

ARIZONA STATE SENATE

45TH LEGISLATURE
FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON APPROPRIATIONS

DATE: April 11, 2001

TIME: 3:00 p.m.

ROOM: 109

CHAIRMAN: Senator Solomon

VICE CHAIRMAN: Senator Bee

ANALYST: Deborah Johnston

**COMMITTEE
SECRETARY:** Melissa C. Upshaw

INTERNS: Timothy Bowers and Julie Myers

ATTENDANCE

BILLS

<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Arzberger	X			S.B. 1578	DPA
Senator Cirillo	X			S.B. 1579	DP
Senator Guenther	X			S.B. 1580	DPA
Senator Hamilton	X			S.B. 1581	DP
Senator Hellon	X			S.B. 1582	DP
Senator Martin	X			S.B. 1583	DPA
Senator Mitchell	X				
Senator Nichols	X				
Senator Rios	X				
Senator Verkamp	X				
Senator Bee, Vice Chairman	X				
Senator Solomon, Chairman	X				

GOVERNOR'S APPOINTMENTS

Tape 1, Side A

Chairman Solomon called the meeting to order at 3:12 p.m., and attendance was noted.

CONSIDERATION OF BILLS

S.B. 1578 - general appropriations - DO PASS AMENDED

Debbie Johnston, Appropriations Analyst, explained S.B. 1578 appropriates \$6.2 billion from the state general fund and \$1.7 billion from other funds in fiscal year 2002-2003 and \$6.7 billion in general funds and \$1.7 billion in other funds in fiscal year 2003-2004 for the operation of state government. Ms. Johnston said footnote additions and modifications are delineated on the fact sheet as are individual agency appropriations including the salary adjustments. In addition, there are three technical amendments being offered by Chairman Solomon.

Tom Betlach, Director, Office of Strategic Planning & Budgeting (OSPB), said the Governor has stated she appreciates all the effort that the Appropriations Committee and the Legislature has gone through while working with the budget. When OSPB first submitted its budget it was \$250 million below the Joint Legislative Budget Committee (JLBC) budget. In addition, OSPB met with JLBC staff three weeks ago and provided them with details on how OSPB would do revised revenue estimates. Since that point, over \$100 million worth of reductions have been incorporated into the budget that is before the Committee. Mr. Betlach continued by saying the Governor opposes the budget, calling it the "Titanic budget" that is full of promise, but is not going to make it to the port. Mr. Betlach said OSPB has a lot of concerns with regard to revenues. He distributed a document (Attachment A) detailing the withholding that was covered in the caucuses. He said when OSPB provided the presentation, they had information on 18 of the state's largest employers, and now they have information on 54 of the largest employers.

Chairman Solomon asked how many economists would look at a nine-day trend. Mr. Betlach said it would not necessarily incorporate a nine-day trend. It only goes to the point that 19 percent growth is needed in terms of the rest of this fiscal year. He would like to see any economist stand up and present the Legislature an economic scenario that shows why withholding is going to grow 19 percent over the next three months when the trend has obviously been in the opposite direction. He said that is why the Governor is concerned that the Committee is about to adopt a budget that is not balanced. He knows that there has been a lot of concern that this is just fiscal year 2001, but fiscal years 2002 and 2003 are also being dealt with. Obviously, anything that happens over the next three months impacts the revenue estimates that OSPB would use for fiscal years 2002 and 2003. He said the economists that OSPB has been talking to certainly do not see any type of scenario that is going to generate the type of growth and withholding that the Legislature needs to make this budget work. Referring to page two of Attachment A, he said the balance is somewhere between \$250 million and \$413 million in the hole in fiscal year 2002, noting that it will only get worse in fiscal year 2003. He said that is one of the reasons why the Executive Office is asking for the next three weeks to look at the data. They feel it is only prudent to take the time and try and see what type of trends are seen in the individual income tax collections over the next three weeks. Mr. Betlach said the Governor is certainly willing to work with Leadership and the Legislature to come up with ways to make this budget work when revenue adjustments need to be made.

In addition to the Titanic description, Mr. Betlach said that the more we wait the harder it is to steer the ship, and the longer we wait to make these adjustments the more difficult it is to make reductions to the budget. If we are stuck in a position where we have to make adjustments to

agencies in June, that gives them less than one month in this fiscal year to look at making reductions to their budgets. He said if we wait to adjust fiscal year 2002 until next fall, the Legislature would have already spent monies on the serious mentally ill (SMI's), block grants and other types of investments that make it very difficult to adjust discretionary dollars that are in the budget.

Chairman Solomon asked Mr. Betlach if he has been looking at sales tax and corporate income tax collections as well. Mr. Betlach said OSPB has looked at these tax collections and the tentative March sales tax numbers show 2.2 percent growth. Roughly 6 percent is needed to make OSPB's forecast, which is essentially what JLBC is using to build this budget. He said the February numbers were good, they were 10 percent, but the previous three months growth was approximately 5 percent and 2 percent. He said there are some serious concerns when looking at corporate tax credits. Motorola and other companies are announcing that they have their first loss in 15 years, and obviously Motorola is a major player in terms of this state's corporate income tax.

Chairman Solomon said she believes that the statement was made in Republican Caucus that it is the small businesses of this state that support the state in large part and she hopes we would remember that. She said Mr. Betlach and the Governor have talked about waiting three weeks, but the Legislature's analyst tells them that it would take more than three weeks to have a good handle on the collections that will be coming in after April 16th. She asked why he believes the end of this month is a good time and not the middle or end of May.

Mr. Betlach said they could be more accurate if they wait until the end of April because they actually take in 40 percent of final payments in the month of April. They will get that information on a daily basis from the Department of Revenue (DOR) and he does not think it will take another week to figure out information regarding the individual income tax.

Chairman Solomon said members of this body would consider the budget the "Good Ship Hope." It does take care of health, welfare and education and they believe that it is very responsible. She said she received an e-mail from the Governor a few minutes ago saying they would have to raise taxes. Chairman Solomon does not believe the Executive Office will get a super majority of this body to raise taxes.

Senator Rios described the budget as the "Mayflower Ship" simply because it brings promise and hope to a lot of people in different entities that have historically been left out of the process.

Senator Nichols said he likes the "Good Ship Hope" stating that he is old enough to remember when the Good Ship Hope was plying the waters off of Peru and South America and taking health services to people who had never had them before in their lives. He said he would like to ask Mr. Betlach a question he asked the Governor the other day, and that is "what about further tax reductions?" He asked if the Governor was prepared to say that we should not at this time be further reducing taxes.

Mr. Betlach said the Governor is opposed to the budget that is before the Committee because she has serious concerns about where the bottom line ends up in fiscal years 2002-2003 and 2001-2002 based upon where the State is right now. All he can offer to Senator Nichols is that the Governor has expressed that she would like to work with Leadership. She would like to wait the next three weeks to get the data and then she will offer a revised budget to the Legislature, which would include any revenue changes that OSPB would have to make.

Senator Nichols said he has given up on that question having tried three times now. He is sure Mr. Betlach realizes as everyone in this room knows that the Legislature has come down approximately \$600 million from the original JLBC budget to try to catch the Governor's estimates, which continue to fall. What would be wrong with the Legislature passing a budget, coming back in June and then making an adjustment on solid knowledge about where the State is.

Mr. Betlach thinks the inherent objection is if the State waits until June, any corrections that OSPB would have to make to fiscal year 2001 become almost impossible because there are only 15 days left in the fiscal year. So if OSPB's pessimistic scenario plays out and the State is actually \$85 million in the hole for this fiscal year, taking that type of money out of agency budgets when they have 15 days left in the fiscal year becomes almost impossible to manage.

Senator Nichols said once again history comes into play, but he has been around this state a few years and remembers agency budgets being interrupted as late as April. The state did not hesitate to do that when the agencies only had about three months left to go and had to compress all of their savings into one-quarter of the fiscal year. Mr. Betlach said Senator Nichols is making his point exactly, that fiscal year 2001 would be compressed into 15 days. Senator Nichols said fiscal year 2001 he could appreciate, but he is talking about fiscal years 2002 and 2003. Mr. Betlach said he thinks the Governor would prefer to wait and address it within the next three weeks rather than waiting until mid-June.

Senator Nichols said he would prefer to work with the Governor on this and would prefer to have the Governor work with the Legislature. The cuts that Senator Solomon and Representative Knaperek have made with the Leadership and the Members, have reflected the Governor's concerns. He said Mr. Betlach gave the Committee scenarios that show a little surplus or a deficit at the end of the year. Senator Nichols said those who have to pay taxes might be waiting until the day after Easter to send in their checks. Therefore, he predicts there would be a surge of income in the last half of April. Mr. Betlach said Senator Nichols' comments certainly make his point, that there will be a surge at the end of April and that is the data that they want to see.

Chairman Solomon said that some time would have to be taken to see what that surge will mean, and it is going to take more than just a couple of days.

Senator Hellon said once a budget is agreed upon, she thinks the departments and the entities that ought to be able to count on those funds. For the Legislature to tell them how much they are going to have in their budgets and then in a couple of months change some of those funds is not fair. On the other hand, she cannot imagine that there will be enough information in three weeks for the Committee to feel comfortable about a two-year budget.

Chairman Solomon said it is very difficult to do a biennial budget when dealing with 10 big agencies. Many of the members would have preferred to do a one-year budget, including the Governor, but the members in the House were not interested. For those who will be back in future years, she certainly hopes they will continue to consider that suggestion.

Senator Verkamp said he would like to work together with the Governor and try to resolve this without any kind of confrontation. In that spirit, he asked Mr. Betlach to identify which cuts the Governor would like to see made in her agencies to reach the levels that are needed. Mr. Betlach said obviously there are a number of issues that will need to be addressed to make up this difference, should the revenues have to be adjusted including SMI funding and \$15 million set aside for other bills.

Senator Verkamp said we have been working on this budget for months and it seems late in the day to come in and say we have to cut more money when some of these proposals should have been made much earlier. Mr. Betlach said the trend in withholding is a rather recent trend. A month and a half ago when they were doing their revised revenue estimates, there were hardly any refunds that had been paid. Doing the budget is a very fluid process. The only thing he could tell Senator Verkamp is that OSPB would look at areas where they have some sort of discretion, including building renewal, potential issues like provider and employee pay, and other areas where they may have some discretion with regards to trying to make this budget work.

Senator Verkamp asked if that would include looking at the different divisions of the Governor's Office and the ten layers of administration that exist at DES. He asked Mr. Betlach for specifics. Mr. Betlach said he is not going to give any specifics right now in terms of how he comes up with the \$250 million and the \$113 million. He said the Governor would certainly like to work with Leadership, but this is a very fluid process. The Governor's Office met with each of the members on Monday. The revenue estimate that OSPB did for fiscal year 2002 was done with their economist last night. There is only so much time in a day to try to put all this information together.

Chairman Solomon said she knows the Governor put suggested cuts on the table. Some were accepted and some were not. She does believe that the Governor's priorities were met, but the subcommittees jointly believed certain reductions, for example SMI, universities, employee salaries and provider increases, were very important to the people of this State, and were not willing to reduce. However, as Senator Nichols mentioned, the Legislature did reduce our budget by \$600 million in an attempt to accommodate the figures that the Governor has put out.

Senator Hamilton said he is sure Mr. Betlach is aware that they are 30 days past the normal deadline for the budget. Going another three weeks seems to him to be an unreasonable expectation. If there is information that becomes available that late in the program, would it now be a bit more prudent to have a Special Session and make any adjustments possible? At this point it is too late to make adjustments for fiscal year 2001. For fiscal year 2002 obviously we will have plenty of time to do what we need to do even if we come back in August or September.

Senator Rios referred to the Governor's e-mail where she alludes to the fact that the Legislature is putting themselves in a position to raise taxes. Part of the statement reads, "Arizona citizens should not be facing the possibility of a tax increase because the Members of the Legislature do not want to wait three weeks." He commented that it would be a cold day in "hell" before there are any tax increases in this Legislature. As he recalls, having been here for awhile, there has not been a tax increase since the 1989-1990 Session. The President of the Senate was Robert Usdane and the Speaker of the House was Jane Hull.

Senator Martin asked if the Committee should wait three weeks for the revenue numbers, how long at that point will it take to develop a whole new budget. Mr. Betlach said that is dependent upon the range the budget has to be adjusted. If a budget is \$400 million short in fiscal year 2002, it may take a little time to put together the expenditure plan. If the revenue numbers meet the optimistic forecast, there may be some ideas on how to make that work and incorporate some revisions.

Senator Cirillo said the Committee has to remember that over this three-year period there is a \$20 billion engine that has to be considered and \$200 million is only one percent of that. He said if a budget is done when the year is over, it will always be 100 percent accurate, but that is not the

purpose of budgeting. He would like to see the Committee continue with the budget, but work with the Governor on some negative triggers. If in fact, Mr. Betlach's pessimistic forecast of the revenue is correct, there will already be agreement among the Legislators about what would be cut.

Mr. Betlach said he does not disagree with Senator Cirillo's comments. If someone could paint an economic scenario that has 19 percent growth, he is willing to sit down and listen. But until somebody can do that, OSPB has serious concerns. Trying to forecast to just the end of this fiscal year there is still a significant range that should become more solidified over the next three weeks.

In response to Senator Verkamp, Mr. Betlach said individual income tax makes up 38 percent, sales and use taxes make up 47 percent, and corporate tax makes up 7 percent of the revenue.

Chairman Solomon said electronic filings are up 30 percent, which means the refunds are going out 30 percent faster than they have ever gone out before and that certainly impacts the number. JLBC has been looking at that phenomenon as well.

Mr. Betlach said he would not debate final payments or refunds at this point. He is just asking the Committee to look at withholding, which is \$2.5 billion that this State takes in.

Chairman Solomon said the Committee is not interested in debating either and they do thank him for his testimony. She thinks Mr. Betlach has heard the sentiment of the Committee, they would like to continue to work with the Governor. This is a very difficult exercise for everyone, including the Governor and Mr. Betlach's office. Mr. Betlach has expressed his appreciation to the JLBC staff, she would like to express the Committee's appreciation to Mr. Betlach's staff as they have worked very hard on the budget. Mr. Betlach accepted Chairman Solomon's appreciation.

Senator Hellon said she is interested in the fact that Mr. Betlach has been reworking the numbers and estimates of revenues. She asked if he has any revised estimates on the Proposition 301 funding. A big concern of hers is that if the budget is cut drastically and the higher JLBC numbers turn out to be correct, is there a commitment from the Governor that some of the cuts would be reinstated? She is worried that they will go in low and never get them back.

Mr. Betlach said with regards to the 301 funding, OSPB revised their estimates when they did their revision in the first part of March with regards to the sales tax and it has not changed under the data that OSPB has provided the Committee today. It was for roughly 6 percent growth in this year's sales tax. Then you have to grow the base, and OSPB was using just around 7 percent for 2002 and 2003 for the sales use tax. Mr. Betlach stated that Senator Hellon would certainly have a commitment from the Governor and he thinks Senator Cirillo alluded to it earlier with regard to triggers. Triggers were a part of the budget two years ago, and triggers are a part of the budget document that the Committee is looking at now. He would imagine that any type of compromise or additional changes that OSPB makes will incorporate triggers addressing the priorities that will have to be adjusted as part of this budget.

Chairman Solomon said there is always the question of supplementals, but those who have been here for awhile, particularly last year, recognize how difficult it was to move a supplemental budget out of this body. She shares the same concern as Senator Hellon in getting spending through outside of the budget for those very critical areas that the Members have obligated themselves to.

Senator Nichols said he would like to avoid a veto and an attempt to override. He does not think that does anybody any good, it just makes headlines and feeds the press for no purpose. He asked if there was some way the Committee could come to an agreement without changing the budget at this time. Two ways that have been suggested are: 1) the negative triggers as suggested by the Governor; 2) let us not adjourn, but recess, pass the budget, not have it vetoed, and have an understanding that we are prepared to make adjustments. He asked Mr. Betlach if there was room for a compromise with the Governor so they do not have to go through this override battle.

Mr. Betlach said he believes that there is potentially some room to change this piece of legislation to make it more acceptable to the Executive Office. That will require some significant discussions with the Governor and Legislative Leadership. He will say that there is not a lot of room if this document is sent up to the Executive Office the way it is right now.

Senator Guenther said he definitely appreciates what everyone has been through on this Committee. His concern is that if we are going to get into a spitting contest and the wind is not exactly favorable rather than use negative triggers he would like to see them use positive triggers. He said this should be done every year. First of all there should be a one-year budget, he thinks that is prudent. Then on that one-year budget go back to the necessary services that are required to keep our State healthy. He knows that means we need to assign priorities to a significant number of additional issues, but we probably would not have to come back and do supplementals. The money would fund what we decided should be funded at any given revenue source and at the same time we could include within that trigger mechanism, the infamous box. His concern right now is that we are getting into a contest where there is no winner. If the Governor does exercise her veto power, and the Legislature does override, everything in the box is lost. They do not get to revisit that until next year. He is at a loss as to what to do except that he does believe they should narrow it to a one-year budget, so that whatever adjustments the Committee has to make are going to be minimized. The work can stay in place and they can pick up next year where they are this year with regard to estimates and adjusting them accordingly.

Chairman Solomon said that suggestion was made to the House, but was rejected by them. They are not interested in a one-year budget. She said there are very few people who want to get into a spitting contest with the Governor. With regard to winners and losers, she said Senator Guenther is right, the Legislature loses, and the Governor loses, but this is a good budget - the people win. She said this is what she has to keep in front of her at this point even if she loses everything that she has in that little cube, at least the Committee will be putting out a budget that is good for the people of this State. She will live another day to come back and fight for things in another cube, but that is where she is right now.

Chairman Solomon thanked Mr. Betlach for his testimony and for being here today.

Senator Bee moved S.B. 1578 with a DO PASS recommendation.

Senator Bee moved the 10-line Solomon amendment dated 4/10/01; 8:20 p.m. be ADOPTED. The motion CARRIED by voice vote (Attachment B).

Senator Bee moved the 9-line Solomon amendment dated 4/11/01; 2:45 p.m. be ADOPTED. The motion CARRIED by voice vote (Attachment C).

Senator Bee moved the 3-line Solomon amendment dated 4/11/01; 10:13 a.m. be ADOPTED. The motion CARRIED by voice vote (Attachment D).

Senator Bee moved S.B. 1578 be returned with an AS AMENDED, DO PASS recommendation. The motion CARRIED by a roll call vote of 11-1-0 (Attachment 1).

Senator Guenther explained his vote by stating that he will vote "no" at this time.

S.B. 1579 - capital outlay appropriations - DO PASS

Debbie Johnston, Appropriations Analyst, explained S.B. 1579 makes capital appropriations of approximately \$40 million from the state general fund and \$340 million for other funds in fiscal year 2002 and \$37 million from the state general fund and \$345 million from other funds in fiscal year 2003 for planning, building renewal and capital outlay projects.

Senator Bee moved S.B. 1579 be returned with a DO PASS recommendation. The motion CARRIED by a roll call vote of 12-0-0 (Attachment 2).

S.B. 1580 - supplemental appropriations - DO PASS AMENDED

Carolyn Atwater, Special Projects/Resource Administrator, explained S.B. 1580 makes supplemental appropriations for fiscal year 2000-2001 resulting in a total cost savings of \$18.6 million to the state general fund and an additional cost of \$11.1 million from other funds. She noted that the specific supplementals are delineated in the spreadsheet that is attached to the fact sheet. There were two amendments offered for technical changes.

Senator Bee moved S.B. 1580 be returned with a DO PASS recommendation.

Senator Bee moved the 2-line Solomon amendment dated 4/11/01; 2:35 p.m. be ADOPTED. The motion CARRIED by voice vote (Attachment E).

Senator Bee moved the 2-line Solomon amendment dated 4/10/01; 7:12 p.m. be ADOPTED. The motion CARRIED by voice vote (Attachment F).

Senator Bee moved S.B. 1580 be returned with an AS AMENDED, DO PASS recommendation. The motion CARRIED by a roll call vote of 12-0-0 (Attachment 3)

S.B. 1581 - omnibus budget reconciliation; education - DO PASS

Timothy Bowers, Appropriations Intern, explained S.B. 1581 makes statutory changes and session law changes necessary for the implementation of budget measures relating to education.

Senator Cirillo said he has discussed with Chairman Solomon, while reviewing budgets, that they would like to put some ORB language in the bill for reevaluation of both the university, especially the smaller universities, and the community college funding formulas. He does not see that there.

Chairman Solomon said she believes there is a bill moving through that creates a community college study committee to look at community college funding. She thinks the rest can be done as an Adhoc Committee and suggested that perhaps Senator Cirillo would chair an Ad Hoc

Committee to review his concern and that she would like to be a part of that committee. Senator Cirillo agreed.

Senator Bee moved H.B. 1581 be returned with a DO PASS recommendation. The motion CARRIED by a roll call vote of 12-0-0 (Attachment 4).

S.B. 1582 - omnibus budget reconciliation; health - DO PASS

Julie Myers, Appropriations Intern, explained S.B. 1582 makes statutory and session law changes necessary for the implementation of budget measures relating to public health programs.

Senator Bee moved S.B. 1582 be returned with a DO PASS recommendation. The motion CARRIED by a roll call vote of 11-1-0 (Attachment 5).

S.B. 1583 - omnibus budget reconciliation; public finances - DO PASS AMENDED

Debbie Johnston, Appropriations Analyst, explained S.B. 1583 makes statutory and session law changes necessary for the implementation of budget measures to public finances. The 3-page Solomon amendment dated April 11, 2001, 2:20 p.m., requires \$25 million in state general funds to be deposited in the state highway fund (SHF) annually beginning fiscal year 2004 to offset the vehicle license tax (VLT) loss. It prohibits the five year transportation construction and regional freeway program scheduled for completion by 2007 from being delayed or postponed.

Tape 1, Side B

Senator Bee moved S.B. 1583 be returned with a DO PASS recommendation.

Senator Bee moved the 3-page Solomon amendment dated 4/11/01; 2:20 p.m. be ADOPTED. The motion CARRIED by voice vote (Attachment G).

Senator Bee moved S.B. 1583 be returned with an AS AMENDED, DO PASS recommendation. The motion CARRIED by a roll call vote of 12-0-0 (Attachment 6).

Chairman Solomon thanked the Committee Members for all the hard work they have done on this budget.

There being no further, the meeting was adjourned at 4:15 p.m.

Respectfully submitted,

Melissa C. Upshaw, Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)