million for the Teacher Experience Index (TEI) computation. Career Ladder funding currently goes to 22 school districts that have a teacher performance program approved by the Department of Education. The program allows the Base Level per student to be increased by percentages set in statute (up to 5.5%). TEI funding allows districts, with teacher experience levels above the statewide average teacher experience level, to increase their Base Level by the percentage above the average.

Calculating Basic State Aid on a K-12 Basis for Unified School Districts

The JLBC Staff recommendation includes a reduction of \$8.0 million to reflect a recommended change in the Basic State Aid formula which will require districts to use a combined equalization assistance base for K-8 and 9-12 and a Qualifying Tax Rate (QTR) of \$4.72 when calculating State Aid. This will remove inequities in school finance that allows certain unified districts to receive state aid even though their primary operating tax levy is less than the QTR.

Reducing and/or "Block-Granting" Certain Non-Formula Programs

The JLBC Staff recommends eliminating the funding for the Education Commission of the States \$(45,000), AZ Humanities Council \$(40,000), and the AZ Principals Academy \$(25,200).

The JLBC Staff also recommends reducing Adult Education, Chemical Abuse, Dropout Prevention, Gifted Support, Preschool At-Risk, and K-3 Support by 20% for a savings of \$3.0 million. Under the Staff proposal, school districts will receive this funding, based on a district's ADM count, under a block grant approach, which will allow districts to spend the monies on any combination of the 6 programs, at the district's preference.

In addition, Vocational Education Assistance, Vocational Education Program Support and Vocational and Technological Education are reduced by 10% in the JLBC Staff recommendation, for a savings of \$0.6 million.

Rapid Decline Reduction/Maintain Sudden Growth @ 64%

The JLBC Staff recommends a reduction of \$1.4 million for Rapid Decline based on a change in the qualifying percentage from 95% to 90%. The Executive recommendation funds Rapid Decline at 32% of the requirement for a savings of \$1.5 million.

Although both recommendations portend to maintain Sudden Growth at 64% of the requirement, the JLBC Staff includes a \$1.5 million increase from FY 1993 in recognition of higher funding requirements, which is not included in the Executive budget.

Both Recommendations Would Reduce University Appropriations by 2% from FY 1993; Additionally, the JLBC Staff Recommends the Elimination of Tuition Waivers for University Employees, their Spouses and Dependents

Both recommendations include funding for the annualization of the FY 1993 Pay Adjustment. The JLBC Staff recommendation provides funding adjustments for student enrollment changes for Arizona State University - Main, Northern Arizona University, University of Arizona and Arizona State University - West with a net increase of 1,725 full-time equivalent students, while the Governor's recommendation provides funding for a net increase of only 852 FTE students for the 3 main campuses without recognizing 873 new FTE students for ASU - West.

The JLBC Staff recommendation includes funding for ERE rate adjustments and facilities annualization, while the Governor recommends no funding adjustments for these 2 items. Both recommendations include a lump sum reduction from the respective baseline budgets. In addition, the JLBC Staff recommends the elimination of the university employees' and dependents' tuition/fee waivers. Consequently, although both budgets share a similar "bottomline," there are significant differences between the recommendations for certain campuses.

The JLBC Staff Recommends \$1 Million Fewer for Community Colleges than in FY 1993, but \$2.5 Million more than the Executive

The JLBC Staff recommendation fully funds student growth and then reduces Operating State Aid and Equalization Aid by 6% to adjust the figures downward to bring the overall budget \$1.0 million below the FY 1993 level. The JLBC Staff recommendation holds Capital Outlay Aid at the FY 1993 level. The Executive recommendation holds Operating State Aid and Equalization Aid at the FY 1993 level while cutting Capital Aid by \$3.4 million or 33.1% from the FY 1993 capital funding level.

PROTECTION AND SAFETY

While the Department of Corrections is substantially Increased in Both Budgets, the JLBC Staff Recommended General Fund Increase is \$6.6 Million Below the Governor

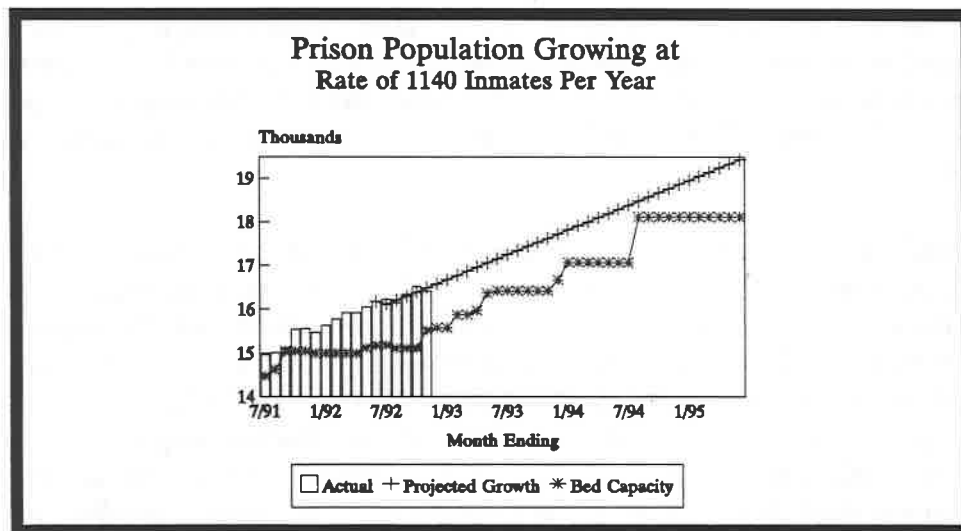
The state prison population continues to grow at a rate of 95 per month, or 1,140 inmates per year. Currently, all prisons are operating in excess of their capacities. In FY 1993, 800 new prison beds will open. Additionally, the department expects to contract for 450 community provider beds that will provide alcohol and substance abuse treatment. Even with these beds, it now appears that there will be a bed shortfall of 735 on June 30, 1993.

In FY 1994, it is projected that the bed shortfall will reach 1,300 beds in December of 1993. The recommendations of both the JLBC Staff and the Executive fund the opening of the new 250 bed women's prison at Tucson in January of 1994 and the first 400 beds of the Meadows Prison for men in February. With the addition of these 2 facilities, the bed shortage should drop to about 850 in February.

Under the recommendations of the JLBC Staff, which do not include funding in FY 1994 to open the second 400 beds of the Meadows Prison, the bed shortfall could reach 1,225 by the end of FY 1994. The Executive recommendations do fund the opening of Meadows Prison's second 400 beds and would reduce the projected year end shortfall to 825 beds. Both the JLBC Staff and Executive recommendations delay the opening of the 400 male bed Winchester drug treatment unit at Tucson, and the 250 male bed Apache unit at Winslow until FY 1995. The bed shortfall is expected to continue throughout FY 1995 even with the addition of these 650 beds.

The JLBC Staff recommendation includes \$1.5 million for a Correctional Service Officer (CSO) Series pay plan. The department has experienced high turnover rates resulting from the non-competitive salaries for employees in this classification. A competitive salary plan should increase CSO retention and strengthen officer experience levels, as well as reduce training, recruiting and overtime costs.

In sum, the JLBC Staff General Fund recommendation is \$6.4 million less than the Governor's, due in large part to the deferral of the opening of the second 400 beds at the Meadows Prison until FY 1995, and an additional \$2.1 million of Corrections Fund offset not included in the Governor's recommendation. Nevertheless, on a total funds basis, the JLBC Staff recommended budget for the department is \$27.6 million, or 10.2% higher than FY 1993.



CAPITAL OUTLAY

Once Again, the General Fund Capital Outlay Budget Relies Heavily on Non-General Fund Revenue Sources and Lease-Purchase to meet Minimal Construction Requirements

The JLBC Staff recommendation for General Fund Capital Outlay projects is \$2.2 million, including \$1.2 million for Fire and Life Safety projects, \$400,000 for projects to move the state toward compliance with the Americans with Disabilities Act (ADA), and \$600,000 to

renovate a state building that will permit a reduction of the state's private sector rent payments. The only Capital Outlay projects recommended by the Executive are \$1 million for ADA compliance.

The JLBC Staff recommendation for Building Renewal (major maintenance and repair of state-owned facilities) is \$6.1 million, based on 41% support of the DOA Building System formula, and 17% support of the Regents formula. The Executive recommends \$10 million for Building Renewal, based on 67% support for the DOA Building System and 27% support of the Regents Building System.

OTHER ISSUES

JLBC Staff Recommendations Incorporate both Auditor General and Project SLIM recommendations.

The JLBC Staff has reviewed the prior year Auditor General Performance Audits and incorporated their findings where appropriate. For example, the Auditor General found that the administrative structure of the Arizona Schools for the Deaf and Blind could be streamlined by eliminating 10 FTE positions. The JLBC Staff has essentially incorporated the Auditor's findings into its recommendation for a savings of \$462,000.

The Auditor General also recommended the use of more random sampling by the Department of Weights and Measures in their inspections, which would eliminate 19 positions from the Enforcement Division. The JLBC Staff has recommended the deletion of these positions for a net savings of \$291,900. First year reduction-in-force costs reduce the initial savings from this proposal.

The JLBC Staff has also reviewed Project SLIM findings. Several Project SLIM proposals have already been utilized to help agencies achieve the lump sum reductions which were included in the FY 1993 budget. In terms of new FY 1994 initiatives, the major proposals are a) \$3.5 million in additional revenue due to the more efficient use of tax enforcement types of positions in the Department of Revenue; b) \$3.1 million in General Fund and \$2.2 million in Highway Fund savings from Project SLIM restructuring proposals for the Department of Public Safety; and c) a cost avoidance of \$2.7 million from not having to add additional welfare eligibility workers as the Department of Economic Security can use Project SLIM recommendations to reallocate 165 existing positions.

The JLBC Staff Recommendation would Result in a Spending Level Substantially Below the State Appropriation Limit

Article IX, Section 17, of the Arizona Constitution restricts the appropriation of certain state revenues to an amount equivalent to 7.23% of Arizona personal income. The state appropriation limit for FY 1994 is estimated to be \$5.3 billion, based upon a projected personal income estimate of \$73.6 billion. Under the JLBC Staff recommendation, total

spending would be \$4.7 billion, or 6.34% of personal income. The state would need to expend an additional \$650 million to reach the appropriation limit.

For FY 1993, the state appropriation limit is \$5.0 billion. In contrast, actual appropriations subject to the limit are estimated to be \$4.6 billion, or 6.66% of personal income. JLBC Staff will shortly be providing its detailed calculations of the Appropriations Limit under separate cover.

The JLBC Staff Recommends Certain Policy Issues that Generate Revenue

The JLBC Staff is recommending several policy issues which will result in increased General Fund revenue of \$8.4 million:

Reversion from the Industrial Commission Administrative Fund

The operating budget for the Arizona Industrial Commission is funded from the Administrative Fund, which is the repository for the 3% tax on workers compensation insurance premiums. As provided by law, any excess reverts to the Industrial Commission Special Fund, which when combined with investment earnings provides the major revenues for the Special Fund. However, because most of the Special Fund's liabilities relate to pre-1973 workers compensation claims, prior to worker's compensation becoming mandatory, the Special Fund has a large and growing unobligated surplus (\$73.7 million as of June 30, 1991, even under very conservative actuarial assumptions).

In light of what we believe to be an overfunded Special Fund, the JLBC Staff recommends that the Legislature specify that the Administrative Fund reversion on June 30, 1993 be deposited, instead, in the State General Fund, for an expected one-time gain of \$7.5 million. Furthermore, the Legislature may wish to lower the workers compensation premium in-lieu tax, or identify an additional purpose for the tax given the likelihood that the Special Fund unobligated surplus will likely continue to grow. Finally, in order to better anticipate the prospective condition of the Industrial Commission Special Fund, the JLBC Staff recommends that we secure the services of a nationally-known actuarial firm to conduct an audit of the actuarial assumptions being utilized by the Industrial Commission Board for the Special Fund.

State Treasurer's Investment Management Fee

Ch. 312, Laws 1992 authorized the State Treasurer to charge a management fee of up to 12 basis points (12/100ths of 1%) from earnings of all monies invested with the office. The logic behind the assessment is the belief that the Treasurers' yield is greater than the yield each participating entity could achieve on its own, and the fact that a private investment management firm would charge a fee of up to 18 basis points. Proceeds are deposited into the General Fund. Although the expected yield was \$2.8 million, the State Treasurer decided to initially charge just 10 basis points. Given the current plight of state finances and the need to add 4 FTE's to the State Treasurer's budget for investment-

related activities, it is recommended that the State Treasurer deduct the additional 2 basis points permitted under law for a gain of \$500,000.

Registrar of Contractors

The Registrar of Contractors generate fees totalling approximately \$7 million which are deposited in the General Fund. However, the appropriation from the General Fund to the Registrar is approximately \$4 million. Despite this significant net gain to the General Fund, the Governor has recommended a 4% decrease in the Registrar's appropriation. Instead, the JLBC Staff is recommending an increase of \$400,000 to fund 2 key policy issues requested by the agency. First, a Lake Havasu office would be established to address the substantial growth of activity along the Colorado River and western portion of the state. Second, the testing function, which has been contracted through a California firm, would be brought "in-house". These 2 issues would bring in additional revenue to the General Fund of \$250,000 in FY 1994 and over \$400,000 in FY 1995, meaning that they will result in a net gain to the General Fund in the second year and thereafter.

Loss of Revenue from Phase-Out of Brand Inspections in the Department of Agriculture

The JLBC Staff has recommended the phase-out of agricultural livestock brand inspections to save \$1.1 million in FY 1994 and over \$2 million in FY 1995. Instead, like the State of Texas, the responsibility for brand inspections would be turned over to an association of firms in the livestock industry. The Staff has suggested that regulatory and tax relief for this industry could offset their higher costs of self-policing their industry. A consequence of this recommendation is the loss of certain fees which are deposited in the General Fund; this loss is estimated at \$188,000 in FY 1994 and \$325,000 in FY 1995.

Gain from Acceleration of Land Department Sales

The JLBC Staff has recommended 2 additional FTE positions for the Land Department to help eliminate the current backlog of prospective land sales. The state General Fund receives a fee based upon the sales proceeds to help defer the state's costs related to the sale, such as an appraisal. It is anticipated that these positions will generate an additional \$300,000 as the backlog of state land sales is reduced.

The JLBC Staff and the Governor are Recommending Second Year Budgets for the First Time

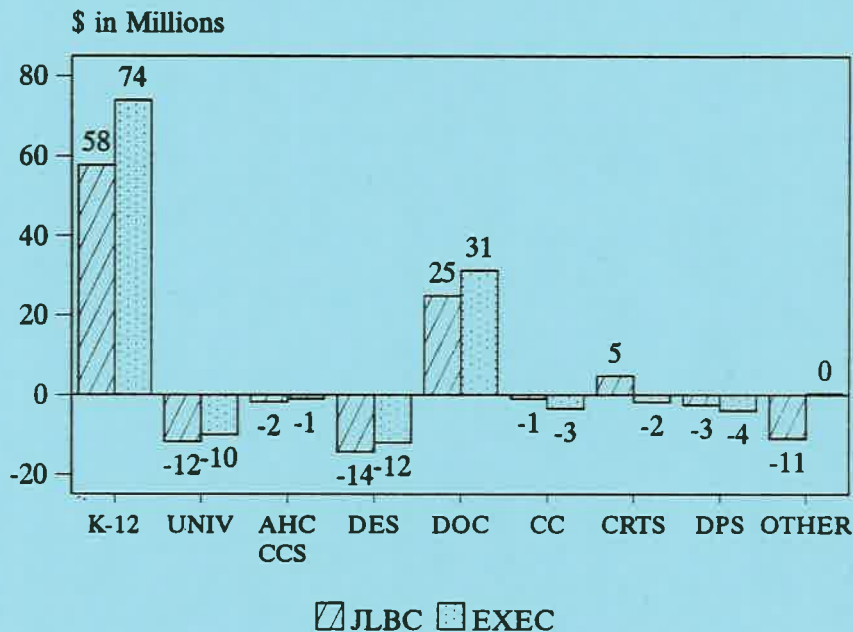
The JLBC Staff and the Executive are recommending both FY 1994 and FY 1995 budgets for the 26 "90/10" agencies. These agencies typically regulate a professional class of workers and are financed through fees on their members. The agency retains 90% of the fees and deposits the remaining 10% into the General Fund. This 2-year approach should allow these agencies to more predictably manage their funds over the biennium and will result in time savings as they will not have to prepare a separate FY 1995 budget request. In addition, this change will allow the Appropriations Committees and the respective budget staffs to focus on larger budgets during the 1994 session.

TABLES AND GRAPHS

**TEN LARGEST GENERAL FUND AGENCIES
FY 1994 JLBC STAFF RECOMMENDATION
COMPARISON WITH EXECUTIVE RECOMMENDATION AND FY 1993 APPROPRIATIONS**

AGENCY	FY 1993 Appropriation	FY 1994 Executive Recommendation	FY 1994 JLBC Staff Recommendation	\$ Difference JLBC - Executive	\$ Difference JLBC - FY 1993
K-12	1,371,509,400	1,445,377,600	1,429,167,100	(16,210,500)	57,657,700
UNIVERSITIES	532,987,100	523,083,300	521,277,600	(1,805,700)	(11,709,500)
AHCCCS	455,859,800	454,859,800	454,079,900	(779,900)	(1,779,900)
DEPT OF ECONOMIC SECURITY	366,550,700	354,503,600	352,232,400	(2,271,200)	(14,318,300)
DEPT OF CORRECTIONS	253,797,000	285,224,500	278,843,600	(6,380,900)	25,046,600
DEPT OF HEALTH SERVICES	200,255,400	201,579,700	200,582,300	(997,400)	326,900
COMMUNITY COLLEGES	86,266,500	82,826,700	85,266,500	2,439,800	(1,000,000)
COURTS	78,854,000	77,046,000	83,644,900	6,598,900	4,790,900
DEPT OF REVENUE	47,106,100	48,000,000	47,571,600	(428,400)	465,500
DEPT OF PUBLIC SAFETY	38,235,300	34,382,800	35,747,700	1,364,900	(2,487,600)
ALL OTHER	231,443,400	229,642,100	219,703,100	(9,939,000)	(11,740,300)
TOTAL	3,662,864,700	3,736,526,100	3,708,116,700	(28,409,400)	45,252,000

**JLBC STAFF vs EXECUTIVE RECOMMENDATION
DOLLAR CHANGE FROM FY 1993**

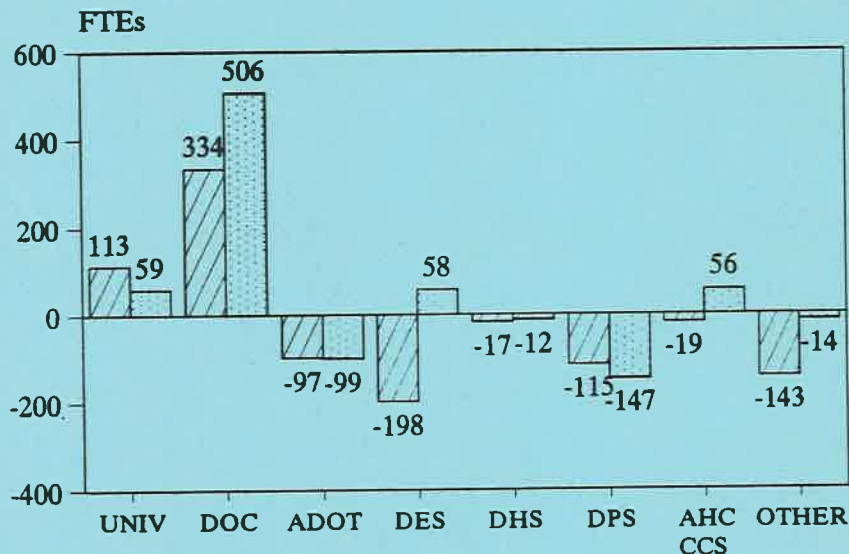


**FULL-TIME EQUIVALENT POSITIONS - TOTAL APPROPRIATED FUNDS
TEN LARGEST AGENCIES
FY 1994 JLBC STAFF RECOMMENDATION
COMPARISON WITH EXECUTIVE RECOMMENDATION AND FY 1993 FTE POSITIONS**

AGENCY	FY 1993 Estimate	FY 1994 Executive Recommend. ^{1/}	FY 1994 JLBC Staff Recommend.	# Difference JLBC - Executive	# Difference JLBC - FY 1993
UNIVERSITIES	10,670.10	10,729.10	10,783.10	54.00	113.00
DEPT OF CORRECTIONS	6,465.40	6,971.40	6,799.40	(172.00)	334.00
DEPT OF TRANSPORTATION	3,316.00	3,217.00	3,219.00	2.00	(97.00)
DEPT OF ECONOMIC SECURITY	2,726.10	2,784.10	2,528.00	(256.10)	(198.10)
DEPT OF HEALTH SERVICES	1,706.80	1,694.70	1,690.00	(4.70)	(16.80)
DEPARTMENT OF PUBLIC SAFETY	1,617.00	1,470.00	1,502.00	32.00	(115.00)
DEPT OF REVENUE	1,236.00	1,236.00	1,210.00	(26.00)	(26.00)
AHCCCS	981.50	1,037.40	962.80	(74.60)	(18.70)
DEPT OF ADMINISTRATION	790.30	807.30	804.00	(3.30)	13.70
DEPT OF YOUTH TRTMENT & REHAB	651.00	665.00	658.00	(7.00)	7.00
ALL OTHER	5,397.70	5,352.30	5,260.20	(92.10)	(137.50)
TOTAL	35,557.90	35,964.30	35,416.50	(547.80)	(141.40)

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

**JLBC STAFF vs EXECUTIVE RECOMMENDATION
FTE CHANGE FROM FY 1993**



▨ JLBC ■ EXEC

GENERAL FUND SUMMARY

	FY 1993 ESTIMATE	FY 1994 EXEC REC.	FY 1994 JLBC REC.	JLBC REC.- FY 1993	JLBC REC.- EXEC REC.
GENERAL GOVERNMENT					
ADMINISTRATION, DEPARTMENT OF	21,470,600	23,710,900	23,490,900	2,020,300	(220,000)
GOVERNOR - AFFIRMATIVE ACTION	240,600	244,700	239,500	(1,100)	(5,200)
ATTORNEY GENERAL	18,612,800	19,527,700	18,572,200	(40,600)	(955,500)
COMMERCE, DEPARTMENT OF	3,641,800	3,867,100	3,690,000	48,200	(177,100)
COURTS					
Court of Appeals	8,055,200	7,903,600	7,904,700	(150,500)	1,100
Comm on Appellate and Trial Court Appts	3,500	3,400	10,000	6,500	6,600
Commission on Judicial Conduct	139,400	135,500	151,200	11,800	15,700
Superior Court	59,915,700	58,547,600	64,954,600	5,038,900	6,407,000
Supreme Court	10,740,200	10,455,900	10,624,400	(115,800)	168,500
TOTAL	78,854,000	77,046,000	83,644,900	4,790,900	6,598,900
GOVERNOR, OFFICE OF THE	6,772,200	5,806,000	5,806,000	(966,200)	0
GOVERNOR - OSPB	2,494,500	1,256,600	1,256,600	(1,237,900)	0
LAW ENFORCEMENT MERIT SYS COUNCIL	41,000	42,700	41,200	200	(1,500)
LEGISLATURE					
Auditor General	7,204,300	7,204,300	7,078,100	(126,200)	(126,200)
House of Representatives	7,146,900	7,146,900	7,146,900	0	0
Joint Legislative Budget Committee	1,726,400	1,726,400	1,774,500	48,100	48,100
Legislative Council	4,044,900	2,544,900	2,519,900	(1,525,000)	(25,000)
Library, Archives & Public Records	4,775,000	4,775,000	4,682,600	(92,400)	(92,400)
Senate	5,751,800	5,751,800	5,751,800	0	0
TOTAL	30,649,300	29,149,300	28,953,800	(1,695,500)	(195,500)
PERSONNEL BOARD	228,900	231,700	230,000	1,100	(1,700)
REVENUE, DEPARTMENT OF	47,106,100	48,000,000	47,571,600	465,500	(428,400)
SECRETARY OF STATE	4,373,300	1,756,800	1,729,800	(2,643,500)	(27,000)
TAX APPEALS, BOARD OF	681,700	672,600	685,700	4,000	13,100
TOURISM, OFFICE OF	5,629,700	5,410,500	5,407,100	(222,600)	(3,400)
TREASURER, STATE	3,337,900	3,364,300	3,492,600	154,700	128,300
UNIFORM STATE LAWS, COMMISSION ON	23,400	23,800	22,900	(500)	(900)
TOTAL - GENERAL GOVERNMENT	224,157,800	220,110,700	224,834,800	677,000	4,724,100
HEALTH AND WELFARE					
AHCCCS	455,859,800	454,859,800	454,079,900	(1,779,900)	(779,900)
ECONOMIC SECURITY, DEPARTMENT OF	366,550,700	354,503,600	352,232,400	(14,318,300)	(2,271,200)
ENVIRONMENTAL QUALITY, DEPT OF	10,063,900	9,653,400	9,631,800	(432,100)	(21,600)
HEALTH SERVICES, DEPARTMENT OF	200,255,400	201,579,700	200,582,300	326,900	(997,400)
HEARING IMPAIRED, COUNCIL FOR THE	198,800	206,700	206,900	8,100	200
INDIAN AFFAIRS, COMMISSION OF	155,900	160,500	161,500	5,600	1,000
PIONEERS' HOME	2,625,700	2,963,200	1,775,000	(850,700)	(1,188,200)
RANGERS' PENSIONS	9,500	9,800	9,800	300	0
VETERANS' SERVICE COMMISSION	750,600	770,000	774,700	24,100	4,700
TOTAL - HEALTH AND WELFARE	1,036,470,300	1,024,706,700	1,019,454,300	(17,016,000)	(5,252,400)
INSPECTION AND REGULATION					
AGRIC. EMPLOYMENT RELATIONS BD.	166,300	0	0	(166,300)	0
AGRICULTURE, DEPT. OF	9,161,500	8,829,900	7,642,300	(1,519,200)	(1,187,600)
BANKING DEPARTMENT	2,400,300	2,439,400	2,142,600	(257,700)	(296,800)
BOXING COMMISSION	51,600	58,500	59,200	7,600	700
BUILDING AND FIRE SAFETY, DEPT. OF	2,787,000	2,847,200	2,818,000	31,000	(29,200)
CONTRACTORS, REGISTRAR OF	3,729,900	3,729,900	4,148,200	418,300	418,300
CORPORATION COMMISSION	4,941,800	5,009,500	5,087,600	145,800	78,100
INSURANCE, DEPARTMENT OF	3,081,900	3,283,700	2,869,700	(212,200)	(414,000)
LIQUOR LICENSES AND CONTROL, DEPT.	1,933,700	1,908,600	1,911,500	(22,200)	2,900

GENERAL FUND SUMMARY

	FY 1993 ESTIMATE	FY 1994 EXEC REC.	FY 1994 JLBC REC.	JLBC REC.- FY 1993	JLBC REC.- EXEC REC.
MINE INSPECTOR	618,100	632,200	610,300	(7,800)	(21,900)
OSHA REVIEW BOARD	9,000	9,000	9,000	0	0
RACING, DEPARTMENT OF	2,466,400	2,458,900	2,398,500	(67,900)	(60,400)
RADIATION REGULATORY AGENCY	912,600	933,700	926,700	14,100	(7,000)
REAL ESTATE DEPARTMENT	2,741,100	2,830,000	2,511,500	(229,600)	(318,500)
WEIGHTS AND MEASURES, DEPT. OF	1,941,500	1,808,400	1,721,800	(219,700)	(86,600)
TOTAL - INSPECTION & REGULATION	36,942,700	36,778,900	34,856,900	(2,085,800)	(1,922,000)
EDUCATION					
ARTS, COMMISSION ON THE	1,305,300	1,270,600	993,600	(311,700)	(277,000)
COMMUNITY COLLEGES	86,266,500	82,826,700	85,266,500	(1,000,000)	2,439,800
DEAF AND THE BLIND, SCHOOL FOR THE	15,134,000	15,399,100	15,067,900	(66,100)	(331,200)
EDUCATION, DEPARTMENT OF	1,371,509,400	1,445,377,600	1,429,167,100	57,657,700	(16,210,500)
HISTORICAL SOCIETY, ARIZONA	3,249,300	3,341,200	3,349,100	99,800	7,900
HISTORICAL SOCIETY, PRESCOTT	509,400	522,200	546,100	36,700	23,900
MEDICAL STUDENT LOANS BOARD	1,000	1,000	1,000	0	0
UNIVERSITIES					
Arizona State University - Main	181,778,600	179,562,300	178,381,900	(3,396,700)	(1,180,400)
Arizona State University - West	26,775,000	26,031,000	28,045,700	1,270,700	2,014,700
Northern Arizona University	73,489,200	73,527,000	71,433,600	(2,055,600)	(2,093,400)
Board of Regents	7,058,100	6,799,700	6,689,500	(368,600)	(110,200)
University of Arizona - Main	199,336,000	194,091,800	193,468,300	(5,867,700)	(623,500)
University of Arizona - Medicine	44,550,200	43,071,500	43,258,600	(1,291,600)	187,100
TOTAL	532,987,100	523,083,300	521,277,600	(11,709,500)	(1,805,700)
TOTAL - EDUCATION	2,010,962,000	2,071,821,700	2,055,668,900	44,706,900	(16,152,800)
PROTECTION AND SAFETY					
CORRECTIONS, DEPARTMENT OF	253,797,000	285,224,500	278,843,600	25,046,600	(6,380,900)
CRIMINAL JUSTICE COMMISSION, ARIZONA	2,000,000	1,000,000	1,000,000	(1,000,000)	0
EMRG. & MILITARY AFFAIRS, DEPT. OF	4,072,000	3,962,700	3,958,800	(113,200)	(3,900)
PARDONS AND PAROLES, BOARD OF	2,089,400	2,025,600	2,017,000	(72,400)	(8,600)
PUBLIC SAFETY, DEPARTMENT OF	38,235,300	34,382,800	35,747,700	(2,487,600)	1,364,900
YOUTH TREATMENT REHAB., DEPT OF	28,521,700	30,878,400	30,934,800	2,413,100	56,400
TOTAL - PROTECTION AND SAFETY	328,715,400	357,474,000	352,501,900	23,786,500	(4,972,100)
TRANSPORTATION					
TRANSPORTATION, DEPARTMENT OF	69,700	69,700	69,700	0	0
NATURAL RESOURCES					
ENVIRONMENT, COMMISSION ON THE AZ	106,800	109,400	0	(106,800)	(109,400)
GEOLOGICAL SURVEY, ARIZONA	623,900	610,300	617,000	(6,900)	6,700
LAND DEPARTMENT	8,029,300	7,961,700	7,956,100	(73,200)	(5,600)
MINES & MINERAL RESOURCES, DEPT. OF	609,400	613,400	610,400	1,000	(3,000)
PARKS BOARD	4,563,600	4,617,600	0	(4,563,600)	(4,617,600)
WATER RESOURCES, DEPARTMENT OF	11,613,800	11,652,000	11,546,700	(67,100)	(105,300)
TOTAL - NATURAL RESOURCES	25,546,800	25,564,400	20,730,200	(4,816,600)	(4,834,200)
AGENCY TOTAL	3,662,864,700	3,736,526,100	3,708,116,700	45,252,000	(28,409,400)
Health Insurance Trust Fund	808,000			(808,000)	0
Redistricting Commission Reversion	25,000			(25,000)	0
Unallocated Salary Adjustments	8,400			(8,400)	0
OPERATING BUDGET TOTAL	3,663,706,100	3,736,526,100	3,708,116,700	44,410,600	(28,409,400)

OTHER APPROPRIATED FUNDS SUMMARY

	FY 1993 ESTIMATE	FY 1994 EXEC REC.	FY 1994 JLBC REC.	JLBC REC.- FY 1993	JLBC REC.- EXEC REC.
GENERAL GOVERNMENT					
ADMINISTRATION, DEPARTMENT OF	78,065,000	113,037,700	110,283,800	32,218,800	(2,753,900)
ATTORNEY GENERAL	3,274,600	3,697,600	3,957,900	683,300	260,300
COLISEUM AND EXPOSITION CENTER	13,101,900	13,388,900	13,388,900	287,000	0
COMMERCE, DEPARTMENT OF	1,952,600	2,038,000	1,964,800	12,200	(73,200)
SUPERIOR COURT	639,500	652,600	751,900	112,400	99,300
GOVERNOR, OFFICE OF THE	1,501,700	0	0	(1,501,700)	0
LOTTERY, ARIZONA	36,960,500	41,700,000	38,883,200	1,922,700	(2,816,800)
RETIREMENT SYSTEM	4,981,300	4,086,700	3,304,700	(1,676,600)	(782,000)
TOTAL - GENERAL GOVERNMENT	140,477,100	178,601,500	172,535,200	32,058,100	(6,066,300)
HEALTH AND WELFARE					
ECONOMIC SECURITY, DEPARTMENT OF	812,800	646,300	644,500	(168,300)	(1,800)
ENVIRONMENTAL QUALITY, DEPT	1,912,900	2,222,500	2,078,900	166,000	(143,600)
HEALTH SERVICES, DEPARTMENT OF	12,699,400	1,616,200	6,041,000	(6,658,400)	4,424,800
PIONEERS' HOME, ARIZONA	0	0	1,200,000	1,200,000	1,200,000
VETERANS' SERVICE COMMISSION	391,000	431,100	451,900	60,900	20,800
TOTAL - HEALTH AND WELFARE	15,816,100	4,916,100	10,416,300	(5,399,800)	5,500,200
INSPECTION AND REGULATION					
AGRICULTURE, DEPT. OF	1,749,200	1,612,400	1,673,600	(75,600)	61,200
CORPORATION COMMISSION	5,684,200	5,687,900	5,588,000	(96,200)	(99,900)
INDUSTRIAL COMMISSION	12,318,500	12,716,100	12,617,000	298,500	(99,100)
RACING, DEPARTMENT OF	348,400	353,600	355,800	7,400	2,200
RADIATION REGULATORY AGENCY	91,100	89,400	93,300	2,200	3,900
RESIDENTIAL UTILITY CONSUMER OFFICE	1,018,400	1,003,100	1,011,900	(6,500)	8,800
WEIGHTS AND MEASURES, DEPT. OF	618,300	973,400	1,015,200	396,900	41,800
ACCOUNTANCY, BOARD OF	789,800	952,200	943,700	153,900	(8,500)
APPRAISAL, BOARD OF	221,100	220,100	224,000	2,900	3,900
BARBERS, BOARD OF	139,900	144,900	143,000	3,100	(1,900)
BEHAVIORAL HEALTH EXAMINERS, BD OF	251,200	292,400	291,200	40,000	(1,200)
CHIROPRACTIC EXAMINERS, BOARD OF	228,400	234,400	225,600	(2,800)	(8,800)
COSMETOLOGY, BOARD OF	596,800	619,000	626,700	29,900	7,700
DENTAL EXAMINERS, BOARD OF	467,300	493,300	476,900	9,600	(16,400)
FUNERAL DIRECTORS & EMBALMERS, BD	169,400	164,700	172,900	3,500	8,200
HOMEOPATHIC EXAMINERS, BOARD OF	18,600	19,600	19,100	500	(500)
MEDICAL EXAMINERS, BOARD OF	2,370,600	2,593,800	2,562,300	191,700	(31,500)
NATUROPATHIC PHYSICIANS BOARD	26,200	36,100	40,200	14,000	4,100
NURSING, BOARD OF	1,060,200	1,105,000	1,089,600	29,400	(15,400)
NURSING CARE INSTITUTIONAL ADMIN. BD.	61,900	63,800	63,500	1,600	(300)
OCCUPATIONAL THERAPY EXAM., BOARD OF	53,700	69,200	90,700	37,000	21,500
OPTICIANS, BOARD OF DISPENSING	60,200	63,900	65,700	5,500	1,800
OPTOMETRY, BOARD OF	97,300	96,300	95,900	(1,400)	(400)
OSTEOPATHIC EXAMINERS, BOARD OF	256,600	290,600	274,200	17,600	(16,400)
PHARMACY, BOARD OF	623,900	640,300	646,200	22,300	5,900
PHYSICAL THERAPY EXAMINERS, BOARD	66,500	70,400	72,200	5,700	1,800
PODIATRY EXAMINERS, BOARD OF	44,400	50,400	50,100	5,700	(300)
PRIVATE POSTSECONDARY EDUCATION	135,700	130,100	130,300	(5,400)	200
PSYCHOLOGIST EXAMINERS, BOARD OF	174,400	177,100	172,400	(2,000)	(4,700)
RESPIRATORY CARE EXAMINERS BOARD	118,000	117,900	134,000	16,000	16,100
STRUCTURAL PEST CONTROL COMM	976,900	1,057,900	1,020,200	43,300	(37,700)
TECHNICAL REGISTRATION, BOARD OF	867,200	907,400	863,700	(3,500)	(43,700)
VETERINARY MED EXAMINING BOARD	158,400	166,100	170,900	12,500	4,800
TOTAL - INSPECTION & REGULATION	31,862,700	33,212,800	33,020,000	1,157,300	(192,800)

OTHER APPROPRIATED FUNDS SUMMARY

	FY 1993 ESTIMATE	FY 1994 EXEC REC.	FY 1994 JLBC REC.	JLBC REC.- FY 1993	JLBC REC.- EXEC REC.
EDUCATION					
DEAF AND THE BLIND, SCHOOL FOR THE	4,993,400	5,117,300	4,768,300	(225,100)	(349,000)
TOTAL - EDUCATION	4,993,400	5,117,300	4,768,300	(225,100)	(349,000)
PROTECTION AND SAFETY					
CORRECTIONS, DEPARTMENT OF	17,048,000	17,436,400	19,600,000	2,552,000	2,163,600
CRIMINAL JUSTICE COMMISSION, ARIZONA	512,000	554,600	526,100	14,100	(28,500)
EMRG. & MILITARY AFFAIRS, DEPT. OF	0	0	0	0	0
PUBLIC SAFETY, DEPARTMENT OF	48,679,000	49,223,500	47,538,200	(1,140,800)	(1,685,300)
YOUTH TREATMENT REHAB., DEPT OF	3,008,600	2,996,200	2,740,100	(268,500)	(256,100)
TOTAL - PROTECTION AND SAFETY	69,247,600	70,210,700	70,404,400	1,156,800	193,700
TRANSPORTATION					
TRANSPORTATION, DEPARTMENT OF	192,679,500	192,485,800	191,505,700	(1,173,800)	(980,100)
NATURAL RESOURCES					
GAME AND FISH DEPARTMENT	16,300,300	16,513,100	16,648,600	348,300	135,500
PARKS BOARD	3,283,700	3,393,900	8,139,100	4,855,400	4,745,200
WATER RESOURCES, DEPARTMENT OF	0	0	0	0	0
TOTAL - NATURAL RESOURCES	19,584,000	19,907,000	24,787,700	5,203,700	4,880,700
AGENCY TOTAL	474,660,400	504,451,200	507,437,600	32,777,200	2,986,400
Health Insurance Trust Fund	1,020,000			(1,020,000)	0
Unallocated Salary Adjustments	158,900			(158,900)	0
OPERATING BUDGET TOTAL	475,839,300	504,451,200	507,437,600	31,598,300	2,986,400

FY 1995 OTHER APPROPRIATED FUNDS SUMMARY

	FY 1993 ESTIMATE	FY 1995 EXEC REC.	FY 1995 JLBC REC.	JLBC REC.- FY 1993	JLBC '95 - EXEC '95
ACCOUNTANCY, BOARD OF	789,800	971,300	943,900	154,100	(27,400)
APPRAISAL, BOARD OF	221,100	223,400	224,200	3,100	800
BARBERS, BOARD OF	139,900	143,300	141,000	1,100	(2,300)
BEHAVIORAL HEALTH EXAMINERS, BD OF	251,200	286,400	316,000	64,800	29,600
CHIROPRACTIC EXAMINERS, BOARD OF	228,400	244,600	222,800	(5,600)	(21,800)
COSMETOLOGY, BOARD OF	596,800	621,400	615,700	18,900	(5,700)
DENTAL EXAMINERS, BOARD OF	467,300	500,100	469,100	1,800	(31,000)
FUNERAL DIRECTORS & EMBALMERS, BD	169,400	167,000	172,900	3,500	5,900
HOMEOPATHIC EXAMINERS, BOARD OF	18,600	20,700	19,800	1,200	(900)
MEDICAL EXAMINERS, BOARD OF	2,370,600	2,589,300	2,621,500	250,900	32,200
NATUROPATHIC PHYSICIANS BOARD	26,200	36,900	40,600	14,400	3,700
NURSING, BOARD OF	1,060,200	1,118,100	1,090,300	30,100	(27,800)
NURSING CARE INSTITUTIONAL ADMIN. BD.	61,900	65,200	63,400	1,500	(1,800)
OCCUPATIONAL THERAPY EXAM., BOARD OF	53,700	82,300	89,000	35,300	6,700
OPTICIANS, BOARD OF DISPENSING	60,200	62,600	59,000	(1,200)	(3,600)
OPTOMETRY, BOARD OF	97,300	100,000	95,900	(1,400)	(4,100)
OSTEOPATHIC EXAMINERS, BOARD OF	256,600	294,600	274,200	17,600	(20,400)

FY 1995 OTHER APPROPRIATED FUNDS SUMMARY

	<u>FY 1993 ESTIMATE</u>	<u>FY 1995 EXEC REC.</u>	<u>FY 1995 JLBC REC.</u>	<u>JLBC REC.- FY 1993</u>	<u>JLBC '95 - EXEC '95</u>
PHARMACY, BOARD OF	623,900	639,200	638,200	14,300	(1,000)
PHYSICAL THERAPY EXAMINERS, BOARD	66,500	70,600	72,500	6,000	1,900
PODIATRY EXAMINERS, BOARD OF	44,400	53,100	51,000	6,600	(2,100)
PRIVATE POSTSECONDARY EDUCATION	135,700	154,700	153,300	17,600	(1,400)
PSYCHOLOGIST EXAMINERS, BOARD OF	174,400	180,600	173,700	(700)	(6,900)
RESPIRATORY CARE EXAMINERS BOARD	118,000	118,400	134,000	16,000	15,600
STRUCTURAL PEST CONTROL COMM	976,900	1,063,500	1,020,600	43,700	(42,900)
TECHNICAL REGISTRATION, BOARD OF	867,200	915,000	863,500	(3,700)	(51,500)
VETERINARY MED EXAMINING BOARD	158,400	165,800	168,600	10,200	2,800
TOTAL - 90/10's	<u>10,034,600</u>	<u>10,888,100</u>	<u>10,734,700</u>	<u>700,100</u>	<u>(153,400)</u>

ECONOMIC AND REVENUE FORECAST

THE U. S. ECONOMY

The Outlook for FY 1993 -- Still Modest Growth

The state fiscal year ending June 30, 1993 is expected to show four quarters of positive real growth for the national economy, following a negative performance in FY 1991 and barely positive growth in FY 1992. Real, inflation adjusted, Gross Domestic Product (GDP) should be up about 2.4% during this twelve-month period compared to the 0.8% decline in FY 1991 and 0.5% increase in FY 1992 (see Table 1). Annualized quarterly growth rates have been 2.9%, 1.5% and a surprising 3.4% in the first three quarters of calendar 1992. Until the third quarter, growth rates had not been comparable to the typical post WWII recovery, when annualized rates of 3% to 6% were the norm.

The last few years of weak U.S. economic growth have been unprecedented in the post WWII period. Growth rates in the current recovery from the 1990-91 recession are still about half of those seen at the same relative period in previous upturns. The 0.5% growth rate of GDP in FY 1992 was the slowest "first-year-of-recovery" growth rate in the last 40 years or more, with the main reason being that U.S. business is now in a much more internationally competitive environment. The sectors of the economy that could previously get away with less than fully competitive pricing or market dominance are shrinking fast. Some areas of defense work, some union contracts with major industries, and the previous dominance of the "Big 3" auto makers in Detroit are examples. The new Clinton Administration must decide how much faster and further it wants to cut defense expenditures, for example, and how fast it wants to go ahead with opening the U.S. markets in accord with the North American Trade Agreement. There will, however, be no return to sheltered domestic markets in the future. Competition in the auto, steel, electronics, banking, chemicals and many other industries has never been greater.

Some of the typical features of an average post WWII recession-recovery cycle have changed in the latest upturn, which started in June of 1991. In prior business cycles, events such as lower interest rates or a fiscal stimulus from the federal government sparked an increase in spending. This set off a cycle of higher demand leading to higher output, which led to increased hiring. Hiring led to increased total incomes which then led to higher spending. This time, however, business has broken the typical cycle. Their volume of sales is not increasing as fast because of greater competition. Auto sales, for example, are still at a comparably low level. Businesses are not able to increase prices by much, if at all, because of keener competition. As a result, they are very intent on controlling costs and have been very reluctant to start hiring again. *In fact, most of the large corporations on the "Fortune 1,000" list are still reducing their work force even though the economy is growing and profits are now rising.*

The increased competition from abroad and domestically is the result of structural changes to companies and the markets they serve. Companies must now compete internationally as well as domestically. Exports and imports together account for about 22% of GDP. Inside the U.S., deregulation of several industries such as airlines and banking have caused upheavals; and there has been a more "hands off" attitude by the federal government toward corporate restructuring, which has led to so many lay offs.

Consumers have remained nervous about their jobs and income security during this recovery. As a result, they are still somewhat cautious about spending. Their attitudes are logical from their point of view, but this is a classic case of what is good for an individual is not necessarily good for the economy as a whole in the short run. Consumer confidence has remained low. Consumers have been paying down debts during this recovery instead of adding to overall debts as in past recoveries. Consumer spending did rise above the slow trend in the third quarter of 1992. This growth was faster than income growth, which meant that savings went down. This improvement probably cannot be sustained until inflation adjusted total consumer incomes rise further. Some analysts have looked to the pay down of debt as the cause of slow growth, but in this new environment it is the consequence of anxiety about economic weakness, not the cause of it.

Normally, at this stage of recovery some labor, material, and building markets would start to tighten, giving an upward boost to prices and inflation. This has not happened. Without strong volume increases or price inflation to give boosts to sales and profits, the only way to increase profits is through cost control. Labor costs, which account for about 60% of corporate revenues, have borne the burden of cost control. One way of doing this has been to retire or lay off older, more expensive workers, while working remaining employees harder or hiring younger workers. One very good side of the slack in product and labor markets is that the overall inflation rate has remained low. The increase in the Consumer Price Index should only be 3.1% in FY 1993, about the same as in FY 1992.

Although nervous, consumers, who account for about 68% of spending in the economy, have been the source of the recent turnaround. Increases in real consumer spending have been caused by lower interest rates and mortgage refinancing, putting more money into people's pockets, although this added income cannot be expected to continue.

Overall, FY 1993 should show modest improvement with GDP up about 2.4%, and inflation and interest rates at their lowest levels in years. Some improvement in labor markets will cause the employment picture to start to brighten a little.

The Outlook for FY 1994

Even though the new Clinton Administration will take office in January, which is mid-FY 1993, any new federal policies will not be felt until the beginning of FY 1994, at the earliest. The President-elect's first news conference talked about the economy as being his first priority. Since the employment situation is expected to show only modest improvement during FY 1993, some type of external "shock" is going to be needed to get things moving. This could be exports or a fiscal stimulus.

Mr. Clinton says that he remains in favor of the North American Free Trade Agreement (NAFTA), but may want to look closer into such areas as pollution standards in Mexico and the impact on U.S. workers in some industries. The true impact of NAFTA on the U.S. economy probably cannot be known in advance, although most analysts think the effect will be positive for U.S. exports and business over time. Otherwise, net U.S. exports, which have been the strongest area in an otherwise weak economy for the past several years, are not expected to give much of a boost in FY 1994. This is because of softening in the economies of Europe and Japan.

This leaves fiscal policy to boost the economy. The focus of the Clinton economic plan, which has yet to be formulated in detail, seems to be in the areas of investment tax credits and accelerated spending on public works such as roads, bridges, airports, and the like.

Nevertheless, the Clinton Administration will probably remain cautious in fiscal policy though. First, even though real economic growth was strong during the previous two Democratic Administrations of Presidents Johnson and Carter, inflation also increased then. Mr. Clinton will not want to repeat their experiences with inflation. Second, the plans announced so far by Mr. Clinton are modest by comparison to other federal spending programs in the post WWII period. The jobs training, tax credits and infrastructure plans described so far would add only about 0.5% to Gross Domestic Product in FY 1994. In fact, some people are suggesting that the slowly improving economy may not need much of a boost by the time a plan could be implemented, so there is no need to rush into a spending plan during the first 100 days of office. The federal deficit may decrease slightly because of the improving economy, but there will not be room to make significant additions to the federal debt without causing financial markets to increase interest rates in reaction.

It does appear as though the Federal Reserve will be able to accommodate President Clinton when he takes office. With inflation under control and so much slack in markets, there will probably be no need for any tightening of monetary policy until well into FY 1994.

Table 1 shows the sectors of the economy that are expected to contribute to growth. Table 2 at the end of this section shows the percentage increases expected for FY 1993 and FY 1994, as well as historical results starting with FY 1988.

There is a strong chance of continued gains in personal income, consumption and consumer confidence. (See Charts 1-4 at the end of this section). Consumer and business balance sheets have been improving steadily, and there is a pent-up demand for housing and autos. The cost of debt has declined, improving cash flow in most parts of the economy.

Inflation is expected to stay in the 3% range despite the expected increases in demand and some fiscal stimulus. The stable inflation rate will promote growth in several ways. First, it makes planning easier in a more predictable environment compared to the greater uncertainty of prices in times of high inflation. If inflation is rising at a rapid rate, people don't know how to allocate resources. Second, low expected inflation could allow real interest rates (the difference between nominal interest rates and expected inflation) to decline. This lowers the real cost of capital for all borrowers. Third, low inflation can often improve business cash flow and allow businesses to take a longer planning horizon. During periods of high inflation and higher interest rates, businesses must invest in projects which bring a fast short-term return; since these returns are compared to the cost of putting the same investments into deposits. Lower interest rates reduce cash outflow for borrowing and increase the number of projects which appear viable.

Table 1

SOURCES OF REAL GROSS DOMESTIC PRODUCT GROWTH

(Billions of 1987 \$)

	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
Consumption - Services	\$26.8	\$26.9	\$43.3	\$50.9
- Nondurables	(6.7)	(6.1)	12.1	21.9
- Durable Goods	(23.1)	2.6	26.4	27.0
Nonresidential Fixed Investment	(19.2)	(20.2)	26.5	34.1
Residential Fixed Investment	(33.5)	7.3	19.0	20.6
Change in Business Inventories	(35.6)	16.1	11.7	2.8
Federal Government Purchases	6.8	(10.0)	(10.0)	(17.0)
State/Local Government Purchases	11.5	7.7	9.5	31.5
Net Exports	<u>33.2</u>	<u>2.4</u>	<u>(26.1)</u>	<u>(8.2)</u>
Change in GDP (1987 \$)	<u><u>\$(39.8)</u></u>	<u><u>\$26.6</u></u>	<u><u>\$112.4</u></u>	<u><u>\$163.6</u></u>

The outlook for strong growth in real GDP in FY 1994 in the 4% to 6% range remains in doubt; quarterly rates between 2.5% and 3% appear more likely during FY 1994. An overall growth rate of 3.1% is predicted for the year. Several obstacles still seem to be in the way of a boom.

Many consumers will not take on debt at the same rate they did in the past. Businesses have been paying down debt, often replacing it with equity in the current high stock market; but capital expansion in fixed investment in the U.S. is not expected to be exceptionally strong. In addition, commercial construction is expected to continue to decline because of the over expansion still left from the 1980's.

Commercial banks will start to add to loans, but at a slow rate. Despite encouragement by the Federal Reserve Board, bank credit has barely grown for several years now. Banks have been taking advantage of lower interest rates to earn a large spread between the cost of their funds and rates available on investments in U.S. Treasury and mortgage bonds.

It will also remain to be seen whether employment will increase sharply because of 1) the need to restock inventory in an expanding economy and 2) improved confidence. Incomes will improve in the economy, but high paying jobs are hard to find. Manufacturing employment, typically one of the highest paying sectors, is expected to come back a little in FY 1994. Most large U.S. corporations will continue to reduce well-paid, middle management though. It's difficult for these employees, now numbering in the millions, to find comparable jobs.

Overall, FY 1994 should see an improvement in growth in a low inflation environment, which should set the foundation for continued expansion.

Risks to the Forecast

Positive Alternative-Stronger Growth Than Anticipated

Looking at FY 1994, the higher growth alternative would depend on a strong rebound in hiring caused by a larger than expected Clinton stimulus package and higher business investment. This is not unlikely if hiring improves and confidence returns. There could be a sharp reduction in unemployment as employers see that the recovery is stronger than anticipated. Fixed business investments would be higher than anticipated and manufacturing would also rebound faster than anticipated. Growth in Europe and Japan would also give a new boost to exports.

Negative Alternative-New Hiring Delayed and Continued Weak Growth

The Clinton Administration loses credibility in some way, which cannot be foreseen at this time, such as a foreign crisis or its economic package is considered imprudent as it develops. This could reduce confidence. Inventory restocking and business fixed investment will not take off as expected because of lower sales forecasts.

	<u>KEY U.S. ECONOMIC INDICATORS</u>					Forecast	Forecast
	<u>Actual</u> <u>FY 1988</u>	<u>Actual</u> <u>FY 1989</u>	<u>Actual</u> <u>FY 1990</u>	<u>Actual</u> <u>FY 1991</u>	<u>Actual</u> <u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
Real Gross Domestic Product ^{1/}	4.1%	3.3%	1.7%	(0.8)%	0.5%	2.4%	3.1%
GDP Deflator ^{1/}	3.4	4.5	4.2	4.4	3.2	2.8	2.8
Consumer Price Index ^{1/}	4.1	4.6	4.7	5.5	3.2	3.1	3.7
Industrial Production ^{1/}	6.1	4.3	1.0	(0.7)	0.1	2.8	4.2
Three Month T-Bill ^{2/}	6.0	7.9	7.8	6.5	4.4	3.1	3.8
Aaa Corporate Bonds ^{2/}	9.8	9.7	9.1	9.1	8.4	7.9	8.2
Wage and Salary Employment ^{1/}	3.2	3.2	2.1	(0.3)	(0.7)	1.0	2.2
Manufacturing Employment ^{1/}	1.6	1.3	(0.7)	(3.0)	(2.2)	0.1	2.7
Unemployment Rate ^{2/}	5.8	5.3	5.3	6.2	7.1	7.5	6.7

^{1/} Annual Percent Change
^{2/} Average Rate for Year

GROSS DOMESTIC PRODUCT 1987 DOLLARS

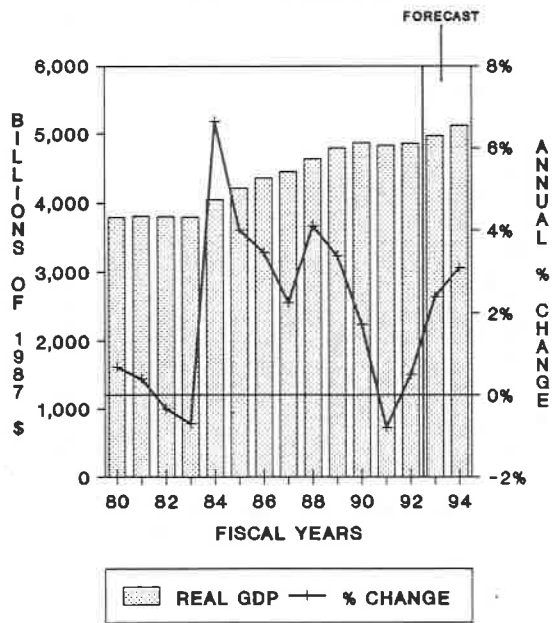


CHART 1

REAL PERSONAL INCOME 1987 DOLLARS

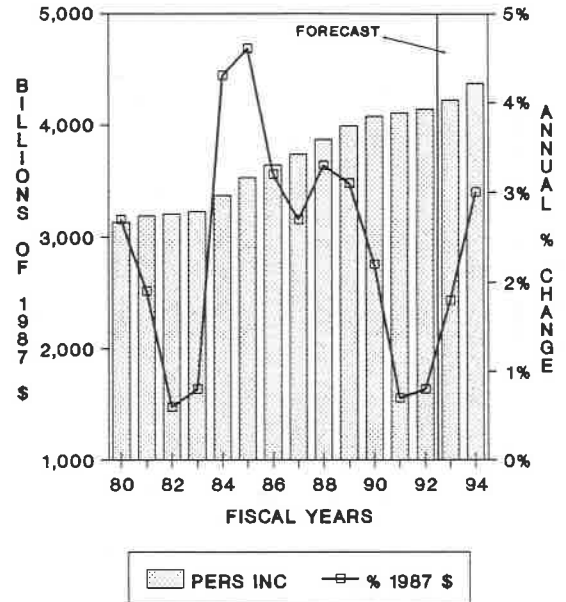


CHART 2

TOTAL CONSUMPTION 1987 DOLLARS

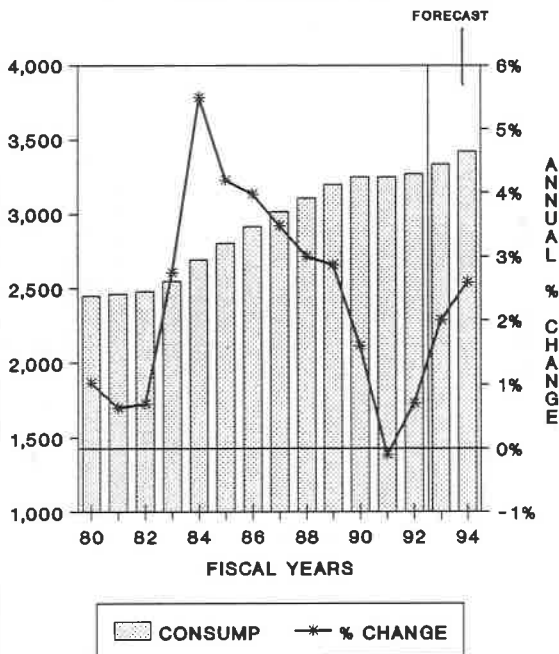


CHART 3

CONSUMER CONFIDENCE INDEX

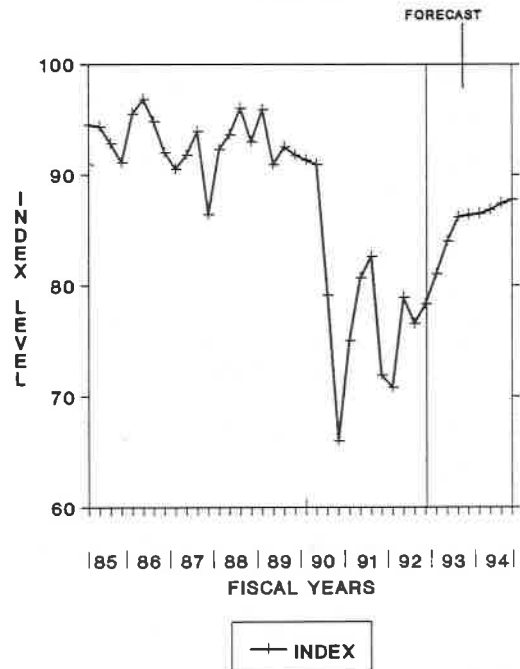


CHART 4

SOURCE: U. OF MICHIGAN

U.S. MONEY SUPPLY GROWTH

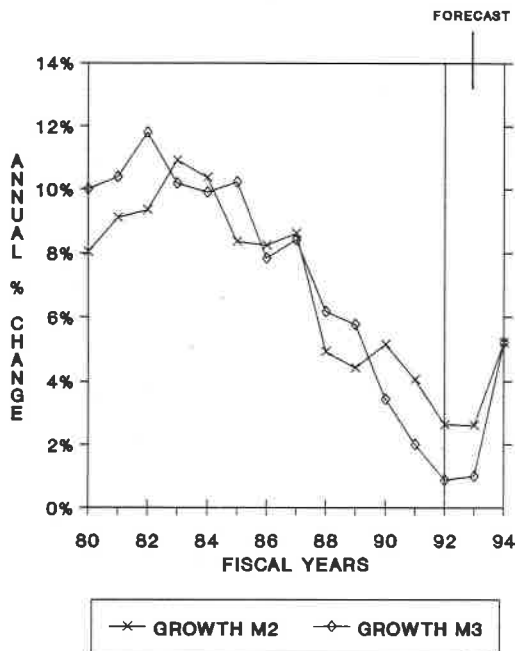


CHART 5

KEY INTEREST RATES

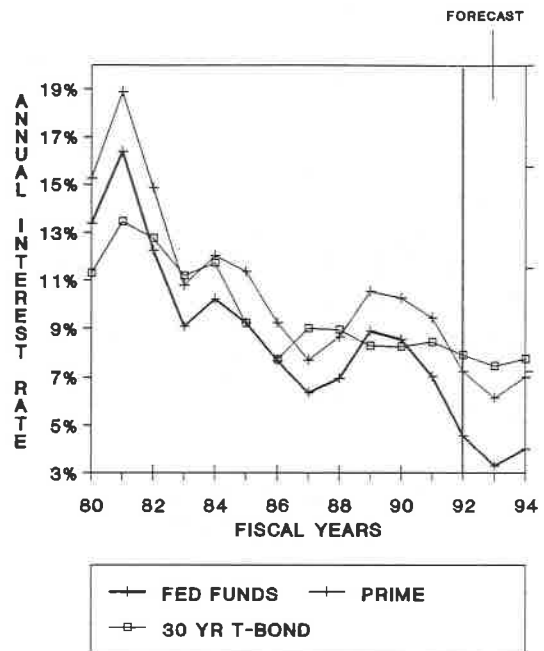


CHART 6

CONSUMER & PRODUCER PRICE INDEX CHANGES

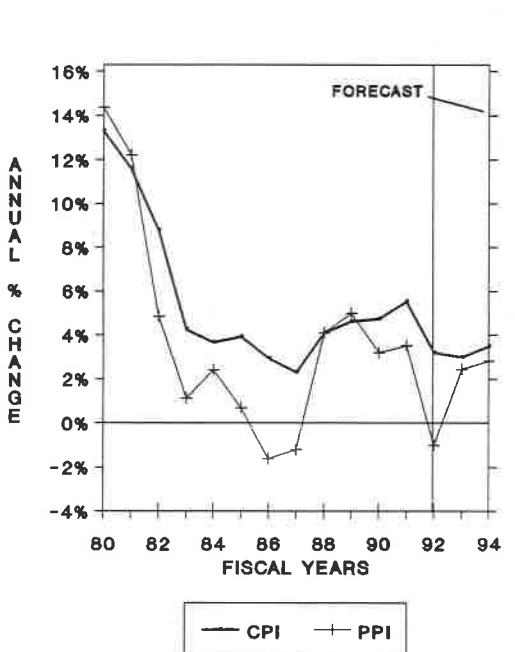


CHART 7

INDUSTRIAL PRODUCTION INDEX AND PERCENT CHANGE

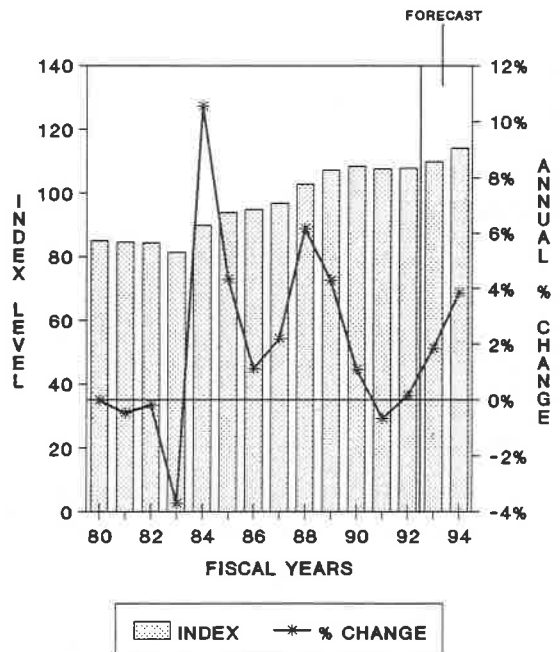
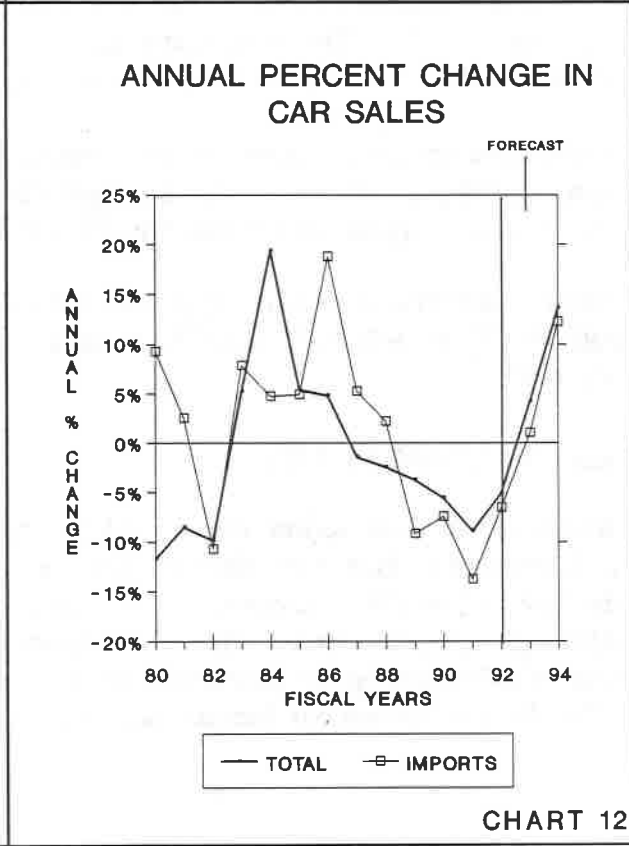
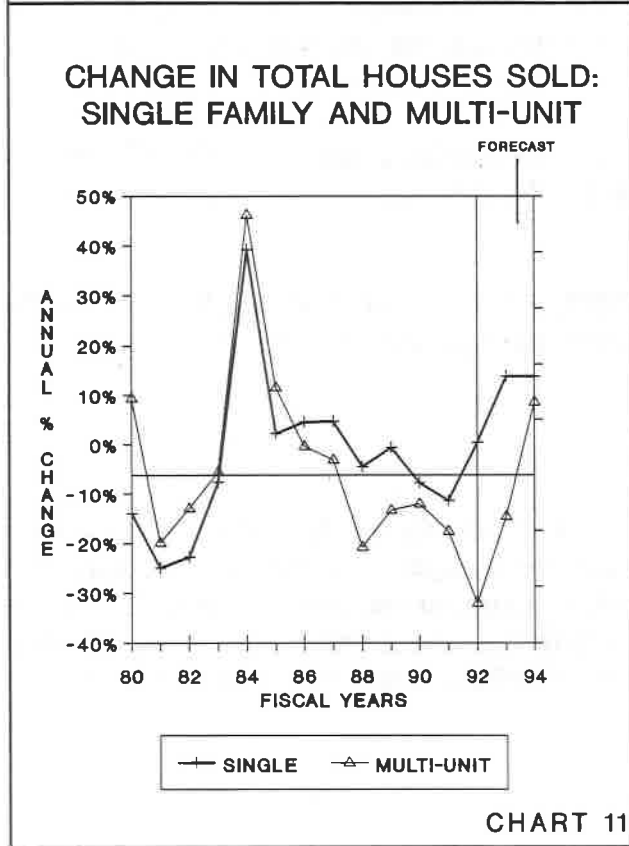
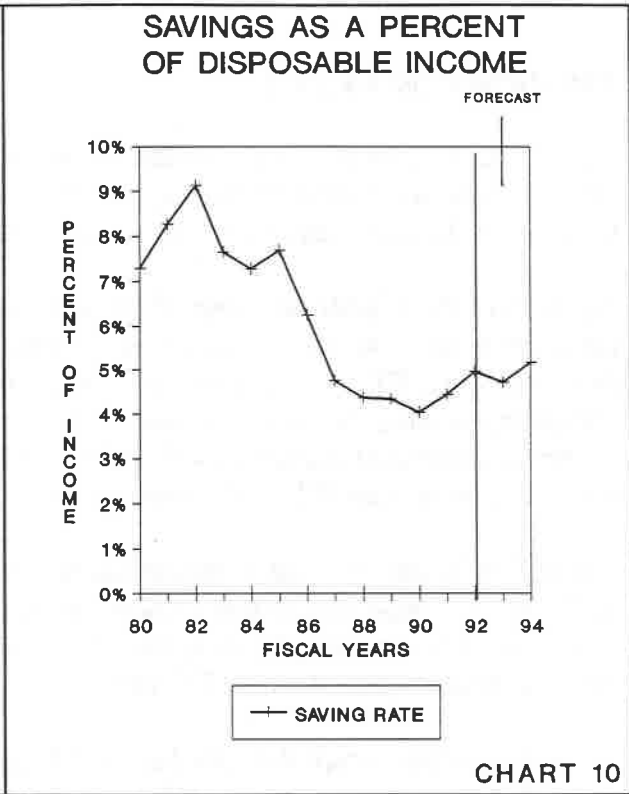
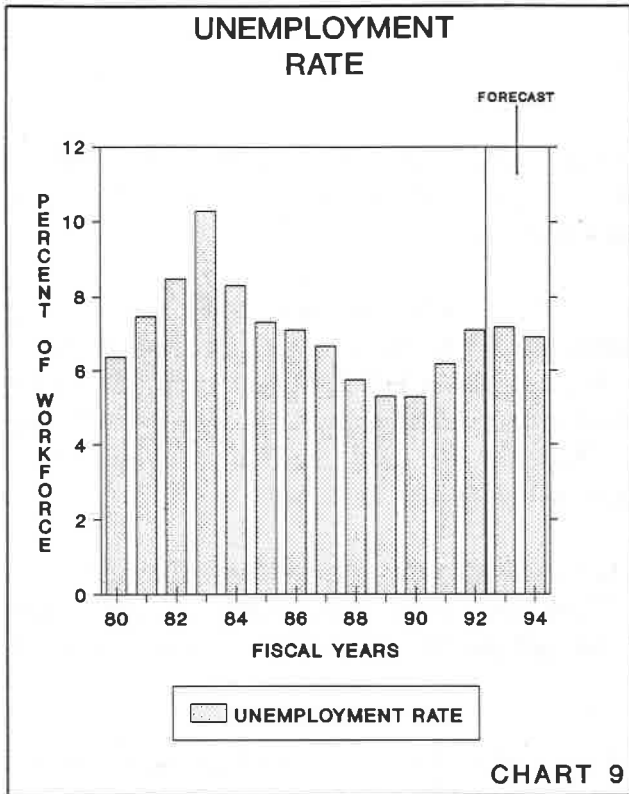


CHART 8



THE ARIZONA ECONOMY

The Outlook for FY 1993

Like the U.S. economy, the Arizona economy is suffering from a creeping recovery; and while we will show some improvement over FY 1992, the improvement will fall considerably short of what would be expected, based on earlier Arizona expansions.

Apart from the overall slowness of the Arizona economy, certain sectors stand out as varying from the norm, both above and below. Manufacturing employment, which has been in the doldrums since FY 1985 and has actually been declining since FY 1988, has been slammed by continuing defense cutbacks. Manufacturing employment declined by 5.3% in FY 1992, and we expect an additional decline of 4% in FY 1993. Between FY 1988, the last year showing positive growth, and FY 1993, some 23,300 manufacturing jobs have been lost.

Unlike Manufacturing, the Construction sector has been showing improvement since early in 1992, led by single family home construction. While the Construction sector is some distance from total recovery, employment has bottomed out and should show positive growth of 6.4%, the first positive growth since FY 1986.

Most economists accept Arizona Personal Income as one of the most important indicators of the state of the Arizona economy. We expect Arizona Personal Income to increase by a lackluster 5.7% in FY 1993. The most recent actual data for Arizona, the first and second quarters of calendar 1992, show Arizona Personal Income with an increase of 4.8%.

While there should be continued improvement over the remaining months of FY 1993 on balance, the year will be another slow growth year. Nonetheless, we view FY 1993 as a transition to a higher growth plane in FY 1994.

Table 3, ARIZONA WAGE AND SALARY EMPLOYMENT, PERCENT GROWTH OVER PRIOR YEAR, RECENT HISTORY, shows employment growth from FY 1986 through FY 1992.

The Outlook for FY 1994

Within our forecast period, the only likely engine of growth for the Arizona economy is the U.S. economy. However, since the national expansion is expected to pick up a bit starting in the first half of 1993, Arizona should begin to show improved but modest growth for FY 1994. Although Arizona is in the midst of an improved economic development climate (eg. Governor's Strategic Partnership for Economic Development - GSPED), it may be that the fruits of this effort lie just beyond our forecast horizon.

Table 3

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

	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>FY 1991</u>	<u>FY 1992</u>
<u>Goods Producing</u>							
Manufacturing	2.1%	2.2%	1.0%	(0.1)%	(0.7)%	(2.8)%	(5.3)%
Mining	(7.9)	(2.7)	5.9	3.1	1.7	6.9	4.8
Construction	8.9	(5.9)	(9.1)	(8.6)	(6.6)	(4.4)	(1.4)
Total Goods Producing	4.1	(1.0)	(2.4)	(2.7)	(2.4)	(2.8)	(3.7)
<u>Service Producing</u>							
Transportation/Communication & Public Utilities	4.6	7.3	6.7	2.4	6.1	2.7	(2.2)
Trade	6.0	4.7	3.8	3.7	2.1	1.2	0.2
Finance/Insurance/Real Estate Services	12.4	7.5	3.7	(2.7)	1.0	(0.1)	(2.1)
Government	9.8	6.1	7.3	5.9	4.6	2.5	3.6
Total Services Producing	4.1	3.0	3.1	2.7	4.3	5.2	3.5
Total Services Producing	7.2	5.2	4.9	3.6	3.6	2.5	1.7
<u>Total Wage/Salary Employment</u>	<u>6.4%</u>	<u>3.7%</u>	<u>3.3%</u>	<u>2.2%</u>	<u>2.4%</u>	<u>1.5%</u>	<u>0.7%</u>

FY 1994 should see some resurgence in the Goods Producing ^{1/} sectors. Manufacturing, a sector which should be the bedrock of a stable, growing Arizona, has been a source of weakness in recent years. We expect that the defense related cutbacks will have run their course prior to FY 1994, and the stage will be set for modest growth in this sector.

The Mining sector should be relatively stable, with employment for both FY 1993 and FY 1994 in the 3% - 5% range.

The Construction sector will not show a total return to health during our forecast period, given that over 30,000 jobs were lost between 1986 and 1991, but employment bottomed out in FY 1992 and we expect positive growth in FY 1994 of 8%.

^{1/} Manufacturing, Construction, and Mining

In FY 1985, the Service Producing ^{1/} sectors accounted for 75.9% of the employment in Arizona. Today, despite a generally declining growth rate, the Service Producing sectors account for over 82% 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 below 80% but not during our forecast period.

Our forecast is for the Service Producing sectors to account for approximately 82% of Arizona employment in FY 1994. The relative weakness of the Goods Producing sector may be partially to blame for our poor revenue picture in recent years. While the Service sector generates more jobs (i.e., is more labor intensive) than the Goods Producing sector, on average, it pays lower wages.

Table 4, ARIZONA WAGE AND SALARY EMPLOYMENT, PERCENT GROWTH OVER PRIOR YEAR, shows anticipated employment growth for the forecast years of FY 1993 and FY 1994, together with actual growth in FY 1992.

Table 5, KEY ARIZONA ECONOMIC INDICATORS, shows the JLBC Staff forecast for nine key Arizona economic variables. We expect growth in Arizona Personal Income to be at 5.7% for FY 1993 and 6.5% for FY 1994 in current dollar terms, with growth in constant dollar (inflation-adjusted) terms at 2.9% in FY 1993 and 3.7% in FY 1994. Per Capita Arizona Personal Income in constant dollar terms is expected to be 0.4% in FY 1993 and 1.1% in FY 1994.

Chart 13 is a line chart showing employment for FY 1980 through FY 1994 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 since FY 1986.

Chart 14 is a bar chart which compares U.S. and Arizona growth rates for Constant Dollar Per Capita Personal Income. In recent years, Arizona growth has shown a substantial slowing relative to the U.S., and our forecast indicates that this will continue. 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 is a surprising 15% below the U.S. average.

^{1/} Transportation, Communications, Public Utilities (TCPU); Trade; Finance, Insurance, Real Estate (FIRE); Services; and Government

Chart 15 is a line chart showing, for the period FY 1986 through FY 1994, 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 4

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

	FY 1992	Forecast	
		FY 1993	FY 1994
<u>Goods Producing</u>			
Manufacturing	(5.3)%	(4.0)%	1.2%
Mining	4.8	3.0	4.8
Construction	(1.4)	6.4	8.0
Total Goods Producing	(3.7)	(0.5)	3.6
<u>Service Producing</u>			
Transportation, Communication and Public Utilities	(2.2)	0.6	3.2
Trade	0.2	2.0	3.0
Finance, Insurance, Real Estate	(2.1)	0.9	2.0
Services	3.6	2.0	3.0
Government	3.5	1.8	2.0
Total Services Producing	1.7	1.8	2.9
<u>Total Wage and Salary Employment</u>	<u>0.7%</u>	<u>1.4%</u>	<u>3.0%</u>

KEY ARIZONA ECONOMIC INDICATORS

	Actual FY 1988	Actual FY 1989	Actual FY 1990	Actual FY 1991	Actual FY 1992	Forecast FY 1993	Forecast FY 1994
Personal Income - Current Dollars ^{1/}	7.5%	6.6%	5.7%	5.5%	4.4%	5.7%	6.5%
- Constant Dollars ^{1/}	4.0	2.0	1.4	1.0	1.2	2.9	3.7
- Per Capita Constant Dollars ^{1/}	0.3	(0.3)	(0.6)	(1.1)	(1.2)	0.4	1.1
Retail Sales ^{1/2/}	4.8	5.7	4.2	2.6	5.0	6.3	5.7
Population ^{1/}	3.7	2.2	2.0	2.1	2.3	2.4	2.7
Wage and Salary Employment ^{1/}	3.3	2.2	2.4	1.5	0.7	1.4	3.0
Manufacturing Employment ^{1/}	1.0	(0.1)	(0.7)	(2.8)	(5.3)	(4.0)	1.2
Construction Employment ^{1/}	(9.1)	(8.6)	(6.6)	(4.4)	(1.4)	6.4	8.0
Unemployment Rate ^{3/}	5.9	5.9	5.2	5.0	7.2	6.5	6.0

^{1/} Annual Percent Change.

^{2/} Based on DOR Definition of Retail Sales.

^{3/} Average Rate for Year.

MAJOR SECTORS OF ARIZONA EMPLOYMENT

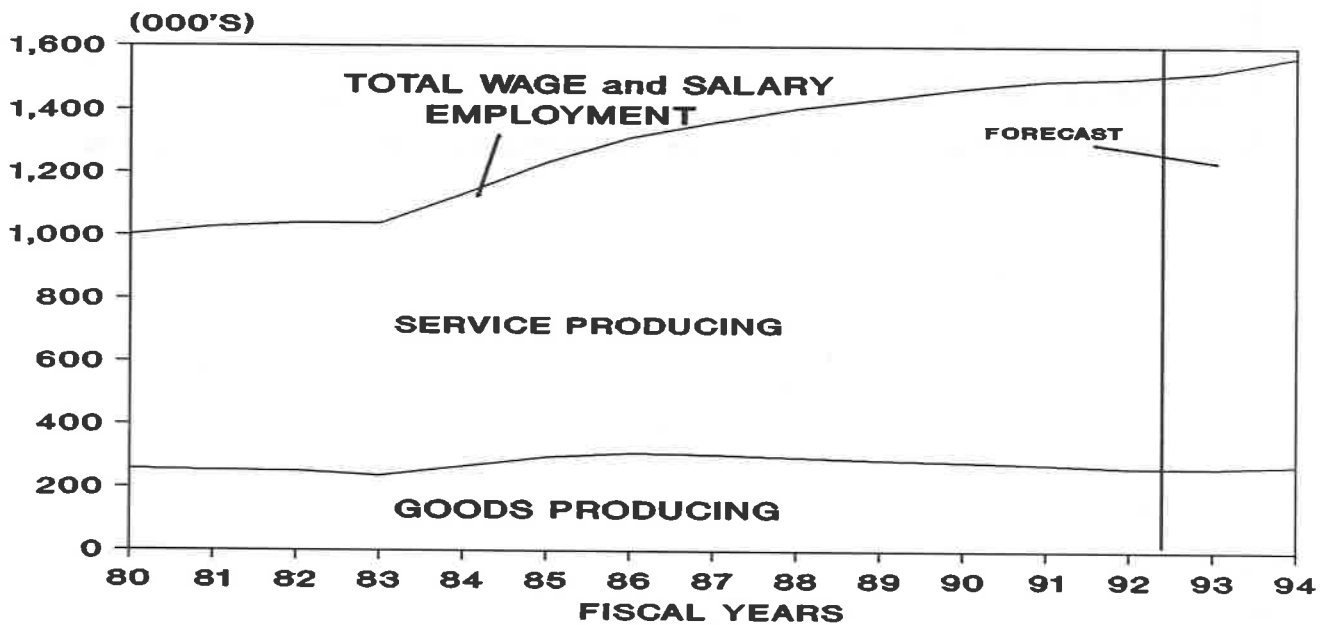


CHART 13

U.S. and ARIZONA REAL PER CAPITA INCOME

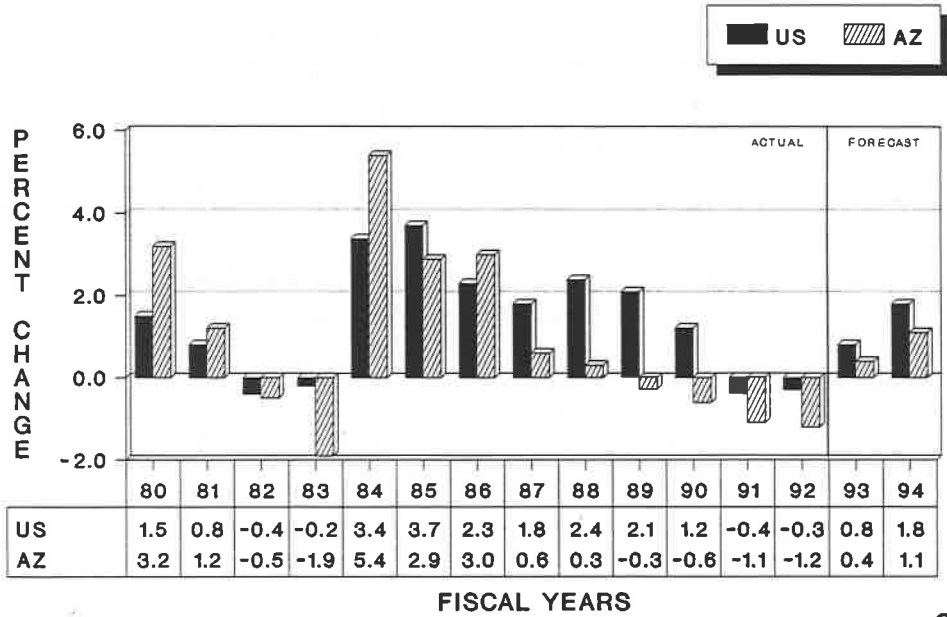


CHART 14

ARIZONA PERSONAL INCOME FY 1986 TO FY 1994

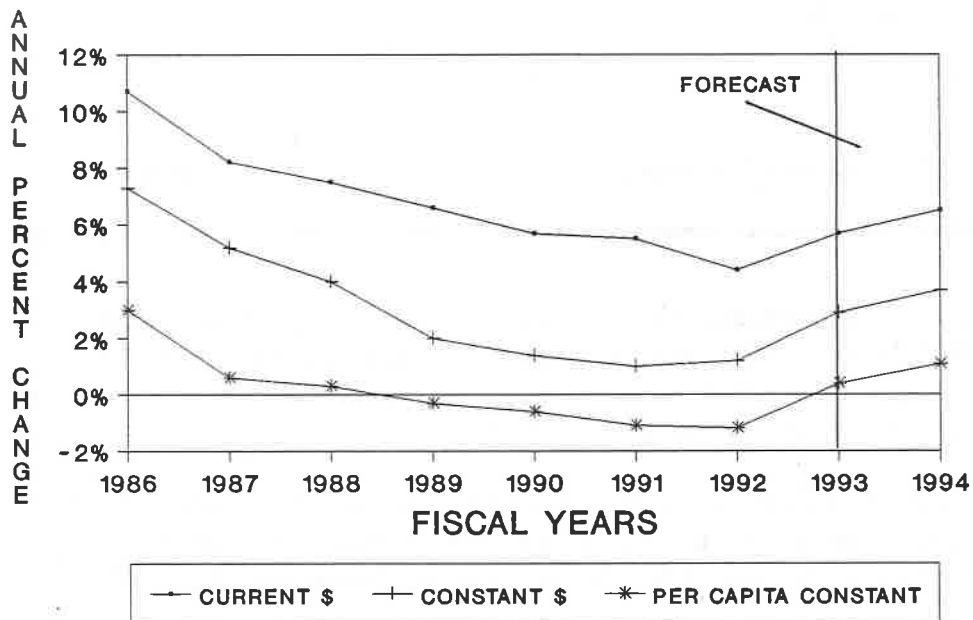


CHART 15

GENERAL FUND REVENUE

FY 1993 Forecast

The JLBC revenue forecast is shown on Table 7. The forecast for FY 1993 does not vary significantly, in total, from the consensus forecast used when the FY 1993 budget was passed. There is, however, a considerable difference in the details. A comparison of the two forecasts is as follows (\$ in millions):

<u>GENERAL FUND REVENUE FORECAST COMPARISON</u>				Table 6
<u>ORIGINAL vs CURRENT</u>				
<u>FY 1993</u>				
	<u>Original</u> <u>Consensus Forecast</u>	<u>Current</u> <u>JLBC Forecast</u>	<u>Difference</u>	
Beginning Balance	\$ 9.7	\$ 5.2	\$(4.5)	
Sales Taxes	1,603.2	1,622.5	19.3	
Income Taxes	1,354.2	1,352.1	(2.1)	
Property Taxes	192.1	194.5	2.4	
Motor Vehicle License Taxes	106.9	102.0	(4.9)	
Luxury Taxes	69.9	70.8	0.9	
Insurance Premium Tax	89.8	85.1	(4.7)	
Lottery	37.3	37.2	(0.1)	
Interest	16.8	10.5	(6.3)	
Miscellaneous	36.4	35.8	(0.6)	
Transfers & Reimbursements	20.0	19.0	(1.0)	
Disproportionate Share	52.1	52.1	0.0	
Licenses, Fees, Permits	37.9	37.9	0.0	
Estate Taxes	27.0	29.0	2.0	
Other	<u>11.2</u>	<u>11.1</u>	<u>(0.1)</u>	
TOTAL GENERAL FUND REVENUE	<u>\$3,664.5</u>	<u>\$3,664.8</u>	<u>\$ 0.3</u>	

Sales Tax collections are exceeding our expectations, led by the Retail and Construction sectors. For the five months year-to-date, we are ahead of the forecast by \$16.1 million. We do not expect such robust growth to continue, but we do expect to be ahead of the forecast by \$19.3 million at the end of FY 1993.

Income Taxes in total are now expected to be below the original consensus forecast by only \$2.1 million. However, we expect the Individual Income Tax to be below by \$17.9 million, largely offset by an overage of \$15.8 million in the Corporation Income Tax.

The Individual Income Tax for the five months year-to-date is above the original forecast by \$6.4 million, primarily in Withholding. In spite of this excess, we are lowering the estimate

due to weaker than expected income growth in 1992. In effect, we expect income tax refunds to offset the year-to-date gain.

The Corporation Income Tax exceeds the original forecast by \$4.6 million for the five months year-to-date, and we expect to finish FY 1993 ahead by the \$15.8 million mentioned above.

Insurance Premium Tax collections, although above the original forecast by \$4.8 million for the five months year-to-date, are expected to be below the original forecast by \$4.7 million by the end of FY 1993, primarily due to an increase in the expected number of credits.

Interest collections to the General Fund are expected to be below the original forecast by \$6.3 million for FY 1992. This is primarily due to lower than expected interest rates and lower than expected investable balances.

Motor Vehicle License Tax collections are expected to be below the original forecast by \$4.9 million, primarily due to lower than anticipated sales of new vehicles as reported by R. L. Polk Company. However, the Department of Revenue has reported retail sales by motor vehicle dealers to be up 12.7% for the first four months of FY 1993. For the present, we have elected to take the conservative approach.

Chart 16 shows the changes in Consumer Confidence and Arizona Retail Sales and the relationship between the two.

Chart 17 shows the improved level of Retail Sales collected by the Department of Revenue in recent quarters. For the five months year-to-date of FY 1993, the Retail Sales category is 8.4% ahead of the same period last year.

Chart 18 shows Restaurants and Bars Sales growth as collected by the Department of Revenue. Restaurants and Bars Sales are also doing reasonably well with an increase of 8.3% for the five months year-to-date in FY 1993.

Chart 19 shows Hotel/Motel Sales collected by the Department of Revenue. For the five months year-to-date in FY 1993, we are up a surprising 17.3%.

Chart 20 shows the improved level of Contracting Sales collected by the Department of Revenue. For the five months year-to-date of FY 1993, Contracting is above the same period last year by 12.0%.

FY 1994 Forecast

We expect Arizona economic growth to be modest by historic standards, and our revenue forecast reflects this. After taking a \$25.9 million reduction to achieve a lower, more cautious revenue estimate, total Base Revenue is expected to increase by 3.9%, down from 4.9% in FY 1993. Details of the JLBC forecast are shown in Table 7.

Sales and Use Taxes are expected to increase by 5.7%, down from 7.9% in FY 1993. The decline is largely due to (1) county property tax relief aggregating \$10.0 million, which was not taken from the Sales Tax in FY 1993, and (2) growth rates in certain sectors which it was felt were not sustainable in FY 1994.

Individual Income Taxes are expected to increase by 6.5%, essentially the same growth as in FY 1993.

Corporation Income Taxes are expected to decline by 2.4% in FY 1994 after growth of 4.4% in FY 1994. Corporate profits are expected to be about the same as in the prior year, but tax credits from the defense restructuring program are scheduled to take effect in FY 1994.

Property Taxes collections are forecast to increase by 0.5% in FY 1994. Our forecast assumes zero growth in assessed valuation for calendar year 1993. Recent developments indicate the possibility that growth may be less than zero, and this is being reviewed.

Insurance Premium Taxes are forecast to decline by 5.9% in FY 1994. Recent legislation which adjusted the deductibility of tax credits by raising the deductibility percents in later years saved revenue in FY 1992, but we will now start paying a higher and higher price for this "bailout".

Chart 21 shows, for 16 fiscal years, dollars of General Fund Base 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 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 1994.

Chart 22 shows as a line chart, General Fund Base Revenue collections for major tax sources for period FY 1971 through FY 1994.

Chart 23 shows, for FY 1994, major categories of General Fund Revenue as a percent of total General Fund Base Revenue.

Chart 24 shows, in graphic form, the percent and dollar growth in FY 1994 over FY 1993 for significant categories of General Fund Revenue based on JLBC Staff estimates.

Chart 25 shows major General Fund tax sources as a percent of total General Fund Base Revenue.

Table 7

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

	<u>Actual FY 1992</u>		<u>Forecast FY 1993</u>		<u>Forecast FY 1994</u>	
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>
<u>Taxes</u>						
Sales and Use	\$1,503,124.5	4.0%	\$1,622,500.0	7.9%	\$1,715,000.0	5.7%
Income - Individual	1,237,033.2	(0.5)	1,315,000.0	6.3	1,400,000.0	6.5
- Corporation	211,445.5	10.3	220,800.0	4.4	215,400.0	(2.4)
- Urban Revenue Sharing	(176,087.2)	5.5	(183,670.0)	4.3	(185,400.0)	0.9
Property	179,858.2	6.3	194,500.0	8.1	195,500.0	0.5
Luxury	72,258.5	2.6	70,780.0	(2.0)	68,540.0	(3.2)
Insurance Premium	100,543.6	8.7	85,100.0	(15.4)	80,100.0	(5.9)
Motor Vehicle License - Regular	99,849.7	(5.1)	102,000.0	2.2	100,500.0	(1.5)
- HURF Transfer	0.0	--	0.0	--	0.0	--
Pari-Mutuel	4,932.0	1.8	5,100.0	3.4	5,500.0	7.8
Estate	25,652.4	(11.5)	29,000.0	13.0	27,000.0	(6.9)
Other Taxes	<u>1,786.2</u>	6.6	<u>1,900.0</u>	6.4	<u>1,980.0</u>	4.2
Subtotal - Taxes	<u>3,260,396.6</u>	2.8	<u>3,463,010.0</u>	6.2	<u>3,624,120.0</u>	4.7
<u>Other Non-Tax Revenues</u>						
Lottery	35,196.1	(17.7)	37,200.0	5.7	38,000.0	2.2
License, Fees and Permits	36,271.6	3.9	37,900.0	4.5	39,000.0	2.9
Interest	15,700.0	(34.1)	10,500.0	(33.1)	13,500.0	28.6
Sales and Services	3,942.1	(7.5)	4,100.0	4.0	4,100.0	0.0
Other Miscellaneous	42,100.7	(6.4)	35,800.0	(15.0)	36,100.0	0.8
Transfers and Reimbursement	53,479.1	113.0	19,000.0	(64.5)	19,000.0	0.0
Disproportionate Share Revenue	<u>41,129.1</u>	--	<u>52,060.1</u>	26.6	<u>51,594.6</u>	(0.9)
Subtotal - Other Non-Tax Revenues	<u>227,818.7</u>	29.5	<u>196,560.1</u>	(13.7)	<u>201,294.6</u>	2.4
<u>TOTAL BASE REVENUE</u>	3,488,215.3	4.2	3,659,570.1	4.9	3,825,414.6	4.5
Adjustment to Consensus	<u>0.0</u>	--	<u>0.0</u>	--	<u>(25,910.0)</u>	--
<u>ADJUSTED TOTAL BASE REVENUE</u>	<u>\$3,488,215.3</u>	<u>4.2%</u>	<u>\$3,659,570.1</u>	<u>4.9%</u>	<u>\$3,799,504.6</u>	<u>3.9%</u>

Table 8

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

	FY 1993			FY 1994		
	Governor's Estimate	JLBC Staff Estimate	Difference	Governor's Estimate	JLBC Staff Estimate	Difference
Taxes						
Sales and Use	\$1,616,200.0	\$1,622,500.0	\$ 6,300.0	\$1,700,000.0	\$ 1,715,000.0	\$ 15,000.0
Income - Individual	1,310,000.0	1,315,000.0	5,000.0	1,400,000.0	1,400,000.0	0.0
- Corporation	210,000.0	220,800.0	10,800.0	205,000.0	215,400.0	10,400.0
- Urban Revenue Sharing	(183,700.0)	(183,670.0)	30.0	(185,400.0)	(185,400.0)	0.0
Property	194,500.0	194,500.0	0.0	193,510.0	195,500.0	1,990.0
Luxury	69,850.0	70,780.0	930.0	70,000.0	68,540.0	(1,460.0)
Insurance Premium	83,700.0	85,100.0	1,400.0	78,000.0	80,100.0	2,100.0
Motor Vehicle Licenses - Regular	102,000.0	102,000.0	0.0	104,000.0	100,500.0	(3,500.0)
- HURF Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Pari Mutuel	5,200.0	5,100.0	(100.0)	5,200.0	5,500.0	300.0
Estate	26,000.0	29,000.0	3,000.0	25,000.0	27,000.0	2,000.0
Other Taxes	1,800.0	1,900.0	100.0	1,800.0	1,980.0	180.0
Subtotal - Taxes	<u>3,435,550.0</u>	<u>3,463,010.0</u>	<u>27,460.0</u>	<u>3,597,110.0</u>	<u>3,624,120.0</u>	<u>27,010.0</u>
Other Non-Tax Revenues						
Lottery	37,280.0	37,200.0	(80.0)	40,000.0	38,000.0	(2,000.0)
Licenses, Fees and Permits	36,900.0	37,900.0	1,000.0	36,900.0	39,000.0	2,100.0
Interest	10,500.0	10,500.0	0.0	12,600.0	13,500.0	900.0
Sales and Services	8,600.0	4,100.0	(4,500.0)	8,600.0	4,100.0	(4,500.0)
Miscellaneous	34,200.0	35,800.0	1,600.0	34,200.0	36,100.0	1,900.0
Transfers and Reimbursements	18,500.0	19,000.0	500.0	18,500.0	19,000.0	500.0
Disproportionate Share Revenue	<u>52,060.1</u>	<u>52,060.1</u>	<u>0.0</u>	<u>51,594.6</u>	<u>51,594.6</u>	<u>0.0</u>
Subtotal - Other Non-Tax Revenues	<u>198,040.1</u>	<u>196,560.1</u>	<u>(1,480.0)</u>	<u>202,394.6</u>	<u>201,294.6</u>	<u>(1,100.0)</u>
TOTAL BASE REVENUE	3,633,590.1	3,659,570.1	25,980.0	3,799,504.6	3,825,414.6	25,910.0
Adjustment to Consensus	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(25,910.0)</u>	<u>(25,910.0)</u>
ADJUSTED TOTAL BASE REVENUE	<u>\$3,633,590.1</u>	<u>\$3,659,570.1</u>	<u>\$25,980.0</u>	<u>\$3,799,504.6</u>	<u>\$3,799,504.6</u>	<u>\$ 0.0</u>

QUARTERLY CHANGE IN RETAIL SALES AND CONSUMER CONFIDENCE 1983-Q1 TO 1992-Q3

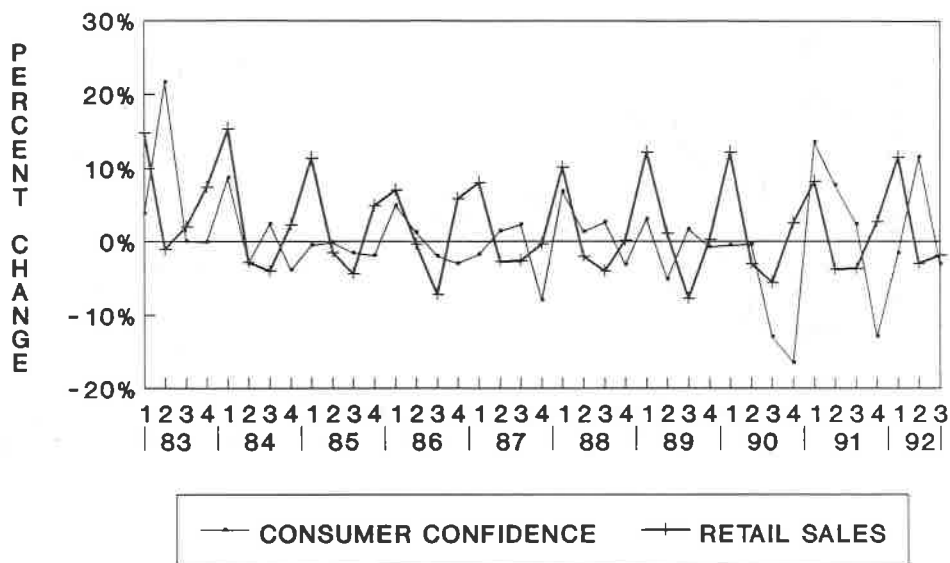


CHART 16

RETAIL SALES: 1983Q1 TO 1992Q3 QUARTER VS. SAME QUARTER-PRIOR YEAR

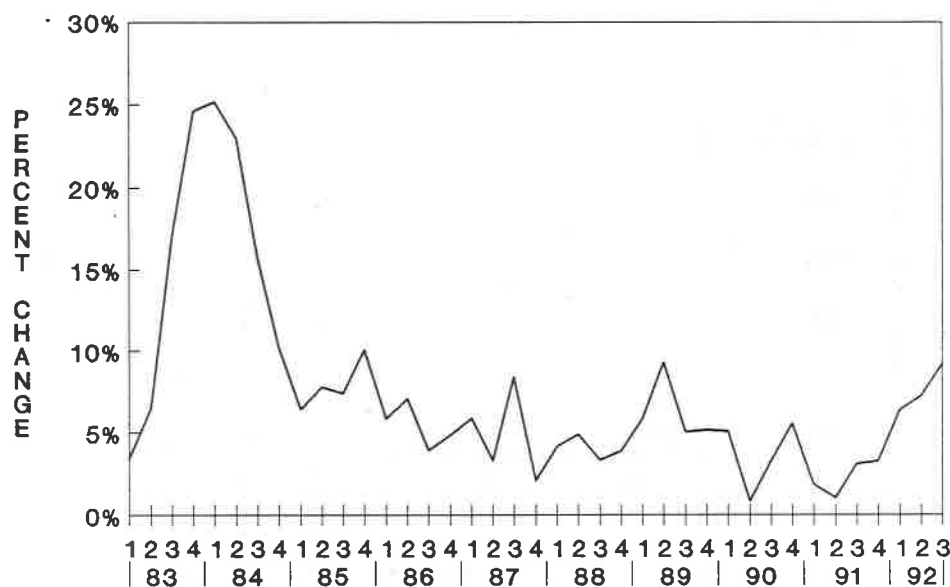
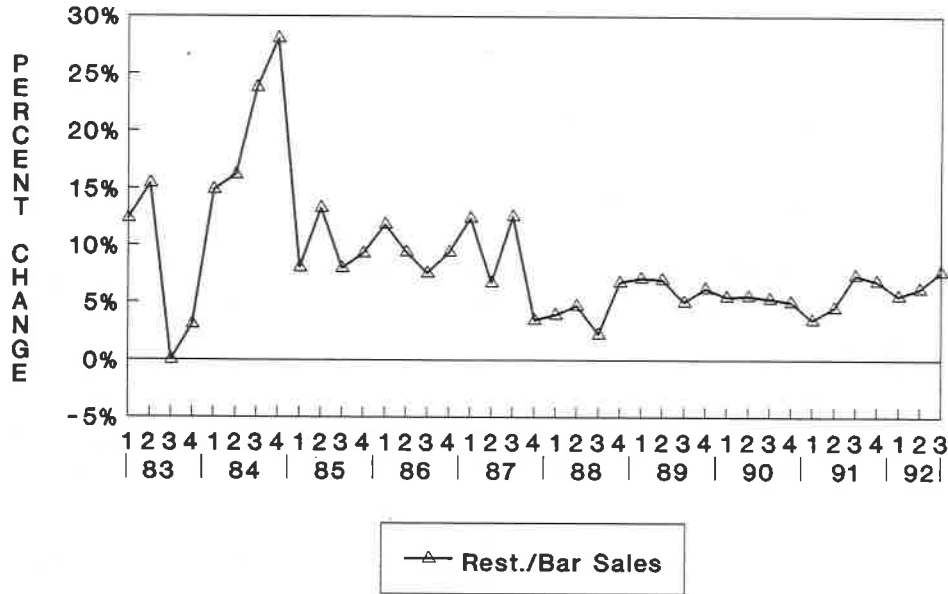


CHART 17

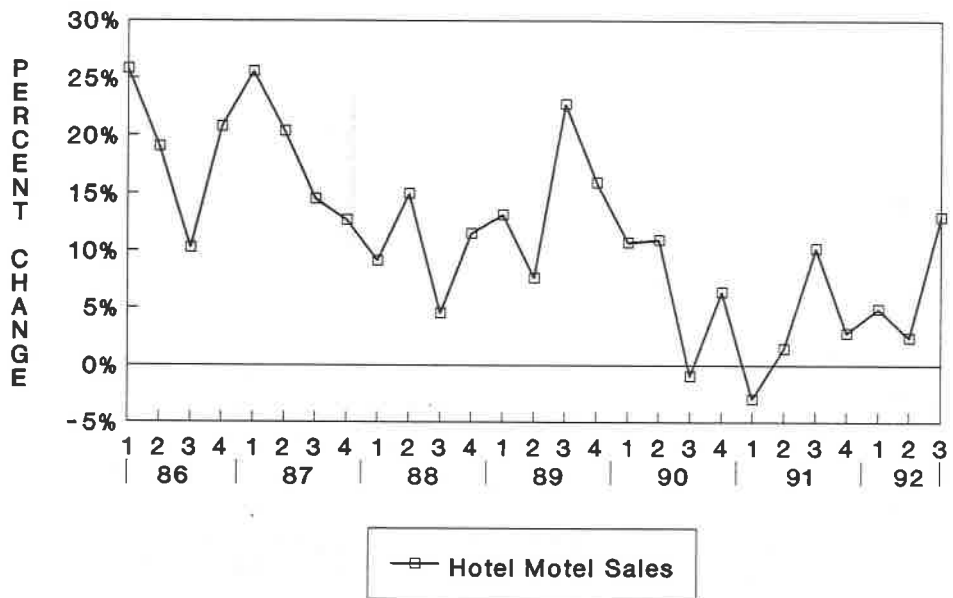
RESTAURANTS AND BARS SALES GROWTH 1983-Q1 TO 1992-Q3



QUARTER VS. QUARTER IN THE PREVIOUS YEAR

CHART 18

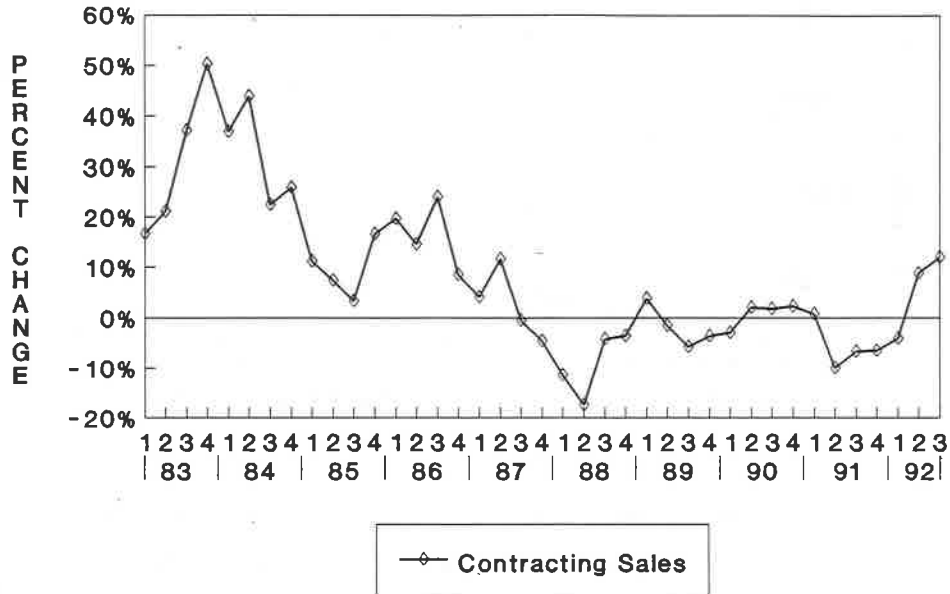
HOTEL AND MOTEL SALES GROWTH 1986-Q1 TO 1992-Q3



QUARTER VS. QUARTER IN THE PREVIOUS YEAR

CHART 19

CONTRACTING INDUSTRY SALES GROWTH 1983-Q1 TO 1992-Q3



QUARTER VS. QUARTER IN THE PREVIOUS YEAR

CHART 20

GENERAL FUND BASE REVENUE COLLECTIONS

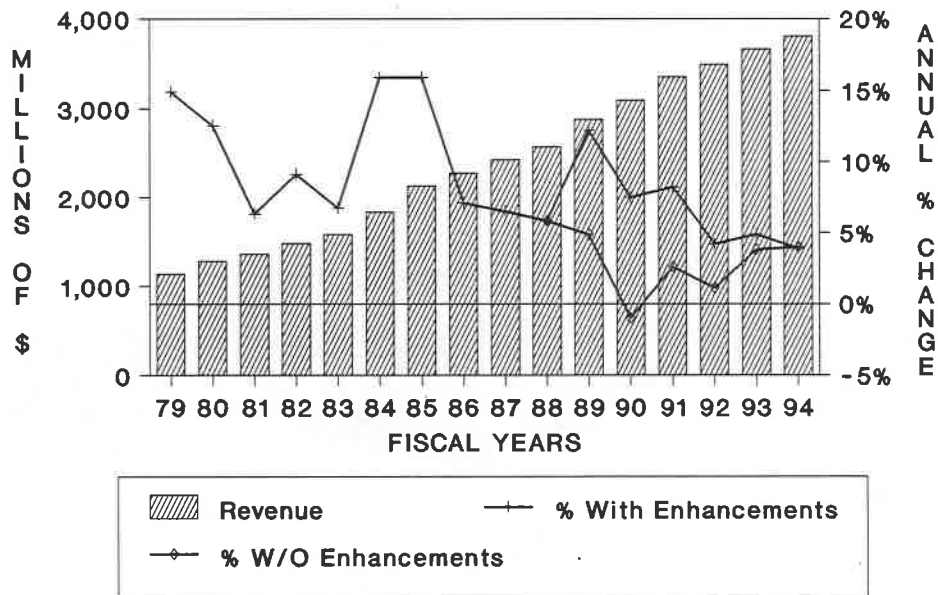


CHART 21

MAJOR GENERAL FUND TAX SOURCES COLLECTIONS

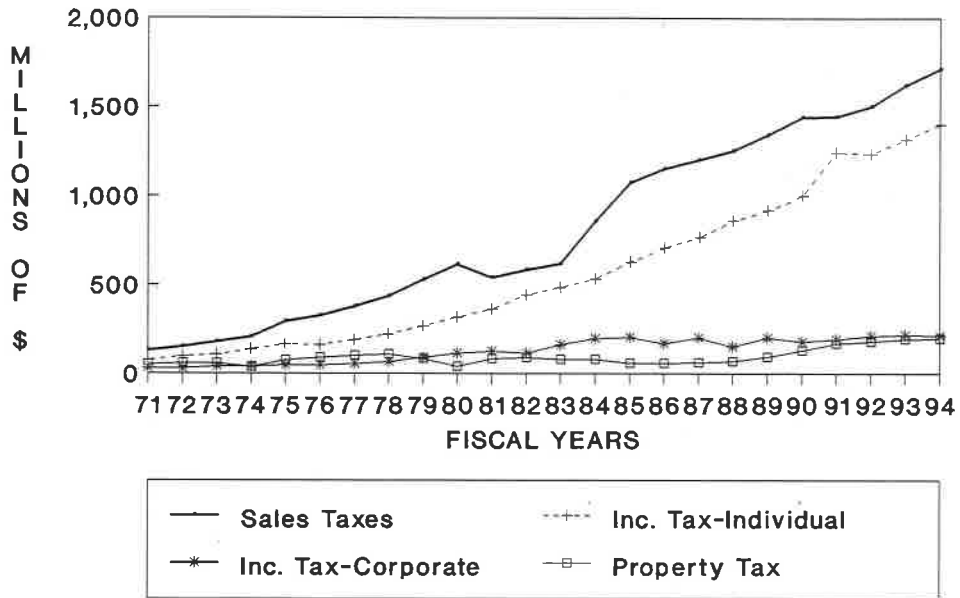
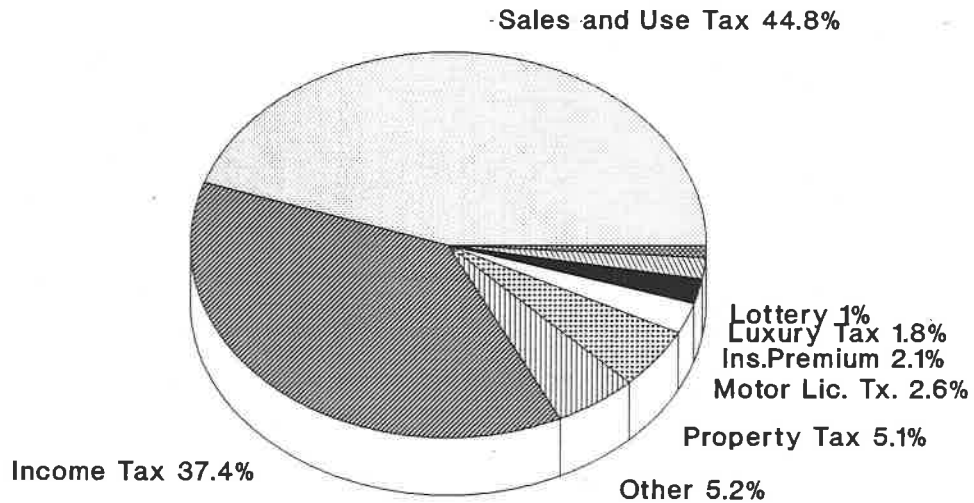


CHART 22

GENERAL FUND REVENUE SOURCES AS A PERCENT OF TOTAL BASE REVENUE



FY 1994

CHART 23

FY 1994 MAJOR REVENUE SOURCES DOLLAR AND PERCENT CHANGE FROM FY 1993

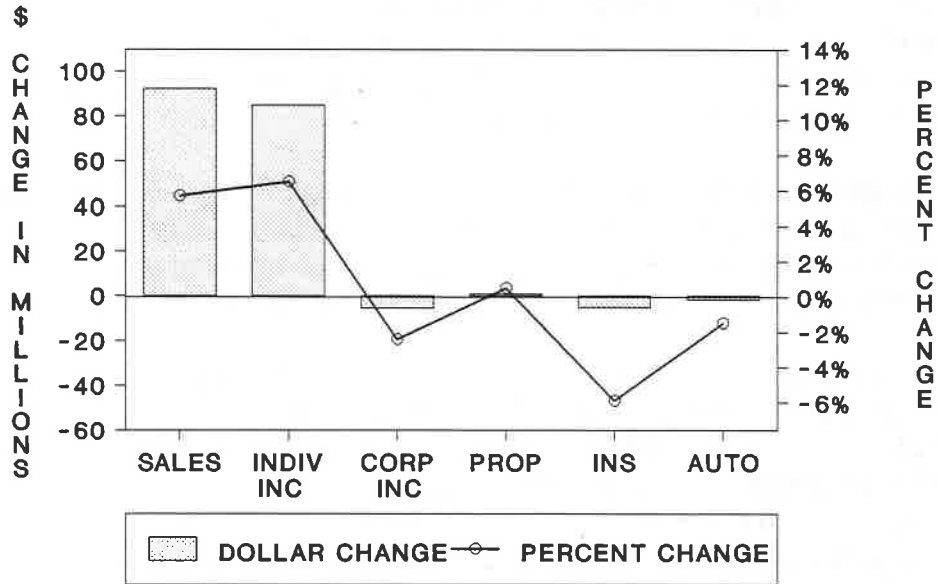


CHART 24

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

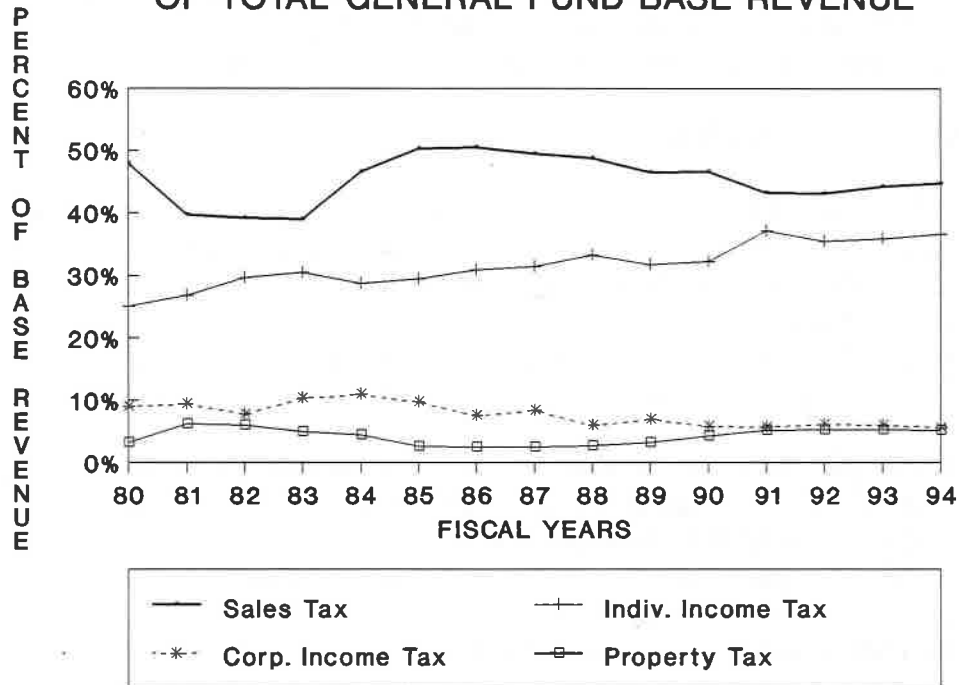


CHART 25

BUDGET STABILIZATION FUND

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. Under the economic formula which drives the Budget Stabilization Fund, the first payment into the fund is expected to occur at the end of FY 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 modeling that preceded development of the Arizona BSF recognized that, historically, the Arizona economy has been much more cyclical than the U.S. economy. This is due in large part to cyclical swings in the growth of in-migration to Arizona and to the business cycle in real estate and other important Arizona industries. Good economic times in Arizona have been "booms" in the past. However, the statistics also show that "bad times" in Arizona have never been "busts", but rather sharp declines in the rate of state economic growth.

The Arizona Economic Estimates Commission (EEC) determines the annual growth rate of inflation-adjusted total state personal income, the trend growth rate over the past seven years, and the required appropriation to or transfer from the BSF. The EEC reports this calculation at its first meeting following the second calendar personal income quarter report of the Bureau of Economic Analysis, U.S. Department of Commerce. The Commission certifies and reports its findings to the Governor, the State Treasurer, the President of the Senate, the Speaker of the House of Representatives, and the Joint Legislative Budget Committee.

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

- The Pay-In (or Pay-Out) for a given fiscal year is determined by comparing the annual growth rate of inflation adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent seven years.
- If the annual growth rate exceeds the trend growth rate, the excess multiplied by General Fund revenue of the prior fiscal year would equal the amount to be appropriated into the BSF.
- If the annual growth rate is less than the trend growth rate, the deficiency when multiplied by the General Fund revenue of the prior fiscal year would equal the amount to be transferred from the BSF to the General Fund.
- 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.

Calculations - Official and Expected

The charts on the next page show the growth of real Arizona Personal Income over a 17-year period. The annual changes are compared to the seven-year average. Actual data for the growth of Personal Income until CY 1991 and forecasts from Wharton Econometrics, the University of Arizona, and the JLBC Staff for the periods after that time were used. The BSF model shows what would have occurred and what may be expected.

Pay-in's to the BSF (would have) occurred when the growth rate was above the seven-year moving average of real personal income growth. Pay-outs happened when real annual personal income growth is less than the seven-year average.

The difference in growth between the one-year and seven-year average would be multiplied times the previous fiscal year General Fund revenue to determine the size of the contribution to or withdrawal from the BSF. The balance in the BSF would earn interest, which would be retained in the BSF.

The charts show the simulation results. Not surprisingly, periods of declining personal income growth were also periods when the state revenue growth rate had declined. The availability of a BSF at these times would have made a positive contribution to state revenue until economic growth resumed. The simulation suggests that the BSF will work as intended if the formula is adhered to by the Legislature. When viewed across a couple of business cycles (expansion-recession), the BSF "fills up" and "empties out." The maximum "pay-in" years are FY 1979, FY 1985, and FY 1986; whereas, the maximum "pay-out" years are FY 1983 and FY 1992. This is appropriate. For example, in FY 1983, mid-year budget cuts of 10% were exacted; the pay-out of \$104 million could have precluded that cut. In FY 1992, a budget deficit of \$94 million occurred. The pay-out would have been up to \$141 million that year, more than enough to solve that year's problem.

Previous expectations of above-trend growth in the Arizona economy in CY 1992 were too optimistic. It now appears that the initial pay-in to the BSF will not occur until FY 1994, based upon a stronger CY 1993. If personal income grows as expected, the required pay-in is forecast to be \$25.5 million, followed by a significantly larger pay-in of about \$72.8 million in FY 1995. It is important for fiscal planning purposes to recognize that these are estimated pay-in's that will be "fine-tuned" in accordance with the EEC's calculations of the exact figures. The EEC's calculations are done in May of each year based upon U.S. Department of Commerce figures for the prior calendar year. A payment or withdrawal would be made prior to the end of the fiscal year.

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

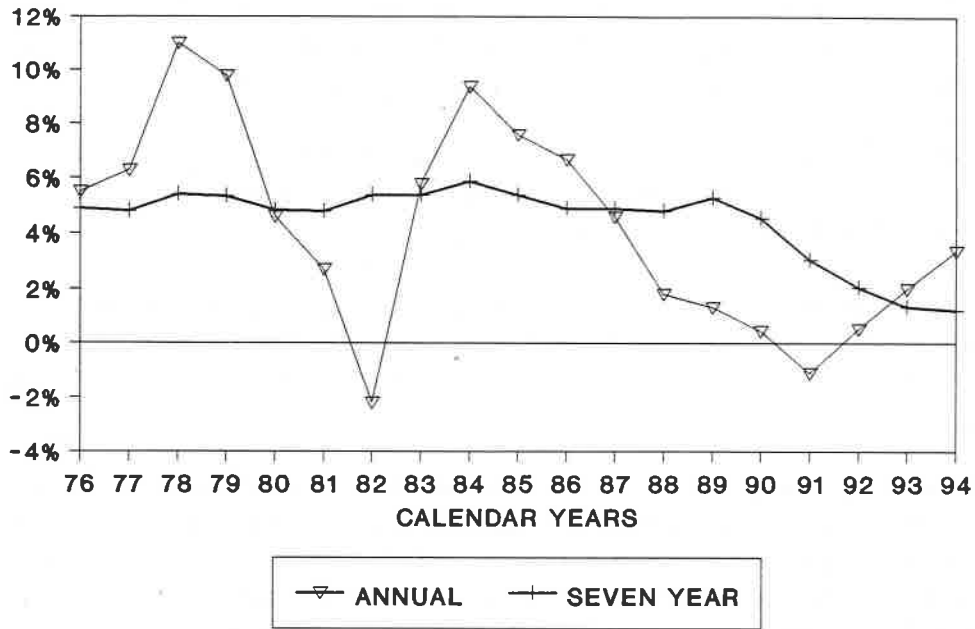
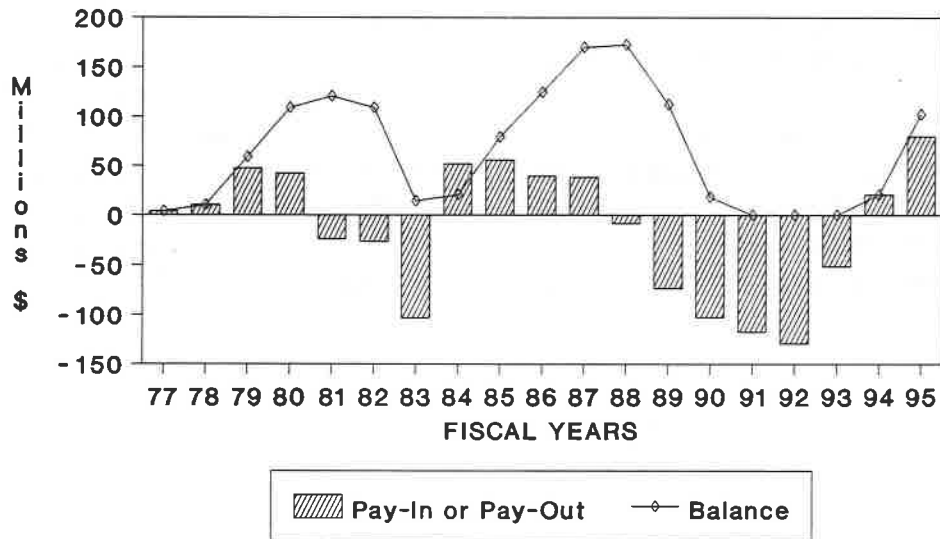


CHART 26

ARIZONA BUDGET STABILIZATION FUND PAY-INS, PAY-OUTS AND FUND BALANCES FY 1977 TO FY 1995



NOTE: Fund Balance Earns Interest
at 6-Month T-Bill Rate

CHART 27