

ARIZONA

MONTHLY FISCAL HIGHLIGHTS

August 2002

Based on preliminary data, August General Fund revenues are \$442.7 million. This amount is \$(40.2) million below the budget forecast for the month, bringing the year-to-date deficit to \$(65.7) million.

The primary cause of the shortfall continues to be weakness in the individual income tax. Revenues in this category were (11.2)% below last year and \$(40.0) million below projections. There continues to be a disconnect between the rate of decline in job growth, currently at (1.1)%, and the larger decline in wage withholding, currently at (6.1)% for the two months year to date. One of the primary reasons why withholding declined during the last year by a bigger percentage than employment is due to higher than average losses in high-paying manufacturing jobs and better than average hiring for lower-paying government and retail jobs. For example, over the past year manufacturing jobs have decreased by (7.0)%, while government positions have increased by 2.3% and retail employment has increased by 2.5%. The increase in government jobs is mostly attributable to hiring in the education sector.

Sales tax collections are estimated to be 2.8% above last year, which is \$0.5 million above the forecast for the month. As in other months, the sales tax preliminary number is subject to change after application of the sales tax distribution formulas. However, in recent months the preliminary sales tax figure has been especially susceptible to downward revisions due to the slumping use tax. Since use tax collections do not get distributed to local governments, any decline in this category is entirely borne by the state.

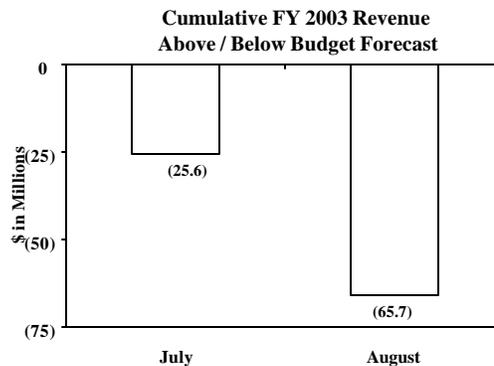
As noted in previous Monthly Fiscal Highlights, these are preliminary numbers for the month and are subject to revision. The forecast represents the revenue estimate used for the enacted FY 2003 budget.

A summary of the latest JLBC and JCCR meetings is on the back page.

**General Fund Revenues
Compared to Adopted Budget Forecast ^{1/}**
(\$ in Millions)

| <u>FY 2003</u> | <u>Forecast</u> | <u>Actual</u> | <u>Forecast Difference</u> |
|--------------------|-----------------|---------------|--------------------------------|
| Preliminary August | \$ 482.9 | \$ 442.7 | \$ (40.2) |
| Year-to-Date | \$ 964.4 | \$ 898.7 | \$ (65.7) |

^{1/} Excluding Proposition 301 revenue.



JLBC MEETING

At its August 22nd meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – The JLBC favorably reviewed the FY 2003 Retiree Accumulated Sick Leave (RASL) rate of 0.4% of the total benefit eligible payroll. The RASL program was established to pay employees up to \$30,000 over 3 years for their unused sick leave upon retirement. State agencies have been budgeted at the 0.4% rate in the current fiscal year. This rate will provide sufficient funding for program operations and will generate a cash fund balance of approximately \$2.6 million.

Community Colleges – The JLBC deferred action on the disbursement of Arizona Learning Systems (ALS) state-funded assets until it receives additional information. ALS is a consortium of Arizona's 10 community college districts to promote distance learning across district boundaries using Internet, interactive video-conferencing (ITV), and other technologies. Pursuant to a General Appropriations Act footnote ALS terminated at the end of August 2002 and JLBC must determine the distribution of state-funded assets.

The JLBC is seeking input from a variety of sources and has requested reports by October 21, 2002 from the Arizona Area Health Education Center (AHEC), the community colleges, the Arizona Telemedicine Program, Arizona Board of Regents, and the Government Information Technology Agency.

ALS staff will be retained during the transition period to coordinate the termination of ALS and disbursement of state-funded assets. Any remaining funds will be reverted to the General Fund.

School Facilities Board – The JLBC deferred action on the approval of the index for constructing new school facilities until the October JLBC meeting when it will have the benefit of the October 1 demographic study and the number of students. The Students FIRST legislation (Laws 1998, Chapter 1, 5th Special Session) established funding amounts per square foot for both new construction and building renewal, however, it required that those amounts be adjusted annually for inflation. The JLBC has used the Marshall Valuation Service index in previous years.

State Parks Board – The JLBC favorably reviewed the State Parks Board expenditure of \$450,000 from the Acquisitions and Development portion of the State Parks Enhancement Fund (SPEF). SPEF receives revenue from user fees generated at State Parks. Laws 2002, Chapter 3, 5th Special Session restores a \$450,000 FY 2003 General Fund reduction to the State Parks budget by allowing the department to use \$450,000 from the Acquisition and Development portion of

SPEF. The State Parks Board plans to use this money for staff to reopen 7 parks that were closed in early July due to budget reductions.

Department of Public Safety – The JLBC received information regarding the transfer of responsibilities for firearm clearance background checks from the Department of Public Safety (DPS) to the Federal Bureau of Investigation (FBI). The federal Brady Handgun Violence Protection Act of 1994 requires individuals purchasing firearms from licensed firearm dealers to undergo a background check by means of the National Instant Criminal Background Check System. Laws 2002, Chapter 328 transferred this responsibility from DPS to the FBI with an effective date of August 22, 2002. The transfer created savings of \$621,300 in the DPS FY 2003 budget. Currently, 25 states rely on the FBI to conduct background checks on prospective gun purchasers to determine eligibility. A concern regarding the transfer is that the FBI will not have access to certain state files that may disqualify an individual from purchasing a firearm. The FBI is working to resolve this information integration problem with the states.

Department of Health Services – The JLBC favorably reviewed the capitation rate increases for the Children's Behavioral Health (CBH) and General Mental Health/Substance Abuse (GMH/SA) populations. These increases will require \$4 million more than the appropriated amounts. The JLBC also stipulated the following: 1) DES provide DHS with \$2.6 million from its existing \$13 million behavioral health budget to fund the capitation rate increase for children, and 2) DHS find the resources from its existing budget (other than Non-Title XIX services) to cover the \$1.5 million cost of the GMH rate change.

The JLBC also approved the transfer of \$3.5 million from the Seriously Emotionally Handicapped (SEH) Special Line Item to the Operating Lump Sum Line within the DHS budget. In addition, the Committee specified the following: 1) consistent with on-going legislative intent, the \$500,000 in the Children's Behavioral Health Line Item should be expended for Non-Title XIX services rather than be used as the primary funding source of the SEH program (this requires DHS to absorb \$500,000 in its operating budget, rather than taking the reduction in Non-Title XIX service dollars), 2) DHS report back to the Committee by September 25 on how this transfer will be further allocated to the other DHS cost centers, and 3) DHS report to the Committee by November 1 on the status of placement for this population.

Other Reports – The Committee received written reports this month on 1) Arizona Department of Administration's Health Insurance Performance Standards, 2) AHCCCS' Implementation of the Special Provider Rate Increase, 3) Attorney General's Legal Expenses for Alternative Fuels, 4) Attorney General's Incarceration Costs Offset by Monetary Judgements,

5) Department of Economic Security Arizona Works, 6) Department of Economic Security Children Services Program, 7) Department of Economic Security Placements into State-Owned ICF-MR or the Arizona Training Program at Coolidge Campus, 8) Department of Emergency and Military Affairs Declared Emergencies, 9) Governor's Office for Excellence in Government Arizona Pioneers' Home privatization, 10) Department of Health Services Health Crisis Fund Expenditures, 11) Naturopathic Physicians Board of Medical Examiners Inspection and Evaluation Special Line Item Expenditures, 12) Department of Revenue Ladewig Expenditure Plan, and 13) Arizona Department of Transportation MVD Wait Times.

JCCR MEETING

At its August 22nd meeting, the Joint Committee on Capital Review considered the following issues:

DES Data Center Upgrades – The JCCR favorably reviewed the Department of Economic Security (DES) plan for upgrades to its data center. The \$960,700 project will replace the Uninterrupted Power Supply (UPS) system at its data center, and includes facility modifications. The department was appropriated \$1.4 million from the General Fund in FY 2000 for upgrades to its data center. The Committee also requested that any unspent monies revert to the General Fund when the project is completed.

NAU Bond Projects – The JCCR approved the issuance of revenue bonds in the amount of \$31.7 million for the Communications Building Renovation, Modular Swing Space, Gateway Student Success Center, and Campus Infrastructure Upgrades at Northern Arizona University (NAU). The bond issuance will be \$13.1 million for the communication renovation, \$2.6 million for modular swing space, \$3.2 million for the student center, and \$12.7 million for infrastructure upgrades. The bonds will be repaid over a 30-year period from tuition collections.

Maricopa Community College District Bond Projects – The JCCR favorably reviewed the issuance of revenue bonds in the amount of \$14.8 million for the financing of the Performing Arts Center at South Mountain Community College and the new Student Information System. The bond issuance for the Performing Arts Center will be \$6.7 million and will be repaid over a 20-year period. The bond issuance for the Student Information System will be \$8.1 million and will be repaid over an 8-year period. Both projects will be repaid by student tuition and fees.

SFB Presentation on the New Qwest Contract and the Status of Lease-to-Own Construction Financing – The School Facilities Board (SFB) presented to the Committee information on the revised networking and internet connectivity contract with Qwest. The original purchase order was capped at \$100 million and required Qwest to provide all Arizona schools with internet connectivity and networking capabilities within and across school districts. However, it was structured on a pay-as-you-go basis and Qwest was not bound to complete the project in all Arizona schools. Since the \$100 million cap was exceeded, Qwest halted the work. In order to complete all Arizona schools, the board approved a new funding level of \$140.8 million.

Discussion on the Qwest contract was not concluded and will be continued along with the Lease-to-Own discussion at the next meeting.