

PROPOSED BUDGET

FY 1999

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

Prepared By

THE STAFF OF THE
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 consists of the following 16 members:

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

Representative Robert "Bob" Burns
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Representative Jean Hough McGrath
Representative Robert J. McLendon

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

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

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



STATE OF ARIZONA

Joint Legislative Budget Committee

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January 14, 1998

The Honorable Brenda Burns
President of the Senate
and
The Honorable Jeff Groscost
Speaker of the House
State Capitol
State of Arizona

Dear President Burns and Speaker Groscost:

A.R.S. § 41-1273 requires that our office "prepare for distribution an analysis of the governor's budget as soon after the budget is presented to the legislature as is possible. The analysis, among other things, shall include recommendations of the budget analyst for revisions in expenditures."

On behalf of the Staff of the Joint Legislative Budget Committee, it is my pleasure to transmit our recommendations for FY 1999. Our recommendations are contained in two volumes:

- (1) This Summary of Recommendations and Economic and Revenue Forecast;
- (2) An Analysis and Recommendations book, which contains recommendations, by agency, and by program. The volume also includes information on non-appropriated funds.

The Staff of the Joint Legislative Budget Committee looks forward to working with the entire 43rd Arizona Legislature in completing the state budget for FY 1999.

Sincerely,

Richard Stavneak
Director
RS:lm

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BUDGET IN BRIEF

FISCAL YEAR 1999 - GENERAL FUND

JLBC STAFF RECOMMENDATION

The State of Arizona's fiscal condition remains excellent. The state's FY 1997 ending General Fund balance was \$516 million. The JLBC Staff Budget Recommendation is designed to preserve this carry-forward through FY 1999, prior to the Legislature making policy decisions on K-12 funding and tax relief issues. As a starting point in the Legislature's deliberations, the JLBC Staff offers the following:

1. The FY 1997 ending balance was higher than anticipated due to an unexpected surge in individual and corporate income taxes.
2. After conferring with the Finance Advisory Committee, the JLBC Staff forecasts that the state economy will continue to grow at a moderate, although somewhat slower, pace. The main risks to the revenue forecast are an unexpected nationwide recession, continued uncertainty over income tax collections and the dollar amount of the new education and low-income charity tax credits.
3. The recommendation sets aside \$147 million for one-time pay-as-you-go capital construction projects.
4. Operating budgets would grow by \$180 million, or 3.5%, with almost all increases dedicated to four state commitments – state employee pay adjustments, education formula funding, prison openings, and federal Title 19 adjustments. In addition, the focus will be on 11 of the largest agencies as all others have already had their FY 1999 budgets approved during the last session.
5. Other discretionary funding increases are kept at a bare minimum. After the JLBC Staff makes its operating and capital recommendations, a balance of \$581 million remains to address priority issues.

The JLBC Staff also believes that the following 2 issues are worthy of particular fiscal oversight:

- Full funding of the Budget Stabilization Fund will bring its total deposit to \$348 million. When combined with health and welfare stabilization fund deposits, total rainy day fund balances would equal \$452 million. As a point of comparison, the state increased taxes and other state revenues by \$620 million in the FY 1989 through FY 1992 slow-growth period.
- The Year 2000 automation problem deserves close attention, but additional funding should be deferred pending greater agency progress with existing resources.

On a comparable basis with the Executive, the JLBC Staff revenue forecast is \$51 million higher and JLBC Staff spending recommendations are \$129 million lower.

OPERATING APPROPRIATIONS	REVENUES AND YEAR-END BALANCES			
	\$ Change From FY 98	JLBC Staff FY 99 Rec.	FY 98	FY 99
	(\$ Millions)		(\$ Millions)	
• Dept of Education (K-12)	\$21.4	\$2,143.1	REVENUES:	
• Universities	35.0	715.9	• Beginning Balance	\$516.0 \$530.1
• Dept of Corrections	54.2	516.3	• Base Revenues	<u>5,252.3</u> <u>5,503.0</u>
• AHCCCS	8.1	512.8	SUBTOTAL-REVENUES	\$5,768.2 \$6,033.1
• Dept of Economic Security	10.9	405.2	EXPENDITURES:	
• Dept of Health Services	12.4	227.8	• Operating Budgets	\$5,105.0 \$5,281.6
• Judiciary	9.2	138.1	• Supplementals	17.2 3.4
• Community Colleges	(5.3)	115.5	• Budget Stabilization Fund Deposit	30.0 45.1
• Dept of Juvenile Corrections	9.2	65.2	• Capital Outlay	99.3 146.8
• Dept of Administration	(0.3)	26.2	• Admin Adjust/Emergencies	46.7 35.0
• All Other	15.4	408.7	• Revertments	<u>(60.0)</u> <u>(60.0)</u>
• Unallocated Salaries	<u>9.7</u>	<u>9.7</u>	SUBTOTAL-EXPENDITURES	\$5,238.1 \$5,451.9
TOTAL	<u>\$180.0</u>	<u>\$5,285.0</u>	CARRY FORWARD	<u>\$530.1</u> <u>\$581.2</u>

**FY 1999
COMPARISON OF MAJOR POLICY ISSUES**

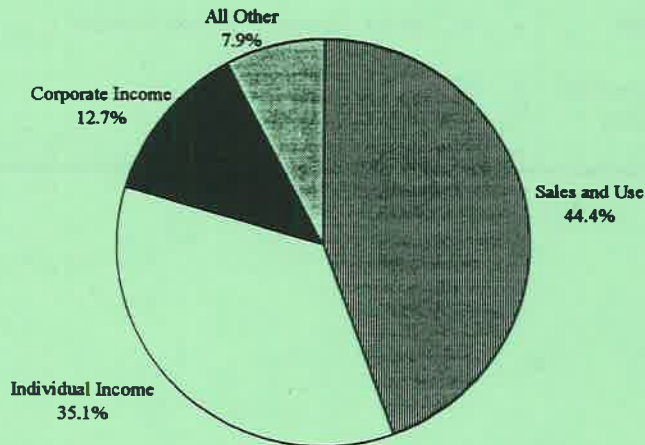
MAJOR ISSUES	JLBC STAFF RECOMMENDATION	EXECUTIVE RECOMMENDATION
General Fund (GF) Budget	<ul style="list-style-type: none"> • \$213.9 M, or 4.0%, General Fund (GF) Increase in FY 1999 • \$17.2 M in FY 1998 Supplementals 	<ul style="list-style-type: none"> • \$445.2 M, or 8.4%, General Fund Increase in FY 1999 • \$53.9 M in FY 1998 Supplementals
Capital Outlay	<ul style="list-style-type: none"> • \$146.8 M GF • \$44.1 M GF Advance Appropriations, mostly Prison Construction • \$42.2 M for 100% Funding of Building Renewal • \$35.3 M for New Capitol Mall and Flagstaff Office Buildings • \$15.0 M for Health Laboratory Project, subject to a privatization study • \$7.0 M for 200 New DJC Beds • No Funding of New ASH Facility 	<ul style="list-style-type: none"> • \$96.0 M GF • Same Recommendation • \$33.0 M for 80% Funding of Building Renewal • Lease-Purchase Financing for Capitol Mall and Flagstaff Buildings • \$21.7 M in FY 1999 and FY 2000 for Health Lab • \$8.8 M in FY 98 for 200 New DJC Beds • Lease-Purchase Financing for New ASH Facility
Pay	<ul style="list-style-type: none"> • \$65.6 M to fund previously enacted Pay Raises, including 2.5% Merit Increase in January 1999 	<ul style="list-style-type: none"> • Same Recommendation, but add \$8 M to Increase January 1999 Pay Raise to 3.5%
Budget Stabilization Funds	<ul style="list-style-type: none"> • \$45.1 M to fund at Statutory Cap of 6.3% of revenues. Balance would be \$348 M plus \$103 M in Health & Welfare Rainy Day Funds 	<ul style="list-style-type: none"> • \$87 M for a Total of \$392 M (7.5%) plus Health and Welfare Funds
Year 2000 Automation	<ul style="list-style-type: none"> • No New Funding beyond \$18 M already approved for FY 98/99 	<ul style="list-style-type: none"> • \$8M in additional funding, for a total of \$26 M
Priorities	<ul style="list-style-type: none"> • \$581 M is available for K-12 and tax issues and all other priority issues 	<ul style="list-style-type: none"> • \$405 M is available in the Executive budget for comparable issues -- \$210 M for Tax Relief, \$87 M for K-12 Capital, \$51 M for K-12 M & O Enhancements, \$37 M for Other Bills and \$20 M Ending Balance
EDUCATION		
K-12	<ul style="list-style-type: none"> • \$21.4 M GF Change Above FY 98, including: • \$107.1 M for 3.3% Enrollment Growth • \$14.5 M for Homeowners' Rebate • \$1.3 M for Achievement Testing • \$(92.1) M Net Savings Due to Assessed Value Growth • Defer M & O Enhancements to separate bill 	<ul style="list-style-type: none"> • \$114.1 M GF Change Above FY 98, including: • \$122.7 M for 3.8% Enrollment Growth • \$19.6 M for Homeowners' Rebate • \$3.2 M for Achievement Testing • \$(74.1) M Net Savings Due to Assessed Value Growth • \$50.8 M for M & O Enhancements
Universities	<ul style="list-style-type: none"> • \$35.0 M GF Change Above FY 98, including: • \$27.4 M for Pay Adjustments • \$10.0 M for Enrollment and New Facilities • No Recommendation for SSIG Transfer and University Issues • \$(4.0) M for Collections Fund Adjustment • An Additional \$17.2 M GF for Building Renewal 	<ul style="list-style-type: none"> • \$40.6 M GF Change Above FY 98, including: • \$27.1 M for Pay Adjustments • \$8.5 M for Enrollment Only • \$7.4 M for SSIG Transfer and University Issues • \$(2.3) M for Collections Fund Adjustment • An Additional \$10.9 M GF for Building Renewal
Community Colleges	<ul style="list-style-type: none"> • \$(5.3) M GF Change Below FY 98, including: • \$2.4 M Enrollment Growth and Equalization • \$(8.0) M for One-Time Funding 	<ul style="list-style-type: none"> • \$(5.2) M GF Change Below FY 98, including: • Same Recommendation • Same Recommendation

CRIMINAL JUSTICE		
Juvenile Corrections	<ul style="list-style-type: none"> • \$9.0 M GF Change Above FY 98, including: • \$8.5 M to Open 200 Beds • No Transfer of DOC Beds 	<ul style="list-style-type: none"> • \$12.7 M GF Change Above FY 98, including: • \$10.5 M to Open 200 Beds • \$2.2 M to Transfer 200 DOC-Rincon Beds to DJC
Corrections	<ul style="list-style-type: none"> • \$54.2 M GF Change Above FY 98, including: • \$36.6 M to Open 2,400 New Beds • \$3.8 M for Inmate Population Growth • No New Private Beds • No New Travel Stipends • \$13.7 M for Pay Adjustments 	<ul style="list-style-type: none"> • \$69.4 M GF Change Above FY 98, including: • \$42 M to Open 3,200 New Beds • \$5.1 M for Inmate Population Growth • \$5.5 M for 300 New Private Beds • \$4 M for Correctional Officer Travel Stipends • \$13.4 M for Pay Adjustments
Judiciary	<ul style="list-style-type: none"> • \$9.2 M GF Change Above FY 98, including: • \$5.4 M for 8% Growth in Probation Programs plus annualization • \$2.8 M for Pay Adjustments 	<ul style="list-style-type: none"> • No \$ Change Above FY 98 • Does not recommend on Judiciary Budget
HEALTH AND WELFARE		
AHCCCS	<ul style="list-style-type: none"> • \$8.0 M GF Change Above FY 98, including: • \$(0.7) M for Acute Care Caseload, Inflation, and Other Changes • \$7.0 M for ALTCS Caseload and Inflation (County Increase equals \$11.5 M) • Uses \$28.8 M of Tobacco Tax funds for continuing support of on-going programs • No Kids Care General Fund Set-Aside 	<ul style="list-style-type: none"> • \$11.9 M GF Change Above FY 98, including: • \$1.4 M for Acute Care Caseload, Inflation, and Other Changes • \$7.7 M for ALTCS Caseload and Inflation (County Increase equals \$11.8 M) • Uses \$26.4 M of Tobacco Tax Funds for on-going programs • \$8.1 M GF and \$13.2 M Tobacco Tax for Kids Care Initiative in a separate bill
DES	<ul style="list-style-type: none"> • \$10.9 M GF Change Above FY 98, including: • \$18.5 M for Long Term Care Caseload Growth and Shortfall • \$7.1 M for CPS Annualization • Defers Healthy Families funding to separate bill • \$(4.0) M TANF Cash Benefits decrease • \$(14.7) M shift of Child Care Funding from GF to TANF Block Grant • No New Welfare to Work Block Grant Funding 	<ul style="list-style-type: none"> • \$20.9 M GF Change Above FY 98, including: • \$20.9 M for Long Term Care Caseload Growth and Shortfall • Same Recommendation • Continues Healthy Families at \$3 M • \$(2.4) M TANF Cash Benefits decrease • \$(12.7) M shift of Child Care Funding from GF to TANF Block Grant • \$2 M for Welfare to Work Block Grant Match
DHS	<ul style="list-style-type: none"> • \$12.4 M GF Above FY 98, including: • \$5.7 M for Title XIX capitation rate increases approved during FY 1998 • \$3.1 M to implement the "Sexually Violent Persons" program at ASH • \$6.4 M to increase staffing and contract services at ASH to ensure active treatment and safety • No New AIDS General Fund Support 	<ul style="list-style-type: none"> • \$15.8 M GF Above FY 98, including: • \$5.4 M for Title XIX capitation rate increases • \$3.2 M for "Sexually Violent Persons" • \$7.4 M for ASH staffing • \$1.6 M for AIDS drugs

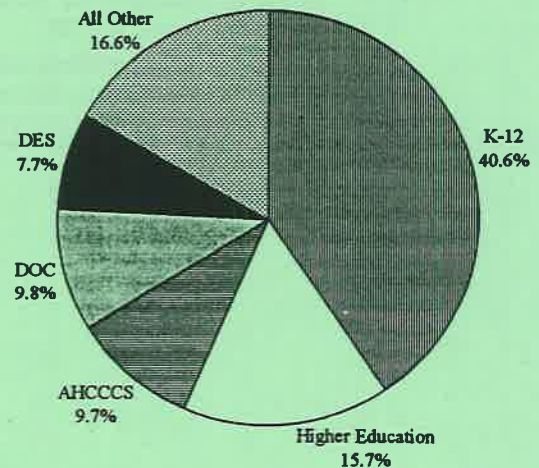
**JLBC STAFF RECOMMENDATION
GENERAL FUND REVENUES AND EXPENDITURES
FISCAL YEARS 1998 AND 1999
(dollars in thousands)**

	<u>Proposed FY 1998</u>	<u>Proposed FY 1999</u>
REVENUES		
Balance Forward	\$515,974.0	\$530,104.6
Base Revenues	5,252,256.4	5,502,953.4
TOTAL REVENUES	<u>\$5,768,230.4</u>	<u>\$6,033,058.0</u>
EXPENDITURES		
Operating Appropriations	5,104,968.4	5,281,560.6
Supplementals	17,170.1	3,392.0
Budget Stabilization Fund Deposit	30,000.0	45,115.0
	<u>5,152,138.5</u>	<u>5,330,067.6</u>
Capital Outlay	99,287.3	146,805.8
Admin Adjustments/Emergencies	46,700.0	35,000.0
Revertments	(60,000.0)	(60,000.0)
TOTAL EXPENDITURES	<u>\$5,238,125.8</u>	<u>\$5,451,873.4</u>
ENDING BALANCE	\$530,104.6	\$581,184.6

Where it Comes From
GF Base Revenue FY 1999: \$5,503.0 Million



Where it Goes
GF Operating Expenditures FY 1999: \$5,285.0 Million



FY 1999 BUDGET RECOMMENDATION THEMES

FY 1997/FY 1998 Ending Balances

During the 1997 legislative session, the JLBC Staff had projected that the FY 1997 ending balance would be \$318.4 million. The ending balance was actually \$516.0 million, an increase of \$197.6 million over projections.

Of the \$197.6 million increase, \$175.0 million was due to higher than anticipated revenue growth. Much of this surge was due to unexpected growth in individual and corporate income tax returns. Income tax collections exceeded the forecast by \$191.1 million, while all other revenue categories were collectively below forecast by \$16.1 million.

The underestimating of individual income tax collections was a common occurrence among the 50 states. Arizona individual income tax collections grew by 14.3%, compared to the forecasted growth rate of 6.8%. There is speculation that larger than normal capital gains from financial transactions in stock options and mutual funds also led to the discrepancy in the individual income tax forecast. The timing of the budget cycle also affects forecasting. The level of income tax returns is obviously related to April tax filings - information that is not available prior to the conclusion of the legislative session.

Corporate income tax collections were even more unpredictable. While the JLBC Staff had forecasted growth of 16.7%, actual revenues increased by 34.1%. This growth was especially surprising given that corporate profits were projected to increase by 8.1%.

Our forecast for the FY 1998 General Fund ending balance is \$530.3 million.

Economic Forecast

The U.S. economy is in its 83rd month of expansion and the JLBC Staff forecasts slightly slower but steady growth in the national economy through FY 2000. Inflation should remain moderate, in the 2.0% to 3.0% range through our forecast period. The Federal Reserve Board has clearly done a good job in reducing inflationary expectations.

The JLBC Staff forecasts that the state's economy will continue to grow at a moderate, although somewhat, slower pace. The slower growth forecast for Arizona is driven by (1) the outlook for the national economy and (2) the strengthening of the California economy resulting in slower migration into Arizona.

The following points summarize the tenor of the comments at the December meeting of our Finance Advisory Committee (FAC) meeting:

1. Arizona's growth rate will moderate in 1999 and 2000.
2. JLBC economic indicators were on-target or slightly optimistic.
3. Risks to the forecast are more downside than upside and concerns were expressed about the Asian financial crisis.

Another risk to the forecast is the unknown dollar value of three recently enacted income tax credits. Beginning in calendar year 1998, taxpayers will be able to take collective tax credits for up to \$900 in contributions to private and public schools and low-income charities. The JLBC Staff projects the dollar value of the tax credits at \$40 million, but the estimates range between \$10 million and \$80 million.

The ultimate dollar impact of the tax credits will not be known until the spring of 1999, when taxpayers file their 1998 returns. By that time, the Legislature will have already approved budgets through FY 2001. As a result, these budgets will be based on revenue forecasts with a significant unknown variable.

Capital Funding

The JLBC Staff recommends \$146.8 million for Capital Outlay projects. With the state's healthy carry-forward balance, the JLBC Staff believes it is appropriate to invest in infrastructure improvements that are one-time in nature. This recommendation reflects the continued use of pay-as-you-go financing, rather than lease-purchase, for constructing new facilities. Pay-as-you-go is the least expensive financing method.

A major component of the Capital Outlay spending is the already approved appropriation of \$41.1 million for a new prison complex and juvenile complex near Buckeye. The JLBC Staff also recommends:

- \$35.2 million for new Capitol Mall and Flagstaff office buildings;
- \$15 million to upgrade the State Health Laboratory, pending a privatization study; and
- \$7 million to construct an additional 200 beds at the new juvenile complex.

Furthermore, the JLBC Staff recommends \$42.2 million to fully-fund the Building Renewal Formula for the maintenance of state-owned facilities. Since its inception

in FY 1987, the formula has never been funded at 100%. The recommended amount for building renewal would allow the state to protect its investment in building assets, which exceeds \$4.5 billion.

Operations Funding

The JLBC Staff recommends \$180 million in new funding for state agency operating budgets. Almost all of this amount is set aside for four main state commitments:

- \$65.6 million for already approved state employee pay raises. The 1997 Legislature approved three salary increases for the period between October 1997 and January 1999 as well as \$21.0 million to reduce salary disparities with other jurisdictions.
- \$45.2 million to open 2,400 new adult prison beds and 200 juvenile beds.
- \$30.8 million to fund the K-12 education and community college formulas as well as university enrollment growth; and
- \$30.6 million for Federal Title 19 caseload and inflation adjustments.

The education formula requirement is less than in prior years due to significant growth in the property tax base at the local level. An increase in local property tax collections helps to offset the state General Fund contribution to the K-12 formula.

Pay Adjustments

During the 1997 legislative session, the Legislature approved additional spending of \$65.6 million from the General Fund and \$12.1 million from Other Funds for FY 1999 state employee salary adjustments. When combined with the FY 1998 salary increases approved at the same time, the total two-year salary package costs \$106.2 million from the General Fund and \$18.7 million from Other Funds. The increased spending in FY 1999 covers the following adjustments:

- Funding to annualize the cost of two mid-year FY 1998 salary increases: 1) a 2.5% general salary increase, not to exceed \$1000 per FTE position, on October 1, 1997; and 2) a 2.5% merit increase, not to exceed 5% per person, on January 1, 1998.
- A 2.5% merit increase, not to exceed 5%, on January 1, 1999.
- A total of \$16.5 million from the General Fund and \$2.9 million from Other Funds for Classification Salary Adjustments (CSA) on October 1, 1998. Classification Salary Adjustments are targeted to specific job categories to make their salaries more competitive with comparable positions in local government and private industry. The salary package

also includes funding to annualize the cost of the October 1, 1997 Classification Salary Adjustments.

The FY 1999 University CSA funding is incorporated into the budgets for each university. The dollar amounts for the other three personnel systems – the Arizona Department of Administration, the Judiciary, and the Department of Public Safety – remain unallocated. The JLBC Staff recommends that the dollar allocation be determined after each personnel system reports its proposed salary adjustments to the Joint Legislative Budget Committee. The JLBC Staff also recommends that the Legislature adjust the FY 1999 Other Funds CSA to accommodate recent growth in appropriated funds.

Stabilization Fund Deposits

The JLBC recommends an additional deposit of \$45.1 million to the Budget Stabilization Fund in FY 1999 to reach the fund's statutory maximum of 6.33% of revenues. This deposit would bring the fund's balance to \$348.3 million. When combined with health and welfare stabilization fund deposits, total "rainy day" funds would equal \$451.5 million in FY 1999. The Medical Stabilization Fund, designed to cover AHCCCS contingencies, is projected to have \$99.1 million in deposits. The Temporary Assistance for Needy Families (TANF) Stabilization Fund, which can help to finance unexpected increases in welfare caseloads, has a \$4.1 million balance.

As a point of comparison in evaluating the adequacy of the funds' balances, the state increased taxes and other state revenues by \$620 million in the FY 1989 through FY 1992 slow-growth period.

Year 2000 Automation

The "Year 2000" computer problem refers to a necessity to evaluate all information technology functions that use a 2-digit code for the year (e.g., "00" for "2000") and make alterations, where required. Last year, the Legislature appropriated \$18 million from the General Fund and \$8.4 million from Other Funds to the Government Information Technology Agency (GITA) to address this issue. Resolution of Year 2000 problems is required to enable the smooth continuation of state government functions and prevent state liability for service failures.

The Executive has recommended an additional \$8 million from the General Fund for this problem. The JLBC Staff recommendation does not include additional monies because much of the original appropriation is still unspent. In addition, \$3.1 million of the request is not projected to be spent until FY 2000. To facilitate planning and prevent fiscal year-end project rushes, however, the JLBC Staff recommends making the existing appropriations available until June 2000. (see the JLBC Staff recommendation for GITA for more information).

Priority Issues

The Legislature will have significant policy choices during the session with regard to tax relief, K-12 capital finance and new K-12 operating enhancements. The JLBC Staff recommendation does not specifically address these three issues. By limiting the growth in the budget, however, the JLBC Staff recommendation is designed to preserve the state's current \$500+ million surplus so as to maximize the resources available to address the key policy issues of this legislative session.

After the Staff makes its operating and capital recommendations, a balance of \$581 million remains available to address legislative priorities.

HIGHLIGHTS OF AGENCY BUDGET RECOMMENDATIONS

Education

Department of Education

The JLBC Staff recommends \$21.4 million in new General Fund funding for K-12, a 1.0% increase. This increase includes \$107.1 million for enrollment growth, including \$75.4 million for school district enrollment growth (with district charters) and \$31.7 million for state board sponsored charter schools, based on formula funding projections. Overall student enrollment is projected to grow 3.3% in FY 1999. After 6 years of property value growth of less than 3%, assessed value is projected to grow by 6.0% in 1997 and 7.3% in 1998, resulting in savings of \$(92.1) million. Local property tax collections increase when assessed values grow, which helps to offset the state General Fund cost of Basic State Aid.

The JLBC Staff has not made specific recommendations regarding K-12 capital finance or maintenance and operations (M&O) enhancements. The Arizona Supreme Court has ruled that the Assistance to Build Classrooms (ABC) program and ongoing funding to the School Capital Equity Fund and State Board for School Capital Facilities do not satisfy, from a capital funding perspective, constitutional requirements for a "general and uniform" public education system.

As a result, the monies previously set aside for these financing mechanisms are now available for reallocation. Starting in FY 1998, \$32.5 million of General Fund revenue was to be deposited annually into the Assistance to Build Classrooms Fund. These monies for both FY 1998 and FY 1999 (a total of \$65 million) are now part of the FY 1999 carry forward balance. In addition, \$30 million of state land endowment earnings appropriated to the School Capital Facilities Board in FY 1999, along with \$8 million of unobligated FY 1998 monies, are no longer earmarked.

Universities

The JLBC Staff recommends a total General Fund increase of \$35.0 million for the universities, a 5.1% increase. The recommendation includes \$27.4 million for salary adjustments which consist of \$7.9 million for annualization, \$15.5 million for new salary adjustment and \$4 million for the faculty teaching incentive program annualization. It also includes \$10 million for 2.5% student enrollment growth and new facilities support and a \$(4) million decrease due to increases of other funds.

In addition, the JLBC Staff recommends \$32 million for university building renewal, which represents a \$17.2 million increase from the FY 1998 level. Thus, the total

General Fund increase for the university system is \$52.2 million over FY 1998.

The JLBC Staff also recommends that the Faculty Teaching Incentive Program (TIP) should be further evaluated by the Legislature, Governor and the Board of Regents in order to examine whether the state resources are effectively utilized at the universities when the ranked faculty spend only 6.2 hours per week in direct classroom instruction, and two-thirds of the ranked faculty teach 6 hours or less a week in the classroom.

Community Colleges

The JLBC Staff recommends a \$(5.3) million, or (4.4)% reduction in the Community Colleges General Fund budget. This reduction includes an increase of \$2.4 million for changes in full-time student enrollment (FTSE), and equalization aid. Enrollment is expected to increase 1.5%.

The JLBC Staff recommends a decrease of \$(2.8) million for Technology Assisted Learning (also known as Arizona Learning Systems or ALS) as requested by the State Board due to delays in implementation, and a decrease of \$(5.2) million in other one-time funding.

Criminal Justice

Department of Corrections

The JLBC Staff recommends a total General Fund increase of \$54.2 million, or 11.7% for the Department of Corrections budget. The recommendation includes \$36.6 million to open 2,400 new prison beds, \$3.8 million for a 6.1% growth in the average daily inmate population, and \$13.7 million for salary related adjustments, including \$3.5 million to continue the correctional officer pay plan approved in FY 1996.

With the opening of 2,400 prison beds at the new Lewis complex, the bed shortfall for the Department of Corrections will be the lowest in recent years. The JLBC Staff anticipates a bed shortfall at the end of FY 1998 of (2,766) or 12.7% of total operational bed capacity. By the end of FY 1999, the JLBC Staff anticipates a bed shortfall of (1,150) or 4.6% of capacity. The bed shortfalls experienced by the department will continue to decrease as the remaining 1,750 beds of the Lewis complex are opened in FY 2000. These projections assume that the inmate population will grow from 110 new inmates per month in FY 1998 to 132 new inmates per month in FY 1999 and FY 2000. The increase in growth reflects the anticipated impact from the 1994 criminal code revisions that increased sentence lengths for violent crimes.

Department of Juvenile Corrections

The JLBC Staff recommends a \$9.2 million, or 16.5%, General Fund increase for the Department of Juvenile Corrections. Of this change, \$4 million would fund the full-year costs of 100 new secure, institutional beds to be opened in July 1998 at a new complex south of Buckeye. Another \$4.5 million would fund the start-up and operation of a second 100 beds to be opened in October 1998 at the new complex. In addition, the JLBC Staff recommends a FY 1998 supplemental appropriation of \$1.1 million to address overcrowding at the department's secure care facilities.

The addition of 200 new beds to the DJC system would represent a 26% increase in secure care capacity. However, with the passage of Proposition 102 and its implementing legislation, there is considerable uncertainty regarding the department's future secure care bed needs. With this in mind, the JLBC Staff recommends \$7 million in its Capital Outlay recommendations for the construction of an additional 200 new beds at the new complex. Some or all of these 200 beds could be brought on-line in FY 2000.

Judiciary

The JLBC Staff recommends a \$9.2 million General Fund increase, or 7.2%, for the Judiciary. Of this change, \$3 million would add 6-month funding for an expected 8% growth in adult and juvenile probation programs. The JLBC Staff recommendation also adds \$2.4 million to annualize probation funding added in FY 1998. In addition, the JLBC Staff recommends an increase of \$600,000 to add 24 juvenile standard probation officers to eliminate a caseload capacity deficit in FY 1998 and to meet the statutorily required 1:35 officer to probationer ratio.

Health and Welfare

AHCCCS

The JLBC Staff recommends a total General Fund increase of \$8.1 million, or 1.6%, for AHCCCS. Acute Care General Fund expenditures are expected to decrease by \$(700,000), or (0.2)%, in FY 1999 due in part to declining caseloads in FY 1998, slight caseload growth in FY 1999, and lower expenditures for the Disproportionate Share Hospital program. In addition, General Fund expenditures for the Arizona Long-Term Care System (ALTCS) are expected to increase by \$7.0 million based upon the recent state agreement to share in the cost of Long-Term Care growth with the counties. ALTCS costs are expected to grow 10.4% in FY 1999 due to increased enrollment and medical inflation.

The JLBC Staff recommends using \$28.8 million of Tobacco Tax funds to continue paying for the quick pay phase-down, the elimination of the \$10 million hospital discount, the replacement of reduced federal funds, extended maternity length of stay coverage, and a newly-required HIV/AIDS treatment.

Department of Economic Security

The JLBC Staff is recommending a \$10.9 million General Fund increase, or 2.8%, for the Department of Economic Security. The recommendation includes an increase of \$18.5 million for caseload growth of 12.0% above the FY 1998 appropriated level in the federal Long Term Care program and to ensure the proper amount of state match. Lower than expected caseloads in the Temporary Assistance for Needy Families (TANF) program, however, will permit a \$(4.0) million General Fund reduction in that program.

The recommendation adds \$7.1 million for annualization of Child Protective Services and Family Builders increases approved in the November 1997 special session. The JLBC Staff also recommends a General Fund reduction of \$14.7 million and an increase of the same amount from TANF to transfer support of child care programs from the General Fund to TANF. Overall, child care subsidy funding has increased from \$55.7 million in FY 1996 to \$105.4 million in FY 1999, an increase of 89%.

Department of Health Services

The JLBC Staff recommends a total General Fund increase of \$12.4 million, or 5.7%, for the Department of Health Services budget. This increase is the result of three main policy issues. During FY 1998 the Federal Health Care Financing Administration (HCFA) approved capitation rate increases for Title XIX behavioral health programs. The rate increases averaged 40% across the three behavioral health categories (Children's Behavioral Health, Seriously Mentally Ill, and General Mental Health Substance Abuse) and was approved retroactive to July 1, 1997. The JLBC Staff recommends \$5.7 million for the cost of this increase in FY 1999.

On June 3, 1997 the Arizona State Hospital (ASH) voluntarily withdrew from the Federal Medicare program following notification from the federal government that ASH would be decertified due to staffing shortages and lack of active treatment for ASH patients. The loss of certification was due to several factors including the increased severity of ASH's population and high staff turnover following the scheduled downsizing of ASH's patient census. The JLBC Staff recommends an increase of 165 FTE positions and \$6.4 million for increased operating costs to provide additional clinical staffing at ASH.

Under the "Sexually Violent Persons" (SVP) program enacted in 1995, individuals convicted of a sexually violent offense and likely to commit acts of sexual violence again are committed to ASH for treatment until they are no longer determined to be a threat to public safety. This commitment process takes place after the individual has served a prison sentence for the crimes. In September of 1997, ASH received its first SVP and the Department of Corrections estimates that ASH will receive over 100 clients by the end of FY 1999. The JLBC Staff recommends 75 FTE Positions and \$3.1 million for the operating costs of the SVP program in FY 1999.

Budget Reform

Laws 1997, Chapter 210 made changes to the state's budgeting procedures. Beginning with FY 2000, the entire budgeting and program evaluation process will be converted to a 2-year cycle. The major emphasis of the first regular session of a Legislature will be budgetary review and approval. Program Authorization Reviews (PAR) will be conducted in the second regular session.

For the 1998 legislative session, thirty-six selected programs and subprograms within 18 different agencies participated in the PAR process. The joint findings of the JLBC Staff and OSPB are found in 2 documents: individual reports and a composite PAR document, the JLBC Staff/OSPB PAR Executive Summary. This Executive Summary has been distributed to each legislator, the Governor, and the participating agencies.

Transportation

Arizona Department of Transportation

The JLBC Staff recommendation provides \$163.8 million from the State Highway Fund for statewide highway construction, which is \$11.0 million, or 7.2%, more than the FY 1998 estimate. The JLBC Staff recommends an ADOT operating budget increase of \$3.7 million, or 1.6%. The JLBC Staff recommends that ADOT continue to provide quarterly reports on customer wait time, transaction time, and total customer time spent in Motor Vehicle Division (MVD) field offices.

The JLBC Staff and OSPB provided recommendations to the PAR Committees, which were comprised of legislators and private citizens. The PAR Committees then adopted their own recommendations. A summary of the JLBC Staff, OSPB and the PAR Committee recommendations is included in the Analysis and Recommendation Book.

FTE Summary Information

The JLBC Staff recommendation provides for an increase of 1,942.2 FTE Positions. This represents an increase statewide of 4.3%. The majority of the growth relates to staffing new prisons for the Department of Corrections and the Department of Juvenile Corrections. These 2 agencies account for 1,195.5 of the new positions.

Of the JLBC Staff recommendations, 3 have a FY 1999 budgetary impact. The JLBC Staff recommends the elimination of the Office of Sports Development and the Border Infrastructure Finance Office, both within the Department of Commerce. A JLBC Staff review found that there is no evidence that the Office of Sports Development is necessary for the growth of the sports industry in Arizona. Another JLBC review found that the Border Infrastructure Finance Office is no longer necessary because the newly-established Greater Arizona Development Authority now provides technical and financial assistance for rural communities throughout the state.

Agency	Full-Time Equivalent Positions Total Appropriated Funds		
	FY 98 Estimate ^{1/}	FY 99 JLBC Staff	FY 99 Increase/ (Decrease)
Dept of Administration	1,005.0	942.0	(63.0)
AHCCCS	1,074.8	1,107.9	33.1
Dept of Corrections	9,020.4	9,955.4	935.0
Dept of Economic Security	3,717.2	3,772.4	55.2
Dept of Health Services	1,073.1	1,309.1	236.0
Dept of Juvenile Corrections	1,014.0	1,274.5	260.5
Dept of Public Safety	1,689.5	1,734.5	45.0
Dept of Transportation	4,348.0	4,553.0	205.0
Universities	14,766.1	14,938.9	172.8
All Others	<u>7,812.3</u>	<u>7,874.9</u>	<u>62.6</u>
TOTAL	<u>45,520.4</u>	<u>47,462.6</u>	<u>1,942.2</u>

1/ Adjusted for comparability with the JLBC Staff recommendation

The JLBC Staff also recommends that the Department of Agriculture allocate a fair share of Department of Agriculture administrative expenses to special revenue funds, and commodity councils' and commissions' funds based on total expenditures, FTE counts, and service hours. A cost allocation methodology had been in place before FY 1998, but was suspended pending the PAR. For further detail on these budgetary recommendations, please see the narrative in the FY 1999 Supplemental Section of the Analysis and Recommendations Book.

The next PAR cycle will be in 1999 and 2000. Chapter 210 requires the JLBC to initiate legislation specifying the programs and subprograms that will undergo review through the PAR process. At the November 1997 meeting of the Joint Legislative Budget Committee, the JLBC Staff and the Executive recommended that 45 programs and subprograms undergo a PAR review. The Committee gave a favorable review to the proposal. Legislation will be

introduced in the 1998 Regular Session to give final approval to these projects. The JLBC Staff and the Executive will conduct their reviews in 1999 and the Legislature will examine the results in 2000.

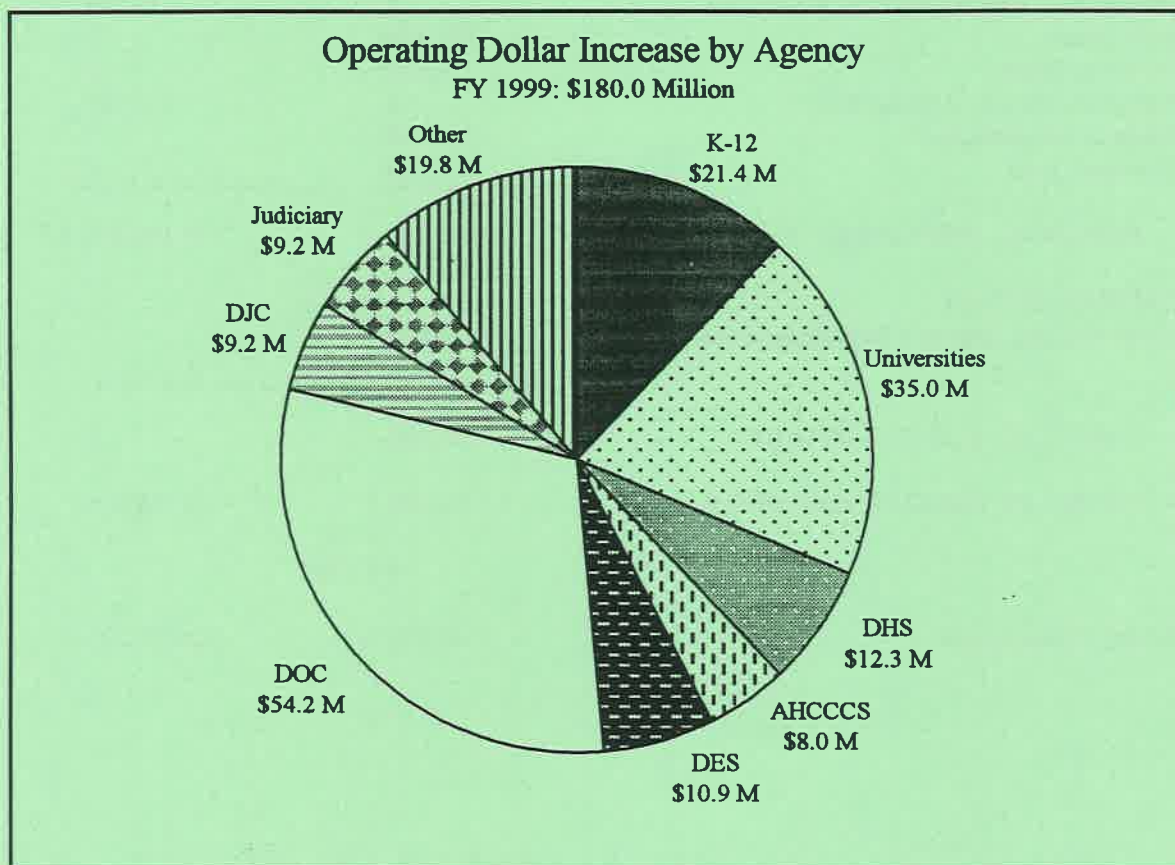
Chapter 210 also requires agencies to submit their budget requests using their program structure. This change will allow the format of the General Appropriation Act to be converted from line items of expenditure such as Personal Services and Travel to a list of programs representing the most important activities of the agency. All budget units are to be converted to program budgeting by FY 2006. By July 1, 1998, the JLBC Staff and OSPB shall issue a schedule delineating the year in which each budget unit shall begin submitting a program budget. JLBC Staff and OSPB have currently agreed upon 67 agencies that will present their FY 2000 budget submissions in a program budget format. The JLBC Staff and OSPB will finalize the remaining schedule to meet the July 1, 1998 deadline.

An important aspect of moving to program budgeting is the linking of results-oriented performance measures to budgetary decisions. Although agencies have been improving their performance measures, improvement still can be made. In addition, employing performance measures by the Legislature in making budgetary decisions is new. Based on these concerns, the JLBC Staff recommends that the subcommittees of the House and Senate Appropriations Committees meet during the interim to determine appropriate performance measures that would be useful in the appropriations process.

BUDGET DETAIL BY AGENCY

**GENERAL FUND AGENCIES
FY 1999 JLBC STAFF RECOMMENDATION
COMPARISON WITH EXECUTIVE RECOMMENDATION AND FY 1998 APPROPRIATIONS**

AGENCY	FY 1998 Estimate	FY 1999 Executive Recommendation	FY 1999 JLBC Staff Recommendation	\$ Difference JLBC - Executive	\$ Difference JLBC - FY 1998
K-12	2,121,661,200	2,235,808,300	2,143,073,100	(92,735,200)	21,411,900
UNIVERSITIES	680,909,500	721,542,400	715,884,900	(5,657,500)	34,975,400
DEPT OF CORRECTIONS	462,115,300	531,517,600	516,295,700	(15,221,900)	54,180,400
AHCCCS	504,713,000	516,599,000	512,779,700	(3,819,300)	8,066,700
DEPT OF ECONOMIC SECURITY	394,276,900	415,211,500	405,170,200	(10,041,300)	10,893,300
DEPT OF HEALTH SERVICES	215,473,100	231,479,900	227,843,500	(3,636,400)	12,370,400
JUDICIARY	128,811,000	128,811,000	138,051,100	9,240,100	9,240,100
COMMUNITY COLLEGES	120,757,700	115,616,200	115,489,300	(126,900)	(5,268,400)
DEPT OF JUVENILE CORRECTIONS	55,922,700	68,659,900	65,160,000	(3,499,900)	9,237,300
ALL OTHER	420,328,000	464,020,100	445,205,100	(18,815,000)	24,877,100
TOTAL	5,104,968,400	5,429,265,900	5,284,952,600	(144,313,300)	179,984,200



SUPPLEMENTAL SUMMARY

	General Fund JLBC	Other Appropriated Funds JLBC
FY 1998		
OPERATING BUDGETS		
<u>Annual Budget Units</u>		
Health Services, Department of	13,748,700	
Judiciary	570,700	138,000
Juvenile Corrections, Department of	1,062,500	
<u>Biennial Budget Units</u>		
Environmental Quality, Department of	0	(1,827,300)
Equalization, Board of	(112,000)	0
Governor, Office of the	200,000	0
Governor's Ofc. of Management & Budgeting	(200,000)	0
Homeopathic Medical Examiners, Bd. Of	0	3,600
Library, Archives & Public Records, Dept. of	0	15,000
Naturopathic Phys Bd. Of Med. Examiners	0	11,200
Parks Board	(161,800)	0
Personnel Board	71,600	0
Retirement System, Arizona State	0	551,300
Revenue, Department of	1,494,100	0
Treasurer, State	71,300	0
SUBTOTAL - OPERATING	16,745,100	(1,108,200)
CAPITAL OUTLAY		
Health Services, Dept of - State Hospital Renovations	425,000	
SUBTOTAL - CAPITAL OUTLAY	425,000	0
TOTAL - FY 1998 SUPPLEMENTALS	17,170,100	(1,108,200)
FY 1999		
Biennial Budget Units	3,392,000	13,287,500

BIENNIAL SUPPLEMENTALS BUDGET SUMMARY

FY 1999 General Fund

	FY 1999 ORIGINAL	ANNUALIZED FY 1998 CSA	POLICY 1/ ISSUES	FY 1999 JLBC REC	JLBC REC. - ORIGINAL
BIENNIAL BUDGET UNITS					
ADMINISTRATIVE HEARINGS, OFFICE OF	613,300			613,300	0
AGRICULTURE, DEPARTMENT OF	11,502,700	2,800	(312,600)	11,192,900	(309,800)
ARTS, COMMISSION ON THE	4,352,900			4,352,900	0
ATTORNEY GENERAL - DEPT OF LAW	24,387,700	10,300		24,398,000	10,300
BANKING DEPARTMENT, STATE	2,564,700			2,564,700	0
BOXING COMMISSION	71,800			71,800	0
BUILDING AND FIRE SAFETY, DEPT. OF	3,077,300			3,077,300	0
COMMERCE, DEPARTMENT OF	19,927,700	2,100	(107,400)	19,822,400	(105,300)
CONSTITUTIONAL DEFENSE COUNCIL	0			0	0
CORPORATION COMMISSION	5,822,800		13,500	5,836,300	13,500
CRIMINAL JUSTICE COMMISSION, ARIZONA	750,000			750,000	0
DEAF AND THE BLIND, SCHOOLS FOR THE	18,073,700			18,073,700	0
EMRG. & MILITARY AFFAIRS, DEPT. OF	10,833,500	23,200		10,856,700	23,200
ENVIRONMENTAL QUALITY, DEPT OF	29,140,200	37,100		29,177,300	37,100
EQUAL OPPORTUNITY, GOVERNOR'S OFC OF	254,900			254,900	0
EQUALIZATION, STATE BOARD OF	818,800		(112,900)	705,900	(112,900)
EXECUTIVE CLEMENCY, BOARD OF	1,635,500	5,100		1,640,600	5,100
GEOLOGICAL SURVEY, ARIZONA	795,600			795,600	0
GOVERNMENT INFORMATION TECH AGENCY	8,000,000			8,000,000	0
GOVERNOR, OFFICE OF THE	5,331,800			5,331,800	0
GOV'S OFC OF MANAGEMENT & BUDGETING	3,504,600		(200,000)	3,304,600	(200,000)
HEARING IMPAIRED, COUNCIL FOR THE	254,300			254,300	0
HISTORICAL SOCIETY, ARIZONA	4,351,600	2,000		4,353,600	2,000
HISTORICAL SOCIETY, PRESCOTT	698,700	3,500		702,200	3,500
INDIAN AFFAIRS, COMMISSION OF	160,100			160,100	0
INSURANCE, DEPARTMENT OF	5,048,600	7,900	339,500	5,396,000	347,400
LAND DEPARTMENT, STATE	14,040,400	42,700		14,083,100	42,700
LAW ENFORCEMENT MERIT SYS COUNCIL	52,200			52,200	0
LEGISLATURE					
Auditor General	10,094,100			10,094,100	0
House of Representatives	8,601,200		1,000,000	9,601,200	1,000,000
Joint Legislative Budget Committee	2,220,500			2,220,500	0
Legislative Council	3,952,700		79,600	4,032,300	79,600
Library, Archives & Public Records	6,298,600	4,000	159,300	6,461,900	163,300
Senate	6,392,800			6,392,800	0
TOTAL	37,559,900	4,000	1,238,900	38,802,800	1,242,900
LIQUOR LICENSES AND CONTROL, DEPT	2,773,600	4,000	70,000	2,847,600	74,000
MEDICAL STUDENT LOANS BOARD	295,800		(56,800)	239,000	(56,800)
MINE INSPECTOR	980,900		54,900	1,035,800	54,900
MINES & MINERAL RESOURCES, DEPT. OF	759,500			759,500	0
NAVIGABLE STREAM ADJUDICATION COMM.	144,600			144,600	0
OSHA REVIEW BOARD	9,000			9,000	0
PARKS BOARD	7,679,100		(498,900)	7,180,200	(498,900)
PERSONNEL BOARD	316,700		42,200	358,900	42,200
PIONEERS' HOME	2,304,400	7,500		2,311,900	7,500
POSTSECONDARY EDUCATION, COMM. FOR	0		1,732,600	1,732,600	1,732,600
PUBLIC SAFETY, DEPARTMENT OF	73,520,800		389,600	73,910,400	389,600
RACING, DEPARTMENT OF	2,646,000	4,200		2,650,200	4,200
RADIATION REGULATORY AGENCY	1,620,900			1,620,900	0
RANGERS' PENSIONS	11,100			11,100	0
REAL ESTATE DEPARTMENT	3,006,400			3,006,400	0
REVENUE, DEPARTMENT OF	54,583,800	328,400	697,600	55,609,800	1,026,000
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	0			0	0
SECRETARY OF STATE	4,369,700		2,800	4,372,500	2,800
TAX APPEALS, BOARD OF	281,100		8,100	289,200	8,100
TECHNICAL REGISTRATION, STATE BOARD OF	0			0	0
TOURISM, OFFICE OF	8,825,100			8,825,100	0
TREASURER, STATE	4,431,100	13,900	2,800	4,447,800	16,700
UNIFORM STATE LAWS, COMMISSION ON	31,600		2,100	33,700	2,100
VETERANS' SERVICE COMMISSION	1,004,000			1,004,000	0
WATER RESOURCES, DEPARTMENT OF	19,941,800	37,900		19,979,700	37,900
WEIGHTS AND MEASURES, DEPT. OF	1,614,900	2,400	86,000	1,703,300	88,400
TOTAL - BIENNIAL BUDGET UNITS	404,777,200	539,000	3,392,000	408,708,200	3,931,000
OPERATING BUDGET TOTAL	404,777,200	4,448,700	3,392,000	5,275,219,600	3,931,000

1/ Detail found on page S-1 of the Analysis and Recommendations volume.

BIENNIAL SUPPLEMENTALS BUDGET SUMMARY

FY 1999 Other Funds

	FY 1999 ORIGINAL	ANNUALIZED FY 1998 CSA	POLICY 1/ ISSUES	FY 1999 JLBC REC.	JLBC REC. - ORIGINAL
BIENNIAL BUDGET UNITS					
ACCOUNTANCY, BOARD OF	1,254,800			1,254,800	0
ADMINISTRATIVE HEARINGS, OFFICE OF	752,300			752,300	0
AGRICULTURE, DEPARTMENT OF	2,175,300		110,800	2,286,100	110,800
APPRAISAL, BOARD OF	294,000			294,000	0
ATTORNEY GENERAL - DEPT OF LAW	13,389,900		7,770,000	21,159,900	7,770,000
AUTO THEFT AUTHORITY	1,176,900			1,176,900	0
BARBERS, BOARD OF	162,700			162,700	0
BEHAVIORAL HEALTH EXAMINERS, BD OF	394,300			394,300	0
CHIROPRACTIC EXAMINERS, BOARD OF	259,400			259,400	0
COLISEUM AND EXPOSITION CENTER	12,266,500			12,266,500	0
COMMERCE, DEPARTMENT OF	7,591,900	1,500	396,800	7,990,200	398,300
CONTRACTORS, REGISTRAR OF	6,044,000	19,000	909,000	6,972,000	928,000
CORPORATION COMMISSION	10,439,100	10,000		10,449,100	10,000
COSMETOLOGY, BOARD OF	831,200		49,900	881,100	49,900
CRIMINAL JUSTICE COMMISSION, ARIZONA	1,908,100		550,000	2,458,100	550,000
DEAF AND THE BLIND, SCHOOLS FOR THE	6,420,600			6,420,600	0
DENTAL EXAMINERS, BOARD OF	649,900			649,900	0
DRUG & GANG PREVENTION RESOURCE CTR.	207,400			207,400	0
EMRG. & MILITARY AFFAIRS, DEPT. OF	47,700			47,700	0
ENVIRONMENTAL QUALITY, DEPT OF	18,219,500	82,700	261,200	18,563,400	343,900
FUNERAL DIRECTORS & EMBALMERS, BD	187,400			187,400	0
GAME AND FISH DEPARTMENT	20,858,900	14,000	22,100	20,895,000	36,100
GAMING, DEPARTMENT OF	4,500,800			4,500,800	0
GOVERNMENT INFORMATION TECH. AGCY	4,238,700			4,238,700	0
GOV'S OFC OF MANAGEMENT & BUDGETING	500,000			500,000	0
HEARING IMPAIRED, COUNCIL FOR THE	4,160,700			4,160,700	0
HOMEOPATHIC EXAMINERS, BOARD OF	42,600			42,600	0
INDUSTRIAL COMMISSION	13,647,700	29,700		13,677,400	29,700
LAND DEPARTMENT, STATE	901,500			901,500	0
LOTTERY, ARIZONA	54,370,800	31,600		54,402,400	31,600
MEDICAL EXAMINERS, BOARD OF	3,210,100			3,210,100	0
MEDICAL STUDENT LOANS BOARD	20,600		56,800	77,400	56,800
NATUROPATHIC PHYSICIANS BOARD	84,500		11,200	95,700	11,200
NURSING, BOARD OF	1,606,300		41,000	1,647,300	41,000
NURSING CARE INSTITUTIONAL ADMIN. BD.	124,200			124,200	0
OCCUPATIONAL THERAPY EXAM., BD OF	106,700			106,700	0
OPTICIANS, BOARD OF DISPENSING	70,900			70,900	0
OPTOMETRY, BOARD OF	116,900			116,900	0
OSTEOPATHIC EXAMINERS, BOARD OF	360,400		29,000	389,400	29,000
PARKS BOARD	3,307,400			3,307,400	0
PHARMACY, BOARD OF	736,100			736,100	0
PHYSICAL THERAPY EXAMINERS, BOARD	133,500			133,500	0
PIONEERS' HOME, ARIZONA	2,007,700			2,007,700	0
PODIATRY EXAMINERS, BOARD OF	70,500			70,500	0
POSTSECONDARY EDUCATION, COMM. FOR	0		2,427,600	2,427,600	2,427,600
PRIVATE POSTSECONDARY EDUCATION	169,200			169,200	0
PSYCHOLOGIST EXAMINERS, BOARD OF	275,200			275,200	0
PUBLIC SAFETY, DEPARTMENT OF	44,001,300			44,001,300	0
RACING, DEPARTMENT OF	304,800			304,800	0
RADIATION REGULATORY AGENCY	113,100			113,100	0
RESIDENTIAL UTILITY CONSUMER OFFICE	941,400			941,400	0
RESPIRATORY CARE EXAMINERS BOARD	183,400			183,400	0
RETIREMENT SYSTEM	8,766,300	50,900	260,600	9,077,800	311,500
REVENUE, DEPARTMENT OF	1,404,900			1,404,900	0
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	30,000,000			30,000,000	0
STRUCTURAL PEST CONTROL COMM	1,464,700		9,000	1,473,700	9,000

	<u>FY 1999 ORIGINAL</u>	<u>ANNUALIZED FY 1998 CSA</u>	<u>POLICY 1/ ISSUES</u>	<u>FY 1999 JLBC REC.</u>	<u>JLBC REC. - ORIGINAL</u>
TECHNICAL REGISTRATION, BOARD OF	829,900		62,100	892,000	62,100
VETERANS' SERVICE COMMISSION	8,535,200	6,600		8,541,800	6,600
VETERINARY MED EXAMINING BOARD	240,600			240,600	0
WATER RESOURCES, DEPARTMENT OF	80,000			80,000	0
WEIGHTS AND MEASURES, DEPT. OF	424,300		320,400	744,700	320,400
TOTAL - BIENNIAL BUDGET UNITS	297,584,700	246,000	13,287,500	311,118,200	13,533,500

1/ Detail found on page S-1 of the Analysis and Recommendations volume.

FY 1999 GENERAL FUND SUMMARY

	FY 1998 1/ ESTIMATE	FY 1999 EXEC REC.	FY 1999 JLBC REC.	JLBC REC.- ESTIMATE	JLBC REC. - EXEC REC.
ANNUAL BUDGET UNITS					
ADMINISTRATION, DEPARTMENT OF	26,442,800	26,803,900	26,184,400	(258,400)	(619,500)
AHCCCS	504,713,000	516,599,000	512,779,700	8,066,700	(3,819,300)
COMMUNITY COLLEGES	120,757,700	115,616,200	115,489,300	(5,268,400)	(126,900)
CORRECTIONS, DEPARTMENT OF	462,115,300	531,517,600	516,295,700	54,180,400	(15,221,900)
ECONOMIC SECURITY, DEPARTMENT OF	394,276,900	415,211,500	405,170,200	10,893,300	(10,041,300)
EDUCATION, DEPARTMENT OF	2,121,661,200	2,235,808,300	2,143,073,100	21,411,900	(92,735,200)
HEALTH SERVICES, DEPARTMENT OF	215,473,100	231,479,900	227,843,500	12,370,400	(3,636,400)
JUDICIARY					
Court of Appeals	9,468,300	9,468,300	9,832,100	363,800	363,800
Superior Court	105,797,800	105,797,800	114,437,000	8,639,200	8,639,200
Supreme Court	13,544,900	13,544,900	13,782,000	237,100	237,100
TOTAL	128,811,000	128,811,000	138,051,100	9,240,100	9,240,100
JUVENILE CORRECTIONS, DEPT OF	55,922,700	68,659,900	65,160,000	9,237,300	(3,499,900)
TRANSPORTATION, DEPARTMENT OF	578,000	579,300	579,500	1,500	200
UNIVERSITIES					
Arizona State University - Main	234,608,800	248,917,100	249,040,400	14,431,600	123,300
Arizona State University - East	6,995,000	7,330,900	8,710,100	1,715,100	1,379,200
Arizona State University - West	35,744,800	36,649,700	37,046,700	1,301,900	397,000
Northern Arizona University	97,288,600	99,509,500	99,177,700	1,889,100	(331,800)
Board of Regents	10,588,300	21,984,200	14,801,700	4,213,400	(7,182,500)
University of Arizona - Main	244,577,400	253,786,200	253,991,000	9,413,600	204,800
University of Arizona - Health Sciences Center	51,106,600	53,364,800	53,117,300	2,010,700	(247,500)
TOTAL	680,909,500	721,542,400	715,884,900	34,975,400	(5,657,500)
TOTAL - ANNUAL BUDGET UNITS	4,711,661,200	4,992,629,000	4,866,511,400	154,850,200	(126,117,600)
BIENNIAL BUDGET UNITS					
ADMINISTRATIVE HEARINGS, OFFICE OF	597,900	613,300	613,300	15,400	0
AGRICULTURE, DEPARTMENT OF	11,242,100	11,641,600	11,192,900	(49,200)	(448,700)
ARTS, COMMISSION ON THE	3,950,200	4,352,900	4,352,900	402,700	0
ATTORNEY GENERAL - DEPT OF LAW	24,406,100	24,998,000	24,398,000	(8,100)	(600,000)
BANKING DEPARTMENT, STATE	2,501,100	2,564,700	2,564,700	63,600	0
BOXING COMMISSION	70,100	71,800	71,800	1,700	0
BUILDING AND FIRE SAFETY, DEPT. OF	3,010,200	3,077,300	3,077,300	67,100	0
COMMERCE, DEPARTMENT OF	14,918,900	20,229,800	19,822,400	4,903,500	(407,400)
CONSTITUTIONAL DEFENSE COUNCIL	350,000	0	0	(350,000)	0
CORPORATION COMMISSION	5,730,100	5,836,200	5,836,300	106,200	100
CRIMINAL JUSTICE COMMISSION, ARIZONA	1,250,000	750,000	750,000	(500,000)	0
DEAF AND THE BLIND, SCHOOLS FOR THE	17,566,900	18,073,700	18,073,700	506,800	0
EMRG. & MILITARY AFFAIRS, DEPT. OF	14,078,200	10,856,700	10,856,700	(3,221,500)	0
ENVIRONMENTAL QUALITY, DEPT OF	32,309,500	32,253,400	29,177,300	(3,132,200)	(3,076,100)
EQUAL OPPORTUNITY, GOVERNOR'S OFC OF	248,400	254,900	254,900	6,500	0
EQUALIZATION, STATE BOARD OF	806,600	705,900	705,900	(100,700)	0
EXECUTIVE CLEMENCY, BOARD OF	1,680,100	1,640,600	1,640,600	(39,500)	0
GEOLOGICAL SURVEY, ARIZONA	780,300	795,600	795,600	15,300	0
GOVERNMENT INFORMATION TECH. AGENCY	10,100,000	19,228,700	8,000,000	(2,100,000)	(11,228,700)
GOVERNOR, OFFICE OF THE	5,305,100	5,331,800	5,331,800	26,700	0
GOV'S OFC OF MANAGEMENT & BUDGETING	3,423,400	3,304,600	3,304,600	(118,800)	0
HEARING IMPAIRED, COUNCIL FOR THE	257,400	254,300	254,300	(3,100)	0
HISTORICAL SOCIETY, ARIZONA	4,288,500	4,853,500	4,353,600	65,100	(499,900)
HISTORICAL SOCIETY, PRESCOTT	683,800	702,200	702,200	18,400	0
INDIAN AFFAIRS, COMMISSION OF	156,000	160,100	160,100	4,100	0
INSURANCE, DEPARTMENT OF	4,786,500	5,436,600	5,396,000	609,500	(40,600)
LAND DEPARTMENT, STATE	13,880,900	14,083,100	14,083,100	202,200	0
LAW ENFORCEMENT MERIT SYS COUNCIL	52,100	52,200	52,200	100	0
LEGISLATURE					
Auditor General	9,883,900	10,094,100	10,094,100	210,200	0
House of Representatives	8,431,900	8,601,200	9,601,200	1,169,300	1,000,000
Joint Legislative Budget Committee	2,165,900	2,220,500	2,220,500	54,600	0
Legislative Council	4,844,500	4,032,300	4,032,300	(812,200)	0
Library, Archives & Public Records	6,197,200	6,302,500	6,461,900	264,700	159,400
Senate	6,263,700	6,392,800	6,392,800	129,100	0
TOTAL	37,787,100	37,643,400	38,802,800	1,015,700	1,159,400
LIQUOR LICENSES AND CONTROL, DEPT.	2,728,600	2,847,800	2,847,600	119,000	(200)
MEDICAL STUDENT LOANS BOARD	286,200	239,000	239,000	(47,200)	0

FY 1999 GENERAL FUND SUMMARY

	<u>FY 1998 1/ ESTIMATE</u>	<u>FY 1999 EXEC REC.</u>	<u>FY 1999 JLBC REC.</u>	<u>JLBC REC.- ESTIMATE</u>	<u>JLBC REC. - EXEC REC.</u>
MINE INSPECTOR	1,045,000	1,035,800	1,035,800	(9,200)	0
MINES & MINERAL RESOURCES, DEPT. OF	732,400	759,500	759,500	27,100	0
NAVIGABLE STREAM ADJUDICATION COMM.	209,700	154,000	144,600	(65,100)	(9,400)
OSHA REVIEW BOARD	9,000	9,000	9,000	0	0
PARKS BOARD	6,793,400	7,679,100	7,180,200	386,800	(498,900)
PERSONNEL BOARD	314,200	316,700	358,900	44,700	42,200
PIONEERS' HOME	2,252,500	4,239,400	2,311,900	59,400	(1,927,500)
POSTSECONDARY EDUCATION, COMM. FOR	1,734,900	0	1,732,600	(2,300)	1,732,600
PUBLIC SAFETY, DEPARTMENT OF	63,853,400	74,835,400	73,910,400	10,057,900	(925,000)
RACING, DEPARTMENT OF	2,643,600	2,650,200	2,650,200	6,600	0
RADIATION REGULATORY AGENCY	1,604,200	1,620,900	1,620,900	16,700	0
RANGERS' PENSIONS	10,800	11,100	11,100	300	0
REAL ESTATE DEPARTMENT	2,955,200	3,006,400	3,006,400	51,200	0
REVENUE, DEPARTMENT OF	53,645,000	57,074,900	55,609,800	1,964,800	(1,465,100)
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	0	0	0	0	0
SECRETARY OF STATE	2,805,300	4,372,500	4,372,500	1,567,200	0
TAX APPEALS, BOARD OF	292,000	289,200	289,200	(2,800)	0
TECHNICAL REGISTRATION, STATE BOARD OF	10,000	0	0	(10,000)	0
TOURISM, OFFICE OF	8,295,500	8,825,100	8,825,100	529,600	0
TREASURER, STATE	5,249,400	4,447,700	4,447,800	(801,600)	100
UNIFORM STATE LAWS, COMMISSION ON	30,600	33,700	33,700	3,100	0
VETERANS' SERVICE COMMISSION	964,900	1,004,000	1,004,000	39,100	0
WATER RESOURCES, DEPARTMENT OF	16,779,200	19,979,500	19,979,700	3,200,500	200
WEIGHTS AND MEASURES, DEPT. OF	1,845,300	1,706,100	1,703,300	(142,000)	(2,800)
TOTAL - BIENNIAL BUDGET UNITS	393,306,900	426,903,900	408,708,200	15,401,300	(18,195,700)
OPERATING BUDGET TOTAL	5,104,968,100	5,419,532,900	5,275,219,600	170,251,500	(144,313,300)
Unallocated Salary Adjustment	0	8,000,000	0	0	(8,000,000)
Unallocated CSA	300	0	0	(300)	0
Unallocated FY 1999 CSA	0	9,733,000	9,733,000	9,733,000	0
GRAND TOTAL	5,104,968,400	5,437,265,900	5,284,952,600	179,984,200	(152,313,300)

1/ Does not include Supplementals.

01/12/98

FY 1999 OTHER APPROPRIATED FUNDS SUMMARY

	FY 1998 1/ ESTIMATE	FY 1999 EXEC REC.	FY 1999 JLBC REC.	JLBC REC. - ESTIMATE	JLBC REC. - EXEC REC.
ANNUAL BUDGET UNITS					
ADMINISTRATION, DEPARTMENT OF	118,353,700	126,789,400	129,280,500	10,926,800	2,491,100
AHCCCS	0	1,288,300	1,276,400	1,276,400	(11,900)
COMMUNITY COLLEGES	246,500	145,600	148,800	(97,700)	3,200
CORRECTIONS, DEPARTMENT OF	26,775,400	14,767,500	14,767,500	(12,007,900)	0
ECONOMIC SECURITY, DEPARTMENT OF	302,060,800	312,256,400	310,682,200	8,621,400	(1,574,200)
EDUCATION, DEPARTMENT OF	38,040,000	45,311,300	44,865,700	6,825,700	(445,600)
HEALTH SERVICES, DEPARTMENT OF	19,337,700	20,880,100	23,089,700	3,752,000	2,209,600
JUDICIARY					
Superior Court	6,121,900	10,221,900	10,044,200	3,922,300	(177,700)
Supreme Court	8,243,400	8,243,400	11,373,000	3,129,600	3,129,600
TOTAL	<u>14,365,300</u>	<u>18,465,300</u>	<u>21,417,200</u>	<u>7,051,900</u>	<u>2,951,900</u>
JUVENILE CORRECTIONS, DEPT OF	2,572,000	4,779,300	4,318,800	1,746,800	(460,500)
TRANSPORTATION, DEPARTMENT OF	223,691,500	259,785,800	257,949,500	34,258,000	(1,836,300)
UNIVERSITIES				0	0
Arizona State University - Main	88,249,700	91,436,000	92,654,900	4,405,200	1,218,900
Arizona State University - East	2,680,200	2,680,200	2,680,200	0	0
Arizona State University - West	6,009,200	6,103,300	6,103,300	94,100	0
Northern Arizona University	26,641,000	26,641,000	26,641,000	0	0
Board of Regents	0	2,143,700	0	0	(2,143,700)
University of Arizona - Main	64,160,300	63,160,100	63,614,400	(545,900)	454,300
University of Arizona - Health Sciences Center	5,976,000	5,976,000	5,976,000	0	0
TOTAL	<u>193,716,400</u>	<u>198,140,300</u>	<u>197,669,800</u>	<u>3,953,400</u>	<u>(470,500)</u>
TOTAL - ANNUAL BUDGET UNITS	<u>939,159,300</u>	<u>1,002,609,300</u>	<u>1,005,466,100</u>	<u>66,306,800</u>	<u>2,856,800</u>
BIENNIAL BUDGET UNITS					
ACCOUNTANCY, BOARD OF	1,244,100	1,254,800	1,254,800	10,700	0
ADMINISTRATIVE HEARINGS, OFFICE OF	732,700	752,300	752,300	19,600	0
AGRICULTURE, DEPARTMENT OF	2,137,700	2,211,000	2,286,100	148,400	75,100
APPRAISAL, BOARD OF	288,800	294,000	294,000	5,200	0
ATTORNEY GENERAL - DEPT OF LAW	12,907,500	21,159,900	21,159,900	8,252,400	0
AUTO THEFT AUTHORITY	1,173,500	1,176,900	1,176,900	3,400	0
BARBERS, BOARD OF	158,600	162,700	162,700	4,100	0
BEHAVIORAL HEALTH EXAMINERS, BD OF	394,300	394,300	394,300	0	0
CHIROPRACTIC EXAMINERS, BOARD OF	255,200	259,400	259,400	4,200	0
COLISEUM AND EXPOSITION CENTER	12,019,300	12,266,500	12,266,500	247,200	0
COMMERCE, DEPARTMENT OF	2,570,400	7,990,200	7,990,200	5,419,800	0
CONTRACTORS, REGISTRAR OF	5,949,800	6,937,600	6,972,000	1,022,200	34,400
CORPORATION COMMISSION	10,082,500	10,449,200	10,449,100	366,600	(100)
COSMETOLOGY, BOARD OF	835,400	881,100	881,100	45,700	0
CRIMINAL JUSTICE COMMISSION, ARIZONA	1,925,200	1,908,100	2,458,100	532,900	550,000
DEAF AND THE BLIND, SCHOOLS FOR THE	6,449,300	6,420,600	6,420,600	(28,700)	0
DENTAL EXAMINERS, BOARD OF	631,400	649,900	649,900	18,500	0
DRUG & GANG PREVENTION RESOURCE CTR.	205,200	207,400	207,400	2,200	0
EMRG. & MILITARY AFFAIRS, DEPT. OF	847,700	47,700	47,700	(800,000)	0
ENVIRONMENTAL QUALITY, DEPT OF	23,972,500	18,661,900	18,563,400	(5,409,100)	(98,500)
FUNERAL DIRECTORS & EMBALMERS, BD	186,100	187,400	187,400	1,300	0
GAME AND FISH DEPARTMENT	20,724,100	20,872,900	20,895,000	170,900	22,100
GAMING, DEPARTMENT OF	4,297,400	4,500,800	4,500,800	203,400	0
GOVERNMENT INFORMATION TECH. AGCY	9,308,100	7,183,600	4,238,700	(5,069,400)	(2,944,900)
GOV'S OFC OF MANAGEMENT & BUDGETING	500,000	500,000	500,000	0	0
HEARING IMPAIRED, COUNCIL FOR THE	4,158,000	4,160,700	4,160,700	2,700	0
HOMEOPATHIC EXAMINERS, BOARD OF	41,700	42,600	42,600	900	0
INDUSTRIAL COMMISSION	14,063,100	13,709,600	13,677,400	(385,700)	(32,200)
LAND DEPARTMENT, STATE	900,000	901,500	901,500	1,500	0
LOTTERY, ARIZONA	52,225,100	54,401,700	54,402,400	2,177,300	700
MEDICAL EXAMINERS, BOARD OF	3,173,600	3,210,100	3,210,100	36,500	0
MEDICAL STUDENT LOANS BOARD	19,400	77,400	77,400	58,000	0
NATUROPATHIC PHYSICIANS BOARD	93,600	84,500	95,700	2,100	11,200
NURSING, BOARD OF	1,573,600	1,647,300	1,647,300	73,700	0
NURSING CARE INSTITUTIONAL ADMIN. BD.	123,100	124,200	124,200	1,100	0

FY 1999 OTHER APPROPRIATED FUNDS SUMMARY

	FY 1998 1/ ESTIMATE	FY 1999 EXEC REC.	FY 1999 JLBC REC.	JLBC REC. - ESTIMATE	JLBC REC. - EXEC REC.
OCCUPATIONAL THERAPY EXAM., BD OF	106,900	106,700	106,700	(200)	0
OPTICIANS, BOARD OF DISPENSING	74,200	70,900	70,900	(3,300)	0
OPTOMETRY, BOARD OF	114,100	116,900	116,900	2,800	0
OSTEOPATHIC EXAMINERS, BOARD OF	364,600	389,400	389,400	24,800	0
PARKS BOARD	3,645,000	3,307,400	3,307,400	(337,600)	0
PHARMACY, BOARD OF	725,100	736,100	736,100	11,000	0
PHYSICAL THERAPY EXAMINERS, BOARD	132,100	133,500	133,500	1,400	0
PIONEERS' HOME, ARIZONA	2,015,600	549,700	2,007,700	(7,900)	1,458,000
PODIATRY EXAMINERS, BOARD OF	69,700	70,500	70,500	800	0
POSTSECONDARY EDUCATION, COMM. FOR	2,341,000	0	2,427,600	86,600	2,427,600
PRIVATE POSTSECONDARY EDUCATION	165,500	169,200	169,200	3,700	0
PSYCHOLOGIST EXAMINERS, BOARD OF	270,500	275,200	275,200	4,700	0
PUBLIC SAFETY, DEPARTMENT OF	48,255,500	45,551,300	44,001,300	(4,254,200)	(1,550,000)
RACING, DEPARTMENT OF	300,600	304,800	304,800	4,200	0
RADIATION REGULATORY AGENCY	110,800	113,100	113,100	2,300	0
RESIDENTIAL UTILITY CONSUMER OFFICE	946,400	941,400	941,400	(5,000)	0
RESPIRATORY CARE EXAMINERS BOARD	186,100	183,400	183,400	(2,700)	0
RETIREMENT SYSTEM	9,480,400	9,078,300	9,077,800	(402,600)	(500)
REVENUE, DEPARTMENT OF	1,387,500	1,404,900	1,404,900	17,400	0
SCHOOL CAPITAL FACILITIES, ST. BD. FOR	30,400,000	0	30,000,000	(400,000)	30,000,000
STRUCTURAL PEST CONTROL COMM	1,411,500	1,473,900	1,473,700	62,200	(200)
TECHNICAL REGISTRATION, BOARD OF	821,600	892,400	892,000	70,400	(400)
VETERANS' SERVICE COMMISSION	8,358,000	8,541,800	8,541,800	183,800	0
VETERINARY MED EXAMINING BOARD	240,200	240,600	240,600	400	0
WATER RESOURCES, DEPARTMENT OF	75,000	80,000	80,000	5,000	0
WEIGHTS AND MEASURES, DEPT. OF	418,700	744,800	744,700	326,000	(100)
TOTAL - BIENNIAL BUDGET UNITS	308,584,600	281,166,000	311,118,200	2,533,600	29,952,200
OPERATING BUDGET TOTAL	1,247,743,900	1,283,775,300	1,316,584,300	68,840,400	32,809,000
Unallocated Salary Adjustment	503,900	0	0	(503,900)	0
Unallocated CSA	4,300	0	0	(4,300)	0
Unallocated FY 1999 CSA	0	2,910,000	2,910,000	2,910,000	0
Highway Capital CSA	1,000	0	1,300	300	1,300
GRAND TOTAL	1,248,253,100	1,286,685,300	1,319,495,600	71,242,500	32,810,300

1/ Does not include Supplementals.

01/12/98

PROPOSED FY 1999 OMNIBUS RECONCILIATION BILL (ORB) PROVISIONS

Department of Administration

- As session law, defer the enactment of the sick leave payouts established by Laws 1997, Chapter 291 until problems with statewide funding and university implementation are resolved. Also, as session law, defer the requirement that monies in the Retiree Accumulated Sick Leave Fund over \$400,000 revert to the General Fund.

Department of Agriculture

- As session law, divert \$4 of the annual \$75 pesticide registration fee currently going to the Water Quality Assurance Revolving Fund (WQARF) to the Agricultural Consultation and Training Fund in FY 1999.
- As permanent law, divert \$8.50 of the annual \$75 pesticide registration fee currently going to the Water Quality Assurance Revolving Fund (WQARF) to the Agricultural Consultation and Training Fund.

AHCCCS

- As session law, authorize AHCCCS in FY 1999 to use the Medically Needy Account of the Tobacco Tax Fund to continue the phase-out of the quick pay discount, fund the elimination of \$10 million private hospital discount, replace reduced Federal Funds, fund expanded maternity coverage, and fund a newly-required HIV/AIDS medication.
- Set the FY 1999 county acute care contribution at \$66,689,500, the same level as FY 1998.
- Continue the annual ORB provision of adjusting the upcoming fiscal year's county repayment requirements under the Disproportionate Share Hospital (DSH) program in line with projected Federal Funding. Also revise the FY 1998 repayment requirement. Also continue the provision of extending county expenditure limit adjustments associated with DSH payments an additional year.
- Require any disproportionate share monies remaining in the Arizona State Hospital Fund at the end of a fiscal year to revert to the General Fund.

Department of Education

- Set the FY 1999 Charter School Transportation support level at \$174 per student.
- Require transportation support level payments for FY 1999 to be based on prior year daily route mileage rather than the highest daily route mileage from the last 3 years.
- Eliminate Rapid Decline for student count changes attributable to a district-sponsored charter switching sponsors or ceasing to operate.
- Require that 100% of the FY 1999 State Block Grant for Early Childhood funding allocations be based on "free lunch" student counts. Allow at least 50% of the children to receive services from a federally-funded or private pre-school of their parent or guardian's choice. Require participating pre-schools to be licensed by the Department of Health Services. Restrict participation only to school districts with an average daily membership of greater than 600 pupils in Kindergarten through 3rd grade.
- Suspend use of the group B Vocational Education weight and transfer monies to the State Block Grant for Vocational Education for FY 1999. In FY 1999, allocate 95% of the block grant monies based on the number of 11th and 12th grade vocational education students and 5% based on the successful placement of students.

Department of Emergency and Military Affairs

- Modify A.R.S. § 35-192F(3) to clarify that the \$4,000,000 annual limit set aside in the General Fund for Governor-declared emergencies applies to the amount that can be designated for new emergencies rather than expenditures.

Governor's Office of Strategic Planning and Budgeting

- As session law, amend the annual budget report requirements of A.R.S. § 35-115 to allow the Executive to exclude biennial budget units from the report produced for the 43rd Legislature, 2nd Regular Session.

Department of Health Services

- Repeal the FY 1998 transfer of \$14.8 million from the Medically Needy Account of the Tobacco Tax Fund to a Department of Health Services' Construction Services Account for construction of a health laboratory.

Arizona State Parks Board

- Delay from July 1, 1998 to July 1, 2000, the effective date of the cap which sets the maximum expenditures for state parks from the State Parks Enhancement Fund and diverts revenue above the cap to payoff the Tonto State Park lease-purchase contract.

Capital Outlay

- As session law, allow 25% of Building Renewal monies in FY 1999 to be used for a) building modifications to comply with the Americans with Disabilities Act and b) infrastructure repairs.

ECONOMIC AND REVENUE FORECAST

THE ECONOMY

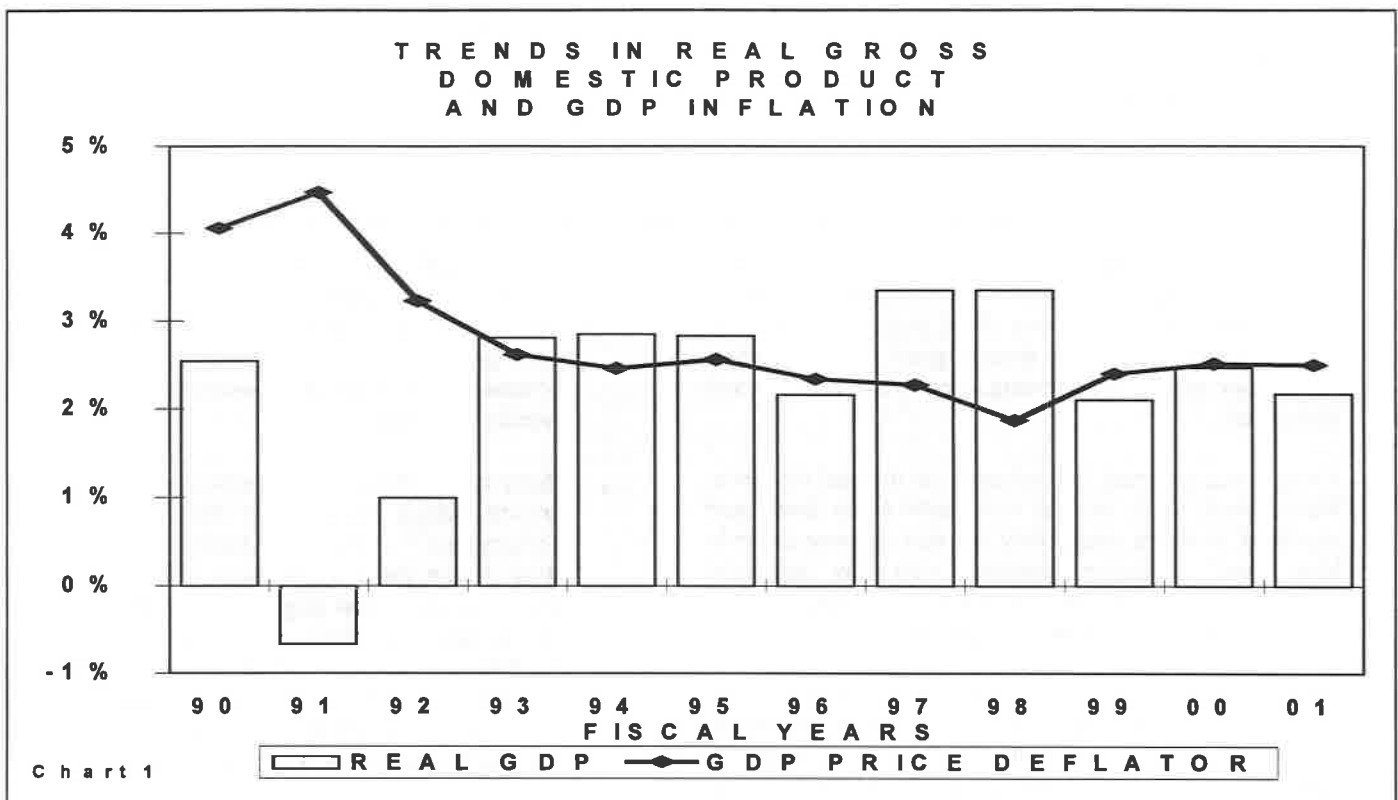
Overview

The Arizona economic expansion is now in its eighth year, but the peak, in terms of year-to-year growth was FY 1995. Growth rates have clearly been gradually slowing since then. The question in the minds of the state's economists is: how long can the expansion last? Optimism is at a record high in Arizona and nationally. None of the traditional indicators, such as rising inflation, turmoil in one or more industry sectors, or a foreign affairs crisis, can be seen on the horizon. This has led some national observers to question whether the 'business cycle is dead', meaning prosperity for the foreseeable future. Yet, it is a truism that economic changes almost always come as a surprise, especially when most observers are saying the same things about the economy.

expansion has formed the foundation for the strong Arizona economy of recent years. Growth in Arizona has been broad-based in this expansion, not so dependent on one industry (such as real estate development) as in the past. The expansion in Arizona, which began in FY 1991, reached its peak in FY 1995. As in the national economy, we expect continued, but slowing growth for the next several years.

The U.S. Outlook for FY 1996 through FY 2000 – Steady Growth Leads to Record Long Expansion

The U.S. economy is in its 83rd month of expansion since the trough of the last recession in March 1991. Real GDP



While trying to forecast a change in the growth rate of the economy, or even a recession, is a hazardous exercise, it is a question that must be dealt with when planning the state's budgets for the coming years.

After reviewing the latest available data and consulting with a panel of economists at the Finance Advisory Committee Meeting in December 1997, the JLBC Staff does not foresee a recession during our forecast period which ends June 30, 1999. The outlook presented here includes the expected, or base, scenario.

The timing of Arizona's economic cycle is usually close to the national cycle, and the sustained national economic

grew at an annual rate of 2.2% in FY 1996 and 3.3% in FY 1997 which ended June 30, 1997. Most economists expect national growth will continue for the next few years. The JLBC Staff also forecasts slightly slower, but steady growth in the national economy through FY 2000.

The present JLBC Staff outlook is for growth of 3.4% in FY 1998, 2.1% in FY 1999 and 2.5% for FY 2000. Our view for FY 1997 through FY 2000 is broadly based on the WEFA Group's "baseline" forecast. However, if inflation rates are, as many suggest, lower than officially reported, then real GDP may be 0.25% to 0.50% higher than otherwise forecast. (See Chart 1 and Table 1)

Table 1

**JLBC Staff Economic Outlook
For the Nation**

<u>National Economic Indicators</u>	<u>Fiscal Years</u>				
	1996	1997	1998	1999	2000
Real Gross Domestic Product 1/2/	\$6,827.0	\$7,055.6	\$7,292.1	\$7,445.4	\$7,629.5
% Change	2.2	3.3	3.4	2.1	2.5
Wage & Salary Employment 3/	118.3	120.8	123.5	125.4	126.9
% Change	2.0	2.2	2.2	1.5	1.2
Pre-Tax Corporation Profits 2/	\$653.0	\$696.8	\$751.1	\$735.1	\$754.5
% Change	10.4	6.7	7.8	(2.1)	2.6
Housing Starts 3/	1.4	1.5	1.4	1.4	1.4
% Change	4.5	0.9	(2.1)	(0.6)	1.8
New Car Sales 3/	8.7	8.3	8.4	8.1	8.4
% Change	(0.7)	(4.1)	1.1	(4.1)	4.4
Consumer Price Index	154.6	159.0	162.2	166.3	171.0
% Change	2.7	2.9	2.0	2.5	2.8
GDP Deflator	109.0	111.4	113.4	116.1	119.1
% Change	2.3	2.3	1.8	2.4	2.6
Prime Interest Rate - %	8.5	8.3	8.5	9.0	9.0
Unemployment Rate - %	5.6	5.2	4.7	4.8	5.1
1/ Chain-weighted.					
2/ Billions.					
3/ Millions.					

Inflation, as measured by either the Consumer Price Index or GDP Deflator, should remain moderate, in the 2.0% to 3.0% range, for the next two fiscal years. The Federal Reserve Board has clearly done a good job in reducing inflationary expectations among consumers, workers and businesses.

The growing economy has increased the demand for funds. Nevertheless, while interest rates have come down and stabilized in recent years, they are still at comparatively high "real" (inflation adjusted) rates by historical standards. There may be some room for interest rates to decline a little more as economic growth slows.

Housing starts will start to cool in 1998. Auto sales in the U.S., which were also near record levels for several years, should level off or decline slightly because of a slower economy, satiation of demand, and expected continued increases in the average price of cars above the Consumer Price Index. In aggregate, recent events, while not totally convincing, lead to a somewhat "slower but steady" growth forecast.

- Most economists believe continuing efforts made in Congress to reduce or eliminate the federal budget deficit will result in a higher national savings rate, lower interest rates, and higher private investment. These will increase employment and personal incomes over time. It is, however, uncertain how much a falling deficit will contribute to economic growth in FY 1998 or FY 1999. In the short-term, deficit reduction can inhibit growth.

- The U.S. dollar has been rising against most European currencies and, notably, the Japanese yen. This reduces export competitiveness. However, exports have grown in recent years at a record pace because of economic growth in Europe and most of the rest of the world economies.
- European economies are showing signs of stable growth, which should help maintain U.S. exports performance. However, there is a concern in Washington about the increasing trade deficit with China, which is now larger than the previous deficits with Japan. In addition, recent currency devaluations in Korea, Malaysia, Thailand and Taiwan will probably hurt U.S. exports to those countries. This may hinder U.S. job growth, which will also make it less likely that the Fed will raise interest rates.

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

History has shown that U.S. business cycle expansions do not usually die a natural death. Instead, they are typically brought to an end by inflationary pressures, typically caused by rising wages and prices caused by surges in world commodity prices, oil in particular, which cause the Fed to effect a monetary tightening. Further Fed tightening of rates could occur if long-term bonds rise above, say, 8.0% in FY 1998, which could cause a softening in the rate of growth or even a recession by FY 1999. Also, some exogenous, international event such as a petroleum price shock as occurred in 1973, 1981, and

Table 2

**JLBC Staff Economic Outlook
For Arizona**

Arizona Economic Indicators	Fiscal Years				
	1996	1997	1998	1999	2000
Personal Income 1/	\$91,457	\$99,402	\$107,441	\$115,543	\$123,739
% Change	8.9	8.7	8.1	7.5	7.1
Personal Income-Constant Dollars 1/	\$83,929	\$89,238	\$94,762	\$99,486	\$108,869
% Change	6.4	6.3	6.2	5.0	4.4
Personal Income-Per Capita Constant Dollars 3/	\$19,234	\$19,850	\$20,495	\$20,961	\$21,359
% Change	3.2	3.2	3.2	2.3	1.9
Population 2/	4,363.5	4,495.6	4,623.7	4,746.2	4,862.9
% Change	3.1	3.0	2.8	2.7	2.5
Retail Sales 1/4/	\$26,984	\$28,511	\$30,408	\$31,965	\$33,763
% Change	7.3	5.7	6.7	5.1	5.6
Wage & Salary Employment 2/	1,847.1	1,947.4	2,028.6	2,092.9	2,147.2
% Change	5.8	5.4	4.2	3.2	2.6
Residential Building Permits 2/	66.6	65.5	64.5	61.8	61.2
% Change	8.8	(1.7)	(1.5)	(4.2)	(1.0)
New Car Registrations 2/	260.6	271.8	270.3	273.0	271.4
% Change	5.5	4.3	(0.6)	1.0	(0.6)
Unemployment Rate - %	5.2	5.2	4.7	5.0	5.4

1/ Millions.
2/ Thousands.
3/ Dollars.
4/ Excludes Food.

1990 could happen again. However, the longer-term outlook for inflation remains benign, and thus the 1999 U.S. forecast currently calls for continued but moderate growth. While FY 2000 seems like a long way off, there is an expectation that economic activity will remain stable, perhaps even brisk, as the century ends.

The Arizona Outlook for FY 1996 through FY 2000

Arizona passed an economic milestone, previously achieved by 21 other states, when our total personal income surpassed \$100 billion in the third quarter of 1997. The JLBC Staff believes the Arizona economy will moderate, as shown in Table 2. All Arizona economic indicators are projected to exhibit slower but steady growth over the current and upcoming two fiscal years. The slower growth forecast is driven by the outlook for the national economy as well as a strengthening of the California economy, resulting in slower migration into Arizona. The improved situation and outlook for the California economy is viewed as slowing migration, but increasing trade.

Clearly, there are risks to this forecast from economic shocks or aggressive Fed tightening.

Nonetheless, Arizona is expected to post strong economic performance in FY 1999 when compared to other states.

The "Western Blue Chip Economic Forecast" consensus calls for Arizona's personal income growth in calendar year 1997 to be 7.2%, ranking third in the west behind Nevada at 8.5% and Utah at 7.9%. Recently, revised employment data for calendar year 1996 indicates an additional 100,000 new jobs were created in Arizona, up almost 37,000 from the preliminary estimate. Due to the magnitude of this revision, Arizona total personal income has almost certainly been underestimated in 1996 and 1997.

Personal Income to Grow Moderately

In terms of state revenue, no economic variable is more important than personal income. Chart 2 shows how personal income has performed in recent years. The estimated 8.7% current dollar gain for FY 1997 is greater than the average 6.8% experienced thus far in the 1990s, although lower than the 8.9% in FY 1996. In FY 1998 through FY 2000, we see personal income rising at 8.1%, 7.5%, and 7.1%, respectively. Historically, Arizona's economic expansions feature double-digit personal income growth that lasts two to four years, but that may not happen this time. The 9.9% growth for 1995 seems to be the peak for this expansion. Since the national economic expansion has been uncharacteristically mild and appears to be slowing, we expect Arizona's personal income to follow suit.

Table 3

Arizona Wage and Salary Employment
Year Over Year Prior Year Growth - Fiscal Years

	FORECAST									
	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
	Number	%	Number	%	Number	%	Number	%	Number	%
Goods Producing:										
Manufacturing	197,800	3.9	207,400	4.9	218,700	5.4	223,800	2.3	224,400	0.3
Mining	13,800	13.1	14,600	5.8	15,000	2.7	15,200	1.3	15,400	1.3
Construction	124,600	9.3	129,200	3.7	132,000	2.2	132,200	0.0	131,700	(0.4)
Total Goods Producing	336,200	6.2	351,200	4.5	365,700	4.1	371,200	1.5	371,500	0.1
Service Producing:										
Trans., Comm. & Public Utilities	94,300	5.4	98,600	4.6	101,400	2.8	103,400	2.0	104,600	1.2
Trade	454,800	4.8	474,400	4.3	487,300	2.7	500,000	2.6	513,600	2.7
Finance, Insurance &										
Real Estate	111,500	5.0	117,400	5.3	124,800	6.3	129,400	3.7	132,700	2.6
Services	539,500	7.5	583,500	8.2	617,400	5.8	648,600	5.1	677,300	4.4
Government	310,800	4.0	322,300	3.7	332,000	3.0	340,300	2.5	347,500	2.1
Total Service Producing	1,510,900	5.6	1,596,200	5.6	1,662,900	4.2	1,721,700	3.5	1,775,700	3.1
Total Wage & Salary										
Employment	1,847,100	5.8	1,947,400	5.4	2,028,600	4.2	2,092,900	3.2	2,147,200	2.6

Where Will the Jobs Come From?

Table 3 shows a moderation of growth in our job outlook for both the goods-producing and service-producing sectors starting in FY 1997, when wage and salary employment increased 5.4%.

Job growth will be highly concentrated in services and trade. In 1996 through 2000 combined, only services and trade will increase in their share of total jobs. In contrast, construction and manufacturing will probably show declines in their contribution to total new jobs. (See Chart 3)

For example: More than 7 out of 10 new jobs will come from services and trade. By comparison, these industries accounted for slightly half of existing jobs in 1996. Manufacturing had 10.7% of all jobs in 1997, but will contribute a slightly lower percent to total jobs in the forecast period. Construction will decline further—having 6.5% of jobs now, but probably contributing less than 2% of new jobs over the next three years.

Manufacturing employment levels, the state's fourth largest employment sector, are expected to continue to rise, but slower than recent experience. Although manufacturing in Arizona is dominated by a few high-tech firms, there are also many small manufacturers. There is some evidence that Arizona may have a more diverse manufacturing base than some of its neighboring states.

A recent analysis by Arizona State University reported that nearly one-half of Arizona's value added by manufacturing

is created in two manufacturing sectors: Electronic and other electric equipment and transportation equipment. Three subsectors contribute 40% of Arizona's total value added output: Electronic components and accessories, aircraft and parts, and guided missiles and space vehicles.

The Hughes Missile Systems announcement of more than \$125 million of contracts to produce Stinger-RMP missiles as well as plans to hire 500 engineers are indicators of strength in this sector. Motorola, Allied Signal and many other firms in this sector are expanding in Arizona.

Housing Market in Transition

Direct employment in the construction industry currently accounts for 6.5% of total Arizona jobs, compared to 3% to 4% nationally. Its impact on the economy is far greater than this small share suggests in the short-run. Construction influences economic activity in many other areas of the economy, including equipment and building materials, retail sales, financial services, manufacturing, and trade. We expect construction employment growth to slow to 3.7% in FY 1997 and then mildly decline in FY 1998 through FY 2000 as the housing market slows as described below.

The Metro Economies Evaluated

The University of Arizona recently developed an interesting comparison of the two metropolitan economies in Arizona. Tucson and Phoenix account for

**A N N U A L P E R C E N T C H A N G E
I N A R I Z O N A P E R S O N A L
I N C O M E : 1 9 9 0 T H R O U G H 2 0 0 0**

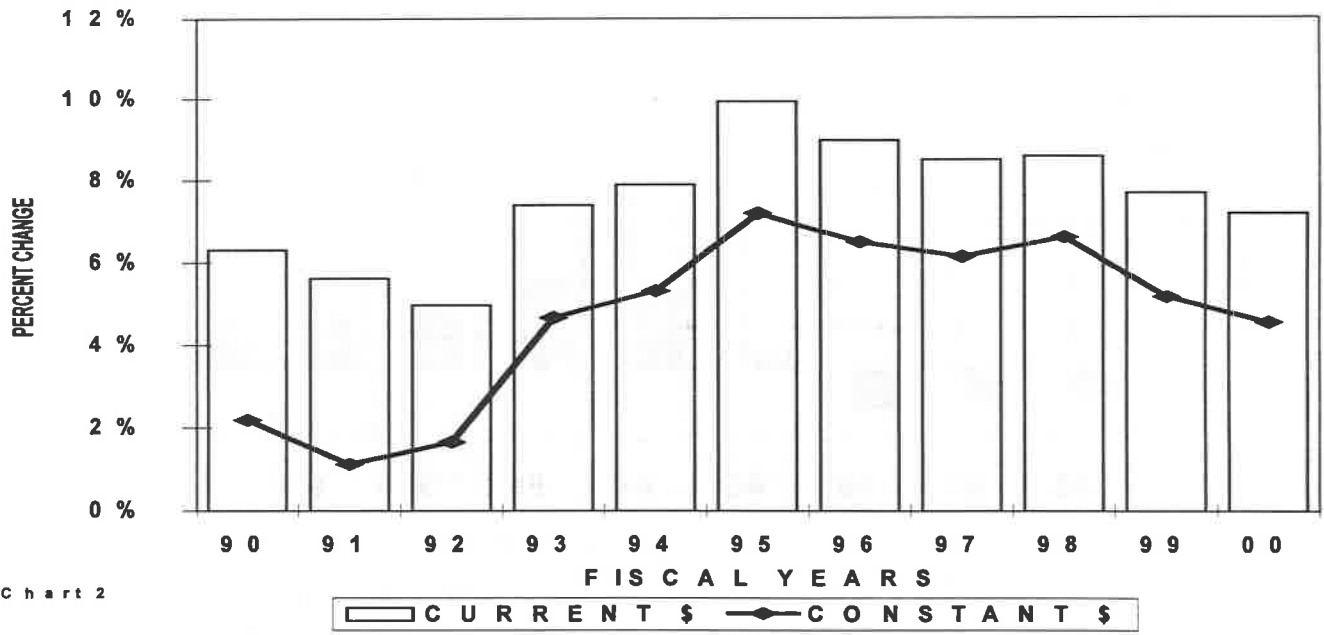


Chart 2

approximately 16% and 69%, respectively, of total wage and salary employment in Arizona. In the long run, the Phoenix economy has been more robust than that of Tucson. For example, over the last thirty years, historical job growth in Phoenix was 5.5% compared to 4.7% in Tucson. Over the last ten years, historical job growth in Phoenix was 3.4% and in Tucson, 2.7%. Since the late 1980's, the defining factor for the Tucson economy has been the construction cycle, and the Tucson economy has been "leading" the Phoenix-Mesa economy through the business cycle. Tucson came in for a soft landing in 1995, then rebounded to a new equilibrium growth rate consistent with long-run averages. According to the University of Arizona, Phoenix continues to grow above long-run averages, but is expected to slow to levels more consistent with long run averages. Trend-line growth for Tucson is about 2.5 to 3.0% and for Phoenix, 3.5 to 4.0%.

Main Risks to Forecasts

The fragile economies in Asia currently add uncertainty to the forecast. The dramatic devaluation of almost all east Asian currencies in late 1997 reverberated throughout the world. Hoping to prevent loan defaults of worldwide proportions, the International Monetary Fund sponsored multi-billion dollar aid packages to Korea and Thailand. In return, these governments are expected to implement austerity measures which may plunge their economies into steep recession. This will have some impact on Arizona exporters to these countries, although to what extent cannot yet be estimated.

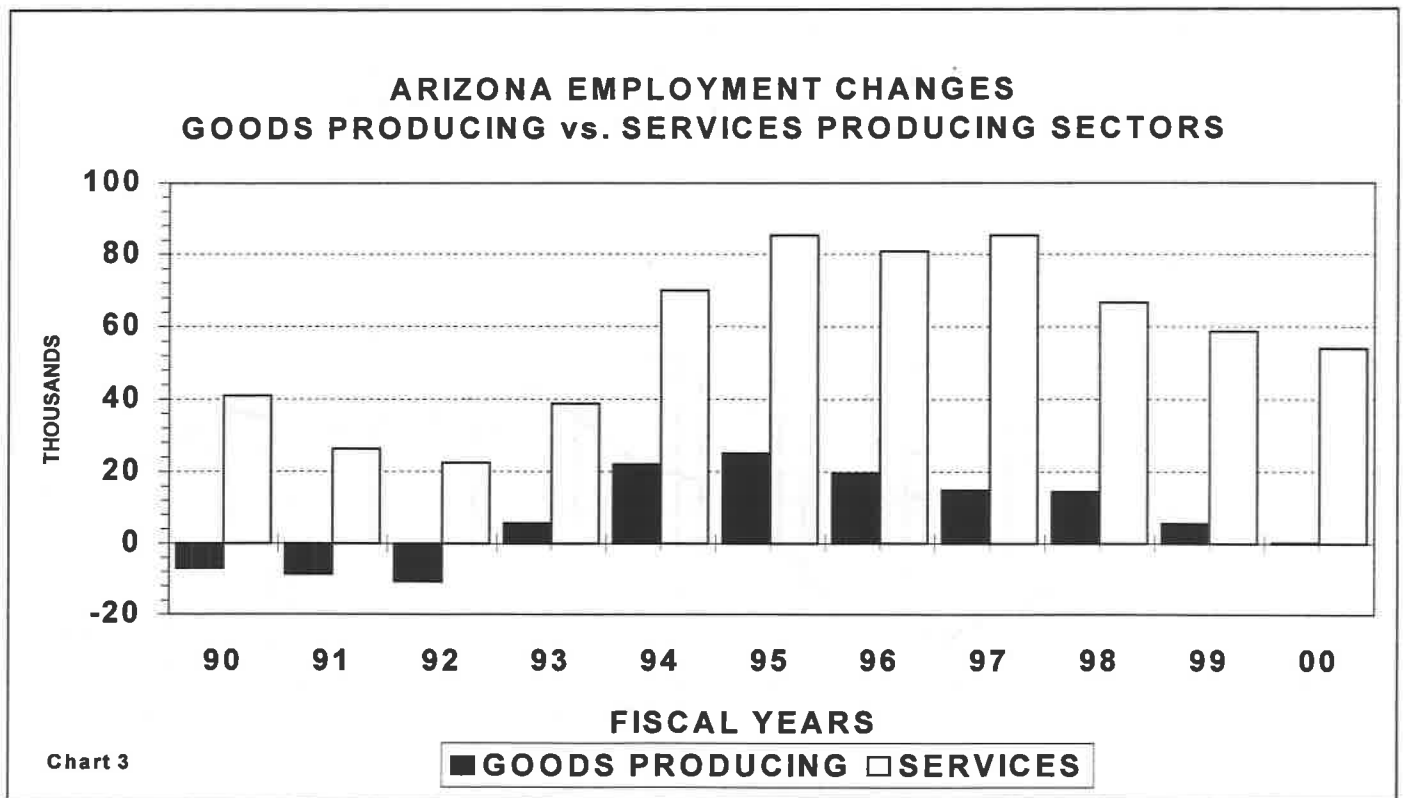
Labor markets in Arizona are tight for skilled workers. The unemployment rate in Arizona is currently below 4.0%, the lowest rate in over 25 years. Many businesses in Arizona cannot find enough skilled workers to fill many jobs, although the shortage is most acute for high-tech workers. Although many employers will continue to migrate to Arizona, the delay in finding good workers may cause business expansions to slow somewhat.

Forecast Ranges

The JLBC "baseline" economic scenario expects continued but slightly declining growth rates through FY 2000. Again, the traditional warning signs of rising inflation rates or a major foreign crisis are not on the horizon. The possible alternatives, even higher growth rates or a recession, are the outer bounds to a range of probable scenarios.

The probability of a national recession in the next 2 years is 20%, according to the WFA Group. Low but not recessionary growth is at 20%. An accelerating growth scenario currently has a 10% probability. This leaves a 50% chance for at least moderate growth in their view, one with which we concur.

The lower growth scenario, if it occurs, would probably be predicated on a 'shock' to the national economy. Currently, one set of possibilities is that consumers, who have again reached high levels of per capita indebtedness, particularly for credit cards, have satiated most of their



needs during the past several years. As the economy continues to expand during CY 1998, the Federal Reserve feels compelled to raise interest rates. The stock market, which has posted ever higher record levels, could have a long expected 'correction' of 10% to 20% to bring prices back into line with lower expected corporate earnings growth. But instead of a temporary setback, consumers become cautious and start to concentrate on reducing debt levels, causing consumption to decline. This would create a temporary vicious circle for corporate earnings, the stock market, and consumer confidence sometime in mid-FY 1998 or FY 1999, leading to a short national recession, which is traditionally defined as two quarters of negative growth. In Arizona, such a scenario would entail a reduction in state in-migration and cause the growth rate in new jobs to decline, even to negative rates in the worst case. This would cause a decline of growth rates in state revenues led by the attendant impacts on sales taxes, personal income taxes and, especially, corporate income taxes. This scenario could have a sharp impact on corporate income tax revenues by FY 1999. However, this recession would have run its course by the end of FY 1999 and growth would have resumed for what many expect to be a surge in economic activity leading to the millennium.

The more likely scenario is that of decelerating yet, by national standards, enviable growth in Arizona. The "excesses" of past expansions have not been prevalent. The state should add another 125,000 residents by FY 1998, and continue to add 115,000 per year by FY 2000. Phoenix promises to continue to post nation-leading rates of growth, although the pace is expected to

slow to the "trend" rate by FY 2000. Tucson is expected to continue its trend growth rate for the next several years.

Summary

The JLBC forecast recognizes that the base and alternate scenarios try to reflect a range of outcomes. Based on national and state economic forecasts at the present time, the low growth scenario has about a 30% probability. This means we have weighted the JLBC 'base' case at 50%, in line with the WEFA Group scenarios.

Again, any outlook for the economy is done on an "averaged" basis. In other words, whether subjectively or quantitatively, an analyst has to weigh the chances of high, middle, or low growth economic scenarios based on the risks identified in the economy and choose the one which fits the current data. The "bias" for the JLBC baseline forecast is slightly toward the higher economic and revenue growth scenario. Based on the historical above average performance of Arizona's economy in good times and even in slower periods, the JLBC Staff believes this view is currently justified.

GENERAL FUND REVENUE

Where It Comes From

Chart 4, based on FY 1999 forecasted General Fund revenue, shows that the bulk of General Fund revenue is raised from three sources, known as the "Big Three." The largest of these is the Sales and Use Tax, which is projected to generate 44.3% of General Fund revenues in FY 1999. The Individual Income Tax is the next largest source, accounting for 35.1%, while the Corporation Income Tax share is 12.7%. Together, these three volatile taxes are expected to provide 92.1% of total FY 1999 General Fund revenue. The current JLBC Staff revenue forecast is summarized on Table 7. In recent years, the Property Tax has been approximately 4% of General Fund revenue. With the 1996 passage of a major reduction in the Property Tax, it is now less than 1% of total revenue and does not appear as a separate item in the pie chart.

The New Revenue Forecasts

The new General Fund revenue forecast shows FY 1998 Total Base Revenue of \$5,252.3 million, an increase over FY 1997 of \$212.4 million, or 4.2%. The forecast for FY 1999 is for \$5,503.0 million, an increase over FY 1998 of \$250.7 million, or 4.8%. Our first published forecast for FY 2000 shows \$5,731.8 million, an increase

over FY 1999 of \$228.8 million, or 4.2%. In general, our forecast reflects the continuing strength of the Arizona economy, and also our expectation that certain published economic variables are understated and will be revised upward.

Compared to our most recent prior forecast, in the July 10, 1997 Budget Status Report (BSR), our new forecast shows increases of \$81.3 million and \$100.3 million for FY 1998 and FY 1999 respectively. As Table 4 shows, the increases are primarily in our big three taxes, Sales and Use, Individual Income and Corporation Income.

Apart from the economy, the most important influence on General Fund revenue collections is legislative adjustments to the tax base. Legislation impacting General Fund revenue initially in FY 1996, FY 1997, FY 1998 or FY 1999 will reduce collections by \$748.1 million in FY 1998, \$850.6 million in FY 1999, and by \$954.2 million in FY 2000. The total impact of the legislative adjustments on General Fund revenue collections is shown in Table 5. Revenue growth before legislative adjustments is 11.0%, 12.3%, 7.8%, 5.9% and 5.2% for FY 1996, FY 1997, FY 1998, FY 1999 and FY 2000 respectively.

GENERAL FUND REVENUE SOURCES AS A PERCENT OF TOTAL BASE REVENUE

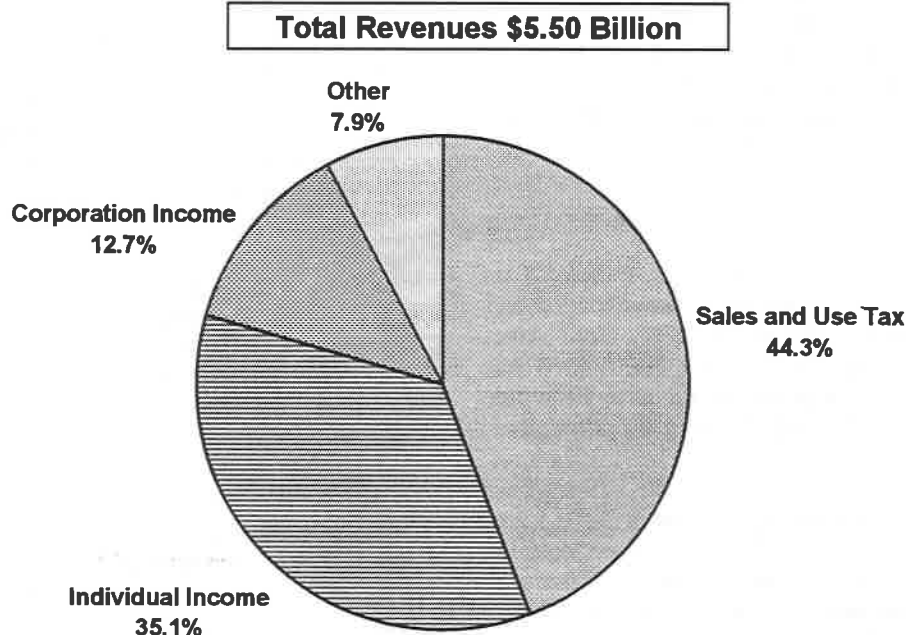


Chart 4

**State of Arizona
General Fund
Total Base Revenue
Comparison of New Forecasts with July 10, 1997 Forecast**

	FY 1998			FY 1999		
	<u>New Forecast</u>	<u>BSR 7/10/97</u>	<u>Difference</u>	<u>New Forecast</u>	<u>BSR 7/10/97</u>	<u>Difference</u>
Sales and Use Tax	\$2,322.5	\$2,288.0	\$34.5	\$2,440.7	\$2,384.1	\$56.6
Individual Income Tax	1,831.1	1,774.7	56.4	1,929.0	1,904.3	24.7
Corporation Income Tax	641.0	644.9	(3.9)	700.5	664.2	36.3
Other Taxes	173.3	154.9	18.4	160.7	159.3	1.4
Non-Tax Revenue	<u>284.4</u>	<u>308.5</u>	<u>(24.1)</u>	<u>272.1</u>	<u>290.8</u>	<u>(18.7)</u>
	<u>\$5,252.3</u>	<u>\$5,171.0</u>	<u>\$81.3</u>	<u>\$5,503.0</u>	<u>\$5,402.7</u>	<u>\$100.3</u>

The revenue forecasts after these legislative adjustments are shown in Table 7. Table 8 shows the revenue and its "real" underlying growth before the effect of these legislative adjustments is a line chart which shows the percent changes in revenue before and after the effect of legislative adjustments.

Chart 5 is a line chart which shows the percent changes in revenue before and after the effect of legislative adjustments.

Individual General Fund Revenue Forecasts

Sales and Use Taxes

After legislative adjustments, Sales and Use Tax collections are forecast to increase by 5.0% in FY 1998, by 5.1% in FY 1999, and by 5.1% in FY 2000. Without the effect of legislative Sales and Use Tax reductions included in Table 5, the forecast would have been for increases of 5.3% in FY 1999 and 5.1% in FY 2000.

Individual Income Tax

After legislative adjustments, Individual Income Tax collections are forecast to increase by 6.0% in FY 1998, by 5.3% in FY 1999, and by 5.8% in FY 2000. Without the effect of legislative Individual Income Tax reductions included in Table 5, the forecast would have been for increases of 11.9% in FY 1998, 7.4% in FY 1999, and 7.0% in FY 2000.

Included in the legislative reductions shown in Table 5 are three tax credits first effective in FY 1999, (1) donations of up to \$500 to private school tuition organizations that are willing to provide scholarships to more than one school, (2) donations of up to \$200 to public schools "in support of extracurricular activities," and (3) donations of up to \$200 to qualifying charitable organizations. The total cost to the

state of these credits will doubtless be significant, but very difficult to quantify. The JLBC Staff has estimated an aggregate cost of \$40 million for FY 1999 whereas the Governor's Office of Strategic Planning and Budgeting has estimated \$80 million for FY 1999.

The method of estimating the two school credits was based on income tax filers by income group and family size. For the charitable tax credit, data from charitable organizations was the basis for the estimate. Both types of credits are expected to show increasing participation rates in the first two or three years after the initial year.

With the phasing out of the Federal Retiree Project, which had a total cost of approximately \$161 million, we are now faced with a somewhat similar project by the active federal employees. Our forecast includes an estimated revenue reduction for this project of \$(14.0) million in FY 1998 and \$(2.0) million in FY 1999. The suit by the federal employees argues that, since State of Arizona employees were allowed to deduct contributions to their state retirement plans, federal employees should be able to deduct contributions to their retirement plans. After several court decisions and a decision by the State Board of Tax Appeals had made the likelihood of Arizona winning a further appeal remote, Governor Symington ordered the Department of Revenue to implement the project. Arizona statutes now provide federal employees the same tax treatment as that afforded state employees.

Individual Income Tax collections for FY 1997 showed a sharp (and unanticipated) increase of 14.3% primarily, we believe, due to larger than normal capital gains from financial transactions such as gains on stock options and mutual funds. Historical information on capital gains is hard to come by since it is not included in personal income and the only source is the Internal Revenue Service, which only provides information after a long lag period. Because of this, we are, as yet, unable to fully evaluate the FY 1997 upsurge. Because the stock market ended 1997 at a near

Table 5

**General Fund Revenue Forecast
Before and After Legislative Adjustments Effective
In FY 1996, FY 1997, FY 1998, FY 1999 And FY 2000
(\$ Thousands)**

	<u>FY 1996</u>	<u>% Change</u>	<u>FY 1997</u>	<u>% Change</u>	<u>FY 1998</u>	<u>% Change</u>	<u>FY 1999</u>	<u>% Change</u>	<u>FY 2000</u>	<u>% Change</u>
Before Leg. Changes	\$4,954,789.7	11.0	\$5,565,336.6	12.3	\$6,000,343.3	7.8	\$6,353,533.0	5.9	\$6,685,978.8	5.2
Legislative Changes	<u>(291,795.2)</u>	--	<u>(525,478.8)</u>	80.1	<u>(748,086.9)</u>	42.4	<u>(850,579.6)</u>	13.7	<u>(954,177.6)</u>	12.2
Forecast	<u>\$4,662,994.5</u>	<u>4.4</u>	<u>\$5,039,857.8</u>	<u>8.1</u>	<u>\$5,252,256.4</u>	<u>4.2</u>	<u>\$5,502,953.4</u>	<u>4.8</u>	<u>\$5,731,801.2</u>	<u>4.2</u>

record level, we have an unquantified upside risk in our forecast, primarily for FY 1998.

Corporation Income Tax

Arizona's Corporation Income Tax receipts exploded in FY 1997, exceeding the \$600 million mark with an increase of 34.1%.

Several factors have contributed to this strong profit growth. Cost-cutting, which was especially prevalent during the lean years of the early 1990s, has continued through the expansion adding some leverage to bottom-line profits for many corporations; and profit growth has also been fueled by the low interest rates of recent years, leading to lower debt service ratios for many firms. We also believe that tax revenues have been boosted by the exhaustion of net operating losses, which many corporations sustained during the recession. Corporations are allowed to carry them forward for five years.

For the forecast years, profit growth rates are expected to flatten as interest rates increase somewhat, the tight labor market puts upward pressure on compensation, and expansion adds to unit costs. After legislative adjustments, Corporation Income Tax revenues are forecast to increase by 6.7% in FY 1998, 9.3% in FY 1999, and 3.8% in FY 2000.

The Corporation Income Tax is the most volatile of our major General Fund Revenue components. Forecasting the Corporation Income Tax is complicated by corporations converting potential refunds into estimated payments to the state, thereby reducing their obligations to the federal government and, it has been speculated, removing it from the view of their stockholders. At some point in the future, however, Corporation Income Tax refunds will increase substantially as company cash flows become tight. Our forecast does not provide for this substantial increase, but it is a significant risk. As forecasters, we are hampered by our inability to gain access to confidential corporate taxpayer returns and, until recently, Corporation Income Tax collections sorted by the Standard Industrial Classification Code (SIC) have been unavailable to us. The availability of SIC data will allow

us to analyze past trends and project future revenues for individual industries. This will be more precise than our current method which relies on aggregate data.

Property Tax

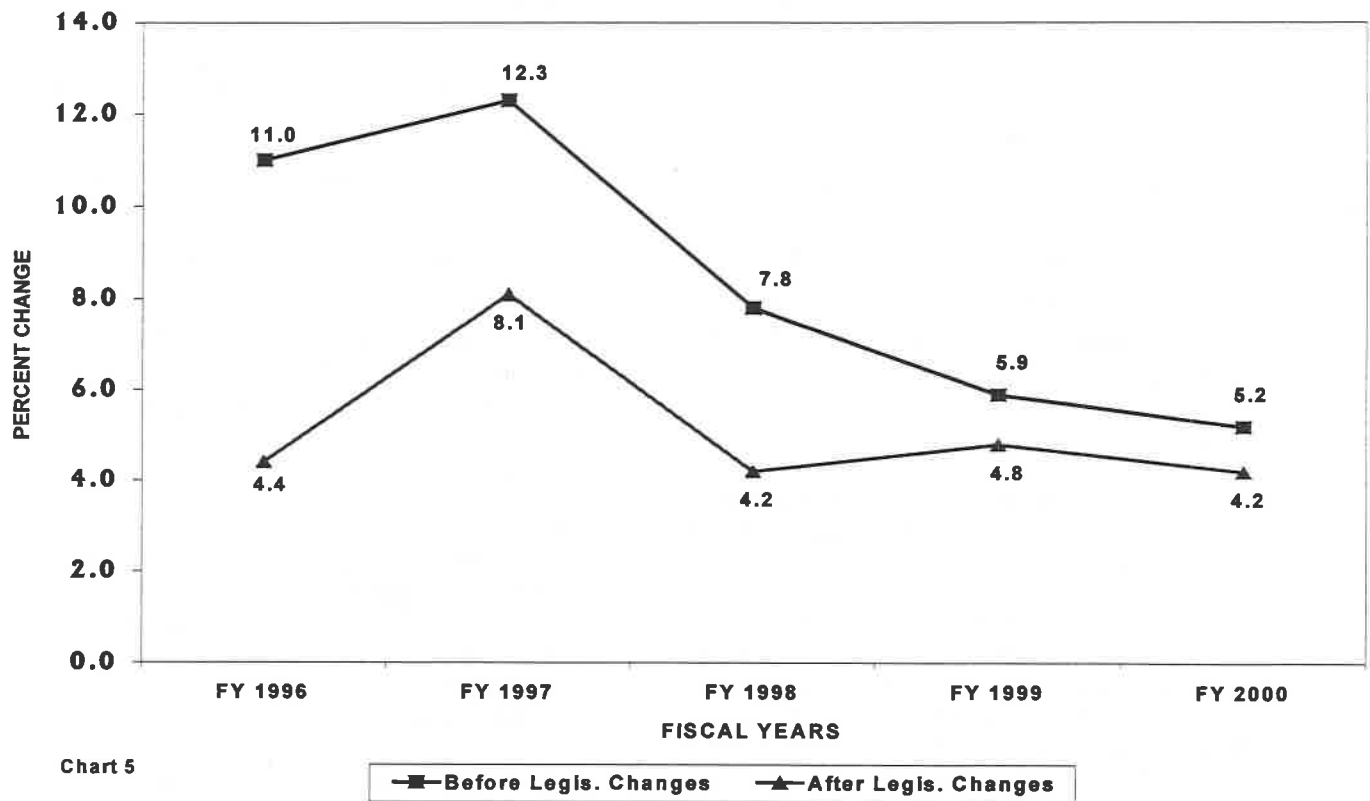
Assessed valuation (including Salt River Project but not Flight Property) increased by 6.0% for FY 1998, and is expected to increase by 7.3% for FY 1999 and by 4.6% for FY 2000. FY 1999 values for most properties are already finalized. Property Tax collections, however, are expected to decline by (9.4)% in FY 1998, increase by 0.2% in FY 1999, and decline by (2.4)% in FY 2000.

General Fund collections are down while assessed valuations are up because the General Fund receives revenue only from the "Minimum QTR" tax (which is assessed primarily on school districts with large utility plants that are declining in value), the tax on property located outside any school districts and the Flight Property Tax. It should be noted that starting with FY 1998, 50% of the Flight Property Tax is included in the General Fund Property Tax at an amount of \$7.9 million for FY 1998. Prior to CY 1987, this tax was entirely allocated to the General Fund. In CY 1987 a phased-in transfer of this tax to the State Aviation Fund was begun so that in CY 1989 all collections went to the State Aviation Fund.

Insurance Premium Tax

After legislative adjustments, the forecast calls for an increase of 7.0% in FY 1998, 13.2% in FY 1999 and 6.8% in FY 2000. The major reason for these steady and relatively large increases is the expiration of insurance tax credits covering unusually large assessments under the state Insurance Guaranty Fund Program to pay the costs of several large insurance company bankruptcies in the early 1990s. The effect of the expiration of these credits is concentrated in FY 1999, causing the spike in collections. Additional reasons include (1) the expanding stock of new cars and houses in Arizona, and (2) the impact of more aggressive enforcement of Arizona's mandatory insurance laws.

ANNUAL GROWTH IN GENERAL FUND REVENUES BEFORE AND AFTER LEGISLATIVE CHANGES



Motor Vehicle License Tax

After legislative adjustments, the JLBC Staff forecast is for an increase of 3.1% in FY 1998, 2.2% in FY 1999 and a decrease of (2.2)% in FY 2000. FY 1997 revenues, which increased by 12.2%, were boosted by a number of one-time processing improvements, which are not expected to recur. New car sales have leveled off recently, although they remain strong by historical standards. Legislative adjustments have caused the General Fund share of the Vehicle License Tax to decline since FY 1996 and it will continue to decline through FY 2000 with the largest percent decline in share coming in FY 2000, which, together with a declining growth rate for total VLT collections, causes FY 2000 General Fund collections to show a decline of (2.2)%. Without legislative adjustments effective in FY 1996 and later years, growth would have been 7.7% in FY 1998, 6.2% in FY 1999 and 5.8% in FY 2000.

Lottery

We forecast General Fund Lottery collections to decrease by (23.7)% in FY 1998, (5.8)% in FY 1999, and (5.6)% in FY 2000. Table 6 displays our Lottery revenue forecast and resulting distributions. Our current forecast no longer incorporates assumptions concerning possible future revenue enhancing changes to the Lottery games. The

Lottery administration is currently in the process of revising its marketing plan, and at this time we are unaware of any potential adjustments in the operating policy. We have also removed the Arizona Bingo game from our forecast since the game is to be eliminated.

The current FY 1998 sales forecast is similar to actual FY 1997 sales. However, we are still forecasting a reduction in overall state collections. Laws 1997, Chapter 214 gave the Lottery the flexibility to reduce the state's share of ticket sales. Previously, the state was guaranteed a minimum of 31.5% of Lottery revenues. Currently, the state is only guaranteed 29% of sales from the computerized games and 21.5% of sales from the instant games. The Lottery currently plans on returning only the minimum to the state.

Beginning in FY 1999, the General Fund will only receive Lottery monies derived from the Powerball game. Since the Lottery still must contribute at least 29% of Powerball sales to the state, the impact to the General Fund in FY 1999 from the above described legislation will only be \$(1.5) million. However, for FY 1998, the General Fund loss will be more severe. The General Fund can receive up to \$25.5 million in FY 1998 if the Local Transportation Assistance Fund, the County Assistance Fund, and the Heritage Fund each receive their full allotment, and if additional state profits are still available for deposit. Since the state now receives a smaller percentage of sales, and

Table 6

**Lottery Revenue Distribution
Forecast
(\$ Millions)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Sales	<u>255.00</u>	<u>252.50</u>	<u>251.00</u>
Net Profit	<u>65.70</u>	<u>64.30</u>	<u>63.40</u>
Transfers:			
Local Transportation Assistance Fund	23.00	23.00	23.00
County Assistance Fund	7.65	7.65	7.65
Heritage Fund	13.90	13.60	13.70
Clean Air Fund	0.00	0.00	0.00
Economic Development	2.15	2.15	2.15
Mass Transit	0.00	0.00	0.00
Health and Welfare Programs (Prop. 203)	0.00	0.00	0.00
General Fund	<u>19.00</u>	<u>17.90</u>	<u>16.90</u>
	<u>\$65.70</u>	<u>\$64.30</u>	<u>\$63.40</u>

since sales are not increasing, fewer dollars will be available for deposit. No additional profits will be available for distribution into the General Fund and there is the possibility that the Heritage Fund will not receive its \$20 million annual allocation. Therefore, beyond the guaranteed 29% of sales from Powerball, we forecast no additional deposits to the General Fund. The impact to the General fund from this legislation will be \$(6.5) million in FY 1998.

The monies that previously went to the state as profit are now going to customers in the form of prizes. It is the belief of the Lottery administration that the increase in prizes will translate to an increase in overall sales and will result in a larger return to the state (a smaller piece of a bigger pie). It may take some time for customers to change their buying habits and purchase more tickets. To this date, this has not occurred. The Lottery administration does have the flexibility to raise the state's profit percentage back to previous levels (or even higher), and we encourage this if the anticipated sales increase does not occur.

Interest

Our forecast calls for an increase of 12.9% in FY 1998, a decrease of (9.7)% in FY 1999, and an increase of 5.7% in FY 2000. In general, we expect relatively flat interest rates with fluctuations in interest collections due primarily to changes in Operating Fund balances.

Disproportionate Share

Disproportionate Share Hospital (DSH) program revenue represents money withheld from the counties as part of the DSH program along with late federal DSH payments from the prior year. The DSH program is a net gain to the counties because DSH payments exceed withholdings. The JLBC Staff projects that DSH revenue will decrease from \$99.9 million in FY 1997 to \$77.3 million in both FY 1999 and FY 2000. This decrease reflects reduced federal funding for the DSH program in the Federal Balanced Budget Act of 1997. In FY 1998, DSH revenue will only decrease to \$89 million because of a one-time state adjustment in the DSH program. As a result of this adjustment, county withholdings and county net revenue will be higher in FY 1998 than in future years.

Table 7

**STATE OF ARIZONA
GENERAL FUND
TOTAL BASE REVENUE
AFTER LEGISLATIVE ADJUSTMENTS
(\$ Thousands)**

Taxes	Actual FY 1997		Forecast FY 1998		Forecast FY 1999		Forecast FY 2000	
	Amount	%	Amount	%	Amount	%	Amount	%
Sales and Use	\$2,211,159.0	5.1	\$2,322,500.0	5.0	\$2,440,700.0	5.1	\$2,564,500.0	5.1
Income: - Individual	1,727,412.9	14.3	1,831,100.0	6.0	1,928,974.0	5.3	2,040,900.0	5.8
- Federal Retiree Project	(59,565.7)	240.9	(3,000.0)	(95.0)	0.0	0.0	0.0	0.0
- Active Fed. Employees Suit	0.0	0.0	(14,000.0)	0.0	(2,000.0)	0.0	0.0	0.0
- Corporation	600,890.4	34.1	641,000.0	6.7	700,500.0	9.3	727,300.0	3.8
- Urban Revenue Sharing	(257,800.5)	18.0	(291,243.6)	13.0	(340,310.6)	16.8	(387,905.8)	0.0
Property	51,193.5	(72.8)	46,400.0	(9.4)	46,500.0	0.2	45,400.0	(2.4)
Luxury	67,340.5	(8.1)	61,500.0	(8.7)	58,390.0	(5.1)	57,807.0	(1.0)
Insurance Premium	120,516.3	5.6	129,000.0	7.0	146,000.0	13.2	156,000.0	6.8
Motor Vehicle License	167,648.7	12.2	172,800.0	3.1	176,600.0	2.2	172,800.0	(2.2)
Estate	65,432.3	20.7	69,400.0	6.1	73,000.0	5.2	76,300.0	4.5
Other Taxes	2,309.2	(5.9)	2,400.0	3.9	2,500.0	4.2	2,600.0	4.0
Subtotal-Taxes	4,696,536.6	6.5	4,967,856.4	5.8	5,230,853.4	5.3	5,455,701.2	4.3
Other Non-Tax Revenues								
Lottery	24,903.0	(24.0)	19,000.0	(23.7)	17,900.0	(5.8)	16,900.0	(5.6)
Licenses, Fees and Permits	17,834.0	(59.6)	19,900.0	11.6	20,900.0	5.0	21,700.0	3.8
Interest	60,326.0	19.9	68,100.0	12.9	61,500.0	(9.7)	65,000.0	5.7
Sales and Services	30,773.3	847.4	34,000.0	10.5	34,500.0	1.5	35,100.0	1.7
Miscellaneous	45,647.1	37.1	24,400.0	(46.5)	25,000.0	2.5	25,100.0	0.4
Transfers and Reimbursements	63,942.0	230.9	30,000.0	(53.1)	35,000.0	16.7	35,000.0	0.0
From BSF due to Cap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disproportionate Share Revenue	99,895.8	43.4	89,000.0	(10.9)	77,300.0	(13.1)	77,300.0	0.0
Subtotal - Other Non-Tax Revenue	343,321.2	34.7	284,400.0	(17.2)	272,100.0	(4.3)	276,100.0	1.5
Total Base Revenue	\$5,039,857.8	8.1	\$5,252,256.4	4.2	\$5,502,953.4	4.8	\$5,731,801.2	4.2

Table 8

**STATE OF ARIZONA
GENERAL FUND
TOTAL BASE REVENUE
BEFORE LEGISLATIVE ADJUSTMENTS
EFFECTIVE 1996 AND LATER FISCAL YEARS
(\$ Thousands)**

Taxes	Actual FY 1997		Forecast FY 1998		Forecast FY 1999		Forecast FY 2000	
	Amount	%	Amount	%	Amount	%	Amount	%
Sales and Use	\$2,282,081.8	6.7	\$2,461,984.0	7.9	\$2,592,284.4	5.3	\$2,724,304.4	5.1
Income: - Individual	1,965,146.1	13.9	2,199,079.4	11.9	2,361,369.5	7.4	2,525,768.2	7.0
- Federal Retiree Project	(59,565.7)	240.9	(3,000.0)	(95.0)	0.0	0.0	0.0	0.0
- Active Fed. Emp. Proj.	0.0	0.0	(14,000.0)	0.0	(2,000.0)	0.0	0.0	0.0
- Corporation	641,413.0	34.2	693,831.9	8.2	759,998.5	9.5	808,047.9	6.3
- Urban Revenue Sharing	(257,800.5)	18.0	(291,243.6)	13.0	(340,310.6)	16.8	(387,905.8)	14.0
Property	201,390.5	4.6	193,638.1	(3.8)	203,481.3	5.1	208,175.4	2.3
Luxury	75,440.5	(5.2)	70,300.0	(6.8)	67,390.0	(4.1)	67,207.0	(0.3)
Insurance Premium	124,016.3	8.6	132,355.0	6.7	149,486.0	12.9	159,730.0	6.9
Motor Vehicle License	173,648.7	16.3	187,084.8	7.7	198,676.3	6.2	210,162.7	5.8
Estate	65,432.3	20.7	69,400.0	6.1	73,000.0	5.2	76,300.0	4.5
Other Taxes	6,165.9	2.2	6,616.4	7.3	6,758.6	2.1	6,901.0	2.1
Subtotal-Taxes	5,217,368.9	10.9	5,706,046.0	9.4	6,070,134.0	6.4	6,398,690.8	5.4
Other Non-Tax Revenues								
Lottery	19,503.0	(33.5)	15,500.0	(20.5)	15,600.0	0.6	14,530.0	(6.9)
Licenses, Fees and Permits	17,859.3	(59.5)	19,925.8	11.6	20,935.4	5.1	21,736.3	3.8
Interest	60,326.0	19.9	68,100.0	12.9	61,500.0	(9.7)	65,000.0	5.7
Sales and Services	30,773.3	847.4	34,000.0	10.5	34,500.0	1.5	35,100.0	1.7
Miscellaneous	55,668.3	63.1	37,771.5	(32.1)	38,563.6	2.1	38,621.7	0.2
Transfers and Reimbursements	63,942.0	230.9	30,000.0	(53.1)	35,000.0	16.7	35,000.0	0.0
From BSF due to Cap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disproportionate Share Revenue	99,895.8	43.4	89,000.0	(10.9)	77,300.0	(13.1)	77,300.0	0.0
Subtotal - Other Non-Tax Revenue	347,967.7	37.9	294,297.3	(15.4)	283,399.0	(3.7)	287,288.0	1.4
Total Base Revenue	\$5,565,336.6	12.3	\$6,000,343.3	7.8	\$6,353,533.0	5.9	\$6,685,978.8	5.2

ARIZONA BUDGET STABILIZATION FUNDS

Arizona now has three funds which can be used for budget contingencies. These are the Budget Stabilization Fund, the Temporary Assistance for Needy Families (TANF) Stabilization Fund, and the AHCCCS Medical Services Stabilization Fund.

Budget Stabilization Fund - Background

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

The Formula

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

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

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

- The deposit into the BSF (or withdrawal from the BSF) for a given fiscal year is determined by comparing the annual growth rate of inflation adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent seven years (see Chart 6).
- If the annual growth rate exceeds the trend growth rate, the excess multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF (see Chart 7).
- If the annual growth rate is less than the trend growth rate, the deficiency when multiplied by the General

Fund revenue of the prior year would equal the amount to be withdrawn from the BSF (see Chart 7).

- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.

Appropriations (Deposits) to BSF

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

Several requirements were specified by the Legislature for funding the BSF in FY 1995. These included the requirement that any "excess" ending balance (above \$107.2) from FY 1994 be used to repay the "K-12 Rollover" and, thereafter, to make the required deposit to the BSF (Trigger #1). This requirement was satisfied and \$68.5 million was deposited to the BSF. In addition, any total General Fund revenues above \$4,237.1 million in FY 1995 was eligible for deposit as long as the total deposit for FY 1995 did not exceed the amount called for by the BSF formula (Trigger #2). Based upon strong Arizona growth in 1994, as compared to the 7-year moving average, the formula called for a \$178.8 million deposit. When combined with the \$68.5 million deposit from Trigger #1, the total of \$178.8 million was deposited to the fund in FY 1995. The ending balance in the BSF was \$223.2 million.

While the 1995 Legislature decreased the maximum balance in the BSF from 15% to 5% of total General Fund revenues, the most recent action by the 1997 Legislature (S.B. 1153) changed the maximum balance in the BSF to 5.634% in FY 1998, 6.33% in FY 1999, and 7% thereafter. In addition, the 1997 Legislature appropriated \$30.0 million as an ad hoc contribution to the BSF in FY 1998. Interest earnings accrue to the BSF, but when the total in the BSF accounts exceeds the statutory maximum percent of prior fiscal year revenues, the difference is deposited back to the General Fund. This happened in FY 1995 and FY 1996, and \$1.8 million and \$2.2 million were actually transferred back into the General Fund. These excess earnings are not expected to continue.

The JLBC recommends an additional \$45.1 million deposit to the BSF in FY 1999. This would provide a total balance of \$348.3 million, or about 6.3% of revenue that year. If the Legislature approves further tax cuts which would have an effect on FY 1999 revenues, the amount of this deposit will decline. As a result of declining growth rates to Arizona personal incomes, it is currently forecast that the first withdrawal from the BSF will be suggested by the BSF formula for FY 2000. This withdrawal is expected to be \$89,698,000.

**ESTIMATED CHANGES TO THE BUDGET STABILIZATION FUND
FY 1995 THROUGH FY 2000**
(Amounts in Dollars)

	<u>Actual FY 1995</u>	<u>Actual FY 1996</u>	<u>Estimate FY 1997</u>	<u>Estimate FY 1998</u>	<u>Estimate FY 1999</u>	<u>Estimate FY 2000</u>
General Fund Revenues	\$4,663,732,000.0	\$4,661,181,800.0	\$5,039,857,800.0	\$5,252,256,400.0	\$5,502,953,400.0	\$5,731,801,200.0
Maximum Balance	233,187,000.0	233,130,000.0	251,992,890.0	295,912,125.6	348,336,950.2	401,226,084.0
	5.000%	5.000%	5.000%	5.634%	6.330%	7.000%
BSF Beginning Balance	42,051,988.0	223,187,000.0	233,130,000.0	245,810,900.0	288,722,900.0	348,337,900.0
BSF Formula Recommendation	178,817,000.0	223,196,380.0	121,660,300.0	82,150,000.0	15,232,000.0	(89,698,000.0)
Actual/Recommended Deposit	178,816,944.0	--	--	30,000,000.0	45,115,000.0	(89,698,000.0)
Ending Balance	220,868,932.0	223,187,000.0	233,130,000.0	275,810,900.0	333,837,900.0	258,639,900.0
Effective Interest Rate	5.50%	5.44%	5.44%	5.20%	5.20%	5.00%
Interest Earnings	4,130,468.0	12,149,000.0	12,680,900.0	12,912,000.0	14,500,000.0	12,932,000.0
Refund to General Fund	(1,812,400.0)	(2,206,000.0)				
Ending BSF Balance	\$223,187,000.0	\$233,130,000.0	\$245,810,900.0	\$288,722,900.0	\$348,337,900.0	\$271,571,900.0

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

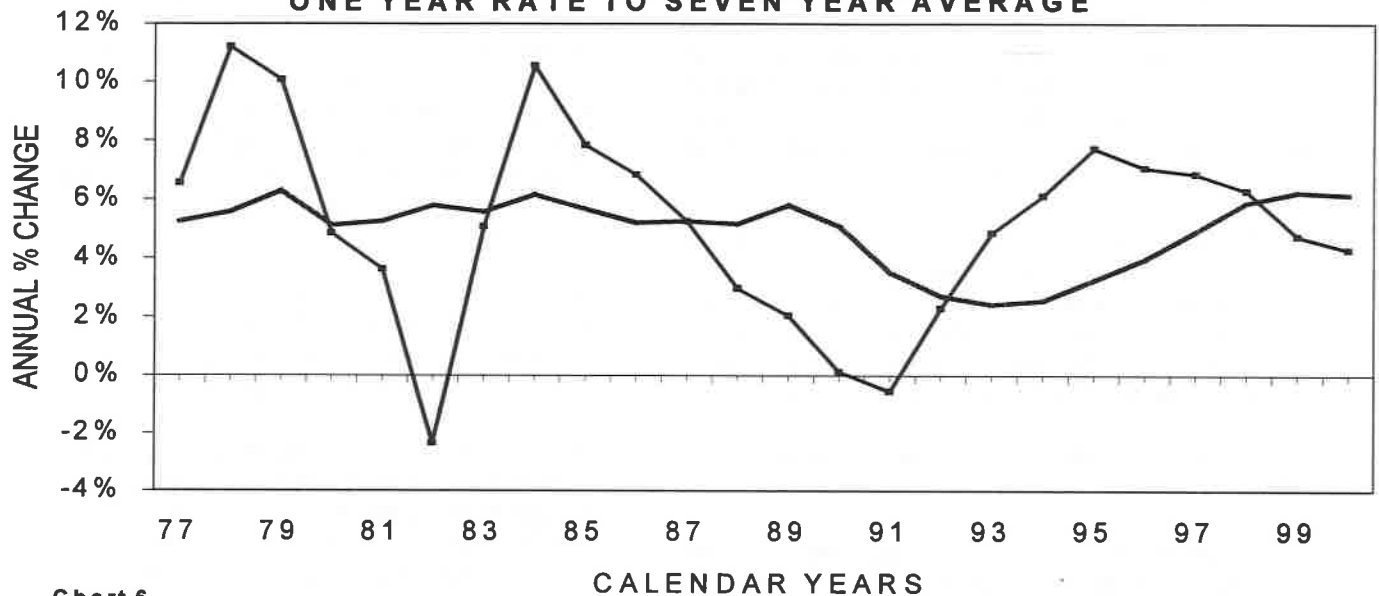


Chart 6

Table 9 shows the actual deposits to the BSF for FY 1995, FY 1996, and FY 1997, as well as estimates for FY 1998 through FY 2000.

DEPOSITS AND WITHDRAWALS FROM THE BUDGET STABILIZATION FUND

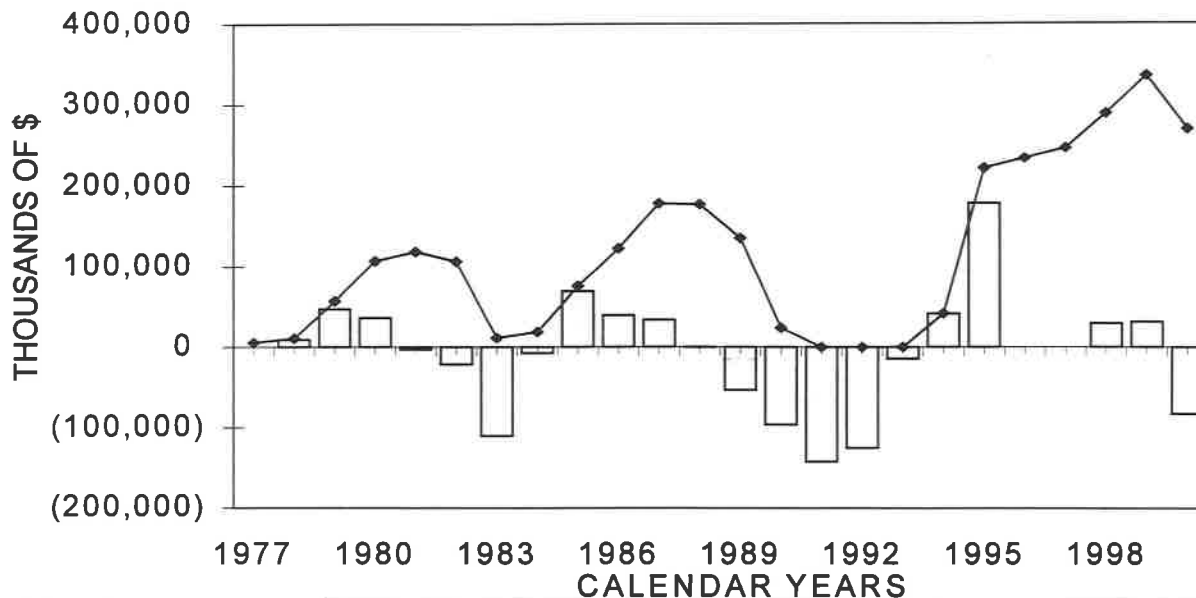


Chart 7

□ DEPOSIT/WITHDRAWAL ◆ BSF BALANCE

TANF Stabilization Fund - Background

Laws 1997, Chapter 300 created a new Temporary Assistance for Needy Families (TANF) Stabilization Fund. This new Stabilization Fund, authorized in A.R.S. § 46-138.03, shall be used to supplement existing appropriations when caseloads for the TANF program operated by the Department of Economic Security (DES) exceed budgeted projections. The fund, administered by DES, consists of monies appropriated to it by the Legislature and is subject to legislative appropriation.

The Legislature appropriated \$5,141,000 GF to the TANF Stabilization Fund in FY 1998. It also appropriated \$1,000,000 from the fund in FY 1998 to begin implementation of a new computer system for TANF eligibility determination. The expected fund balance on July 1, 1998 is \$4,141,000. The FY 1999 JLBC Staff recommendation does not include an additional deposit into the TANF Stabilization Fund. Caseloads for the TANF program in DES have declined nearly 20% in the past 12 months; although that type of decrease in caseloads is expected to slow down in FY 1999, we do not foresee caseload increases that could require use of the Stabilization Fund. As a result of that and the presence of an estimated \$37,861,800 of federal TANF Block Grant belonging to the state but on deposit with the federal government, we do not foresee the need for additional deposits in the near future.

Medical Services Stabilization Fund - Background

The AHCCCS Medical Services Stabilization Fund is authorized in A.R.S. § 36-2922. It is to be used if the appropriation for AHCCCS in a fiscal year is insufficient to cover the cost of AHCCCS medical services. AHCCCS must notify the Chairperson of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting that the appropriation is insufficient, and the JLBC may recommend that AHCCCS withdraw an amount from the Medical Services Stabilization Fund to cover the shortfall.

A.R.S. § 36-2921A(2) authorizes the monthly transfer of \$1,250,000 (\$15,000,000 per year) from the Medically Needy Account of the Tobacco Tax and Health Care Fund to the Medical Services Stabilization Fund. In addition, Laws 1996, Chapter 368 authorized an additional one-time transfer of \$30,000,000 to the Stabilization Fund. Interest earnings are retained in the fund. At the end of FY 1997, the fund balance was \$61,267,700. The JLBC Staff recommendation assumes that pursuant to current law, \$15,000,000 will be deposited in the Medical Services Stabilization Fund both in FY 1998 and FY 1999.

	FY 1997	FY 1998	FY 1999
BSF	\$245,810	\$288,723	\$348,338
TANF Fund	0	4,141	4,141
AHCCCS Fund	<u>61,268</u>	<u>79,706</u>	<u>99,066</u>
	\$307,078	\$372,570	\$451,545