

ARIZONA STATE SENATE

45TH LEGISLATURE
FIRST REGULAR SESSION
SPECIAL MEETING

**MINUTES OF COMMITTEE ON
APPROPRIATIONS**

DATE: October 4, 2001

TIME: 11:00 a.m.

ROOM: 109

CHAIRMAN: Senator Solomon

VICE CHAIRMAN: Senator Bee

ANALYST: Deborah Johnston

**COMMITTEE
SECRETARY:** Melissa C. Upshaw

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			
Senator Blanchard	X				
Senator Cirillo	X				
Senator Guenther	X				
Senator Hamilton	X				
Senator Hellon	X				
Senator Martin	X				
Senator Mitchell		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 11:08 a.m. and attendance was noted.

Senator Solomon announced the Senate Appropriations Committee would meet within the next few weeks to make some serious decisions with regard to the State's biennial budget. She asked Richard Stavneak, Director of the Joint Legislative Budget Committee (JLBC), to look at the implications of suspension of tax credits for a period of years.

Senator Cirillo commented that the Appropriations Committee should not become a "gloom and doom body." He noted that economists predict that although we will probably go into a recession, it will probably be a short recession. He asked the members to recognize the severe problems they have to solve and to look at this situation with a positive attitude.

Senator Solomon agreed and noted even though the State's economy is somewhat "depressed" at this point, Arizona does have a good robust economy.

Senator Guenther commented that he hopes the Legislature will go back to single year budgeting.

ECONOMIC UPDATE BY RICHARD STAVNEAK, DIRECTOR OF JLBC

Mr. Stavneak informed the Committee that JLBC will have the September revenue figures by the end of next week, but it looks like sales and individual income tax collections will be below the levels of last September. Mr. Stavneak does not think the individual income tax withholding numbers reflect much of the September 11th events. For example, employees being laid off by America West Airlines would not be seen substantially in the September withholding numbers at this point.

Mr. Stavneak added that the Governor has released a shortfall estimate of about \$1.6 billion, for the biennium, which is being described as a "worst case" scenario. The Governor's Office has not released the details of how this number splits between FY 2002 and FY 2003. He thinks the number is more heavily weighted towards FY 2003.

In response to Senator Blanchard's question about the Governor's estimate of \$1.6 billion, Mr. Stavneak replied the Executive Office's \$1.6 billion number probably has three components: 1) A fairly flat growth in sales and withholding in FY 2002; 2) reduction of state income taxes paid on capital gains, noting that the stock market was not going to continue to produce gains that become capital gains that end up being taxable; 3) categories might get worse in FY 2003 as compared to the FY 2002 number.

Senator Cirillo supported Senator Guenther's comments of taking aggressive action now in FY 2002 in order to benefit in FY 2003. Mr. Stavneak agreed and explained that a permanent cut would mean a reduction in spending that can be applied if necessary in FY 2003 as opposed to one-time funding.

Senator Cirillo said in the last couple of years there have been several tax increases mainly having to do with education in the State and that assumed a certain level of sales tax revenues. He asked if there has been an initial look at what was happening to Propositions 301 and 302. Mr. Stavneak said this would affect both propositions. In the case of Proposition 301, which is not appropriated, the members of JLBC know that they are a Committee required to approve some type of

calculation of a classroom site fund. That is the final component of the distribution after money is sent to the universities, community colleges and a number of other functions. The remaining balance goes to the classroom site fund, the largest component of the fund that gets distributed to K-12 schools. The calculation JLBC made was based on a 4 percent growth in sales taxes. Money is being generated because the 6/10 percent increase is generating some increase. He thinks, however, it may be difficult to meet the 4 percent number.

Senator Cirillo asked if the State gets less sales tax than expected, how does one know how much of that to take away from Proposition 301. He does not want to see a case where it is all taken from Proposition 301 or a case where Proposition 301 is protected and it is all taken away from the balance of sales taxes. Mr. Stavneak replied that Proposition 301 would essentially get 1/12 percent of all sales tax collections.

In response to Senator Martin with regard to the revenue numbers for the year, Mr. Stavneak said the sales tax baseline was 2-3 ½ percent and withholding was 2 ½ - 4 ½ percent. In FY 2003 it is 5-6 ½ percent on sales taxes and on withholding it is 6-7 ½ percent. The upper end of those ranges of 7½ and 6½ percent would mean that the economy is functioning near normal.

Senator Martin replied that under all these scenarios they are still looking at positive numbers. He asked if under this scenario money would still be put into the rainy day fund. Mr. Stavneak said that depositing money into the rainy day fund requires the State to be above the seven-year average trend growth rate. He does not believe, even with these numbers and given the health of our economy over the prior seven years, that it would call for a deposit to the rainy day fund. Over the last 20 years, the State's personal income has not really grown less than 4.8 percent and that includes slow downs in 1983 and the early 90's.

Senator Solomon spoke about the Committee's obligations regarding the budget stabilization fund as a result of the Ludwig decision. Mr. Stavneak explained that the Ludwig decision involved treatment of corporate dividends on state income tax returns, which violated certain statutes, and potentially \$350 million is owed to the citizens of Arizona. According to statute, that money can be paid from existing revenues over a five-year period, which is about \$70 million a year. The statute prohibits payment now without legislative action. However, that would only come out of general fund revenue, not out of the budget stabilization fund, unless action is taken to have that as the financing source for the lawsuit.

Senator Solomon said if the Committee chooses to have this repayment of obligation come from the general fund, that would be an additional \$70 million a year that would have to be found elsewhere. Mr. Stavneak affirmed and said his best estimate is that repayment would begin no earlier than FY 2003 due to a number of pending legal issues the State has.

In response to Senator Solomon's comments about their obligation for the change in percentage of federal withholding for a one-year period, Mr. Stavneak said as a result of the federal government lowering its tax rates, the big tax cut on the first \$6,000 of single personal income and \$12,000 for a couple will start on January 1st. That tax rate will go down from 15 to 10 percent, which reduces the withholding at the federal level. He explained the State's liability has not changed, but state withholding is a percentage of federal withholding. This means the State withholding is going to go down in the first six months of calendar year 2002 and that money will not be picked back up until taxes are paid in April of 2003. Therefore, that is a reduction of about \$50 million in State tax liability in FY 2002. In addition, the federal government is talking about a stimulus package. That

could increase the withholding issue for the State in FY 2002 depending on the nature of the federal package.

In response to Senator Bee's question, Mr. Stavneak said the \$50 million number being discussed would include the withholding issue. Any shortfall estimate he is presenting to them is an attempt to include everything and give them the bottom line.

Senator Martin questioned Mr. Stavneak about the \$320 million in the budget stabilization fund and revenue bonding. Mr. Stavneak replied that in the biennium budget, \$250 million in FY 2002 and \$260 million in FY 2003 is set aside for new school construction. So theoretically, up to \$510 million can be bonded over the biennium. Some type of debt service payment would have to offset that, and that would depend on the length of the term of the revenue bond. He explained that, with legislative authorization, statute already permits revenue bonding for new construction, but caps it at \$200 million. Therefore, the Legislature, in any circumstance, will have to approve the use of revenue bonding. Another part of statute would have to change to allow it to go above \$200 million.

Senator Martin asked if there were any other monies available, and if not, what would happen. Senator Solomon responded that the State would then need to go to the taxpayers and raise taxes. Mr. Stavneak replied that the only means available would be an accounting treatment otherwise known as "deferral of payments."

Senator Cirillo suggested that the Committee be prudent. It would be imprudent to dip into different "buckets" at 100 percent now because they still do not know what is going to happen in FY 2003. He would like to use \$200 million from the Budget Stabilization Fund (BSF) as they go through this package, no more than \$200 million of revenue bonding, and cut \$200 million from the budget to give them a \$600 million package. He commented that this would be sufficient for this go-around.

Senator Solomon responded to Senator Cirillo's comments by saying it is a good way to go, in some combination.

Senator Martin suggested that they look at what would hurt the economy the most. He said it will not cost the State anything to use the budget stabilization fund, but once it is used, it is no longer there. Revenue bonding costs dollars because of interest. If taxes are raised, that is the biggest hit because the State is now going after the people who generate the dollars.

Senator Solomon commented that they do not want to do anything to depress the economy. She said things like management systems and technology are taken into consideration as well because they are critical to the operation of government. She opined that the agencies should not be put into a position where so much of this is cut back that they are unable to function.

To that point, Senator Cirillo said we would be very penny wise and pound foolish to start going after the salary increase, because that would cripple the ability of the agencies to do their job with the limited resources given to them. Mr. Stavneak mentioned the stimulus that the federal government is doing. Economists raised the point that states will be "eating" into that because states nationwide will be cutting budgets. He said that is a depressant on the economy and expressed caution because they will not be spending money with vendors and employers are not going to have as much money. Budgets have to be cut, and in his own opinion, a third of the pain should come from budget cuts but not anymore than that.

FY 2002 AND FY 2003 BUDGET OVERVIEWS OF SELECTED CRIMINAL JUSTICE AND TRANSPORTATION BUDGET UNITS

Senator Solomon announced the Committee would be reviewing budgets over the next few weeks to look at where they have increased spending. It is premature for the Committee to make decisions at this point but to start thinking about what they believe is doable.

Senator Cirillo added to the Chair's comments by saying they hope to zero in on any newly approved programs that have not started yet as these programs would be the least painful to defer for a period of time.

Senator Solomon said it would also be important to recognize that some programs are very small programs and they would need hundreds of them to make a substantial dent, but she does agree. JLBC was asked to identify those programs.

In response to Senator Martin's question regarding the percentages, Mr. Stavneak replied that the long-term growth rate in terms of spending, is around 7 percent. Senator Martin asked if the State would get roughly 7 percent over the decade of new programs put in each year. Mr. Stavneak replied that the primary drivers of state government spending are K-12 enrollment or AHCCCS enrollment. New programs like Students First, add about \$350 million to the budget between new construction and school building renewal.

DEPARTMENT OF CORRECTIONS OVERVIEW

Brad Regens, JLBC Staff, gave an overview of the budget table for the Department of Corrections (DOC) (Attachment A). As requested by Senator Solomon, JLBC put together a document that allows the members to see what adjustments occurred to agency budgets during this last session for this current biennial budget, FY 2002-2003.

Mr. Regens informed the Committee that JLBC has put together one document that will be the same template for every agency that will be a road map. It takes the Committee from an agency's 2001 appropriation through all the adjustments, whether up or down, until they get to their 2002-2003 appropriation. In order to facilitate the discussion, they have grouped any changes into the following five major categories: 1) Standard and Technical Changes; 2) Formula Caseloads; 3) Legislative Mandates; 4) Other Policy Issues; and 5) Separate Legislation. Mr. Regens explained each category for the Committee.

Mr. Regens reviewed the items for the DOC budget and gave a brief overview of where the budget has gone in the last two years. For FY 2001, the Department's budget was \$588.3 million. Last session the Legislature adjusted that for the current biennium, an overall decrease in FY 2002 of \$7.3 million and an increase of \$20.7 million in FY 2003. Mr. Regens pointed out a couple of resources available to the members. In the fall, JLBC provided the Committee members a large blue binder, which includes recommendations from JLBC, noting that there has been an interest in how much money the agencies have in individual funds, outside the general fund. This document consists of all the state agency funds including their balances forward. In addition, as a recap at the end of session, JLBC put together an Appropriations Report.

Senator Cirillo asked with regard to the \$25.5 million for the correctional officer pay plan, if they adopted the 5 percent plan like everybody else, what would happen to that number, assuming it

would go down. Mr. Regens said the pay plan for state employees is 5 percent with a minimum of \$1,500. The pay plan for correctional officers is \$2,500 the first year and \$1,500 for the second year. There would be a \$1,000 savings per full time employee (FTE). He indicated that it would result in a savings of about \$2 million, but he would have to go back and confirm that figure.

Senator Cirillo expressed his concern with the forum, commenting that the vast majority of agencies got the same or less money than the year before. They know that there were two or three buckets where all the big money was, so he is not sure if they are going to find too much going through it this way.

Senator Solomon agreed with Senator Cirillo. She informed the members that she would be providing the members a document prepared by Debbie Johnston, for them to review. The document included little items, big-ticket items and options that nobody wants to do. JLBC was also asked to provide all the other funds because there are places where funds have exceeded what is required by statute.

With regard to the DOC budget, Senator Solomon asked about the status of employment at the new Lewis prison complex because bonus money was provided for that complex. Mr. Regens said the DOC and the Department of Juvenile Corrections (DJC) have come in for funding travel stipends to encourage people to work at hard-to-place locations. The Department of Juvenile Corrections received additional monies for that, but not DOC. Mr. Regens explained DOC instituted, within their existing budget, a signing bonus taking monies from vacancy savings, approximately \$5,100-\$5,200. He said the most recent reports have shown an increase in the hiring rate at that facility, noting that at this time this is only being offered to the Lewis complex at this time. The Department is interested in extending this offer to other facilities. In addition, the Department was adding correctional officers to move from existing facilities to the Lewis complex. The Department has had some increase in vacancies in other facilities. Whether or not that is directly related to this signing bonus he does not know.

In response to Senator Solomon's question about the signing bonus going into the base pay of those correctional officers, Mr. Regens said his understanding is that this offer is a one-time bonus for new correctional officers. For existing officers transferring over, he thinks they are putting in about \$100-\$200/per paycheck until the bonus is paid. If they do not stay at that facility, they do not receive the full bonus. Senator Solomon asked about the vacancy rate at DOC. Mr. Regens said the most recent numbers he has seen on correctional officers is about 15-16 percent per institution, but that varies from institution to institution. They have some facilities in the low single digits.

Senator Cirillo suggested that this is something the Committee should get some information on because there is an across the board savings they can make in the budget if they can capture the vacancy savings in all the agencies.

Senator Solomon asked Mr. Regens whether or not proposals from the agencies to the Governor, specifically DOC, included vacancy savings. Mr. Regens said they have, and between vacancy savings and some form of hiring freeze for non-security positions, the options for DOC are roughly \$12 to \$13 million. Senator Solomon asked to what percentage of vacancy would that relate. Mr. Regens said he has not received the details on how the Department acquired those numbers and agreed to provide those numbers to the members of the Committee once he has received that information.

Senator Martin added to the discussion by saying he met with Director Terry Stewart yesterday to go over these issues. The Lewis numbers are now at about a 90 percent capacity on their corrections officers (CO). The incentive program has been very successful using their vacancy savings to get people placed there. He said if the budget cuts get really bad, DOC would continue to close down facilities so they can meet a higher level of staffing in the consolidated locations. They are going to have intense populations closer together, with difficulty dividing up inmates. He explained that different agencies are willing to have vacancies so that they can pay their existing staff more to do their job and be more effective. He would rather see greater vacancies and better pay than to spread it out and be ineffective.

Senator Solomon asked Senator Martin whether his discussion with Director Stewart was on the consolidation of facilities. Senator Martin said he asked the Director about having to shut down some prison locations. He said this was a "doomsday" scenario, and asked the Director what he would do. Director Stewart responded they would cut through administration as much as they can. At that point, it would be beds that they would have to start closing down.

Senator Cirillo commented this might be the opportunity to look at doing away with the vehicle emissions program. He said the numbers in the book indicate to him that there might be \$20 million there just waiting to be "plucked." Senator Solomon said that would be done.

FY 2002 AND FY 2003 BUDGET OVERVIEW - JUDICIARY

Kim Hohman, JLBC Staff, reviewed the items for the Judiciary budget (Attachment A). In response to Senator Solomon, Ms. Hohman said the Juvenile Probation Treatment monies were used for such things as counseling and residential care. The population served are the children being supervised on probation.

Senator Bee asked for clarification on the elected officials' salary annualization, commenting that he was under the impression that the salary increases to the judiciary were delayed this year. Ms. Hohman said he is correct explaining that the line indicates the annualization of an increase that occurred in January 2001.

Ms. Hohman said the number reflects the prior legislative session approved salary increase for judges. Senator Bee said he was interested in the dollar amount per judge. Ms. Hohman responded it was about \$5,000 for some and \$3,000 for others.

In response to Senator Martin's comments, Ms. Hohman clarified that the clerks were not included because they are paid out of the county fund.

With regard to the new judgeships, Senator Solomon asked how many judicial jurisdictions have vacancies. A gentleman from the audience indicated that there are vacancies within Maricopa County and that Pima County is full.

FY 2002 AND FY 2003 BUDGET OVERVIEW – DEPARTMENT OF JUVENILE CORRECTIONS

Tony Vidale, JLBC Staff, said in the DJC budget, FY 2002 is a reduction from FY 2001 of \$1.3 million and in FY 2003 it is a \$1.3 million increase above FY 2001. Mr. Vidale indicated the ERE Rate Adjustment under the standard technical category is almost \$1 million. These are changes in retirement rates, a technical issue. Primarily the biggest savings came about because of population, noting that this is a caseload driven agency. In FY 2000-2001, new beds were being

opened up at the Buckeye facility. Growth rates have not materialized as projected based on the fact that there are some beds that are not being opened, which save up to \$4.4 million in each year.

In addition, Mr. Vidale said salary-related issues would primarily be seen under the other policy issues similar to the ones seen with DOC. For the first time, there is a travel stipend offered as additional compensation to DJC employees who live 20 miles or further from that facility. DJC has its own step plan as an officer graduates in levels of experience. The program was initiated in FY 2001 and additional funds to continue that program were added for FY 2002-2003. The other large change is the statewide 5 percent adjustment. Mr. Vidale explained that youth correctional officers are receiving the same pay plan as DOC officers.

FY 2002 AND FY 2003 BUDGET OVERVIEW - DEPARTMENT OF PUBLIC SAFETY

Tony Vidale, JLBC Staff, reviewed the budget items for the Department of Public Safety (DPS) budget. The FY 2002 increase over FY 2001 was about \$1 million and the FY 2003 increase over FY 2001 was about \$5.4 million. Mr. Vidale pointed out that the largest item increase, policy issues, was the 5 percent statewide salary increase, approximately \$700,000 in FY 2002 and \$3.3 million in FY 2003. He said in the FY 2002-2003 budget, there were some offsets to other appropriated funds, noting those funds experienced some shortfalls: the highway patrol fund, DNA identification fund and the crime lab assessment fund. In FY 2002, that was \$1.1 million and \$1 million in FY 2003. The crime lab equipment issue was to continue the five-year replacement schedule for DPS. There was no funding for any equipment replacement in FY 2002 as it was extended to FY 2003. He noted that they are on a secure assessment schedule for that crime lab equipment. Personnel were used to address some backlog issues in toxicology and controlled substances. Mobile data computers in FY 2002-2003 is a four-year lease purchase to convert the existing mobile data terminal system for DPS into a mobile data computer system to allow more technologically advanced link ups. Mr. Vidale explained the fund shift from the general fund to the highway user revenue fund (HURF) is about \$500,000 in FY 2002 and about \$700,000 in FY 2003.

Senator Bee asked Mr. Vidale if he was familiar with an article in the paper not too long ago about the number of vehicles in the department and the fact that a lot of them were being taken home. Mr. Vidale said that information was included in a recent Auditor General's report. Most of those vehicles, if not all, are funded from other funds, a large majority being the HURF. But he has not thoroughly looked into the Auditor General's report other than to understand those issues.

Senator Solomon wanted to know more about the mix of funds, HURF and general fund for highway patrol. Mr. Vidale explained that historically HURF and the state highway fund funded all of the highway patrol and then it was reduced. He does not know what the mix is right now and agreed to provide that information to the Committee. However, he can tell them that there is about \$7.5 million in general fund monies dedicated to the highway patrol program and another \$700,000 for the commercial vehicle enforcement, which is closely tied to the highway patrol.

Mr. Vidale informed Senator Bee that his concerns would be looked into and information would be provided to him.

Senator Martin believed 1992 was the last year that the highway patrol was fully funded. The original reason given at the time was to shift officers out of HURF into the general fund to accelerate the freeway building construction process as quickly as possible. The enabling legislation for the highway patrol, in the Constitution and in statute, states they are to be funded out

of HURF. He realizes the HURF dollars are now being used by a number of different areas, but he thinks by saving some money with the Auditor General's report they can lessen the impact in some way.

Mr. Vidale pointed out that about \$27 million is dedicated from HURF to the highway patrol and about \$13 million from the state highway fund. JLBC believes about \$10 million more could be shifted from general fund to HURF state highway fund. Senator Solomon agreed with Mr. Vidale's comments.

Senator Bee said it does not matter to him whether we are funding out of HURF or the general fund. As far as the efficiency of the Department, he thinks they need to maximize the dollars no matter which fund is being used. Senator Solomon agreed with Senator Bee's comments.

Senator Solomon said with regard to the Gang Intelligence Team Enforcement Mission (GITEM), the Committee never received an answer to an issue that was raised by Senator Rios with regard to how effective GITEM has been in reducing new gang membership. This is important information because approximately \$6 million is being spent for GITEM. Mr. Vidale said as part of the Strategic Planning Area Review (SPAR), JLBC is still looking at the GITEM issue. DPS stressed to him, when looking at their numbers and seeing how effective they are, that we need to take into account our starting point, how well we were tracking numbers of gang members. Senator Solomon asked what the last two years of data have shown. Mr. Vidale said he could get that answer for her.

In response to Senator Bee's question, Mr. Vidale said the \$29 million figure includes the appropriation made for new officers.

Rosie Miller, Staff, Office of the Comptroller, DPS, responded to Senator Bee's question by stating the \$10,914 that was given for additional officers is a separate appropriation. It is not blended in with the old highway patrol. She added that the Department is receiving 8 monthly payments from HURF. Senator Solomon asked Ms. Miller if she could tell the Committee how many officers have been hired to this point. Ms. Miller said she is not sure, but she does know DPS currently has a cadet class of 21 individuals, with another class starting in November. She does not have the specifics, but agreed to get that information for the Committee.

There being no further business, the meeting was adjourned at 12:40 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.)