ARIZONA STATE SENATE

44TH LEGISLATURE
SECOND REGULAR SESSION

MINUTES OF COMMITTEE ON APPROPRIATIONS

DATE: Wed., January 12, 2000 **TIME:** 1:30 p.m. **ROOM:** 109

CHAIRMAN: Senator Gnant **VICE CHAIRMAN:** Senator Cirillo

ANALYST: Deborah Johnston **COMMITTEE SECRETARY:** Melissa C. Upshaw

INTERNS: Ethan Shaner and Michelle Thornham

ATTENDANCE **BILLS**

Committee Members	Pr	Ab	Ex	Bill Number	Disposition
Senator Arzberger	X			S.B. 1002	Subcommittee
Senator Bennett	X			S.B. 1014	Subcommittee
Senator Grace	X			S.B. 1016	Subcommittee
Senator Guenther	X			S.B. 1020	Subcommittee
Senator Hamilton	X			S.B. 1026	Subcommittee
Senator Huppenthal		X		S.B. 1028	Subcommittee
Senator Jackson	X			S.B. 1030	Subcommittee
Senator Lopez	X			S.B. 1035	Subcommittee
Senator Rios	X			S.B. 1036	Subcommittee
Senator Smith	X			S.B. 1055	Subcommittee
Senator Solomon	X			S.B. 1061	Subcommittee
Senator Wettaw	X			S.B. 1062	Subcommittee
Senator Cirillo, Vice Chairman	X			S.B. 1067	Subcommittee
Senator Gnant, Chairman	X			S.B. 1074	Subcommittee

SPECIAL PRESENTATIONS

GOVERNOR'S APPOINTMENTS

Name	Position	Recommendation

Tape 1, Side A

Attendees Sign in Sheet (Attachment A)

Chairman Gnant called the meeting to order at 1:30 p.m., and called for recess until the sound of the gavel.

Senator Gnant reconvened the meeting at 1:32 p.m.

Senator Gnant welcomed those present to the first meeting of the Senate Appropriations Committee for this Session. He announced this to be a historic meeting in a sense that in the past when the Senate Appropriations have met for the first time at the beginning of each Session, they have begun work on a major budget. This would be the first year in fifty years, where the Committee will not be working on a main budget. He commented the Committee will be "plowing new grounds" with how financial affairs will be approached at the spending level this Session.

Senator Gnant stated that one of the main questions the Appropriations Committee needs to address, in order to do its work, is how much money is available. He noted that the Committee is hindered in estimating that because the main revenue months for the year have yet to take place, therefore, the Committee does not have a good idea as to how much money is going to be available until mid-May. So, consequently, the Committee will have to work on the best information they have. Thus far, the best information says that very little money is available, certainly less than $50 million for spending, even when additional revenues are received, $300-$400 million is not expected to come in. Senator Gnant said the expectation is a result of having to ask Members to log their appropriation requests with his office, which have totaled $1.6 billion. He pointed out that at any stretch the amount of money available is enough to fund only a very small percentage of bills that has been or is likely to be introduced.

In order to deal with all of the appropriation requests, Senator Gnant said a program in the Senate is going to be instituted as follows, excepting this week: bills that come before the Appropriation Committee will be eligible to be heard only after they have passed their Standing Committee. He noted the possibility of bills being assigned to two Committees, a Standing Committee and the Appropriations Committee. A standing committee is any of the Committees on Education, Health, Transportation, etc. The first line of attack on these bills is with the standing committee. If the bill does not pass the standing committee, it will make no difference whether the Appropriations Committee hears it or not because the Appropriations Committee will not hear a bill that does not pass a standing committee. Once a bill has passed its standing committee and has reached the Appropriations Committee, the bill will then be assigned to one of the three subcommittees of Appropriations. The subcommittees will meet as often as they can on Wednesday afternoons following the Appropriations Committee meeting, with a possibility of meeting on one or two Fridays, and they, in turn, will entertain the appropriations requests that have passed the standing committee. If they pass the bill out of subcommittee, it will come before the full Appropriations Committee, and the Appropriations Committee will then make the final determination.

Senator Gnant reiterated this to be the first year implementing this project, with a possibility of having some kinks to work out. But nonetheless, this plan will give as many people as possible a chance to make their case for their Appropriations, as long as they are aware that it will be similar to winning the lottery, if their particular cause receives appropriations for this year.

Senator Gnant asked that the attendance be noted, and asked if there were any comments or opening remarks from any of the Committee Members. No comments were made.

Senator Gnant expressed his appreciation to Senator Lopez for bringing forth some of his concerns on the new Subcommittee process. He said the concerns were quite valid and asked Senator Lopez if most of his concerns were met.

Senator Lopez replied that his concerns were met and appreciated Senator Gnant's review and prompt response. Senator Lopez asked the Chair if there would be a brief presentation. The Chair responded there would be a presentation.

Senator Gnant introduced the Senate Appropriation staff members, and said there will be brief presentations made by the Joint Legislative Budget Committee (JLBC), and the Office of Strategic Planning & Budget (OSPB).

Tom Betlach, Director, Office of Strategic Planning & Budgeting (OSPB), reviewed the handout on the Executive Mid-Biennium Update (Attachment B). The update summarizes the significant recommended changes to the biennial budget, as signed by the Governor, for fiscal years 2000 and 2001. Mr. Betlach reported the ending balance of $10.6 million for FY 2001, and that all the adjustments since that point in time are based upon the book, adding that the information can also be found on CD-ROM.

The changes and amounts listed on the Executive Mid-Biennium Update are as follows: Trigger Expenditures, $91.9 million; FY 1999 K-12 Supplemental, $17.0; Increased Employee Pay Package, $18.3 million; FY 2000 and FY 2001 K-12 Funding Formula, $51.6 million; School Facilities Building Renewal/Deficiency Correction, $32.5 million; AHCCCS, DES and DHS Caseloads, $84.7 million; Adult and Juvenile Corrections Caseload Savings, $20.4 million; Reversions, $62.2 million; and Other Adjustments, $9.7 million. Totaling these leaves an adjusted ending balance of $7.5 million for FY 2001.

Referencing page two of the report, Mr. Betlach reviewed the select items included in the Executive Budget Update that are not addressed by JLBC staff. He announced he is looking for sponsors or bills to address the items listed, and asked to be notified if anyone is interested. Mr. Betlach has seen Senator Grace's psychotropic bill, and is in touch, in working with everyone.

In response to Mr. Betlach's announcement, Senator Solomon stated that she had a lot of child welfare bills.

Mr. Betlach concluded that the listing included some savings bills, and that Executive office would come "knocking" since there is a different process this year.

Senator Gnant asked if there were any questions for Mr. Betlach.

Senator Solomon said she had an appropriate question regarding the Governor's State of the State speech. The Governor talked about the Superintendent of Public Instruction's plan to lower class size and extend the number of school days. There was a price for these goals, but she did not see anything other than K-12 formula funding in the Governor's budget.

Mr. Betlach replied that is correct, and in the Governor's speech, the Governor also said that when the resources are available. At this point in time, the Governor is suggesting revenue bonds be used to cover for the School Facilities Board. They do not view revenues being available to address those types of issues that the State Superintendent and others have laid out in terms of classroom enhancements above and beyond the formula, the triggered amounts, and the amounts already provided in the 2000 and 2001 budget.

Senator Solomon expressed her dismay over this lack of funding, especially in light of the parents who have been calling about their children's needs with regard to the AIMS test and other various issues on which Arizona recently rated an "F" in resources. She said that there is still the position to wait for additional resources and hopes there will be additional resources before more tax cuts. Mr. Betlach answered that the Governor is certainly interested in providing additional resources to K-12 when they are available.

With regard to the Governor's speech on additional tax cuts, Senator Solomon said she hopes that the "F" rating in resources, fiftieth out of fifty states, is carefully looked upon by everyone.

Referencing the handout, Senator Grace said she did not mean to seem uninformed, but asked what the letters "OF" and "TF" stood for. Mr. Betlach replied the "OF" stood for Other Funds and the "TF" for Total Funds. He took for example the CPS Training Institute in the amount of $2.8 million TF, which includes some general funds and other funds.

In response to Senator Grace, Mr. Betlach affirmed the Behavioral Health lines of Community Services and Psychotropic and Medication Funding amounts were out of Other Funds. He said the $38 million is a combination of one-third of the tobacco settlement, plus some federal money that is available; $13 million is tobacco tax, and the $75.8 million is tobacco settlement.

Senator Grace questioned whether the $38 million is not all state money, and if it also included federal match monies. Mr. Betlach replied that in working with the Department, they felt that roughly $10 million in federal matching monies could be generated; therefore, it is $28 million in state funds with $10 million in matching funds.

Senator Grace stated she is pleased that $28 million is less than what she is requesting in her bill; however, her biggest concern would be the funds coming from the tobacco tax, and simply, she does not think the funds would be maneuvered that well. She said this is one reason why she will be requisitioning out of the general funds. She added there is a point of contention already and has hope that the general fund money is discussed only because of the practicalities involved. Mr. Betlach reiterated that there are limited resources, stating that with the Governor's focus on the tobacco settlement for health related causes she believes behavioral health is one of those areas she feels is appropriate for that funding; therefore, that is the recommendation.

In response to Mr. Betlach's statement, Senator Grace agreed that behavioral health deserves the funding. She suggested that, whether general funds will be used or if there is a possibility of not receiving these funds, it should be stated upfront. She explained that, at this point, she is skeptical of passing a bill based on tobacco settlement funds; the money may not be available. If the State is going to resolve the lawsuit and protect itself from future litigation, it needs to come up with general fund money. However, she is encouraged to see those items listed.

Senator Gnant asked if there were any other questions for Mr. Betlach.

Senator Lopez said that JLBC is recommending that the 2001 supplemental budget not be passed until 2001. He said it is unclear what OSPB's proposal is in reference to the supplemental budget in 2001. Mr. Betlach responded that the Governor's budgeting office, OSPB, believes in tackling all of the adjustments for 2000 and 2001, not necessarily for a brand new Legislature to inherit these with less than six months left in the fiscal year when they come in. However, the Legislature has some say on this process. Mr. Betlach said that with the process being new, he feels the need to see how the process evolves.

Senator Lopez said that leadership in both Houses and the Governor's Office have agreed that building renewal shortfalls will be made up when there is a good estimate. In reference to testimony from the School Facilities Board, Senator Lopez stated that the figure they presented was not going to change significantly, noting that the figure will be available by mid-February. He opined that this is not listed in the Executive Budget to account for those shortfalls. Mr. Betlach replied that there is $32 million to fully fund the fiscal year 2001 formula, explaining that if you play out the way the law was set up, the School Facilities Board had a chance to say the true amount and get it involved in the budgetary process. Also, the Governor's Office has the assessment going on now to clarify a lot of that data, which is included in the recommendation.

Senator Lopez asked Mr. Betlach if he was not denying that there is a $56 million shortfall between what was committed to that fund and what was actually given. Mr. Betlach replied that the calculations prepared by the School Facilities Board, after it received the data, in terms of establishing the funding to show a shortfall, are approximately $50 million. He reiterated they would have to go back because the budget had to be passed last year without knowing what the true amounts were; the data submitted was also from school districts which was not verified until the point in time in which the assessment is occurring.

Senator Lopez asked Mr. Betlach if the Governor's Office would then commit to, at least, the availability of the money if it is going to fund the shortfall in the building renewal. Mr. Betlach stated that the Governor has committed to funding Students First and that is why the $32 million is committed to building renewal and the $100 million in deficiency funding that the Board requested. He noted both dollar amounts, $132 million total, were above the budget that was passed a year ago.

With regard to Students First, Senator Lopez said to note the Governor's recommendation of appropriating $200 million for the new schools in fiscal year 2002. He stated that last year, the Governor vetoed a number of bills that had appropriations that went beyond the budget years. Senator Lopez asked Mr. Betlach why the Governor was recommending the $200 million in this particular case. Mr. Betlach replied that Senator Lopez's concern is a good point, stating that the Governor did veto a number of bills with concerns for out year appropriations that were future commitments. However, he said he believes this is a different issue, with the School Facilities Board being a capital intensive program. He said the Executive office has supported, and in fact the Legislature has passed, a multi-year funding for prisons, which were also capital projects. Mr. Betlach added that it does give them more flexibility to go ahead and commit to projects now, knowing that they have some of that future money when the cash is actually going to be spent on that project.

Senator Lopez asked why would there even be an appropriation there, when the bill calls for the School Facilities Board to submit a figure to the Treasurer requesting the amount that is going to be needed. Mr. Betlach replied that because of its importance, he would be glad to spend more time

with Senator Lopez on this issue. He explained that a lot had to do with the controls that the Governor's Office sets up in terms of appropriations, so that agencies do not commit to out years funding without appropriations. Even though the requisition is made to the Treasurer on how much is needed for the next fiscal year, the Treasurer cannot be told monies are needed two years out. Therefore, the ability is needed to encumber an out year appropriation. Mr. Betlach reiterated this to be sort of intricate, an Executive control type function, that is important to the ongoing operations of the School Facilities Board.

Senator Lopez stated that there appears to be different philosophies as to how a biennium budget is developed, what constitutes one, and what one does in the second year. He said the Governor's office has been fairly comprehensive in outlining a number of initiatives, some things that were not considered in the first year of the biennium, and noted JLBC is taking a completely opposite direction: suggesting that only certain things are going to be looked at. Senator Lopez asked Mr. Betlach to explain, in general, OSPB's position on this. Mr. Betlach replied that when developing the mid-year update, the Governor still felt the importance of addressing the needs of the State even though a two-year budget was passed. He took, for example, the funding for new Department of Public Safety (DPS) officers. Last year, when the DPS officer situation was looked into, there were approximately seventy vacant positions; and since then, DPS has filled all the positions. Therefore, the Governor has gone back and recommended the additional positions to try and address a number of new freeway miles; no officers have been added, at least in the 1990's. In addition, there are a number of issues, which are listed on the second page of the handout. Mr. Betlach concluded that the Governor wanted to take the opportunity to address what she felt were the important needs of the State, and that this gave her the opportunity to do that.

With regard to the School Facilities Board, Mr. Betlach stated that there is also a recommendation for additional funding for operating. He noted the amount is not a whole lot, but when a $100 million increase is being discussed in terms of deficiency funding, the Governor's Office feels that additional staffing is appropriate. In addition, they have also provided a mechanism by which to fully cover the cost of the assessment study. Mr. Betlach reiterated the need for a bill.

In response to Mr. Betlach's comments, Senator Lopez replied that he might just be the person in reference to Students First. Senator Lopez said to notice that the Governor is doing something that they have suggested in the past, namely that we revenue bond in order to meet those requirements, but she is only revenue bonding for $100 million with the remainder going to pay debt services. Next year, when the figures come in at mid-February, we're looking at a figure of $300-$400 million. He asked Mr. Betlach if the revenue bonding is going to continue at that time.

Mr. Betlach answered that the Committee should wait on the numbers, along with the Chair's conversation on revenues, to see how they will be played out as well. He thinks there are some risks to the current forecast, noting there is not enough time to get into it at the moment. Senator Lopez replied that he would like to announce he has a bill revenue bond that may do the trick.

Senator Gnant asked Mr. Betlach if he would stay, should there be any other questions for him. Mr. Betlach agreed.

Richard Stavneak, Director, Joint Legislative Budget Committee (JLBC), presented two points to the Committee. First, a housekeeping point, to ensure members receive all the documents, which consist of one loose-leaf notebook and one bound version. Both contain the same material, and the loose-leaf notebook can be used to insert material as Session moves forward. Mr. Stavneak stated

that in the Caucus meetings held yesterday, the members received presentations on what was in the budget; and one of the things included in both of the documents is a longer presentation, a slide presentation, that was presented in the House Appropriations Committee yesterday. He would not cover the whole presentation; however, he would like to cover revenues because they typically tend to get short shrift in some of the discussions.

Mr. Stavneak briefed the Committee on the biennial budgeting by referencing the first page of the handout (Attachment C) given to the Members. He stated that the national outlook is brighter than a year ago, and the national forecast of the growth of the economy is 3.9% for 1999 compared to 2.6% a year ago. One reason why there is excess revenue being generated at the state level is because of the growth in the national economy, he said, which still leaves open the question of when the next recession will occur. He said he is surprised, in spite of all the good economic news the State has, that when all the leading economists are surveyed across the country, 42% still think the recession could still occur in 2001. Therefore, he notes that caution is left in some of the forecasts out there.

Referencing page two of the handout, Mr. Stavneak then briefed the Committee on JLBC staff's revenue forecasts. He said the forecast still leaves the big question, and some of that has been alluded to in some of the discussions as well, are we going to come forward and produce more revenue later on in this session. In terms of are we forecasting too high or too low, he stated that there is no right answer to this. However, there are two different perspectives on raising revenue too much. He said the first, individual income tax collections, so far, especially wage withholding, have been lower this year, explaining why growth has been a lot less this year than last year. Last year, wage withholding was approximately 14%; this year approximately 6%. Therefore, if you look at a specific indicator of where the revenue news is not that great, individual income tax collections would be an example of that. Secondly, JLBC staff indicators tend to be brighter than that of the Arizona Blue Chip, again higher than leading Arizona economists and brighter than OSPB as well. He stated that JLBC agrees on the 2000 revenue numbers, but has approximately $67 million more in the revenue forecast for 2001 than the Governor does.

In reference to why the forecast would not be enough, Mr. Stavneak explained that if the historical trends are looked at within the last five years, every year the economy has out performed what leading economists predicted it would. And if the growth path is looked upon, it means there is a declining growth path there. Mr. Stavneak stated that if this does not happen, then excess revenues would have to be generated. At this point, the one very bright spot of the JLBC revenue forecast is sales tax collections. So far this year, they are up 9%. He said that is a very healthy rate of growth at this point in economic expansion.

In referencing page two of the handout, Senator Cirillo asked Mr. Stavneak if he would agree with the statement that the State has actually grown revenue at a faster rate in the years when there have been tax cuts, than in 1990 and 1991 when taxes were raised. Mr. Stavneak replied that there has been an ongoing discussion on this, and he does think that most economists at this point do think that the tax cutting has generated additional revenue. He said that what is difficult is when it is asked precisely how much, but he feels there is a general thought, at this point, that the tax cutting has helped generate some of the rates of growth.

Senator Lopez and Senator Gnant both commented they were tempted to follow up on Mr. Stavneak's statement, but would not.

Tape 1, Side B

Senator Lopez stated that even without suggesting or caring whether there is money available or not, there are budgets for 2000 and 2001. He asked Mr. Stavneak why the supplemental appropriations for 2001 would not be appropriated. Mr. Stavneak answered that they would not literally make the 2001 changes, but would secure the money on the balance sheet by having acknowledged that the cost is potentially out there. For example, JLBC feels that the Arizona Department of Education (ADE) will require an additional $45 million in 2001, so on the balance sheet, $45 million would be set aside so that they know the money is there, but the money is not literally appropriated. He explained the reason for that is some thought that the $45 million number would be wrong, not knowing exactly how it would be wrong, and that the number could likely be somewhat higher or lower. Mr. Stavneak remarked that he would be surprised, if they could accurately predict, 18 months in advance, what the ADE number is going to be

Senator Lopez said he hopes this is one recommendation that is looked at very seriously. He noted that there are all kinds of possibilities in waiting until the 2001 session to make supplementals for that year. Even though it is budgeted, he said one does not know what is going to happen with a new budget cycle, and there is no guarantee. He added this is a concern for community colleges and also feels the same thing is being done with AHCCCS. Senator Lopez noted that there are thousands of individuals who depend on this type of healthcare, and expressed concern they might be left out in "limbo."

In response to Senator Lopez's question, Mr. Staveneak answered that the building renewal shortfall was not included in JLBC's proposal. He stated that in conversation with the Appropriations Chairmen on their spending priorities, he does think the building renewal shortfall will rank relatively high in the ongoing discussion that will occur during this Session.

Senator Solomon stated that she might not agree with Mr. Stavneak's philosophical point of view with regard to budgeting on K-12. However, she could understand why that was done; K-12 is based upon current year funding, not knowing what is going to happen in the out year. However, community colleges funding are based on last year's growth, and so by delaying them, they are being put two years in the hole. She said she understands and accepts the K-12, but it is very difficult for her to accept the rationale for community colleges.

Mr. Stavneak replied that it is true that community college funding formula is based on data for two years prior, so the 2001 number is based on 1999 full time student equivalent counts. As a result, JLBC has updated data on 1999, which they did not have last Session, and they now know that their appropriation would go up by $1.7 million. They have put on the balance sheet $1.7 million to meet that requirement, and the reason it was not done is that it was done as a generic policy with regard to 2001 general fund, not formally making those adjustments. He said he agrees the community colleges have a stronger rationale than K-12, if they decide to make those adjustments, because essentially their number should not change at this point.

Senator Solomon said it would certainly be her hope that the adjustments are made, since they will be running two years behind. She stated that Senator Lopez mentioned the interesting balance sheet adjustment for AHCCCS, commenting that these are real people too, and she understands why the "bump" is there. She explained the KidsCare Outreach, where people were moved onto AHCCCS, when appropriate. She said as more KidsCare Outreach is being done, she believes there will be

more families and children moved onto AHCCCS, which means this is not an “artificial bump” to her way of thinking. She asked Mr. Stavneak to give the rationale as to why this was put on the balance sheet as it was.

Mr. Stavneak explained that at this point, the budgeting process is always projecting numbers out. He explained that JLBC feels the best number is $50 million, but it could be high or low. JLBC had to make some choices, in terms of making the budget balance. However, in the particular case of AHCCCS, it was decided to not put that on the general funds balance sheet because of the availability of the medical stabilization fund, which is $80 million. He said there could be a policy debate as to whether it is the appropriate time to use the $80 million, but given the overall constraints of balancing the balance sheet, that was the one area where there was a substitute form of funding.

Senator Solomon said she likes general obligation (GO) bonding better than revenue bonding as well. She expressed her concern on the medical stabilization account, and asked that it be carefully looked at. She said she understands it is a way to find $50 million to put into available revenue for other spending and tax cuts. She queried why “F’s” could not be earned here as well as in Education and in child welfare.

Senator Grace said she would like to put out her request to have some of the medical stabilization monies be put back into subvention funding for children, which was cut by $3 million last year. She explained that it was thought that the KidsCare Program would pick these children up, but that has not happened. Therefore, she feels it is very rational to take that money and re-establish what was cut last year, because she does not think it was held up. Senator Grace added there was the prediction that it would happen, but it did not because the monies are now being used for something else. Therefore, she feels that it is now only right to put the money back where it was taken from in the first place, and comments bad predictions were made there.

Senator Gnant responded that in his memo, sent to all Members a couple of weeks ago, indicating how $18 million was estimated, he explained that the transfer of monies from funds was the one area that brought some reactions from some of the Members. He asked the Members to see him separately on this, and if there is a demand to do something differently, he said there certainly would be, and that it was not as if they were locked in to that. Senator Gnant announced his statement to be available for all Members of the Legislature.

Senator Gnant asked if there are any additional questions for Mr. Stavneak. No questions were asked.

ASSIGNMENT OF BILLS TO SUBCOMMITTEES

Senator Gnant stated that the bills are assigned to Subcommittees as they are indicated on the official meeting notice. He announced that the Criminal Justice & Transportation Subcommittee would not be meeting this week, and asked Senator Hamilton for clarification. Senator Hamilton stated that is correct.

For those present, Senator Gnant stated that the bills numbered with a three, for Criminal Justice & Transportation, would need to await that bill’s assignment to its standing committee, and then it will appear again on an agenda for the Appropriations Committee. The bills numbered with a two, for the Education & Natural Resources Subcommittee, will meet in Senate Hearing Room One; and bills

numbered with a one, for the Health & Welfare Subcommittee, will meet in the Senate Appropriations Hearing Room.

Senator Gnant stated that testimony will only be taken for the bills listed, and none of the bills would be voted upon today, noting that the chances are this may be the only time there would be public testimony on many of the bills.

Without objection, the meeting was adjourned at 2:12 p.m.

Respectfully submitted,

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Melissa C. Upshaw, Committee Secretary

(Tapes and attachments on file with the Secretary of the Senate's Office at the Resource Center.)