



JANE DEE HULL
GOVERNOR
STATE OF ARIZONA

January 2001

To the Citizens of Arizona and the
Members of the Forty-Fourth Legislature:

The Executive Budget is my opportunity to highlight priorities and address numerous public policy issues. The Executive Budget for the Fiscal Years 2002 and 2003 Biennium encompasses operating recommendations for over one hundred State agencies. It includes thousands of specific issues relating to 191 appropriated funding sources.

My budget is best summarized by five principles that I established to guide its overall development.

1. Conservative revenue estimates. The budget must be based on conservative revenue estimates reflecting both hard data and a growing sentiment that suggests a slowing of economic growth at the national and local levels. If the revenue estimate is overstated and the State actually collects less in revenues than anticipated the consequences of that error for our citizens and for State government are far more grave than any impact from understating revenues. It is critical, when contemplating this policy decision, to remember that each percentage point represents almost \$70 million per year – \$210 million over the forecast period – and that even a small error will have large ramifications.

I remember when State government endured several years of mid-year budget cuts as a result of tough economic times. We have not had to go through that exercise for the past nine years and the use of conservative revenue estimates will protect us from having to do so in the future.

2. A fluid budget development process. At the time the budget is adopted, if favorable economic trends have pushed revenues above the Executive Budget forecast, the surplus revenues should be deposited into the Budget Stabilization Fund.

The legislation that addressed the Alternative Fuel Tax Credit relied on the Budget Stabilization Fund to finance up to \$200 million in costs. While I acceded to the Legislature's funding decision, utilizing Budget Stabilization Fund monies at this stage of the economic cycle still concerns me, as it should concern us all. It is vital that the State establish a proper reserve account to help soften an economic downturn.

3. Increased pay for State employees. My budget contains over \$290 million in employee compensation funding. As CEO of Arizona's largest employer, I am frustrated by the daily loss of valued State employees to the private sector and to other levels of government, due to our inability to offer competitive pay. The taxpayer has a right to expect competent, effective service from State government, and I am committed to satisfying those expectations. We must bridge the compensation gap and stop the drain of ability and experience from all branches of State government.

The compensation gap carries severe consequences. At the Department of Corrections, one position out of five is unfilled. At the Department of Environmental Quality, 108 of 750 positions were vacated in a 10-month period last year, resulting in the loss of hundreds of years of institutional knowledge. The plan I have developed includes both across-the-board increases and merit increases. It provides funding to address entire classes of employees and to enhance retirement benefits. Last, but certainly not least, the plan includes \$62 million in anticipation of higher health insurance costs.

4. Attention to major health issues. My budget contains recommendations that address two significant and related health issues:

- funding for the seriously mentally ill, leading us toward a resolution of the *Arnold v. Sarn* lawsuit, and
- implementation of Proposition 204, passed by Arizona voters on November 7, 2000.

Arnold v. Sarn. My budget provides an estimated \$155 million in new funds for the seriously mentally ill. Behavioral health funding has been one of my top priorities since assuming office in September 1997. Funding increases for behavioral health exceed every major program in State government with the exception of STUDENTS FIRST, which did not exist until Fiscal Year 1999. While the re-certification of, and funding for, a new State hospital have been major achievements, the State must take further strides towards resolving *Arnold v. Sarn*. My funding plan incorporates changes in the level of Title XIX funding as well as leveraging additional resources as a result of Proposition 204.

Proposition 204. Expansion of the AHCCCS program as a result of Proposition 204 must be addressed during this Legislative session. My budget makes the following assumptions:

- The State will obtain a federal waiver to expand the AHCCCS program. This waiver is critical in the implementation of Proposition 204 because it will provide for additional federal funding.
- Any savings generated in the first two years as a result of financing the Medically Needy/Medically Indigent population must be placed in a Budget Neutrality Compliance Fund that can be used in later years as the program grows.
- The Disproportionate Share program is reduced to providing only for the private hospital portion of the program, in anticipation of changes necessary to meet federal budget neutrality requirements.

- With two exceptions, all Tobacco Settlement funds are used for the purpose of implementing this program. First, \$40 million is earmarked to repay withdrawals from the Budget Stabilization Fund for the Arizona State Hospital. Second, an annual allocation of \$8 million is set aside for Health Care Group.

5. Tax reduction. My budget extends the streak of tax cuts to eleven consecutive years. I have committed \$80 million to reduce the burden on property tax payers, businesses and individuals. I am proud that during my administration we have been able to make significant strides in addressing two areas of taxation that continue to impose excessive burdens on Arizonans:

- the Vehicle License Tax, which we have reduced by over 24%, and
- the Corporate Income Tax, which we have lowered from a high 9.3% to less than 7%.

Beyond these quantifiable decreases, STUDENTS FIRST already has significantly reduced local revenue bonding requirements. Over time, this will result in reduced property taxes for virtually all Arizona homeowners and businesses.

Specifically for Fiscal Years 2002 and 2003, my K-12 education budget contains over \$40 million, in compliance with Truth in Taxation requirements. If net assessed value grows at anticipated levels, this program will have resulted in over \$60 million in reduced property taxes since its inception in Fiscal Year 2000. In addition to lowering property taxes, my budget earmarks \$40 million toward reducing the Premium Insurance Tax and providing other targeted relief.

Finally, it is imperative that I restate my belief that the Legislature and Executive should not commit to funding issues beyond the biennial budget period. There is extreme pressure, both financially and politically, to extend obligations beyond the period that is under consideration. However, it is in the best fiscal interests of the State that we leave future funding decisions to future policymakers.

I look forward to the challenges that lie ahead. Due to the events that have occurred within the past several months regarding the alternative fuel debacle, it is imperative that we work together in a manner that restores our citizens' confidence in our ability to manage their resources. My budget provides a course that is fiscally responsible and meets the most pressing needs of our citizens and the State of Arizona.

Sincerely,



JANE DEE HULL
Governor

State of Arizona
Sources and Uses of Funds
General Fund

	FY 2000 <u>Actual</u>	FY 2001 <u>Revsd.Estimate</u>	FY 2002 <u>Recommended</u>	FY 2003 <u>Recommended</u>
<u>SOURCES OF FUNDS</u>				
Balance Forward	255,437.0	203,404.0	104,313.6	131,549.1
Base Revenue Estimate	5,960,280.0	6,368,239.6	6,636,623.2	7,100,538.3
Tax Adjustments		0.0	(15,000.0)	(25,000.0)
TOTAL SOURCES OF FUNDS	<u>6,215,717.0</u>	<u>6,571,643.6</u>	<u>6,725,936.8</u>	<u>7,207,087.4</u>
<u>USES OF FUNDS</u>				
Operating Budgets	6,011,936.5	6,343,142.1	6,485,577.5	6,947,125.5
Supplementals		82,723.8		
Employee Pay and Benefits		2,550.2	76,421.5	213,595.4
VLT Tax Cut		21,400.4	32,100.0	32,100.0
Capital Outlay Appropriations	22,162.4	35,687.5	30,406.7	30,992.9
Administrative Adjustments & Emergencies	51,712.4	37,721.0	33,000.0	33,000.0
Revertments	(73,498.3)	(55,895.0)	(63,118.0)	(63,118.0)
USES OF FUNDS	<u>6,012,313.0</u>	<u>6,467,330.0</u>	<u>6,594,387.7</u>	<u>7,193,695.8</u>
ENDING BALANCE	<u>203,404.0</u>	<u>104,313.6</u>	<u>131,549.1</u>	<u>13,391.6</u>
TOTAL USES OF FUNDS	<u>6,215,717.0</u>	<u>6,571,643.6</u>	<u>6,725,936.8</u>	<u>7,207,087.4</u>
<u>RESERVES</u>				
Budget Stabilization Fund	407,820.0	235,011.0	262,762.5	291,900.7
Medical Services Stabilization Fund	76,288.0	80,050.0	84,052.0	88,255.0
TANF Funds	92,257.4	98,327.2	76,031.7	40,795.9
Total Reserves	<u>576,365.4</u>	<u>413,388.2</u>	<u>422,846.2</u>	<u>420,951.6</u>

**STATE OF ARIZONA
REVENUE SUMMARY
GENERAL FUND
FY 2000 THROUGH FY 2003
(in thousands)**

<u>TAXES</u>	Actual FY 2000	Estimate FY 2001	Estimate FY 2002	Estimate FY 2003
Corporate Income Tax	523,181.6	550,000.0	500,000.0	525,000.0
Individual Income Tax	2,289,330.0	2,495,810.0	2,689,190.0	2,919,900.0
Property Taxes	41,392.3	42,440.0	42,440.0	42,440.0
Sales and Use	2,829,312.5	3,073,290.0	3,298,060.0	3,537,810.0
Luxury Taxes	65,436.1	60,000.0	60,000.0	60,000.0
Insurance Premium Taxes	160,701.3	166,802.4	171,380.0	179,830.0
Vehicle License Taxes	24,265.8	0.0	0.0	0.0
Estate Taxes	80,644.3	80,000.0	80,000.0	80,000.0
Other Taxes	2,174.6	2,420.0	2,420.0	2,420.0
TOTAL TAXES	6,016,438.5	6,470,762.4	6,843,490.0	7,347,400.0
 <u>OTHER REVENUES</u>				
Licenses, Fees & Permits	50,928.1	50,000.0	50,000.0	50,000.0
Charges for Services	8,563.6	6,009.8	6,009.8	6,009.8
Fines and Forfeitures	6,202.7	4,636.9	4,912.5	5,244.5
Interest Earnings	77,702.1	70,000.0	60,000.0	55,000.0
Lottery	21,000.0	21,000.0	21,000.0	21,000.0
Miscellaneous Revenues	24,016.0	49,363.1	39,087.5	38,755.5
Transfers & Reimbursements	28,100.0	25,000.0	50,000.0	50,000.0
Disproportionate Share	101,670.0	76,490.0	0.0	0.0
Fund Transfers	3,370.0	7,430.0	0.0	0.0
TOTAL OTHER REVENUES	321,552.5	309,929.8	231,009.8	226,009.8
TOTAL REVENUE	6,337,991.0	6,780,692.2	7,074,499.8	7,573,409.8
 <u>ADJUSTMENTS</u>				
Urban Revenue Sharing	(377,711.0)	(396,452.6)	(421,876.6)	(456,871.5)
B.S.F. Deposit	0.0	(16,000.0)	(16,000.0)	(16,000.0)
GRAND TOTAL REVENUES	5,960,280.0	6,368,239.6	6,636,623.2	7,100,538.3

General Fund Operating Budgets Summary

	FY 2000 Actual	FY 2001 Approp	FY 2002 Exec Rec	'02 Exec - '01 Approp	FY 02 Growth	FY 2003 Exec Rec	'03 Exec - '01 Approp	FY 03 Growth
General Government								
Arizona Department of Administration	25,934.1	28,035.5	27,326.5	-709.0	-2.5%	27,599.1	-436.4	-1.6%
Office of Administrative Hearings	1,275.0	1,251.0	1,231.7	-19.3	-1.5%	1,231.7	-19.3	-1.5%
Office of Attorney General	25,284.3	26,733.3	29,603.2	2,869.9	10.7%	31,458.9	4,725.6	17.7%
Auditor General's Office	9,544.3	10,416.4	10,416.4	0.0	0.0%	10,416.4	0.0	0.0%
Department of Commerce	20,063.5	10,099.8	8,565.0	-1,534.8	-15.2%	8,557.3	-1,542.5	-15.3%
Governor's Office for Equal Opportunity	210.1	238.2	235.1	-3.1	-1.3%	235.1	-3.1	-1.3%
State Board of Equalization	572.5	622.8	640.0	17.2	2.8%	640.0	17.2	2.8%
Governor's Office for Excellence in Government	1,450.5	1,564.3	1,584.2	19.9	1.3%	1,584.3	20.0	1.3%
Government Information Technology Agency	562.7	71.6	3,134.7	3,063.1	4278.1%	731.5	659.9	921.6%
Governor's Office	5,416.6	5,873.6	6,278.9	405.3	6.9%	6,372.8	499.2	8.5%
Arizona House of Representatives	10,339.5	10,879.9	10,379.9	-500.0	-4.6%	10,379.9	-500.0	-4.6%
Joint Legislative Budget Committee	1,394.6	2,297.2	2,297.2	0.0	0.0%	2,297.2	0.0	0.0%
Judicial System	144,050.8	151,874.6	151,874.6	0.0	0.0%	151,874.6	0.0	0.0%
Arizona Legislative Council	4,705.8	4,626.6	4,126.6	-500.0	-10.8%	4,126.6	-500.0	-10.8%
Department of Library, Archives & Public Records	6,947.3	7,424.0	7,424.0	0.0	0.0%	7,424.0	0.0	0.0%
Arizona Lottery	1,500.0	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%
Arizona State Personnel Board	314.9	402.8	389.8	-13.0	-3.2%	387.2	-15.6	-3.9%
Redistricting Commission	0.0	0.0	6,000.0	6,000.0	0.0%	0.0	0.0	0.0%
Retirement System	12.0	4,200.0	7,279.0	3,079.0	73.3%	0.0	-4,200.0	-100.0%
Arizona Department of Revenue	57,743.8	58,825.4	67,152.3	8,326.9	14.2%	61,889.6	3,064.2	5.2%
Secretary of State	4,143.7	6,016.7	3,245.9	-2,770.8	-46.1%	6,203.3	186.6	3.1%
Arizona State Senate	6,249.0	7,461.2	6,961.2	-500.0	-6.7%	6,961.2	-500.0	-6.7%
Governor's Office of Strategic Planning and Budgeting	1,740.7	1,914.4	1,942.5	28.1	1.5%	1,939.9	25.5	1.3%
Board of Tax Appeals	267.1	309.2	311.4	2.2	0.7%	309.9	0.7	0.2%
Office of Tourism	8,688.6	8,880.3	0.0	-8,880.3	-100.0%	0.0	-8,880.3	-100.0%
Office of Treasurer	4,638.8	7,373.7	5,632.5	-1,741.2	-23.6%	5,737.4	-1,636.3	-22.2%
Comission on Uniform State Laws	32.9	35.9	44.9	9.0	25.1%	44.9	9.0	25.1%
General Government Total	343,083.1	357,428.3	364,077.4	6,649.1	1.9%	348,402.7	-9,025.6	-2.5%
Health and Welfare								
Department of Economic Security	423,108.3	449,401.9	474,078.9	24,677.0	5.5%	512,105.6	62,703.7	14.0%
Department of Environmental Quality	31,812.0	31,420.5	32,001.8	581.3	1.9%	32,207.4	786.9	2.5%
Arizona Health Care Cost Containment System	482,546.9	529,380.8	538,909.2	9,528.4	1.8%	652,063.5	122,682.7	23.2%
Department of Health Services	247,142.1	253,876.7	303,628.3	49,751.6	19.6%	323,772.2	69,895.5	27.5%
Commission of Indian Affairs	232.5	237.4	231.2	-6.2	-2.6%	231.2	-6.2	-2.6%
Arizona Pioneers' Home	2,502.6	2,719.2	2,826.5	107.3	3.9%	2,845.1	125.9	4.6%
Rangers' Pension	11.3	11.6	11.8	0.2	1.7%	12.0	0.4	3.4%
Department of Veterans' Services	1,699.5	1,722.8	2,491.4	768.6	44.6%	2,584.0	861.2	50.0%
Health and Welfare Total	1,189,055.2	1,268,770.9	1,354,179.1	85,408.2	6.7%	1,525,821.0	257,050.1	20.3%
Inspection and Regulation								
Acupuncture Board of Examiners	0.0	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%
Department of Agriculture	11,853.5	12,470.3	12,789.1	318.8	2.6%	12,735.0	264.7	2.1%
Arizona State Banking Department	2,649.7	2,809.1	2,852.0	42.9	1.5%	2,819.8	10.7	0.4%
Boxing Commission	69.6	76.2	80.7	4.5	5.9%	80.3	4.1	5.4%
Department of Building and Fire Safety	3,274.3	3,622.1	3,731.4	109.3	3.0%	3,705.8	83.7	2.3%
Arizona Corporation Commission	5,938.9	6,105.4	5,583.8	-521.6	-8.5%	5,957.1	-148.3	-2.4%
Arizona Insurance Department	5,279.2	5,953.3	6,173.5	220.2	3.7%	6,265.1	311.8	5.2%
Department of Liquor Licenses and Control	2,380.7	2,448.4	2,585.1	136.7	5.6%	2,583.6	135.2	5.5%
State Mine Inspector	1,071.5	1,117.8	1,153.9	36.1	3.2%	1,152.9	35.1	3.1%

	FY 2000 Actual	FY 2001 Approp	FY 2002 Exec Rec	'02 Exec - '01 Approp	FY 02 Growth	FY 2003 Exec Rec	'03 Exec - '01 Approp	FY 03 Growth
Arizona State Board of Nursing	116.9	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%
Board of Occupational Therapy Examiners	0.0	60.0	0.0	-60.0	-100.0%	0.0	-60.0	-100.0%
OSHA Review Board	0.0	1.0	7.0	6.0	600.0%	7.0	6.0	600.0%
Racing Commission	2,537.0	2,700.2	2,747.6	47.4	1.8%	2,753.3	53.1	2.0%
Arizona Radiation Regulatory Agency	1,645.7	1,681.9	1,694.7	12.8	0.8%	1,694.5	12.6	0.7%
Department of Real Estate	3,121.9	3,204.9	3,301.3	96.4	3.0%	3,299.2	94.3	2.9%
Department of Weights and Measures	1,721.2	1,786.3	1,825.7	39.4	2.2%	1,826.7	40.4	2.3%
Inspection & Regulation Total	41,660.1	44,036.9	44,525.8	488.9	1.1%	44,880.3	843.4	1.9%
Education								
Arizona State University	265,142.5	273,605.2	281,960.7	8,355.5	3.1%	281,586.8	7,981.6	2.9%
Arizona State University-East	11,297.3	11,337.3	12,237.5	900.2	7.9%	10,872.5	-464.8	-4.1%
Arizona State University-West	38,524.4	39,473.6	39,245.8	-227.8	-0.6%	39,072.0	-401.6	-1.0%
Arizona Commission on the Arts	4,365.9	4,376.1	4,388.6	12.5	0.3%	4,373.8	-2.3	-0.1%
State Board of Charter Schools	437.3	651.9	579.3	-72.6	-11.1%	605.3	-46.6	-7.1%
State Board of Directors for Community Colleges	130,244.9	135,231.1	138,061.6	2,830.5	2.1%	142,902.0	7,670.9	5.7%
Arizona State Schools for the Deaf and the Blind	17,517.6	18,446.6	17,297.3	-1,149.3	-6.2%	16,836.4	-1,610.2	-8.7%
Department of Education	2,382,416.1	2,450,928.8	2,578,190.4	127,261.6	5.2%	2,722,451.2	271,522.4	11.1%
Arizona Historical Society	4,447.9	4,550.1	4,743.6	193.5	4.3%	4,748.6	198.5	4.4%
Board of Medical Student Loans	276.4	322.1	288.8	-33.3	-10.3%	357.5	35.4	11.0%
Northern Arizona University	108,429.8	113,169.8	113,483.2	313.4	0.3%	113,608.4	438.6	0.4%
Commission for Postsecondary Education	1,733.4	1,736.3	1,726.1	-10.2	-0.6%	1,726.1	-10.2	-0.6%
Prescott Historical Society	727.4	753.8	782.0	28.2	3.7%	768.8	15.0	2.0%
Arizona Board of Regents	7,054.1	7,421.4	7,871.8	450.4	6.1%	8,149.8	728.4	9.8%
School Facilities Board	318,712.6	471,239.8	383,689.2	-87,550.6	-18.6%	519,517.0	48,277.2	10.2%
University of Arizona	263,345.4	270,248.1	278,472.6	8,224.5	3.0%	278,681.5	8,433.4	3.1%
University of Arizona-Health Sciences Center	56,214.6	57,704.0	57,621.6	-82.4	-0.1%	57,562.8	-141.2	-0.2%
Education Total	3,610,887.6	3,861,196.0	3,920,640.1	59,444.1	1.5%	4,203,820.5	342,624.5	8.9%
Protection and Safety								
Department of Corrections	549,081.2	587,915.9	572,831.1	-15,084.8	-2.6%	592,089.0	4,173.1	0.7%
Arizona Criminal Justice Commission	2,230.0	2,655.2	2,655.2	0.0	0.0%	2,655.2	0.0	0.0%
Department of Emergency Services and Military Affairs	6,119.9	11,397.5	11,704.7	307.2	2.7%	11,779.3	381.8	3.3%
Board of Executive Clemency	1,420.2	1,301.1	1,330.0	28.9	2.2%	1,303.5	2.4	0.2%
Department of Juvenile Corrections	64,776.7	69,617.0	68,143.9	-1,473.1	-2.1%	68,444.1	-1,172.9	-1.7%
Law Enforcement Merit System Council	52.7	53.8	57.0	3.2	5.9%	57.0	3.2	5.9%
Arizona Department of Public Safety	75,312.9	76,261.8	79,531.7	3,269.9	4.3%	82,814.1	6,552.3	8.6%
Protection and Safety Total	698,993.6	749,202.3	736,253.6	-12,948.7	-1.7%	759,142.2	9,939.9	1.3%
Transportation								
Arizona Department of Transportation	79.0	84.1	85.6	1.5	1.8%	85.5	1.4	1.7%
Transportation Total	79.0	84.1	85.6	1.5	1.8%	85.5	1.4	1.7%
Natural Resources								
Arizona Geological Survey	859.7	885.2	897.6	12.4	1.4%	899.0	13.8	1.6%
State Land Department	14,426.6	16,437.2	19,095.7	2,658.5	16.2%	18,495.6	2,058.4	12.5%
Department of Mines and Mineral Resources	707.4	718.0	721.9	3.9	0.5%	722.6	4.6	0.6%
Arizona Navigable Stream Adjudication Commission	150.0	184.8	185.8	1.0	0.5%	185.8	1.0	0.5%
Arizona State Parks	7,226.0	27,390.2	27,337.4	-52.8	-0.2%	26,947.7	-442.5	-1.6%
Department of Water Resources	15,939.5	16,808.2	17,577.5	769.3	4.6%	17,722.6	914.4	5.4%
Natural Resources Total	39,309.2	62,423.6	65,815.9	3,392.3	5.4%	64,973.3	2,549.7	4.1%
General Fund Operating Total	5,923,067.8	6,343,142.1	6,485,577.5	142,435.4	2.2%	6,947,125.5	603,983.4	9.5%

**STATE OF ARIZONA
REVENUE SUMMARY
OTHER APPROPRIATED FUNDS*
FY 2000 THROUGH 2003
(in thousands)**

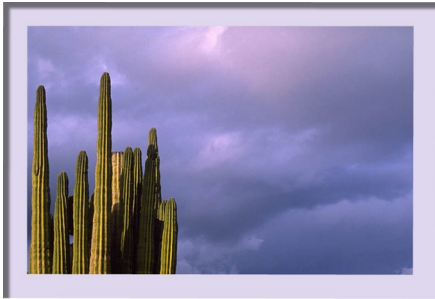
<u>TAXES</u>	<u>Actual FY 2000</u>	<u>Estimate FY 2001</u>	<u>Estimate FY 2002</u>	<u>Estimate FY 2003</u>
Motor Fuel Taxes	71,824.0	70,138.0	70,873.6	71,481.0
Other Taxes	<u>1,063,242.4</u>	<u>1,064,415.1</u>	<u>1,125,098.3</u>	<u>1,168,804.2</u>
TOTAL TAXES	1,135,066.4	1,134,553.1	1,195,971.9	1,240,285.2
 <u>OTHER REVENUES</u>				
Licenses, Fees & Permits	448,517.2	469,455.3	513,658.1	524,603.8
Charges for Services	200,254.5	212,670.4	241,422.0	248,242.2
Fines and Forfeitures	36,789.5	36,782.1	38,659.7	41,277.1
Interest Earnings	90,451.9	91,563.7	94,150.9	91,995.9
Lottery	255,552.9	248,000.0	253,500.0	253,500.0
Miscellaneous Revenues	334,347.9	389,669.1	366,599.8	374,428.4
Transfers & Reimbursements	<u>2,655,579.2</u>	<u>2,858,299.7</u>	<u>2,974,280.3</u>	<u>3,129,993.6</u>
TOTAL OTHER REVENUES	<u>4,021,493.1</u>	<u>4,306,440.3</u>	<u>4,482,270.9</u>	<u>4,664,041.0</u>
 TOTAL REVENUE	 <u><u>5,156,559.5</u></u>	 <u><u>5,440,993.4</u></u>	 <u><u>5,678,242.8</u></u>	 <u><u>5,904,326.2</u></u>

* Other Appropriated Funds Revenues includes all revenues of funds which may only be partially subject to statutory or legislative appropriation. The expenditures shown in the "Other Funds Budget Summary" are for the appropriated portion of these funds only and may represent only a small portion of the funds total expenditures.

Other Appropriated Funds Operating Budgets Summary

	FY 2000 Actual	FY 2001 Approp	FY 2002 Exec Rec	'02 Exec - '01 Approp	FY 02 Growth	FY 2003 Exec Rec	'03 Exec - '01 Approp	FY 03 Growth
General Government								
Arizona Department of Administration	121,097.8	143,292.6	154,002.3	10,709.7	0.00%	165,860.9	22,568.3	15.75%
Office of Administrative Hearings	850.2	865.8	936.4	70.6	0.00%	936.3	70.5	8.14%
Office of Attorney General	19,204.8	25,491.4	24,464.8	-1,026.6	0.00%	25,307.7	-183.7	-0.72%
Department of Commerce	3,000.3	5,993.4	3,726.3	-2,267.1	0.00%	3,722.4	-2,271.0	-37.89%
Governor's Office for Excellence in Government	9.0	500.0	25.0	-475.0	0.00%	25.0	-475.0	-95.00%
Arizona Exposition & State Fair	10,841.6	13,529.6	15,043.8	1,514.2	0.00%	13,826.8	297.2	2.20%
Government Information Technology Agency	1,866.5	3,096.0	2,693.2	-402.8	0.00%	2,407.5	-688.5	-22.24%
Judicial System	23,646.0	33,717.2	33,717.2	0.0	0.00%	33,717.2	0.0	0.00%
Department of Library, Archives & Public Records	15.3	452.0	452.0	0.0	0.00%	452.0	0.0	0.00%
Arizona Lottery	40,277.6	38,429.9	44,124.0	5,694.1	0.00%	43,998.0	5,568.1	14.49%
Retirement System	13,170.3	12,299.8	21,707.7	9,407.9	0.00%	21,704.3	9,404.5	76.46%
Arizona Department of Revenue	1,734.5	1,902.3	2,206.7	304.4	0.00%	2,239.2	336.9	17.71%
Office of Tourism	0.0	0.0	15,420.8	15,420.8	#Div/0!	16,422.6	16,422.6	0.00%
General Government Total	235,713.9	279,570.0	318,520.2	38,950.2	13.93%	330,619.9	51,049.9	18.26%
Health and Welfare								
Arizona Commission for the Deaf and the Hard of Hearing	5,400.6	6,062.8	5,828.5	-234.3	0.00%	5,978.6	-84.2	-1.39%
Department of Economic Security	332,058.8	407,748.6	397,659.6	-10,089.0	0.00%	400,471.6	-7,277.0	-1.78%
Department of Environmental Quality	21,597.9	35,394.0	65,183.8	29,789.8	0.00%	65,222.8	29,828.8	84.28%
Arizona Health Care Cost Containment System	36,463.8	88,958.9	75,403.4	-13,555.5	0.00%	88,930.8	-28.1	-0.03%
Department of Health Services	33,149.9	55,771.7	47,428.5	-8,343.2	0.00%	47,582.9	-8,188.8	-14.68%
Arizona Pioneers' Home	2,208.5	2,214.9	2,214.9	0.0	0.00%	2,214.9	0.0	0.00%
Department of Veterans' Services	10,119.2	10,266.5	10,271.5	5.0	0.00%	10,446.9	180.4	1.76%
Health and Welfare Total	440,998.7	606,417.4	603,990.2	-2,427.2	-0.40%	620,848.5	14,431.1	2.38%
Inspection and Regulation								
Accountancy Board	1,368.7	2,073.2	1,610.8	-462.4	0.00%	1,613.1	-460.1	-22.19%
Acupuncture Board of Examiners	42.5	97.3	50.3	-47.0	0.00%	50.4	-46.9	-48.20%
Department of Agriculture	2,013.4	2,302.4	2,498.5	196.1	0.00%	2,499.5	197.1	8.56%
Arizona Board of Appraisal	427.1	483.5	409.2	-74.3	0.00%	409.3	-74.2	-15.35%
Arizona Board of Barbers	162.1	222.0	189.2	-32.8	0.00%	184.4	-37.6	-16.94%
State Board of Behavioral Health Examiners	497.7	704.8	678.5	-26.3	0.00%	697.7	-7.1	-1.01%
State Board of Chiropractic Examiners	300.4	374.4	332.2	-42.2	0.00%	320.9	-53.5	-14.29%
Arizona Corporation Commission	12,200.8	13,278.0	14,702.0	1,424.0	0.00%	14,664.9	1,386.9	10.45%
Board of Cosmetology	1,000.0	1,312.4	1,288.8	-23.6	0.00%	1,254.1	-58.3	-4.44%
Board of Dental Examiners	712.8	895.0	760.2	-134.8	0.00%	755.1	-139.9	-15.63%
State Board of Dispensing Opticians	78.4	141.3	92.8	-48.5	0.00%	92.8	-48.5	-34.32%
State Board of Funeral Directors & Embalmers	224.3	302.4	251.9	-50.5	0.00%	251.9	-50.5	-16.70%
Department of Gaming	4,154.6	4,763.4	5,062.3	298.9	0.00%	4,861.4	98.0	2.06%
Arizona Board of Homeopathic Medical Examiners	51.9	121.0	74.5	-46.5	0.00%	74.4	-46.6	-38.51%
Arizona Industrial Commission	13,979.4	14,943.5	15,359.5	416.0	0.00%	15,365.4	421.9	2.82%
Board of Medical Examiners	3,990.0	5,472.7	4,478.8	-993.9	0.00%	4,497.8	-974.9	-17.81%
Board of Naturopathic Physicians Medical Examiners	135.9	201.6	189.7	-11.9	0.00%	189.8	-11.8	-5.85%
Arizona State Board of Nursing	2,093.8	2,587.1	2,973.4	386.3	0.00%	2,523.0	-64.1	-2.48%
Arizona Nursing Care Ins. Admin. Examiners	180.2	272.2	302.5	30.3	0.00%	274.3	2.1	0.77%
Board of Occupational Therapy Examiners	101.1	183.2	196.6	13.4	0.00%	191.5	8.3	4.53%
State Board of Optometry	71.5	180.3	145.9	-34.4	0.00%	141.4	-38.9	-21.58%
Board of Osteopathic Examiners	491.7	588.4	380.3	-208.1	0.00%	381.9	-206.5	-35.10%

	FY 2000 Actual	FY 2001 Approp	FY 2002 Exec Rec	'02 Exec - '01 Approp	FY 02 Growth	FY 2003 Exec Rec	'03 Exec - '01 Approp	FY 03 Growth
Arizona State Pharmacy Board	800.1	1,082.9	940.7	-142.2	0.00%	927.1	-155.8	-14.39%
State Board of Physical Therapy Examiners	204.4	253.8	208.3	-45.5	0.00%	208.3	-45.5	-17.93%
State Board of Podiatry Examiners	78.3	135.2	94.8	-40.4	0.00%	94.8	-40.4	-29.88%
Arizona State Board for Private Postsecondary Education	172.0	228.8	230.6	1.8	0.00%	236.3	7.5	3.28%
State Board of Psychologist Examiners	226.8	340.8	294.6	-46.2	0.00%	310.2	-30.6	-8.98%
Racing Commission	286.7	375.6	388.9	13.3	0.00%	383.4	7.8	2.08%
Arizona Radiation Regulatory Agency	146.9	157.1	183.7	26.6	0.00%	183.7	26.6	16.93%
Registrar of Contractors	7,429.5	9,254.2	8,949.5	-304.7	0.00%	8,267.4	-986.8	-10.66%
Residential Utility Consumer Office	819.7	1,015.6	1,021.8	6.2	0.00%	1,022.2	6.6	0.65%
Board of Respiratory Care Examiners	145.3	217.7	167.7	-50.0	0.00%	167.7	-50.0	-22.97%
Structural Pest Control Commission	1,482.7	2,010.0	1,712.8	-297.2	0.00%	1,767.8	-242.2	-12.05%
Board of Technical Registration	917.6	1,237.5	1,048.9	-188.6	0.00%	1,093.2	-144.3	-11.66%
State Veterinary Medical Examining Board	267.8	335.5	301.8	-33.7	0.00%	277.2	-58.3	-17.38%
Department of Weights and Measures	964.1	840.1	850.0	9.9	0.00%	850.1	10.0	1.19%
Inspection & Regulation Total	58,220.2	68,984.9	68,422.0	-562.9	-0.82%	67,084.4	-1,900.5	-2.75%
Education								
Arizona State University	91,744.6	94,515.0	96,360.9	1,845.9	0.00%	96,779.2	2,264.2	2.40%
Arizona State University-East	2,644.9	3,353.7	3,389.7	36.0	0.00%	4,676.5	1,322.8	39.44%
Arizona State University-West	6,770.4	6,757.5	6,977.4	219.9	0.00%	7,162.4	404.9	5.99%
State Board of Directors for Community Colleges	147.2	150.4	12,335.6	12,185.2	0.00%	13,256.6	13,106.2	8714.23%
Arizona State Schools for the Deaf and the Blind	8,327.5	7,583.4	10,055.6	2,472.2	0.00%	10,535.0	2,951.6	38.92%
Department of Education	62,538.7	72,106.2	386,743.4	314,637.2	0.00%	425,880.8	353,774.6	490.63%
Board of Medical Student Loans	7.9	20.3	64.9	44.6	0.00%	7.9	-12.4	-61.08%
Northern Arizona University	27,765.4	28,554.8	28,554.8	0.0	0.00%	28,554.8	0.0	0.00%
Commission for Postsecondary Education	1,869.7	2,934.4	2,768.6	-165.8	0.00%	2,768.7	-165.7	-5.65%
Arizona Board of Regents	0.0	0.0	46,690.4	46,690.4	#Div/0!	50,373.9	50,373.9	0.00%
School Facilities Board	0.0	450.0	870,000.0	869,550.0	0.00%	70,000.0	69,550.0	15455.56%
University of Arizona	71,523.9	74,912.2	74,912.2	0.0	0.00%	74,912.2	0.0	0.00%
University of Arizona-Health Sciences Center	6,753.0	6,549.9	6,605.7	55.8	0.00%	6,669.3	119.4	1.82%
Education Total	280,093.2	297,887.8	1,545,459.2	1,247,571.4	418.81%	791,577.3	493,689.5	165.73%
Protection and Safety								
Auto Theft Authority	2,422.2	2,762.2	3,876.6	1,114.4	0.00%	3,883.3	1,121.1	40.59%
Department of Corrections	2,778.1	3,868.9	8,797.8	4,928.9	0.00%	21,792.0	17,923.1	463.26%
Arizona Criminal Justice Commission	3,792.3	6,890.6	5,920.9	-969.7	0.00%	5,895.8	-994.8	-14.44%
Drug and Gang Prevention Resource Center	4,361.9	4,937.7	5,015.3	77.6	0.00%	5,008.3	70.6	1.43%
Department of Emergency Services and Military Affairs	132.7	132.7	132.7	0.0	0.00%	132.7	0.0	0.00%
Department of Juvenile Corrections	3,866.5	5,025.2	4,733.6	-291.6	0.00%	4,599.9	-425.3	-8.46%
Arizona Department of Public Safety	46,866.5	49,973.2	56,842.1	6,868.9	0.00%	61,353.7	11,380.5	22.77%
Protection and Safety Total	64,220.2	73,590.5	85,319.0	11,728.5	15.94%	102,665.7	29,075.2	39.51%
Transportation								
Arizona Department of Transportation	272,430.7	294,227.6	313,120.4	18,892.8	0.00%	313,397.0	19,169.4	6.52%
Transportation Total	272,430.7	294,227.6	313,120.4	18,892.8	6.42%	313,397.0	19,169.4	6.52%
Natural Resources								
Arizona Game & Fish Department	18,088.5	20,686.7	22,172.5	1,485.8	0.00%	22,268.3	1,581.6	7.65%
State Land Department	714.8	1,353.2	1,670.3	317.1	0.00%	1,656.0	302.8	22.38%
Arizona State Parks	3,496.2	3,954.7	5,194.5	1,239.8	0.00%	5,777.2	1,822.5	46.08%
Natural Resources Total	22,299.5	25,994.6	29,037.3	3,042.7	11.71%	29,701.5	3,706.9	14.26%
Other Appropriated Funds Operating Total	1,373,976.4	1,646,672.8	2,963,868.3	1,317,195.5	79.99%	2,255,894.4	609,221.6	37.00%



Clouds on the horizon?

Arizona's economy remains strong, but national and international factors make it more vulnerable to slowdown than at any time in the last decade

ONE OF THE MOST COMPLICATED components of developing the Executive Budget is establishing a 30-month revenue forecast.

In our global economy, a hiccup in Asia (as was experienced two years ago), the turbulence of the U.S. stock markets or unsettled conditions in the Middle East can have ramifications for the State of Arizona General Fund revenue collections.

Variable at all levels

Variables that must be factored into the Executive Budget forecast for this extended period include *international issues*:

- a trade gap that is not sustainable;
- the question of when foreign capital will slow its flow to the U.S.;
- higher oil prices;
- continuing concerns regarding the Middle East;
- uncertain health of emerging markets; and
- the Mexican economy.

Variables also include *national issues*:

- a battered stock market that now impacts more households and retirement accounts than ever before;
- a resulting peaking in consumer confidence;
- a level of consumer debt payments relative to income that has not been seen in a decade;
- an extremely low personal savings rate that has been masked the past

several years by the gains in equities; and

- higher bank lending standards.

Finally, forecasts must consider local developments:

- a slowdown in construction of both homes and commercial properties and
- record low unemployment that could limit future job growth potential.

National outlook

The economic expansion, in its 117th month, is the longest in American history. Remarkably, the United States has been in a recession for only 9 months in the past 20 years. Economic expansions do not die of old age; however, they die from unusual shocks, structural imbalance or fiscal and monetary policy errors. At present, it is a slowdown in the rate of growth - not a recession - that appears to be on the horizon.

For example, the Wharton Econometric Forecasting Associates

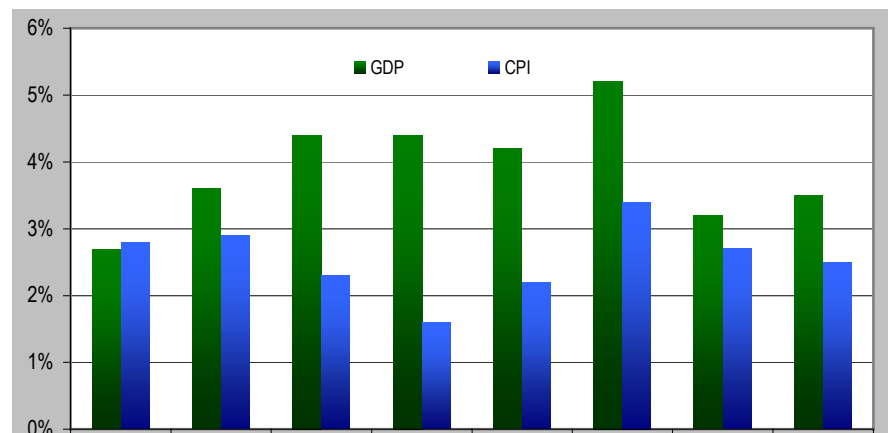
expects Gross Domestic Product (GDP) growth to decrease significantly from 5.2% in 2000 to 3.2% in 2001. It also appears that the average individual is also anticipating slower growth. A surprising recent WALL STREET JOURNAL poll showed that 43% of those surveyed believed that a recession would occur in the next year. This contrasts to 26% from a similar survey just two months ago.

The slowing GDP growth is no doubt a result of recent Federal Reserve actions, which have included six interest rates hikes in the past year to slow growth and keep inflation in check. Through this forecast period the Executive has relied on the Wharton Economic Forecasting Association estimates for both GDP and CPI as reflected in the chart below.

Shock susceptibility. The net result is that, though the outlook is still for continued albeit slower growth in GDP, the economy is more susceptible to shocks than at anytime in the last decade. Any shock to the system - war in the Middle East, loss of confi-

Gross Domestic Product and Consumer Price Index

5-year growth and 3-year estimates



dence in the stock market, or any significant decline in the value of the dollar – could turn this soft landing into a hard one.

This forecast will be based on economic assumptions (see “Arizona Outlook” below) that reflect a slower rate of growth. This is the highest probable outcome.

Arizona Outlook			
Forecast Growth Assumptions			
	2000	2001	2002
Population	2.9%	2.6%	2.3%
Employment	4.3%	3.7%	3.5%
Personal income	7.1%	6.6%	6.5%
GDP (US)	5.2%	3.2%	3.5%

Economic assumptions

The table above summarizes the various economic assumptions used to develop the revenue forecast for the Fiscal Year 2002 and 2003 Executive Budget.

- Arizona employment should grow by 3.7% in 2001 – the slowest rate since 1992 – compared to 4.3% in 2000.
- Nationally, GDP growth is anticipated to decrease significantly as a result of Federal Reserve actions from 5.2% in 2000 to 3.2% in 2001.
- We expect population growth to slow slightly, from 2.9% in 2000 to just under 2.6% in 2001.
- Personal income, after growing by about 7.1% in 2000, should slow to a 6.5% growth rate in 2002.

In general, the outlook remains favorable, but there are clouds on the horizon.

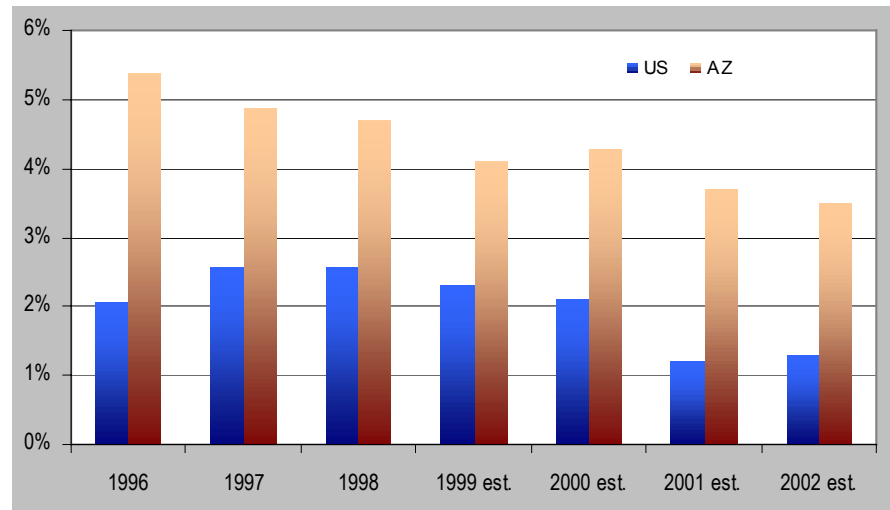
Arizona employment growth

For the first ten months of the year, employment in Arizona was up by 4.3% -- or more than 92,700 jobs – compared to 3.4% for the first ten months of 1999.

A substantial revision of employment data in early 2000 indicated the rate of growth in Arizona was higher than was anticipated in 1999. It is too early to determine whether any simi-

Job Growth Forecast

1996 to 2002



lar revisions can be expected this year. However, last year there were signs (such as extremely low growth in service employment) that were not present in late 2000. Thus, it is anticipated that there will be no significant employment revisions and, indeed, the economy will grow by about 4.3% for all of 2000. Part of the increase in the rate of growth can be attributed to a recovery in the high-tech manufacturing sector.

It is interesting to note which areas of the state are growing. Tucson is having an excellent year, surpassing the growth rate in metropolitan Phoenix, mainly as a result of manufacturing increases. Since the first quarter of 1999, Raytheon has added 2,100 high-paying engineering jobs and Bombardier has added 800 jobs. Over the last year, half of the state’s new manufacturing jobs were in the Tucson area, where aerospace, instruments and optics continue to expand rapidly.

Phoenix is also having a good year because of continued strength in construction and a recovery in manufacturing, the latter attributable in part to the resurgence of Asian economies. As a result, the average employment growth in Arizona continues to significantly exceed the national average.

Positive variables

Arizona continues to enjoy an extremely low unemployment rate (see graph, “Arizona Unemployment,” on next page). The rate in the greater Phoenix and Tucson areas (which accounts for 86.2% of Arizona’s employment) is a mere 2.5%.

Given the general tightness in the state’s labor markets, a slowdown is less likely to affect occupied positions than those that are unfilled. This could act as a buffer during any slowdown in the economy.

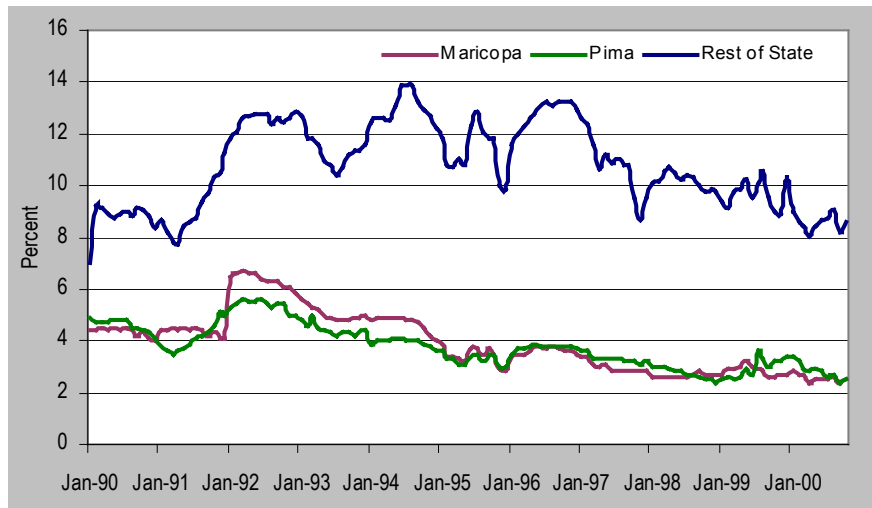
California. Our leading domestic trading partner will continue to enjoy growth in 2001. California employment growth is estimated to be 2.5% in 2001, after reaching nearly 3.3% in 2000.

Although Silicon Valley is facing financial and employment restructuring as a result of the shakeout in technology and internet stock values, indications are that growth will exceed the anemic rate that California experienced throughout much of the 1990s.

International trade. Mexico, Arizona’s leading international trading partner (32.8% of exports), is expected to continue to grow by 4.7% in 2001 versus 6.1% in 2000.

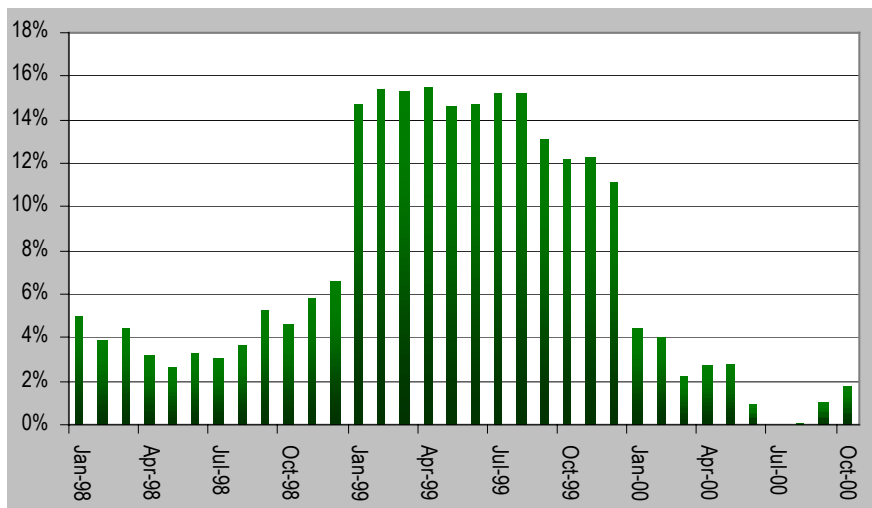
Arizona Unemployment, By Area

January 1990 through January 2000



Construction Employment

Year-over-Year Growth, January 1998 through October 2000



More good news comes from Asian countries (26% of Arizona exports), which have a dramatic effect on Arizona high-tech trade. Our high-tech employment recovery from the Asian financial crisis of the late 1990s is expected to continue.

Final figures for 1999 showed that year to be one of Arizona's worst years for manufacturing in quite some time and was one of the only non-recession years in which the state under-performed the nation as a whole in manufacturing. This can be tied to the Asian financial crisis of late 1998 and 1999 that caused a slowdown in

the high-tech sectors, primarily in microchips and aerospace (industries in which Arizona and especially Phoenix are over-weighted).

The recovery is now evident as manufacturing increased 2% through the first three-quarters of 2000 versus the same period last year.

Clouds on the horizon?

While there are many positive aspects to the economy, definitive indicators suggest that the rate of growth is slowing, raising the specter of a slowdown to an unpredictable degree.

Construction. First, construction is slowing. While there has been a modest decline in single-family housing permits, we are also seeing an increase in commercial vacancy rates.

Generally, population flows follow employment. It can be expected that with the rate of growth in the economy as a whole continuing to slow, single-family housing will be down again in 2001 by perhaps as much as 10%, and multi-family housing will also be down.

We appear past the peak in construction in office buildings as well. More than three million square feet are expected to be brought online in Phoenix during 2000. Vacancy rates moved up to 11.5% and would have moved up to an even higher level had it not been for the unusually high - and probably not sustainable - level of absorption. We expect that the number of office buildings being developed will slow in 2001.

While vacancy rates in industrial properties remain low, we can expect a slowdown in employment growth to accompany a slowdown in absorption of new product.

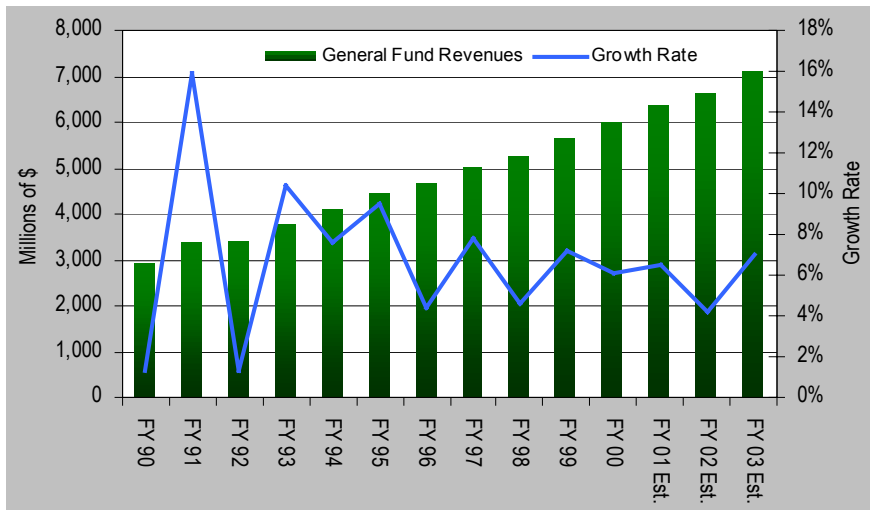
Thus, construction employment, after growing for nine years (including 2000, as detailed at left), is actually expected to decline next year. The decline will probably not be as great as it would have been without plans in the Phoenix area for a new football stadium, a new airport terminal, expansion of mass transit, and several new power plants.

Stock market. The second negative variable is the precipitous drop last year in the value of equities, at a time when a record percentage of Americans own stocks.

The *Standard and Poor's 500* (a measure of the value of the 500 largest stocks) declined by 3% during 2000 (see graph next page). Even more dramatic has been the drop of the NASDAQ of over 40% from its previous high. These adjustments followed several years of tremendous growth in the value of equities. It is difficult to

General Fund Growth

Without Urban Revenue Sharing, FY 1990 through FY 2003 (est.)



determine the full extent to which this will affect economic growth and State revenue collections, but the ramifications could be felt in several areas. For example, consumers may begin restraining their spending, causing a slowdown in Sales and Use Tax collections.

Equity values have created tremendous capital gains during the past several years, which have in turn enhanced Individual Income Tax collections. At this point it is difficult to determine how the results of the past 12 months will affect current and future individual or corporate tax li-

abilities.

Uncertainty. When contemplating the pluses and minuses, the overall economic outlook is filled with uncertainty for Arizona in 2001 and 2002.

While the economy should continue to grow at reasonably strong rates, there is no way for the State to avoid the vagaries of the national business cycle. While manufacturing, especially in high-tech, should recover, and services employment should remain strong, construction employment will continue to slow modestly. Also, retail sales should

grow at rates lower than growth in personal income.

Ultimately, the economy will respond to the whims of the national consumer and their appetite for spending. If the consumer begins to feel more threatened as a result of the stock market or the sting of energy inflation, the economy may experience additional slowing.

Revenue forecasts

How should one deal with relative economic uncertainty in developing a forecast on which to base a \$7 billion General Fund budget?

Answering this question is a critical public policy decision. The Executive Budget was developed with the belief that the revenue forecasts must be conservative in nature. When each percentage point of error represents an annual swing of \$70 million, the ramifications of overestimating revenue are far more damaging to State government and the citizens of Arizona than the impact of underestimating.

Keeping streaks intact. The budget process has two important streaks that Governor Hull wants to preserve.

The Legislature has enacted tax cuts for nine consecutive years; this budget extends that streak to 11.

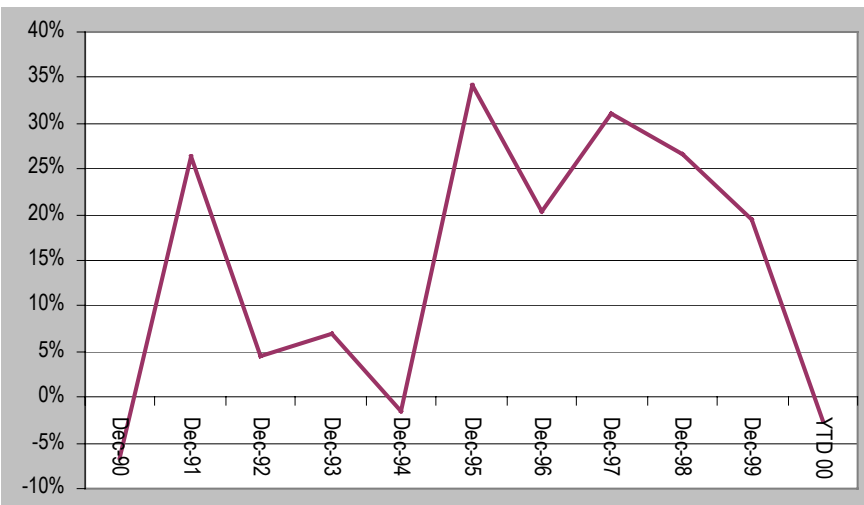
State government has not had to endure mid-year reductions for nine years; the Governor wants to keep that streak intact as well.

For those goals to be achieved, the budget must reflect a sustainable revenue stream.

For the past several years, General Fund growth has surpassed the estimates used in developing the budget. The result has been continued State surpluses. Recently, annual growth forecasts have become more aggressive (in an attempt to adjust for past underestimates) at the very time that trends are reversing. Consequently, the need for caution in projecting revenues has never been greater.

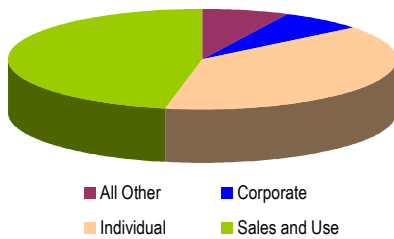
S&P 500 Monthly Close

Year-over-Year Percentage Change



Where It Comes From

General Fund, FY 2002



General Fund

More than 90% of General Fund revenues come from three sources:

- Sales and Use Tax: 47%
- Individual Income Tax: 38%
- Corporate Income Tax: 7%

In addition to these sources, the Premium Insurance Tax, Interest, Estate Taxes and other forms of taxation account for the other 8% of the General Fund.

The Executive Budget revenue forecast for Fiscal Years 2001 through 2003 reflects a gradual slowing in the economy plus tax and policy changes. Overall, General Fund revenue growth is expected to slow modestly from 7% to just above 4% in FY 2002 and then rise back up to 7% in FY 2003.

The General Fund forecast incorporates some minor adjustments as a result of the Alternative Fuel tax credits. Laws 2000, Chapter 1 from the Sixth Special Session established a finance mechanism that provides for the Budget Stabilization Fund as the primary funding source allowing for up to \$200 million for those credits.

The FY 2001 Executive forecast is \$109 million above the amount assumed in making mid-biennium adjustments. The majority of this increase comes from Sales and Use Tax, which continues to grow at over 9%, a phenomenal rate this far into an economic expansion period.

Tax law changes

Adjustments to reflect changes in tax law affecting the forecast period include the following:

- triggered corporate tax rate reductions;
- substantive changes in the research and development tax credit cap; and
- the elimination of the Vehicle License Tax's contribution to the General Fund.

In addition to these changes, the Executive Budget reflects further revenue adjustments:

- reduction of \$8.8 million from the Transaction Privilege Tax, to reflect accounting changes in Tourism funding;
- additional reduction in Individual Income Tax collections as a result of growth in the public and private school tax credits;
- reduction in Individual Income Tax collections to account for the low-income credit that was established as part of Education 2000;
- the impact associated with Alternative Fuel tax credits for NEVs and other types of vehicles; and
- elimination of Disproportionate Share monies for Fiscal Years 2002 and 2003 in anticipation of changes required by the federal government in order to obtain a federal waiver to assist with the implementation of Proposition 204.

Tax-cut streak continues

As was mentioned earlier, Governor Hull wants to keep the Legislatively enacted tax reduction streak intact. In addition to \$40 million recommended in the K-12 budget to further reduce property taxes, the Executive Budget contains an additional \$40 million over the biennium for targeted tax reductions. The Governor's list of potential targets include:

- **Reducing the State's insurance premium excise tax from 2% to**

1.7%. While the State has worked to reduce the Corporate Income Tax to better compete with western states, this tax has remained unchanged and proves a competitive disadvantage for the growing number of Arizona-based insurers. This tax was increased from 1.7% to 2, over ten years ago and should have been addressed as part of the Corporate Income Tax rate reduction efforts.

- **Reducing corporate income taxes for export firms.** Arizona uses a 50% sales-25% property-25% payroll apportionment formula in determining corporate income taxes owed in Arizona for firms with multi-state operations. By further increasing the sales factor, the Arizona tax is reduced for multi-state firms with significant operations in Arizona (plant, equipment and payroll) but little in the way of Arizona sales. The Governor supports legislation that would offer an option to super-weight the sales factor.
- **Additional Vehicle License Tax reductions.** While this tax has been reduced by 24%, it still remains an excessive burden on Arizona motorists.

At some point this list must be refined and narrowed, but each proposal has merit, and the legislative process must be allowed to further refine the arguments for and against each proposal.

Big Three forecast

Sales and Use Tax. As one of the "Big Three" revenue sources, Sales and Use Tax continues to show strong growth (*see graph on next page*), with an increased forecast for FY 2001 of 8.6% and a decline to 7.3% for FY 2003. Year-to-date growth through November 2000 was a strong 9.1%. During the past five years, the Sales and Use Tax has averaged an annual growth rate of 7.5%.

In addition to the unpredictability of consumer confidence, another important variable that is difficult to quantify is the impact of sales on the Internet.

Individual Income Tax. This is another category that is still experiencing substantial growth. Even though Individual Income Tax rates have dropped, on average, by over 27% since Fiscal Year 1993, this revenue category has experienced phenomenal growth.

Much of the growth is attributable to overall personal income growth, but there is no doubt that capital gains resulting from the stock market's surge has had a tremendous impact on revenue growth. With the uncertainty regarding the impact of reduced capital gains, the forecast for this category must become more conservative.

The Executive Budget forecast calls for overall Individual Income Tax growth of 9.02% percent in FY 2001 and a small decline to 8.6% by FY 2003. The anticipated rate for FY 2001 compares favorably to the 8.82% experienced through November 2000.

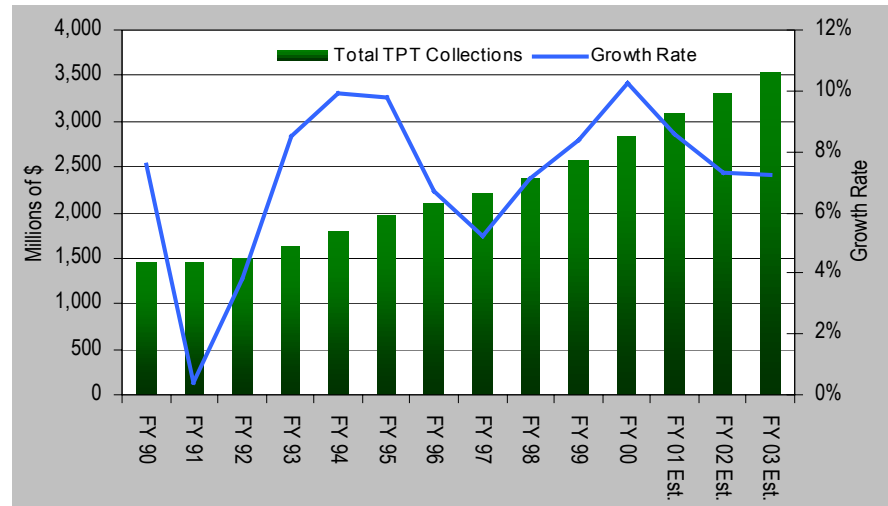
Corporate Income Tax. The smallest of the big three is also the most difficult to project and forecast. After a record-setting FY 1997, in which the tax generated more than \$600 million, the trend has now steadied itself between \$500 and \$550 million.

In FY 2000 the State had \$523 million in corporate collections, a 4% decrease over the prior year. The Executive Budget is projecting an increase of 5.13% for FY 2001 and a decrease of 9.1%, to \$500 million for FY 2002. FY 2003 appears more promising at \$525 million, an increase of 5%.

One of the main concerns in forecasting this category is determining the lag effect of significant corporate tax reductions that have occurred over the past few years. •

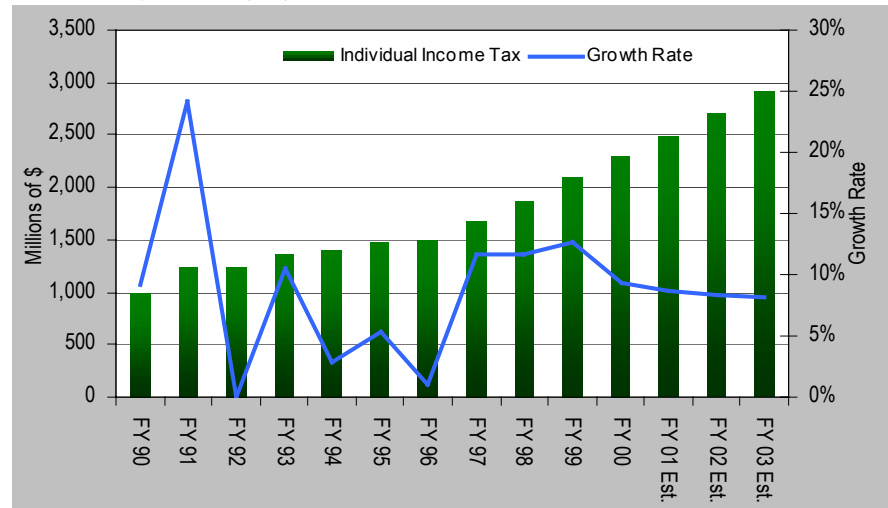
Sales and Use Tax Growth

Without Urban Revenue Sharing, FY 1990 through FY 2003 (est.)



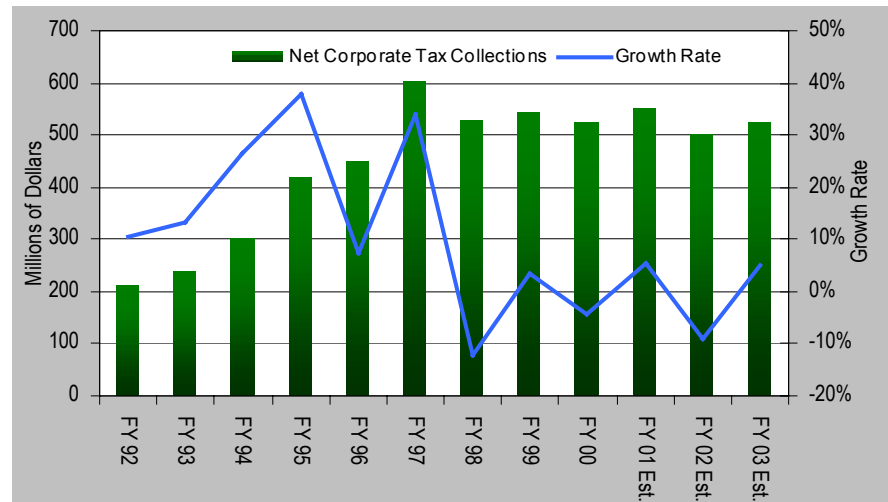
Individual Income Tax Growth

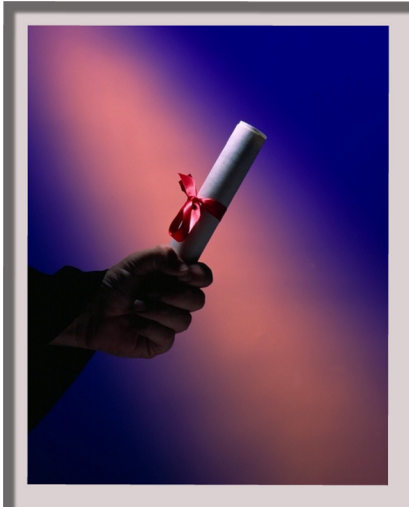
FY 1990 through FY 2003 (est.)



Net Corporate Income Tax Growth

FY 1991 through FY 2003 (est.)





EDUCATION FUNDING HAS BEEN TOTALLY reshaped by Governor Hull since she assumed her duties in the fall of 1997.

The major successes of both EDUCATION 2000 and STUDENTS FIRST have dramatically improved resources for the K-12 system in a manner that will also improve performance. The Executive Budget for Fiscal Years 2002 and 2003 provides over \$400 million in additional General Fund resources for education over the biennium. In addition, EDUCATION 2000 is predicted to generate almost \$460 million in new resources for the State's educational system in its first year of implementation.

EDUCATION 2000

In November 2000, the voters overwhelmingly passed Proposition 301, an initiative primarily intended to direct additional operational and capital funding to the classrooms and to enact accountability performance standards for public schools. Inherent in the initiative was a commitment by the citizens of Arizona to improve public education so that no child is left behind, and to ensure that every child has a realistic opportunity to succeed.

Through the 0.6% increase in the State sales tax, Proposition 301 provides the financial resources for

Solid fiscal solutions for public education

Armed with a mandate to improve classroom performance and school facilities, the Executive makes effective use of new funding sources

EDUCATION 2000 programs. In FY 2002, it is estimated that the new tax will provide \$459.1 million and grow to \$489.8 million in FY 2003. The major components are:

Classroom funding. EDUCATION 2000 dedicates approximately 60% of Prop. 301 revenues to K-12 classroom needs (e.g., teacher base/performance increases, class size reduction, AIMS intervention, teacher development programs, dropout prevention, alternative placement, Limited English Proficiency Acquisition, etc.).

Additional school days. EDUCATION 2000 extends the school year by five days over the next five years.

Capital funding. EDUCATION 2000 authorizes the School Facilities Board to issue revenue bonds up to \$800 million to support the Deficiency Correction programs as required by STUDENTS FIRST. It also funds debt service at approximately \$70 million

per year.

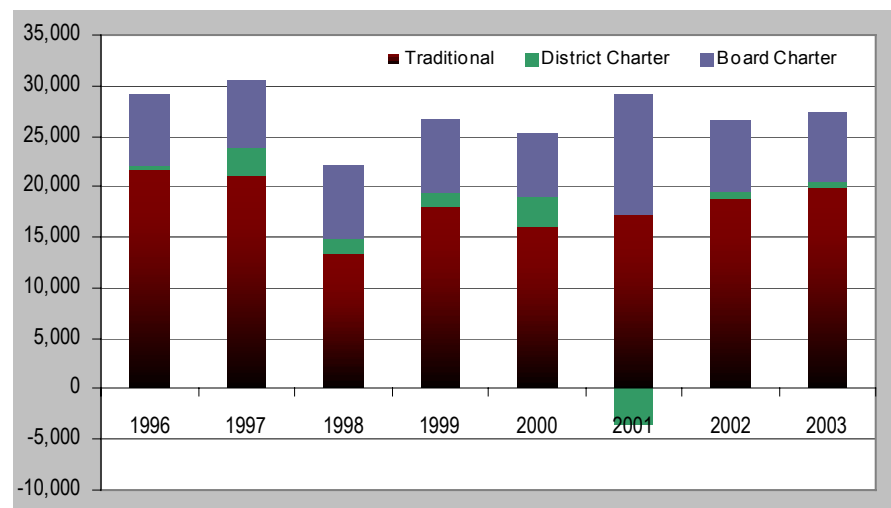
Accountability programs. EDUCATION 2000 validates July 1, 2001, as the implementation date of the Student Accountability Information System (SAIS). In addition, it creates an Under-Performing/Failing Schools program, both of which allow the Department of Education to ensure that schools maintain adequate levels of student achievement and fiscal responsibility.

2% deflator. EDUCATION 2000 institutes a 2% inflation factor to increase supplemental funding to schools.

Universities. EDUCATION 2000 dedicates 12% of Prop. 301 tax revenues to the Arizona Board of Regents for investment in State Universities' efforts to develop academic and research programs focused on new economy initiatives, as well as to prepare and develop students for employment in high technology industries in Arizona.

Average Daily Membership

Traditional, District Charter and Board Charter Schools, 1996-2003 (est.)



Community Colleges. EDUCATION 2000 provides 3% of Prop. 301 tax revenues to comply with A.R.S. § 15-1463(B), which requires one-time State capital matching monies of \$1 million per year for new Community College campuses, while distributing the remaining funds for Workforce Development and Job Training programs. (See "Education 2000 Revenue Distribution" chart, next page.)

K-12

Beyond the increases provided by EDUCATION 2000, the Governor's recommendation provides for \$406.3 million in new General Fund monies for K-12 schools over the biennium. The increase consists of \$355 million in Basic State Aid, which includes a 2% deflator as required by Prop. 301

(\$198 million), \$59 million in other formula programs and \$6.5 million for Department of Education administrative resources (less \$14.2 million in program reductions).

Basic State Aid

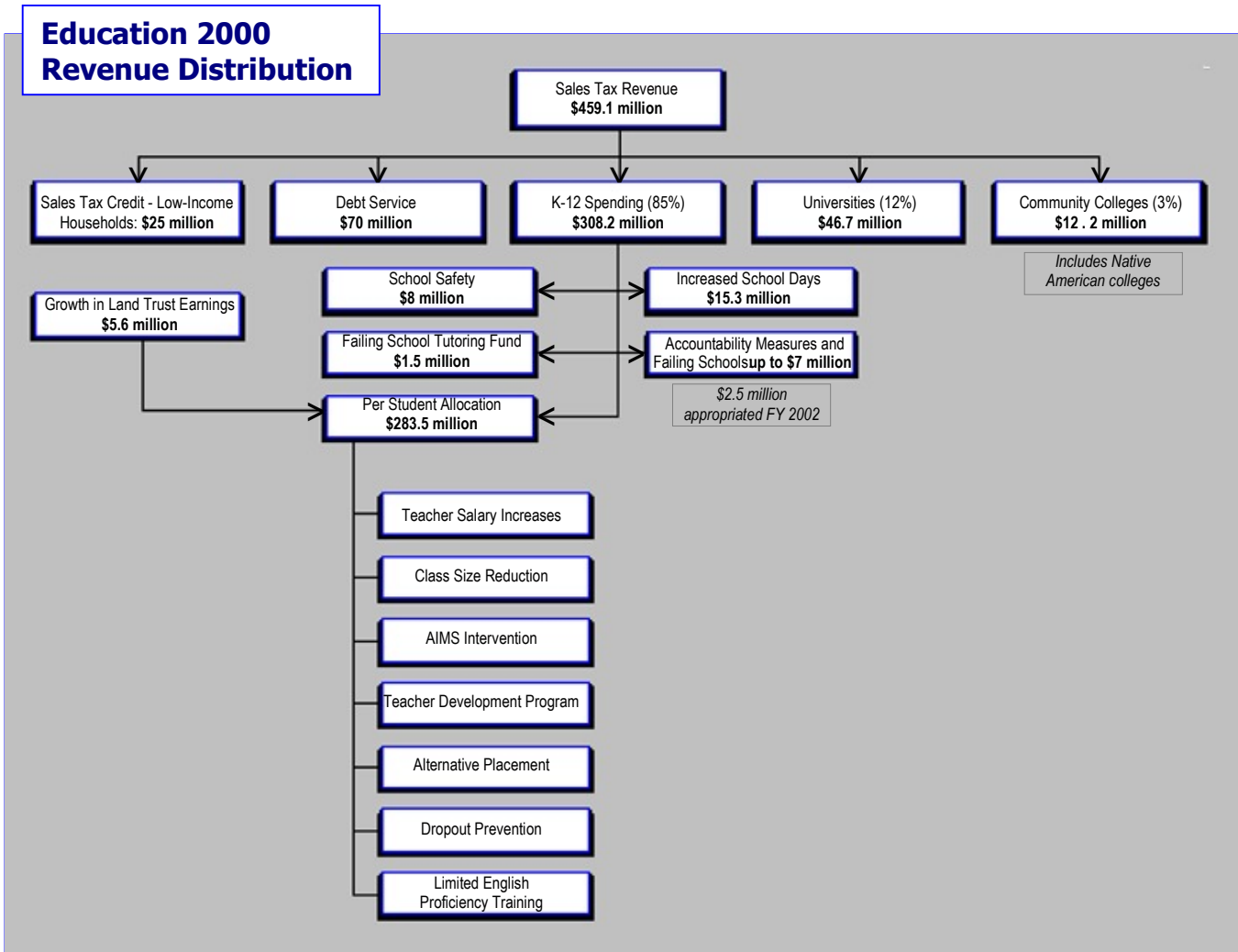
Basic State Aid, the largest formula-funding program for K-12, provides equalization assistance to districts and charter schools for basic maintenance and operational needs.

Assumptions. The recommendation provides for \$355.0 million in Basic State Aid entitlement funding increases over the biennium: \$112.9 million for FY 2002 and \$129.1 million for FY 2003. The following growth assumptions were used to determine these amounts:

- 3.1% in 2002 and 3.1% in 2003 in total new students;

- 2.3% in 2002 and 2.4% in 2003 for traditional students;
- 15% in 2002 and 13% in 2003 for charter students;
- 7.25% and 5.5% for Net Assessed Valuations increases for, respectively, FY 2002 and FY 2003; and
- 2% inflation (enacted through EDUCATION 2000 legislation).

Fiscal Year 2002. The Executive recommendation of \$112.9 million fully funds student growth in traditional and charter schools (\$66 million due to the 2% inflationary increase). The overall district growth is expected to rise by 18,813 students, and combined board and district sponsored charters will increase by 7,649 students. For school districts, the primary net assessed valuation growth is estimated at 7.25%, which is expected to



yield approximately \$78.5 million in local property tax levy and \$10.2 million in county equalization assistance to offset the State cost. The increased valuations are based on appreciation due to new and existing properties.

Fiscal Year 2003. The Executive recommends an increase of \$129.1 million in FY 2003 to fund new student growth in school districts and charter schools (\$66 million due to the 2% inflationary increase). District growth of 3.1% is expected to result in an additional 19,770 students, while combined board- and district-sponsored charter school enrollment will increase by 7,546.

The primary net assessed valuation growth will decrease in FY 2003, due to potential property value freezes in Maricopa County and a slowing in new construction growth. The 5.5% growth will produce \$59.6 million in local property tax levies, with \$7.7 million in county equalization assistance to offset the State obligation.

Provisions in the EDUCATION 2000 legislation reallocated to the Classroom Site Fund, for direct distribution to school districts, any endowment earnings exceeding the FY 2001 amount. Therefore, the Executive has projected the offset to the General

Fund in Fiscal Years 2002 and 2003 at \$74.9 million.

FY 2001 Supplemental. The Executive recommends supplemental funding to address the Department's projected shortfall for FY 2001 at \$19.2 million, which includes \$16.7 million for Basic State Aid Entitlement programs and \$2.45 million for AIMS testing.

2% inflation factor

Per A.R.S. § 15-901.01, the Legislature is required to increase the base level and other components of the Revenue Control Limit by 2% for Fiscal Years 2002 through 2006. After FY 2006, the inflation adjustment is limited to either a 2% increase or the change in the GDP price deflator for the two preceding years, whichever is less.

The Executive recommends the following cost allocation for the 2% inflation amount of \$66 million for FY 2002 and FY 2003:

- \$59.8 million and \$50.5 million in FY 2002 and FY 2003, respectively, to increase per-pupil base level;
- \$6.2 million and \$8.4 million in FY 2002 and FY 2003, respectively, to increase selected Group B weights; and
- \$7.1 million in FY 2003 to increase

the K-3 weight from 0.06 to 0.07.

Base level increases. The Executive recommends a \$55 increase to the per-pupil base level, from the current \$2,621.62 amount to \$2,676.62, in FY 2002, and an increase of \$45 for a total per-pupil amount of \$2,721.62 in FY 2003. For FY 2002, the Executive's proposal allocates approximately 90% of the total inflation factor; in FY 2003, the percentage is reduced to 75% to accommodate K-3 and Group B weight increases. In addition to this amount, the FY 2002 appropriation from Proposition 301 for additional school days adds approximately \$15 to the per-pupil base.

Special Education/Group B. The Executive Budget provides \$20.8 million over the biennium to assist school districts with the high cost of educating special-needs children. The total recommendation fully funds all of the weights recommended by the 1999 Special Education Cost Study. The cost estimates include additional funding for impacted students in the Arizona School for Deaf and Blind and Residential Placement centers.

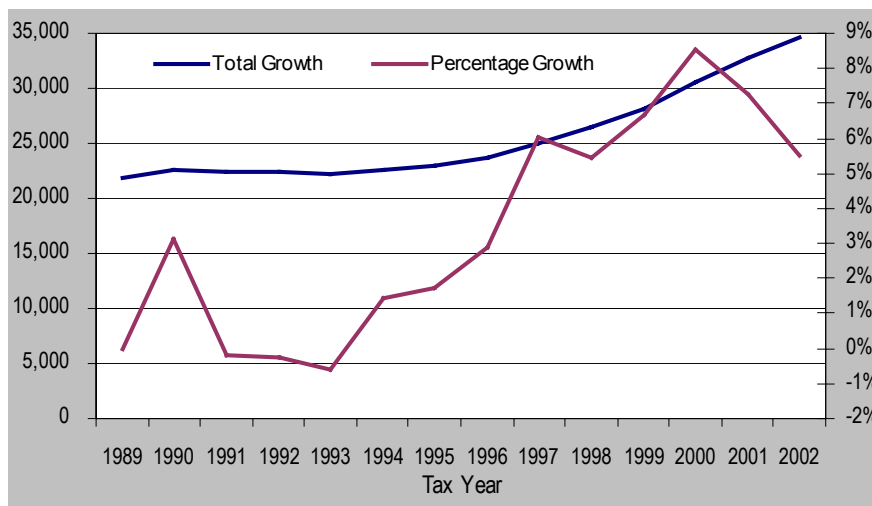
K-3 weight. The Executive acknowledges that the early educational years are critical in preparing students for future academic success. To that end, the recommendation increases the K-3 weight (as defined in A.R.S. § 15-943) from 0.06 to 0.07. The Executive proposes the use of \$7.1 million in FY 2003 to fund this increase.

Flores Case/Proposition 203. A recent court case, *Flores v. State of Arizona*, has brought the issue of funding for bilingual education to the forefront of public debate.

As part of the *Flores* settlement, the court required the Arizona Department of Education to complete a cost study of English acquisition programs in Arizona, with particular emphasis in Nogales, to assess and determine overall funding requirements. The results of this study should be available in March or April of 2001.

Net Assessed Values (NAV) Growth

Tax Years 1989-2002



In addition, in November 2000 the voters passed Proposition 203, which essentially directed that Limited English Proficiency (LEP) students be taught using the English immersion model. While the cost associated with this mandate has yet to be determined, the Executive may make subsequent recommendations contingent on the outcomes of the cost study.

Truth in Taxation

In 1998, the Legislature enacted a bill requiring the Joint Legislative Budget Committee (JLBC) to compute annually a new Qualifying Tax Rate (QTR) and County Equalization Rate to exclude the portion of property value appreciation that is attributable to new construction growth. The effect of this change would essentially reduce the local contribution towards K-12 formula funding and increase the State’s obligation.

Pursuant to Laws 1998, 2nd Regular Session, Chapter 153, the Legislature may opt to maintain rates at the current level. In order to invoke this privilege, JLBC must convene a Truth in Taxation hearing, and a concurrent resolution must receive a 2/3 majority in both the House and the Senate.

As depicted in the graph below, this change will result in \$59 million

in property tax relief by FY 2003. For the FYs 2002 and 2003 budget, the Executive estimates that the two-year costs of changing the current rates is \$40 million. The Executive proposes reducing the QTR of \$2.1265 per \$100 of assessed value for elementary and high school districts to \$2.0952 in FY 2002 and \$2.0939 in FY 2003. Additionally, the recommendation includes the decrease of the County Equalization rate from \$0.5123 to \$0.5048 in FY 2002 and \$0.5045 in FY 2003.

Achievement testing

As prescribed by law, the Stanford 9 and Arizona’s Instrument to Measure Standards (AIMS) tests are used to assess student achievement of State academic standards.

The Stanford 9, a standardized, norm-referenced examination that tests reading, mathematics and language skills, is administered to elementary and high school students in the spring of each year. Test results are published in percentile ranks, which are measures in which an individual student’s achievement is compared to the performance of a national sample of students of the same age and grade.

State law currently requires AIMS testing in grades 3, 5, 8 and 12, to evaluate minimum levels of profi-

ciency in reading, writing and mathematics. For 12th graders, the AIMS test serves as a prerequisite for graduation. All public schools, including charters schools, are mandated to participate in the AIMS testing process. Only Bureau of Indian Affairs, private and home-schooled students are exempted.

The Executive recommends \$2.2 million in FY 2002 and an increase of \$794,000 in FY 2003 for adjustments made for both tests:

- the elimination of Stanford 9 testing of grades 10 and 11 and the inclusion of grade 1, and
- recent changes to the reporting mechanism of AIMS as well as implementations of new testing versions.

Charter school growth

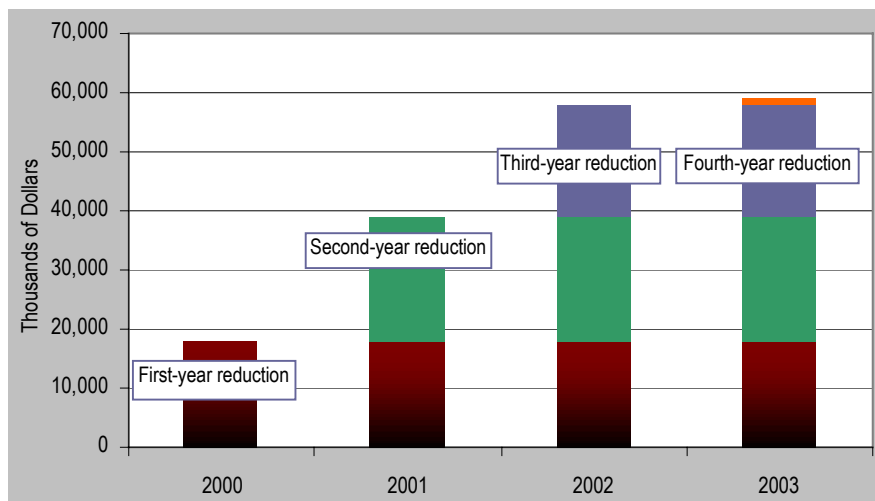
Since 1995, the charter school movement in Arizona has flourished, with over 450 charter schools and more than 325 charter entities. Arizona accounts for about 21% of all charter schools in the United States. (See related graph on next page.)

The Executive makes the following recommendations to manage the growth of charter schools and to ensure that their overall quality of education remains in line with traditional schools:

- **Basic State Aid.** To meet an estimated growth of 15,200 students over the biennium, a combined total of \$92.5 million has been allocated to fund Maintenance and Operations (M&O) operations in Board and District sponsored charter schools.
- **Administrative Resources.** (1) \$75,000 to the State Board for Charter Schools to conduct audit reviews and site reviews. (2) An additional 1.0 FTE position to the State Board of Education for Charter Schools to strengthen oversight activities and contract compliance. (3) Expansion of the Charter Administration office in the Department of Education by

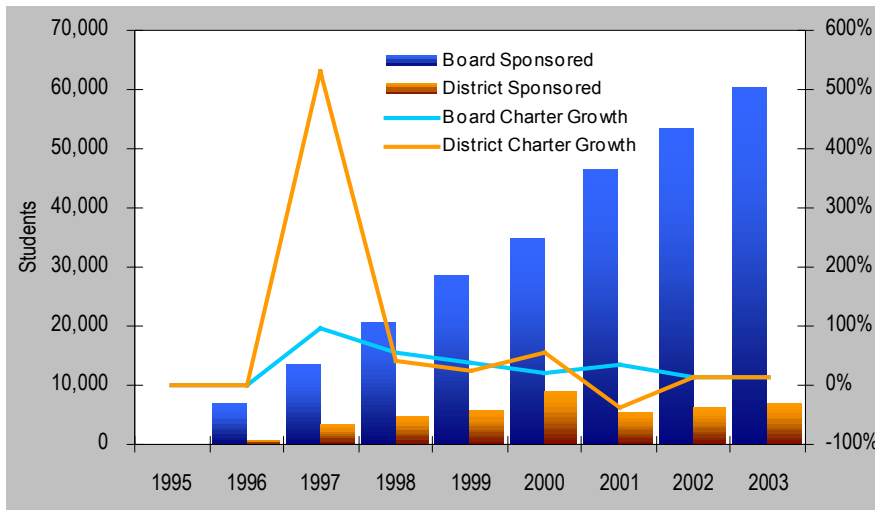
Truth in Taxation

Property tax rate decreases since 1999



Charter School Enrollment Growth

1995 through 2003 (est.)



1.0 FTE position to increase the timeliness of responses to constituent requests and quality assurance responsibilities relating to charter school apportionment payments.

EDUCATION 2000 additional funding

EDUCATION 2000 includes up to \$7 million for each fiscal year for School Accountability Information System (SAIS) and Student Accountability Costs. Laws 2000, 5th Special Session, Chapter 1 appropriated \$2.5 million to the Department of Education to address the technical needs for the SAIS system.

The Executive recommends an increase of \$2.5 million in FY 2002 and \$4.5 million in FY 2003 for the following purposes:

- In FY 2002 and FY 2003, 8.0 FTE and \$634,400 to fund new positions in the Department of Education Management Information System Unit to support the maintenance and enhancement costs of the SAIS system.
- 6.0 FTE and \$750,000 to develop a model for producing and distributing achievement profiles required as part of the Failing School Accountability provision in EDUCATION 2000. The amount is re-

duced in FY 2003 to \$387,800 due to one-time costs for equipment, furniture, software and hardware purchases.

- \$1.1 million in additional financial assistance to needy schools to ensure connectivity with SAIS and an accurate and timely transmission of student level data.
- \$3.5 million to fund the contract services costs of solutions teams required as part of the School Accountability provision in EDUCATION 2000 to help failing schools meet State academic standards.

School Facilities Board

The School Facilities Board is only two-and-a-half years old, but it has dramatically changed the financing and equity of school capital construction. The Board is responsible for the administration of three capital funds: the Deficiency Correction Fund, the New School Facilities Fund, and the Building Renewal Fund.

STUDENTS FIRST authorizes the School Facilities Board to request funding and receive transfers directly from the State Treasurer. However, the Executive and the Legislature must adopt budgets within the context of those transfers. To facilitate the budget process, the Board must report funding requirements for the next two

fiscal years to the Legislature by December 1 of each odd-numbered and to the Treasurer no later than January 1. In the even-numbered year, the Board updates the second-year request.

Deficiency Correction. The STUDENTS' FIRST legislation requires the School Facilities Board to establish minimum facility guidelines for Arizona schools and address any deficiencies discovered by June 30, 2003. The Board adopted the minimum guidelines in September 1999, and survey assessments for all schools are in the process of being finalized. Per A.R.S. § 15-2021(E), the Board is required to award monies for these projects by June 30, 2001. With these preliminary steps in place, the Board needs the financial resources to complete this program. To date, the School Facilities Board has received \$235 million for deficiency corrections.

Proposition 301 provides the School Facilities Board with the authority to issue up to \$800 million in revenue-bonds to comply with the provisions of STUDENTS FIRST. The Executive recommends an additional \$120 million in General Fund monies for FY 2003 to fully fund the costs of this program, estimated by the School Facilities Board at \$1.17 billion.

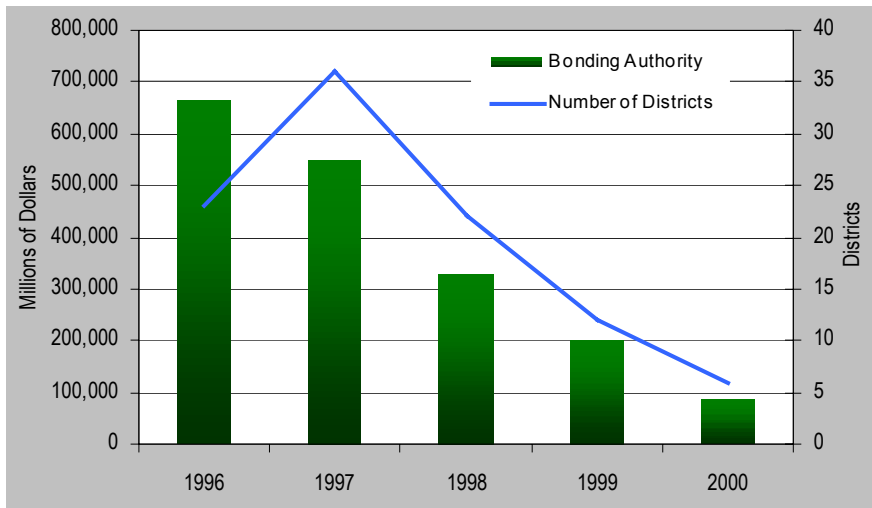
School construction. The School Facilities Board has approved 120 new construction projects, worth more than \$851.4 million, that will house over 82,000 students. Eleven schools are complete, 50 are under construction, and 59 are in the development and planning phase.

As a result of the commendable work of the Board and staff, and with strong General Fund support, local school districts and property owners have witnessed a sharp decline in the number of bond issues appearing on local ballots.

As depicted in the graph on the next page, the bonding decline suggests that the new school construction program has produced favorable re-

Total School District Bonding

1996 through 2000



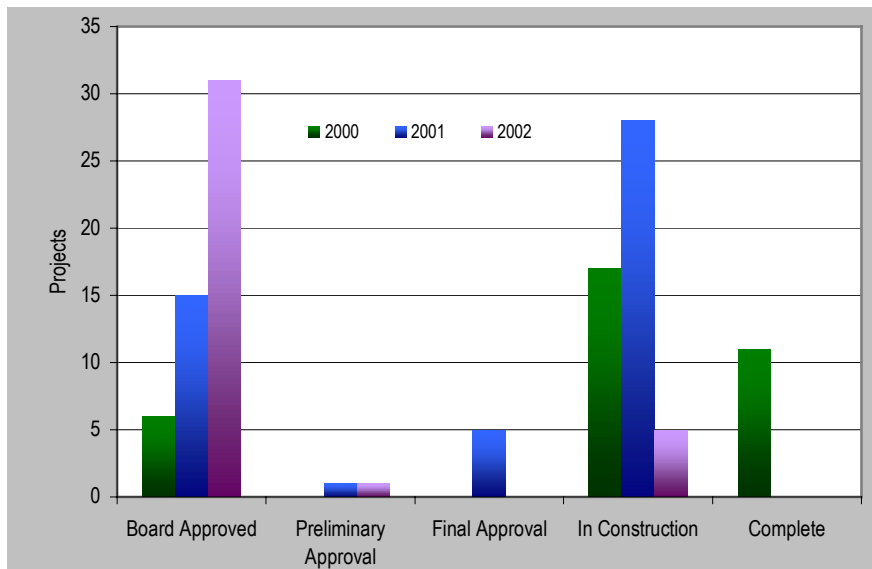
sults. Bonds authorized by voters have declined from over \$500 million in 1997 to less than \$100 million in 2000. Schools are being built throughout the state, debt levels are being reduced, and property tax payers should be reaping benefits.

In the Executive Budget, an additional \$110 million is provided for the New School Construction Fund. Per A.R.S. § 15-2041(C), the Joint Legislative Budget Committee is required to adjust the cost per square foot by a specified index. In January 2000, the

JLBC approved a 3.5% increase based on the Marshall Evaluation Service Index for Class C (masonry bearing walls) construction, with an effective date of July 2000. This increase reflected inflation that occurred between July 1998 and July 1999. In September 2000, the JLBC approved an additional 4.6% increase for inflation for the period of July 1999 to July 2000. The index affects the calculations for New School Construction and Building Renewal. In anticipation of these costs and new projects, the

New School Construction

2000 through 2002



Board has proposed increased funding for new school construction.

Building Renewal. STUDENTS' FIRST established the Building Renewal Program to maintain existing facilities. A.R.S. § 41-470 defines the purpose of Building Renewal as "major renovations and repairs; upgrading systems and areas that will maintain or extend the useful life of the building; infrastructure costs."

The Board has interpreted this definition to apply to renovations, major maintenance, life safety/code upgrades, handicapped access, asbestos abatement and school infrastructure.

Building Renewal funding recently faced a legal challenge. A lawsuit, filed by Roosevelt Elementary School District, concluded in a court finding in favor of the State. The ruling determined that the State had no liability for the FY 1999 Building Renewal funding level for school districts, since a specific appropriation had been made in the STUDENT FIRST legislation.

However, the court stated that the Legislature intended the formula calculation to be applied to the FY 2000 funding distribution. In spite of this admission, the court found that a constitutional violation had not occurred, since sufficient evidence had not been presented to prove that the shortfall in either year had a material impact to school districts.

The School Facilities Board has reported to the Joint Committee on Capital Review (JCCR) that the Building Renewal formula has yielded a \$122.7 million obligation in FY 2001. The Executive recommends a FY 2001 supplemental of \$2.7 million to fully fund the total cost of this program. The increase is primarily attributable to the application of two inflationary increases in FY 2001 (see "New School Construction").

The School Facilities Board has estimated the FY 2002 Building Renewal cost at \$132 million, a 7.6% increase from FY 2001. The Executive also

supports the Board's estimate for FY 2003 at \$137.8 million, which amounts to a 4.4% increase over the FY 2002 projection.

Higher education funding

Arizona's University system continues to provide high quality post-secondary education in a wide range of academic disciplines at a reasonable cost to Arizona citizens. Undergraduate tuition rates are substantially below rates of senior public universities in other states.

As depicted in the table at right, the Executive Budget reflects several funding increases that are not tied directly to the specific agency operating budgets. Overall, the General Fund recommendation reflects an increase of \$150 million over the biennium. Including the new EDUCATION 2000 funding, the total grows to over \$250 million.

The Executive recommendation includes over \$34.5 million to support standard changes (funding for previously approved pay adjustments) and support for the 22:1 formula traditionally used to accommodate changes in student enrollment.

An additional \$61.2 million has been included to address employee pay issues. Similar to the rest of State government, the Universities face the challenge of retaining and recruiting faculty and administrative staff. Although studies have shown that the

The University System

State Fund Increases in Millions of Dollars, FY 2002 and FY 2003

	FY 2001 Approp.	FY 2002 Rec.	Change vs. FY 2001	FY 2003 Rec.	Change vs. FY 2001
Operating Budget	\$773.0	\$790.9	\$17.9	\$789.6	\$16.6
Pay Package (est.)		17.7	17.7	46.8	46.8
Health & Dental (est.)		9.0	9.0	20.0	20.0
Building Renewal	8.8	20.3	11.5	21.9	13.1
EDUCATION 2000		46.7	46.7	50.4	50.4
Total	\$781.8	\$884.6	\$102.8	\$928.7	\$146.9
Change over FY 2001			13.15%		18.79%

level of compensation provided to University administrative employees is above that of the ADOA system, it is still well below market. Studies have found that significant resources are required to compete with peer institutions.

Finally, the Executive Budget provides \$24.5 million in additional resources for the maintenance and repair of existing facilities through the funding of the Building Renewal formula.

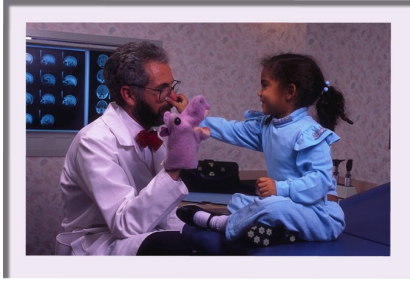
The overall increase in State funding for the Universities helps to ensure the maintenance of quality and access to higher education for Arizona citizens, while continuing to allow the campuses to offer low tuition rates mandated by the State constitution.

Community Colleges. Arizona's Community Colleges help provide a vital service to our citizens who wish to further their education, learn new skills or strengthen current work skills. The Executive recommends an

increase of over \$10 million for Arizona's Community Colleges.

The Executive recommends restructuring of the funding formula for dual-enrollment students. "Dual enrollment" refers to classes offered at high school campuses during normal operating hours and taken by high school students who receive both high school and Community College credit. Both the high schools and Community Colleges are receiving full funding for offering these classes, even though the high schools provide the vast majority of direct services to the student.

The Executive recognizes that some costs are included by the Community Colleges for the provision of dual-enrollment classes. Therefore, the recommendation includes that students who are dually enrolled be funded at 20% of the normal full-time student equivalent (FTSE) used by the Community Colleges in their annual budget request. •



HEALTH AND WELFARE PROGRAMS always offer significant fiscal and policy challenges, and they include two of the biggest issues addressed in this Executive Budget:

- Addressing the State’s commitment to behavioral health – specifically, the requirements of the 20-year-old *Arnold v. Sarn* lawsuit – is one of the Governor’s top priorities.
- Another great challenge is implementation of Proposition 204, including obtaining a federal waiver. The people have spoken and now this program must be implemented in a fiscally responsible manner.

Prop. 204 a priority

Addressing significant caseload growth in AHCCCS, the nation’s model managed-care program, carries a substantial budget impact. But that issue is almost overshadowed by the tremendous impact and challenges that must be addressed in implementing Proposition 204, an expansion of the State’s health insurance program.

Approved by voters in November 2000, Prop. 204 directs the State to use monies received from the 1998 Tobacco Settlement to fund the cost of expanding AHCCCS eligibility to 100% of FPL.

The Governor has stated some specific objectives in implementing Prop. 204:

- Securing a federal waiver is vital to the financing of this program. The Executive Budget has been developed based on obtaining the waiver.
- Any early-year savings as a result of federal participation must be

Providing for Arizona’s needy

Behavioral health issues and compliance with Proposition 204 dominate the discussion of health and welfare

deposited into the Budget Neutrality Compliance Fund to assist with future year impacts.

- The county and State portions of the Disproportionate Share Program would be offered if needed to secure the waiver. The private hospital program would continue, since the majority of these monies go to children facilities and programs.

The graph below depicts who is currently eligible to participate in the program and what the new eligibility level will be as a result of Prop. 204. Current eligibility levels below 100% range from 36% of the 1992 FPL for parents of AHCCCS-eligible children to 76% of the FPL for the Aged, Blind and Disabled population. At this point, if a federal waiver can be obtained, AHCCCS would phase in the new program in over a six-month period starting on April 1, 2001.

Voters first approved eligibility expansion for AHCCCS to 100% of the FPL in November 1996 with the passage of Proposition 203. Prop. 204 is

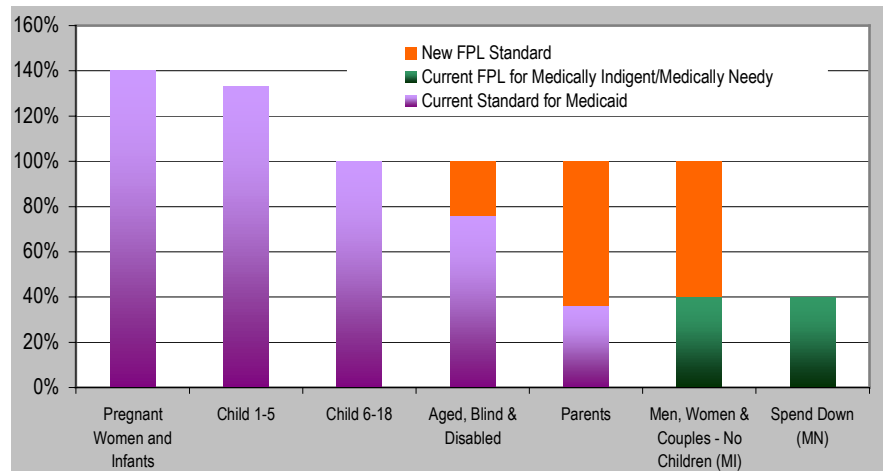
similar to that measure in that it requires the expansion of AHCCCS eligibility to 100% of the FPL. However, two key components of Prop. 204 may result in significantly higher enrollment and State costs.

- Prop. 204 is not limited to covering the uninsured population. Therefore, those who meet the eligibility requirements may enroll in the program despite having other insurance coverage, such as Medicare, private insurance or insurance associated with military service.
- Prop. 203 required federal approval to expand coverage, and Prop. 204 requires the expansion of coverage regardless of federal participation.

Estimates based on limited census data reflect that a total of over 380,000 individuals may qualify for coverage under Prop. 204. Of this amount, an estimated 197,000 already have some form of health insurance. For the purpose of developing the Executive Budget it has been assumed that

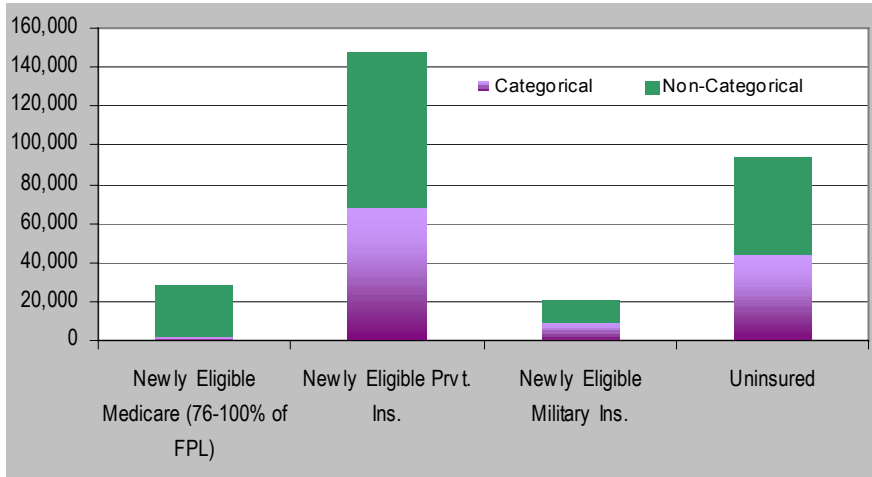
Changes in FPL Standards

Per Proposition 204

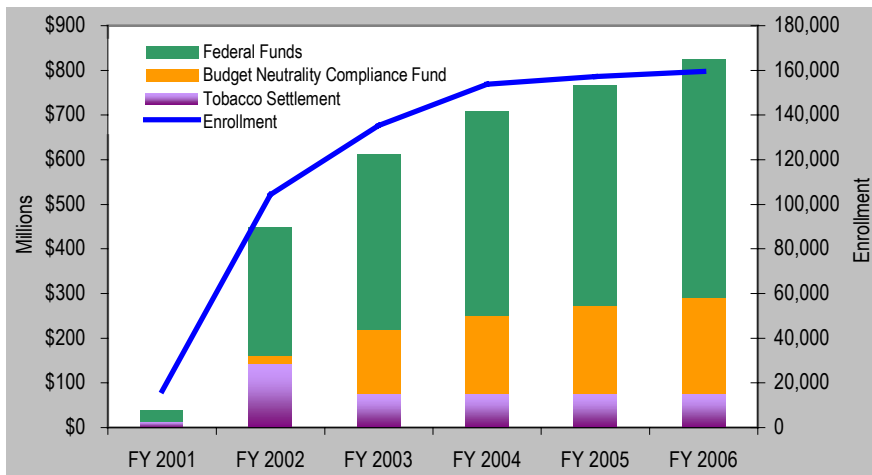


Newly Eligible Population

Per Proposition 204



Total Costs Attributable to Prop. 204



AHCCCS enrollment will grow by roughly 160,000 over the next three years. It is important that policy-makers consider the range of potential presentation rates and the impact that each assumption has upon the total costs of this program.

Federal waiver. Even prior to the November 7 election, the Executive had been working on implementation issues related to Prop. 204.

One of the projects that was started was the lengthy, complicated process of developing updated cost estimates for the purpose of meeting federal budget neutrality compliance requirements. As part of those requirements, a cost estimate relating to

the expansion was developed for a five-year period. Several meetings and discussions have occurred between the State and federal entities involved in reviewing the waiver request. The Executive is hopeful that a waiver can be secured in the near future, thus ensuring a greater level of federal participation in financing the costs of this expansion.

The graph below depicts the estimated five-year cost projection based on the following assumptions:

- roughly 160,000 individuals will participate;
- a waiver will be secured;
- all savings related to conversion of the MN/MI population from the

first two years would be set aside for future years in the Budget Neutrality Compliance Fund;

- the Disproportionate Share Program would be eliminated, with the exception of the Private hospital program; and
- all Tobacco Settlement funds are used for this purpose with the exception of completing the repayment to the Budget Stabilization Fund for Arizona State Hospital and Health Care Group funding.

By FY 2006 the total annual costs of this expansion could exceed \$800 million based on the assumptions listed above. Even with Tobacco Settlement Fund, and set-aside of State funds it is estimated that the General Fund or some other funding source will be required in FY 2006. If a waiver is obtained, the impact to the State may be as low as \$100 million. The Executive is aggressively pursuing a federal waiver to cover a portion of the cost of expansion. If a federal waiver is not obtained the costs to the State over this same time period could exceed \$800 million over the same time period.

Prop. 204 State Match Cost

FY 2001-06 (assumes 160,000 enrollees)

	With Waiver	Without Waiver
Tobacco Settlement	\$459.4	\$459.4
Budget Neutrality Compliance Fund	749.6	0.0
General Fund	55.5	790.8
TOTAL	\$1,264.5	\$1,250.2

Behavioral health

The Governor's dedication to mental health issues could not be clearer. Mental health funding remains a top priority; under the Governor's budget proposal, unparalleled funding increases will be realized through the biennium. New services will be introduced and existing infrastructure will be dramatically enhanced.

Under the Executive's biennial proposal, total funding for mental health will have increased 148% since FY 1997. The Executive budget recommendation includes \$413.4 million of increased funding for FY 2001 (supplemental), FY 2002 and FY 2003 (see graph at right.)

Seriously mentally ill

With respect to *Arnold v. Sarn*, the progress to date as a result of the Governor's budgetary initiatives is substantial. These achievements are evidenced by numerous Exit Stipulation and Supplemental Agreement conditions that have been satisfied. The Department has identified 247 conditions, 179 of which have been met (see partial listing at right).

While a number of items have been accomplished, additional resources are required to meet the remaining issues.

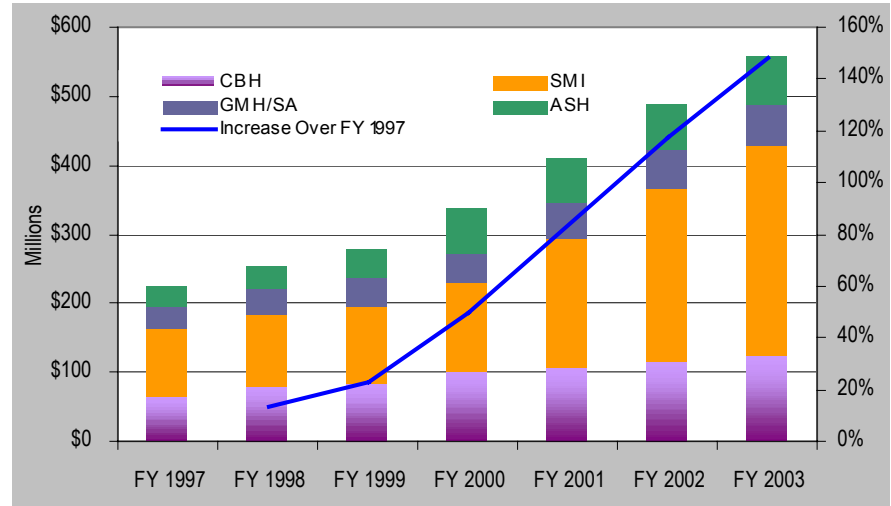
On December 18, 2000, the Governor filed with the court a financing plan that provides an increase of \$313.3 million over the biennium. When adjusting for caseload growth, the amounts generated during the plan period exceed \$230 million for the SMI population. The basic components of the plan include:

Capitation adjustments. Roughly 45% of the SMI population is currently eligible for the federal Title XIX program. The Executive proposes significant capitation adjustments that will leverage \$2 for every \$1 committed by the State.

Non-Title XIX funds. Due to income limitations, the remaining 55% of the SMI population does not qualify for the federal Title XIX population. However, under Prop. 204 it is estimated that up to an additional 75% of the population may be eligible. It is the intent of the Executive that, when a waiver is secured and additional federal funds are obtained, all State funds dedicated to this population will remain to provide for enhanced services.

Behavioral Health Funding

Since FY 1997



Condition	Department Action
Transfer 85 class members from ASH who have had stays longer than one year	As of January 2000, 93 had been discharged
Pursue funding for housing support services	The number of housing units has increased
Development of a crisis network	\$4.3 million has been dedicated to crisis services
Services and associated funding shall not be reduced	Under the Executive's biennial proposal, funding for persons with serious mental illness will have increased \$204.3 million, or 208%
Payment of Court Monitor's salary and expenses	\$250,000 per year
Priority clients have case managers	100% of the priority class members have a case manager
Develop appropriate alternatives for placement outside of judicial & law enforcement systems	RBHA contract requires jail diversion program
Using DHS's client data system and in depth sample review, identify and quantify class member needs	The Human Services Resource Institute developed the "Gap Report"
Create separate strategic plans for housing, vocational services, and substance abuse	Dual Diagnosis, Housing, and Employment & Rehabilitation strategic plans completed and implementation initiated
The Exit Stipulation states that parties agree that defendants have complied with Appendix A	50 conditions including promulgation of rules regarding grievances, reporting requirements, evaluations, specified specialists
Rules passed in 1993 address Appendix B, 54 conditions	Rules address rights of class members, criteria for the grievance process, individual service plans, and class member outreach

Reclassification of expenditures.

The State may be spending millions of State-only funds on expenditures that may qualify for federal reimbursement. The Executive will continue to pursue an aggressive strategy to federalize additional expenditures.

Tobacco funds. The Governor recommends allocating \$50 million in Tobacco Settlement monies provided by the Legislature in June 2000 to improve services to the seriously mentally ill.

Capitation rate increases. Including the FY 2000 supplemental, the Executive recommends more than \$187 million in capitation rate funding increases for Title XIX-eligible persons with serious mental illness.

For FY 2001, the capitation rate adjustment includes an 11% rate increase in order to align funding with actual costs of care. Recent data provided by the Regional Behavioral Health Authorities demonstrates that current funding levels will not support existing levels of service without creating a significant deficit.

For FY 2002, the capitation rate includes a 17% increase for services related to the *Arnold v. Sarn* lawsuit. An inflation rate of 4% is also built into the capitation rates. These two rate adjustments are repeated in FY 2003, resulting in a 14% increase for services and a 4% adjustment for inflation.

Non-Title XIX funding. Beyond capitation rate adjustments, sizable spending hikes are proposed for seriously mentally ill persons who are not Title XIX-eligible.

The effect of Prop. 204 should be considerable as a number of clients transition from exclusively State-funded services to the federally reimbursable program. The Governor anticipates that 35% of non-Title XIX clients will be affected by Prop. 204 over the biennium, which will result in \$18.8 million and \$37.5 million in additional funding for FY 2002 and FY 2003, respectively. Although Tobacco Settlement monies and federal funding will support the cost of care asso-

Funding for Persons With Serious Mental Illness

New funds in millions of dollars, FY 2001 through FY 2003

Title XIX	<i>FY 2001</i>	<i>FY 2002</i>	<i>FY 2003</i>
Enrollment	10.8	18.9	27.1
Inflation	-	2.5	3.9
Programs	15.3	42.0	66.5
Subtotal	26.1	63.4	97.5
Non-Title XIX	<i>FY 2001</i>	<i>FY 2002</i>	<i>FY 2003</i>
Tobacco Settlement	10.0	20.0	20.0
ComCare Trust	8.0	-	-
Proposition 204	-	18.8	37.5
Subtotal	18.0	38.8	57.5
Total New Funds	44.1	102.2	155.0

ciated with this group, the Governor is resolute in maintaining the current level of non-Title XIX funding and will not reduce this budget line-item even as the number of non-Title XIX-eligible clients declines.

In addition to the resources being leveraged by Prop. 204, the Department of Health Services (DHS) has proposed expending, by the end of FY 2003, the \$50 million of Tobacco Settlement funds from Laws 2000, 5th Special Session, Chapter 2. These resources will contribute significantly to one-time expenditures associated with infrastructure development and housing start-up costs, among other critical service needs. Finally, by the end of the next biennium, more than \$10 million of ComCare Trust Fund monies will have been targeted at vocational rehabilitation, housing and other core services.

Benchmarking. To ensure that new funds reach targeted areas and to monitor the progress associated with the substantial funding increases, the Governor recommends the implementation of a clear and well formulated benchmarking methodology. DHS will report on priority clients, first establishing their current status, as specified by a standard methodology. By providing treatment and support services at the levels recommended by independent consultants, progress should be unprecedented

and measurements should reflect dramatic improvement. Before any further funding is dedicated to the mental health system in Arizona, DHS should be able to clearly demonstrate the benefits of new funding which, under the Governor's proposal, will have increased at unprecedented rates.

Arizona State Hospital

Laws 2000, Chapter 1 appropriated \$80 million for the construction of new facilities at the Arizona State Hospital (ASH) campus.

During the next biennium, new adolescent and adult civil hospitals will provide in-patient care for 16 and 200 patients, respectively. The design of the new structures will contrast sharply with existing facilities, some more than 50 years old, and will provide dramatically improved therapeutic atmospheres.

Considerable effort has gone into planning and design to ensure that the environment supports conventional living patterns, where patients reside in one area and move to another for treatment, recreation and education. Equal consideration has gone into interior and exterior spaces. While outside, patients will be able to enjoy greenbelts, ramadas and a swimming pool, among other amenities. A mall concept has been pro-

posed that would support a coffee shop, a bank and other facilities that are typical in daily life outside of institutional settings.

In addition to therapeutic advantages, the new buildings will be superior from the caretaker's point of view. With emphasis on line-of-sight, patient movement within the structures, and patient and staff safety, the new structures will allow for lighter staffing than is currently possible.

After many years of promoting new facilities for ASH, the Governor will be proud to see her vision come to fruition with the opening of the new buildings. Occupancy is planned for the adolescent hospital in June 2002, and the adult civil facility will open its doors September 2002. The Executive Budget includes an additional \$4.2 million and 67.5 FTE to support the expanded civil hospital capacity that will result from the new facility.

Arizona Community Protection & Treatment Center

The Arizona Community and Protection Center (ACPTC) provides housing and treatment for individuals frequently termed "sexually violent persons" (SVPs).

When the program began in September 1997, it was believed that the census would increase at a rate of 60 per year. The FY 2001 budget was designed to accommodate a census of 212. However, with a history of more

than three years, the program has demonstrated a growth rate of less than 40 per year, and as of December 1, 2000, the census had reached 129, or just 60% of the FY 2001 budgeted amount (*see table below*).

Historical Growth Rates

Time period	Monthly increase
Last 6 months	2.1
Last 9 months	2.4
Last 12 months	1.7
Last 18 months	2.4
Total average growth	3.3

Arrival at the ACPTC reflects a lengthy filtering process. From September 1997 through June 2000, DOC identified 2,455 inmates as potential SVPs. Of this number, 147 or 6% were housed at ACPTC, and ultimately 30 were released (*see table at bottom left*).

Because the census continues to grow at a less-than-expected rate, the Governor seeks to align funding to actual census levels by recommending \$721,600 and 14.0 FTE for FY 2003.

Statutory change. Finally, the Executive recommends a statutory change that would specify a maximum capacity for the ACPTC's less restrictive alternative (LRA) population. The ACPTC program cannot accommodate an unrestricted number of LRAs. A proposed limit would align with Laws 1999, Chapter 255, which restricted the number of individuals that could be admitted to ASH's Restoration to Competency (RTC) program.

Assurance & Licensure Services

The Assurance & Licensure Services (ALS) Division of the Department of Health Services (DHS) continues to endure staffing shortages that compromise ALS's principal function: to protect the health and welfare of Arizonans who are dependent on licensed health and child care facilities.

The personnel deficiency is evident. As of October 1, 2000, more than 21% of 5,800 licensed facilities had not received an ALS annual inspection as required by licensure standards. To ensure that ALS receives the resources required to adequately fulfill its responsibilities, the Executive recommends 27.5 FTE positions and \$2 million for FY 2002, and \$1.8 million for FY 2003.

Three-quarters of the funding, or \$1.6 million in FY 2002 and \$1.5 million in FY 2003, would fund 27.5 additional staff positions, primarily to address inspection and complaint backlogs. An additional \$343,400 is considered critical to adequately fund the Department of Administration's Alternative Salary Plan, which minimizes compensation discrepancies between public and private sectors and addresses artificial inequities among similar licensing staff positions within the division that have evolved from outdated, historical compensation practices. The pay adjustments, which average \$2,700 per employee, would affect 129 positions.

Newborn Screening Program

Within the first week of a newborn's life, the Newborn Screening Program routinely tests for seven life-threatening and severely debilitating metabolic diseases. Once identified, these conditions can be treated with medication, dietary adjustments and other therapies.

The Executive recommends adding a test for Congenital Adrenal Hyperplasia. CAH is a disorder that produces irregular amounts of hormones. In extreme cases, CAH can result in

Filtering Process: DOC to ACPTC

	People	Rate
Number of inmates released w/ evidence of a sex offense & whose cases were reviewed by DOC Staff for SVP or sex offender violations	2,455	
Number with convictions listed in SVP, sex offender registration, or sex offender community notification statutes	1,716	70%
Number referred to DOC psychologists or psychiatrists for mental health evaluation	1,210	49%
Number who were referred to county attorneys	203	8%
Number who were referred for probable cause hearing	151	6%
Number referred to ACPTC	147	6%
Number released from ACPTC	-30	
Total as of June 2000	117	5%

extreme dehydration and heart failure, both of which may lead to death within days of birth. Without testing, the condition may remain undetected for years, ultimately resulting in severe deformities and health problems that require extensive surgeries and costly treatment later in life.

CAH screening is routinely administered in 20 states. By employing this test, Arizona will be timely in its implementation of a procedure that will eventually become standard nationwide.

The Executive recommends funding of \$300,000 in FY 2002, a third of which is for rules changes, data management, and development of counseling procedures for parents of children with CAH. For FY 2003, the Executive recommends \$200,000.

Children's Rehabilitative Services

The Children's Rehabilitative Services program provides critical care to children with multiple and severe congenital abnormalities. In FY 2000, the program served approximately 3,400 children.

To provide quality care and accountability, DHS - in conjunction with the Governor's Office and AHCCCS - has transitioned payments to service providers from flat-contract reimbursement to a capitated system. The new payment methodology will enable the Department to respond to changes in treatment costs and shifts in patient acuity.

Based on actuarial assumptions developed by independent consultants, anticipated inflation rates and projected client levels, the Executive recommends an additional \$1.8 million in FY 2002 and \$1.9 million in FY 2003 for the Title XIX program.

Funding for AHCCCS Acute Care (Pre-Prop. 204 Waiver)

General Fund increases over FY 2001 appropriation, in millions of dollars

	FY 2001	FY 2002	FY 2003
TANF/SOBRA Caseload & Inflation	\$12.3	\$33.4	\$51.1
MN/MI Caseload and Inflation	7.6	39.6	48.2
Emergency Services	5.3	13.6	21.7
All Other Acute	21.8	41.5	58.8
ALTCS	-4.3	14.7	30.2
Administration	0.0	4.0	7.6
Total	\$42.7	\$146.8	\$217.6

AHCCCS Acute Care

While Prop. 204 will increase the number of people enrolled in AHCCCS through expanded eligibility, the existing program continues on an upward trend that began in FY 2000. Caseload growth and rising medical costs are the mitigating factors for AHCCCS budget growth for FY 2002 and FY 2003.

The FY 2002 budget reflects an increase of \$146.8 million or 28% in General Fund, and the FY 2003 reflects \$217.6 million over FY 2001 for two-year growth of 41%. Both of these amounts reflect changes in funding prior to the assumption that a waiver is obtained in support of Prop. 204. The existing overall AHCCCS caseload is projected to increase by 16.7% in FY 2002 and by 3% in FY 2003, for a two-year increase of 20% over the biennium.

Growth in the Temporary Assistance to Needy Families (TANF) population is the primary driver of caseload growth in this population. In the first three months of FY 2001, the TANF population increased by an average of 6,700 enrollees per month. This population is expected to increase by 37% in FY 2001 over the previous year, by 10.8% in FY 2002 and by 6% in FY 2003.

Federal welfare reform in 1996 de-linked TANF Cash Assistance and Medical Assistance. Clients who disenroll from TANF Cash Assistance are eligible for 24 months of medical coverage through the Transitional Medical Assistance (TMA) program. De-

spite continued eligibility for medical benefits, the TANF population experienced a significant decline from FY 1996 through FY 2000. Beginning in FY 2000, system and process improvements at Department of Economic Security eligibility offices resulted in more TANF-eligible clients receiving medical benefits.

A portion of the growth in TANF is attributable to a shift in enrollment from the Sixth Omnibus Budget Reconciliation Act (SOBRA) Women and Children populations to the TANF population. The result is an increase in the overall population, because rather than just a pregnant woman or child enrolled in the SOBRA program, the entire family is enrolled in TANF.

MN/MI

Almost half of the State match increase in the acute care program over the biennium is attributed to the Medically Need/Medically Indigent (MN/MI) population. MN/MI is a \$156 million, 100% State-funded program that allows individuals to spend-down their resources on medical bills in order to qualify for the program. Again, these assumptions state the budgetary impact prior to reflecting the budget with a federal waiver for the expansion of Prop. 204. MN/MI cases are generally catastrophic and more costly when compared to other AHCCCS populations.

MN/MI enrollment has been dropping since 1994, but as that population declines the remaining population has a higher level of acuity

or need for services. As enrollment declines, expenditures per enrollee increase.

To address the increasing cost, AHCCCS provided double-digit increases to the capitation rates paid to health plans each year since 1998. In FY 2001, the MN/MI capitation rate increased by 23% for “regular” member-months and 79% for “prior period” member-months. The “prior period” occurs at the beginning of the enrollment period for each new client and is costly due to the catastrophic nature of the population.

Prop. 204 allows for the federalization of the MN/MI population. In FY 2002 approximately 65% of the cost of the MN/MI population will be funded using federal Title XIX revenue, and the State match will be funded using Tobacco Settlement revenue.

Emergency Services

The Emergency Services Program (ESP) serves, on an emergency basis, individuals who would qualify for the AHCCCS population if not for their undocumented alien status.

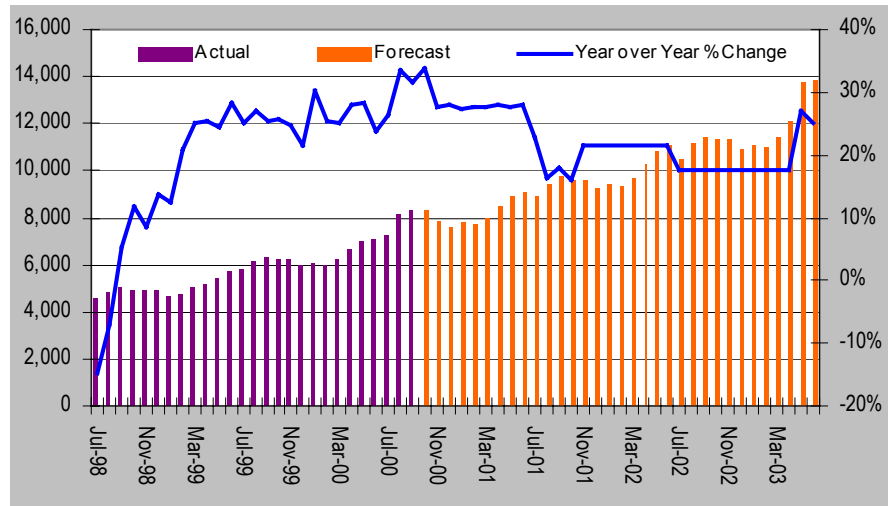
The program contains two components: the Federal Emergency Services (FES) population and the State Emergency Services (SES) population.

FES enrollees are those who would be eligible for a Title XIX program (such as SOBRA) if they met the citizenship requirement. Approximately 90% of FES cases are maternity cases. The FY 2002 budget assumes a 21% increase in FES enrollment; for FY 2003, the assumption is for 18% enrollment growth.

SES enrollees are those who would be eligible for the State-only MN/MI program if not for their undocumented alien status. Similar to their MN/MI counterparts, the cost of serving SES enrollees is increasing in spite of relatively little change in the caseload. Caseload and inflationary growth account for \$13.6 million Gen-

Emergency Services Program Enrollment

July 1998 through July 2003



eral Fund in FY 2002 and an additional \$8 million in FY 2003, for a two-year increase of 57%. In total, the State will be spending an estimated \$132 million (\$59.5 million General Fund) by the end of FY 2003 for emergency services for undocumented aliens.

KidsCare

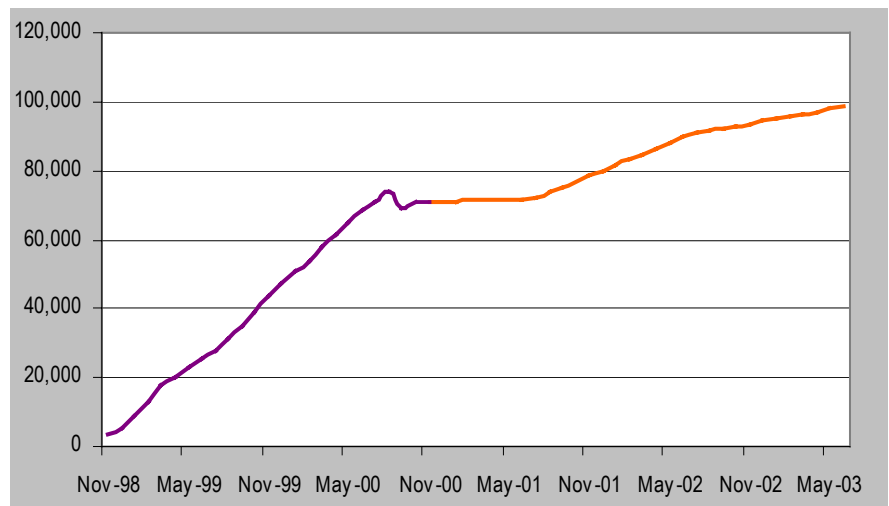
On November 1, 1998, KidsCare - a Title XXI program administered by AHCCCS - officially began in Arizona. KidsCare funds health care services for children whose families cannot afford those services but are not eligible for AHCCCS.

To be eligible for KidsCare, a child must be age 18 or younger and come from a household with an income at or below 200% of the FPL. The federal government provides a 76% match rate for the KidsCare program and administrative expenditures up to a prescribed allocation. Arizona’s allocation for the five-year period FY 1998 through FY 2002 exceeds \$600 million.

The KidsCare enrollment trend shows a 40% presentation rate among the eligible population. However, KidsCare’s success is measurable not only by the number of children enrolled, but also by the number of chil-

KidsCare Enrollment

With “woodwork” effect, November 1998 through August 2003



dren currently receiving health care coverage as a result of applying for the program. The AHCCCS acute care program has experienced an increase in enrollees as a result of the “woodwork” effect associated with KidsCare. To date nearly 87,000 children have been approved for health coverage.

During the first two years of the KidsCare program there has been nearly one “woodwork” enrollee for every KidsCare enrollee. However, the woodwork effect is not expected to continue at this pace; it should slow as the KidsCare program becomes more established.

The Executive recommendation assumes 15% enrollment growth in FY 2002 and 17% enrollment growth in FY 2003.

Serving those in need

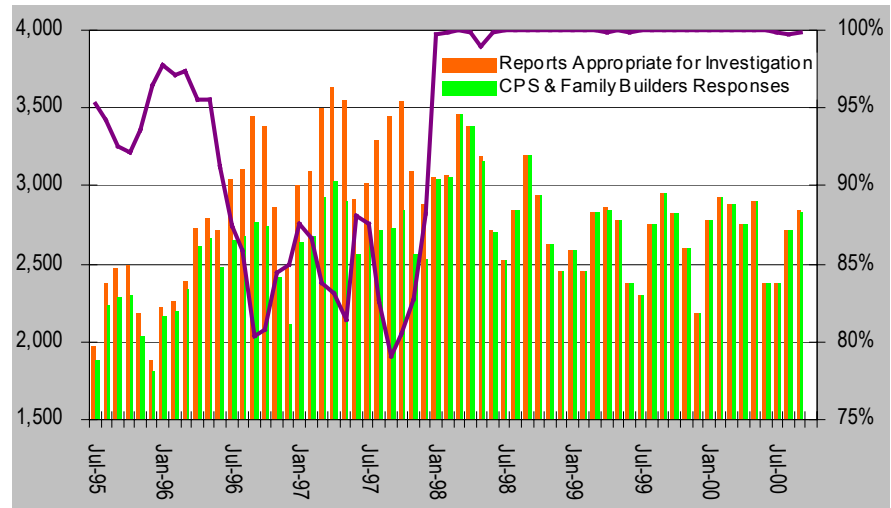
The Department of Economic Security (DES) manages an array of social services that protect and offer services to those in need. The FY 2003 DES budget, based on the Executive recommendation, is \$62.8 million, or 14%, higher than the Fiscal Year 2001 appropriation.

Child Protective Services. Among Governor Hull’s successes is a dramatic improvement in the response rate to child abuse cases: at least 99.7% in each month since the fall 1997 special session.

While the Child Protective Services caseload has declined, the Executive believes additional steps must be taken to improve the program’s effectiveness. The Executive recommends 47 FTE positions and \$3.1 million for a CPS Training Academy. Thirty-five of the new positions will serve as a pool of candidates to fill vacancies after DES implements a 20-week training course for new CPS III employees. The recommendation provides funding for an annual advanced skill-building course for CPS staff for five days each year.

Child Protective Services Response Rates

July 1995 through September 2000



In addition to the Training Academy, the Executive Budget includes an additional 28 FTE and \$4.5 million over the biennium to lighten the average caseload for each case manager. The Child Welfare League of America has established a standard of 1 case manager to every 15 cases as the high-end of the accreditation range.

TANF. The Executive recommendation regarding Temporary Assistance for Needy Families (TANF) programs was developed under the mandate to preserve a significant fund balance. At the same time, critical programs must continue or be enhanced so that additional individuals can be moved from welfare to work.

At the end of FY 2000 it was projected that Arizona’s TANF reserve was more than \$90 million. Even with a number of program modifications, the Executive Budget reduces this level of reserve to just over \$40 million.

It is important to note that the State will adopt a budget at the same time that Congress is debating the reauthorization of this program. That creates a large amount of uncertainty regarding future levels of funding.

As depicted in the graph at the top of the next page, there have been two

significant trends with regard to TANF monies:

- First is the large reduction in funding required to maintain the cash assistance program. The number of individuals in this program has been reduced by over 40% since 1996.
- Second is a dramatic increase in Child Care funding. Since Governor Hull has assumed office, Child Care funding has increased by over \$30 million.

The Executive Budget continues this trend with a further biennium reduction of \$21 million for Cash Assistance and a Child Care increase of \$14 million. The recommendation also includes \$3 million over the biennium to assist with a new program for school-age Child Care.

As part of developing a plan that provides a reasonable federal reserve, the Executive Budget also eliminates several programs that will yield \$30 million in TANF savings over the biennium.

Adoption Services caseload. One of the other success stories is the dramatic increase in adoptive placements. To further assist in this effort, the Executive Budget includes funding increases in services and in case managers.

For FY 2002, the recommendation includes a \$2.9 million appropriation from the General Fund for Adoption Services. The Executive anticipates a 20% caseload increase in FY 2001 and a 16% increase in FY 2002. The appropriation would provide services to 5,944 children at a General Fund cost of \$296 per child per month. The recommendation is a 16.1% increase over the \$18.2 million appropriation for FY 2001.

For FY 2003, the recommendation includes an additional \$2.1 million from the General Fund. The Executive anticipates a 10% increase in the caseload in FY 2003. The appropriation would provide services to 6,540 children with no change in the monthly cost per child.

Despite a 20% increase in the Adoption Services caseload – a rate that should continue in FY 2001 -- the Adoption Services program has not received any new case managers beyond its original thirteen.

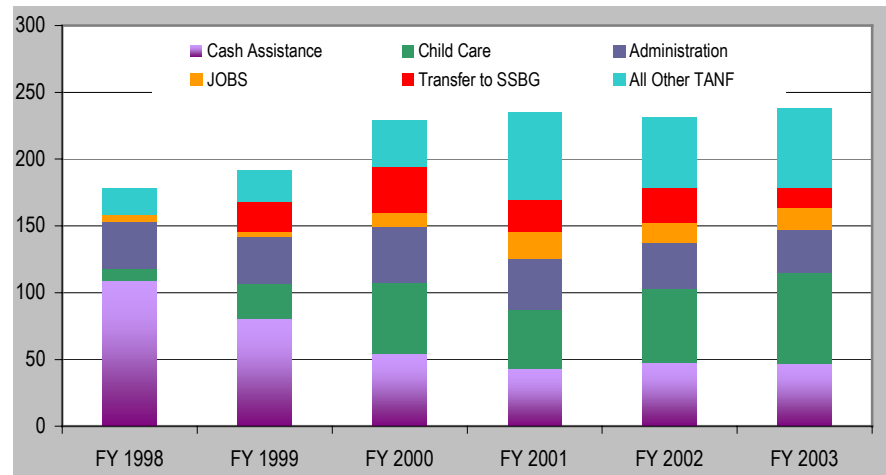
For FY 2002, the Executive recommends 11 additional total-fund FTE positions for adoption case managers. The additional FTE would allow the Division of Children, Youth and Families to maintain a ratio of 1 caseworker for 250 children, and there would be a total of 24 adoption caseworkers. The recommendation includes 9.4 FTE positions and \$398,400 from the General Fund and \$53,700 from the TANF Block Grant.

For FY 2003, the Executive recommends two additional total-fund FTE positions. With those positions, the Division would be able to maintain the same ratio, and there would be a total of 26 adoption caseworkers.

Developmental Disabilities. The Title XIX Long-Term Care program for the developmentally disabled (DD) will receive the largest percentage increase of any DES program over the next biennium. The Executive rec-

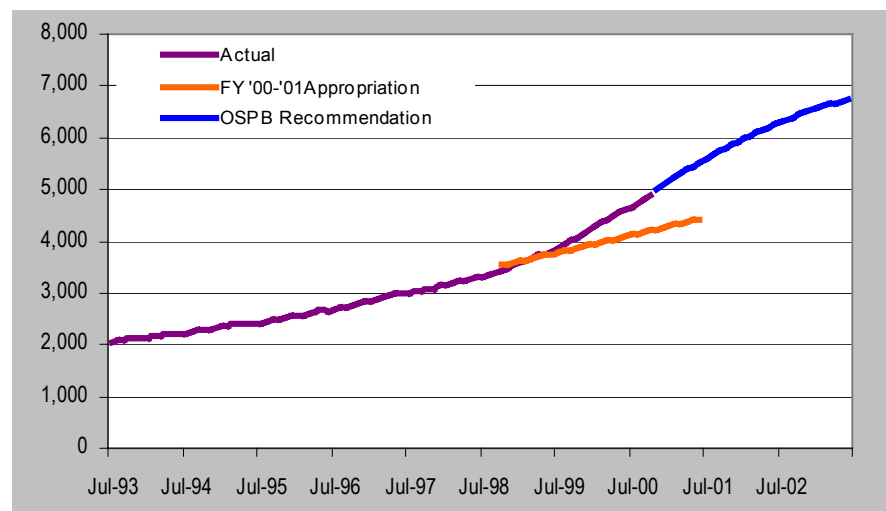
TANF Expenditures and Executive Recommendations

In millions of dollars, FY 1998 through FY 2003



Adoption Services Caseload

July 1993 through November 2000



ommendation provides \$101 million in FYs 2002 and 2003.

Caseload growth in the program has increased by 10% each year since FY 1997, and that trend is expected to increase through FY 2003. By the end of FY 2003, it is estimated that over 15,000 individuals will receive DD services. The Executive recommendation also assumes a 5% capitation rate increase in each year of the biennium. In recent years the capitation rate has increased by 5% to 8% each year.

The increased participation is considered the result of improved outreach and diagnosis programs, in addition to the fact that this population historically has been under-represented.

Conclusion

As described here, the Executive Budget with regard to health and welfare contains a number of critical funding issues and programs that are vital to providing services to the less fortunate among us. •

Protecting Arizona citizens

Crime prevention and inmate incarceration are essential to preserving the state's quality of life

WORKLOAD INCREASES AT THE DEPARTMENT OF PUBLIC SAFETY (DPS) demand expansion of Arizona's Highway Patrol, while lower population growth at adult and juvenile correction facilities offers opportunities to delay bed openings and address important infrastructure and compensation issues.

Highway Patrol

Arizona's explosive population growth has been reflected in both the population and the physical size of Phoenix and Tucson.

While Tucson has chosen not to significantly increase its freeway miles, metropolitan Phoenix is in the midst of substantial freeway expansion. According to the Department of Transportation (ADOT), from 1995 to 2002 the number of Phoenix-area lane-miles will increase by 21%.

However, despite the incredible growth in roads to be patrolled, only four Highway Patrol officers have been added in Arizona's metropolitan areas since 1988.

Highway Patrol officers have endured a dramatic increase in workload (see graph above right). In the last five years, the number of highway miles traveled in Arizona has increased by 37%.

During the same period, the number of accidents on greater Phoenix highways patrolled by DPS has increased by 57%, and the number of vehicle breakdowns for which DPS officers are responsible has increased by 9%.

Essentially, officers have been forced to frequently respond from one accident to another causing traffic enforcement to suffer. Over the last several years, the number of traffic stops is down by 10% , the number of

arrests is down by 40%, and the time available to deter dangerous driving has fallen dramatically.

Without additional officers, by the end of Fiscal Year 2003 DPS's available patrol time will fall to zero (see bottom graph).

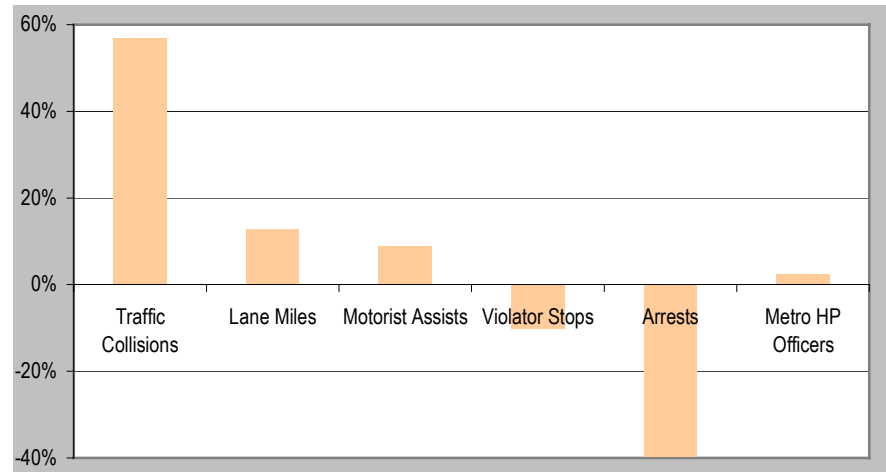
The Police Allocation Model adopted in 1991 incorporates this workload data and highway mileage information to determine minimum



patrol staffing. Using this model, the budget recommendation adds 58 fully equipped officers (with vehicles) each year, costing \$12.5 million, for a total over the biennium of 116 officers for the Phoenix and Tucson areas. The

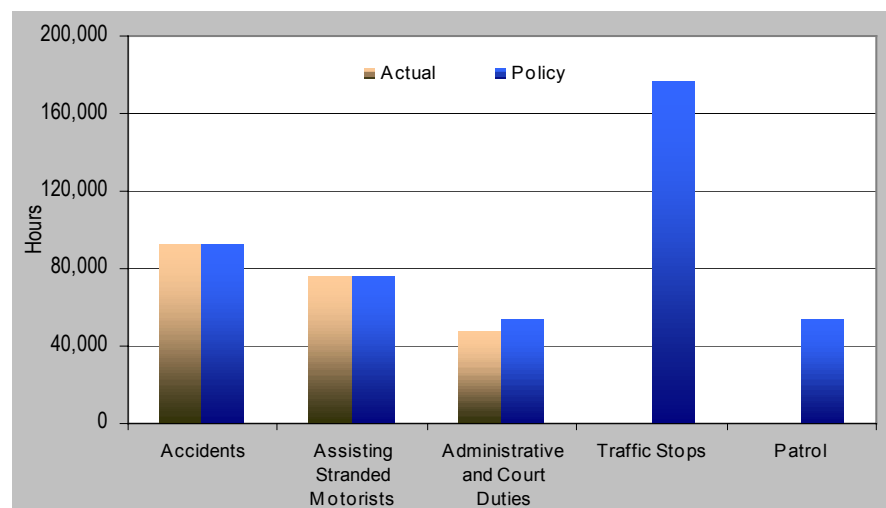
Highway Patrol Workload Factors

Percent Change, FY 1995 through FY 2000



Patrol Officer Time Allocation (No New Officers)

Metropolitan Phoenix FY 2003 Projection



Executive also recommends an increase of 17 support staff over the biennium to provide the dispatchers, mechanics, laboratory personnel and pilots needed to support the new officers.

In addition to the number of officers needed to patrol the roadways, Arizona's Highway Patrol cars have been aging in recent years without adequate funding for replacements. More than 30% of the Highway Patrol's 820 vehicles are beyond the 100,000-mile replacement standard. To address this problem, the Executive recommendation replaces 174 fully equipped patrol vehicles in FY 2002 and another 200 cars in FY 2003, for a total cost over the biennium of \$11.7 million. By the end of FY 2003, the recommendation is expected to reduce from 269 to 69 the number of vehicles that exceed the 100,000-mile standard (see graph below).

The Executive recommendation for FY 2003 also includes replacement of a DPS helicopter by lease-purchase over three years, with a cost in FY 2003 of \$600,000. As of November 2000, the helicopter to be replaced had 10,800 hours, which exceeds the 10,000-flight-hours replacement standard.

Crime Lab

Laws 2000, Chapter 373 requires that, starting on January 1, 2001, the DPS Crime Lab will add murderers, plus criminals convicted of first- and second-degree burglary, to the statewide DNA database. The same legislation requires that, on January 1, 2002, persons convicted of a crime involving a dangerous weapon or causing serious injury will also be added.

The Executive recommends \$1.1 million to collect blood samples from prisoners convicted of *any* crime (except DUI or drug possession) and who have been committed to the State prisons. This will allow the sample to be added to the State DNA database and to be compared with DNA evidence from outstanding cases in federal and other state databases, thus ensuring that the inmate is not a suspect in another crime before he or she is released from prison.

The Executive recommendation will build the Arizona database by an estimated 10,000 samples a year, providing Arizona law enforcement with an important tool to solve crimes and prosecute suspects.

The Executive recommendation for FY 2003 provides, for the first time, funding in the amount of

\$200,000 to test cases for which there are no suspects. Private labs would analyze biological samples in an estimated 133 cases a year, the results of which would be added to the database and then periodically run against both the Arizona offender DNA database and the national DNA database.

To date, approximately 15 hits have been made by running Arizona evidence against the DNA databases, providing vital evidence and suspects in previously unsolved cases.

The DPS Crime Lab has a growing backlog of drug and blood alcohol analysis. Delays in analysis increase court backlogs, threatening dismissal of cases.

The Executive recommends increasing Crime Lab staff by six criminalists in FY 2002 and five more in FY 2003.

GITEM

In recent years, the Gang Intelligence and Team Enforcement Mission (GITEM) has seen an erosion of its budgeted officer pay.

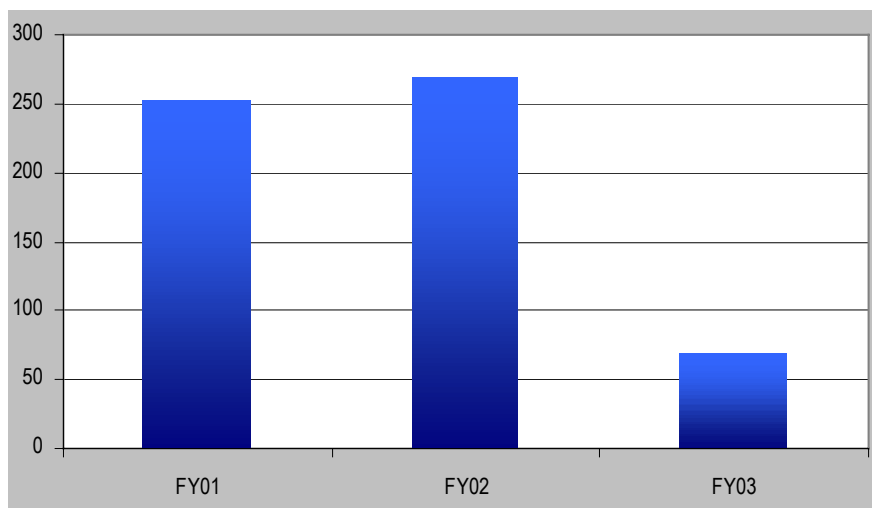
This specialized successful unit consists of officers from law enforcement agencies throughout the State. These agencies have granted pay increases to their respective officers which has not been reflected in the GITEM budget, forcing the program to hold other agency positions vacant.

To address this problem in FY 2002, the Executive recommends \$469,100 in new funding for positions filled by other law enforcement agencies. There is currently no local match; the Executive recommends that, starting in FY 2003, other agencies recognize the value of GITEM in their communities by providing a 15% match to the State funding of participating officers.

Also for FY 2003, the Executive proposes a budget for replacing GITEM vehicles and increasing funding for officer overtime.

Patrol Vehicles With Over 100,000 Miles

Per the Executive Recommendation



Adult corrections

The rapid growth experienced by the State prison system during the last decade has slowed considerably in the last 18 months (see graph at right).

In FY 1998, inmate population growth at the Department of Corrections (DOC) was averaging 150 inmate per month. In FY 2000, the rate of growth had dropped to an average of 19 per month. The first five months of FY 2001 showed increases in the growth rate at 53 inmate per month.

Because of the ramifications of planning, building and operating prisons, the Executive is recommending a cautious and flexible approach to corrections funding during the next two years.

The Executive budget assumes inmate growth of 75 per month, with provisions for additional funding if inmate growth is substantially more. There are also provisions for reallocating some of the funding if growth remains below 50 inmates per month.

The slower growth in recent years allows delays in opening and purchasing beds:

- The last 350 beds at the Lewis complex, originally scheduled to open in March 2000, are recommended for a 29-month delay.
- Four hundred private DUI beds, originally scheduled for purchase in June 2000, are recommended for a 30-month delay.
- One thousand private beds, originally scheduled for purchase in June 2001, are recommended for a 24-month delay.

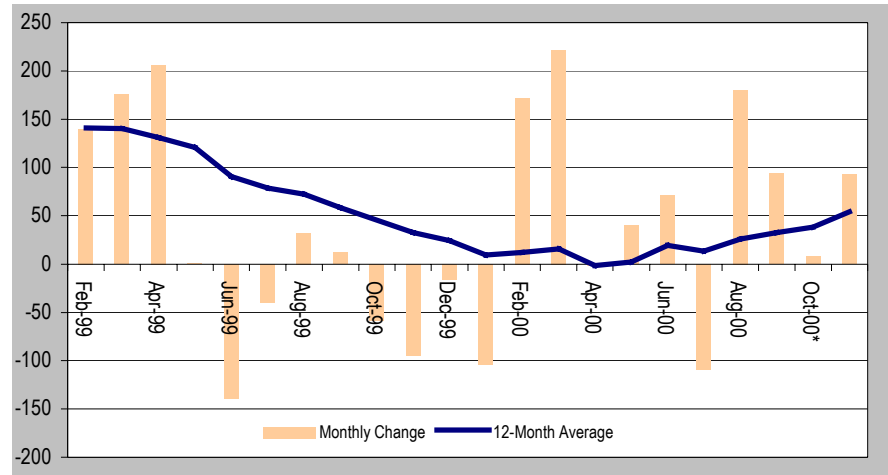
All opening dates are determined by when DOC is expected to have a bed deficit of 2,000 beds (see table below).

Opening Dates of New DOC Beds

	132/month, current budget	75/month, proposed base budget	100/month, proposed contingency
350 Lewis-Rast Beds	March 2000	August 2002	February 2002
400 Private DUI Beds	June 2000	December 2002	June 2002
1,000 Private Beds	June 2001	June 2003	October 2002

DOC Monthly Inmate Population Changes

February 1999 through November 2000



The budget also recommends that flexibility be provided to the Department should inmate growth significantly exceed expectations. The Executive Budget includes language that would allow the Director to use up to \$21 million in Correction Fund monies should prison facilities be required at an earlier date.

If growth continues at a rate of 75 inmates per month, the Executive proposes that construction begin on the new prison complex in January 2002. It is expected that the first new beds at the new complex will open two-and-a-half to three years after construction begins. However, because of the slowdown in growth, funding for construction of the new complex can be stretched over a longer period of time and no longer requires a General Fund contribution (see "Capital Outlay" section).

This time period of slower inmate growth and delayed openings has enabled the Corrections Fund to accumulate a fund balance. The Executive Budget includes \$11 million in

funding for the maintenance of Correction facilities. DOC has plant assets that exceed \$1 billion. By funding 100% of the Building Renewal formula, DOC will have a dedicated resource to improve and update facilities.

In addition to providing funding for the continuation of the existing Correctional Officer pay plan the Executive Budget contains \$43.0 million in funds to provide a \$4,000 pay increase to all Correctional Officers and their immediate supervisors. Overall vacancy rates remain dangerously high in a number of institutions and all efforts must be made to ensure that appropriate staffing levels are maintained.

Reception center. The Executive also recommends funding for the research necessary to enable the Legislature to site a new DOC Reception and Diagnostic (R&D) Center.

All new inmates pass through the R&D Center when they arrive at the State prison system. For now, DOC is forced to use inadequate facilities at the Arizona State Hospital (ASH). The Executive wishes to move the R&D Center away from ASH in the near future.

Juvenile corrections

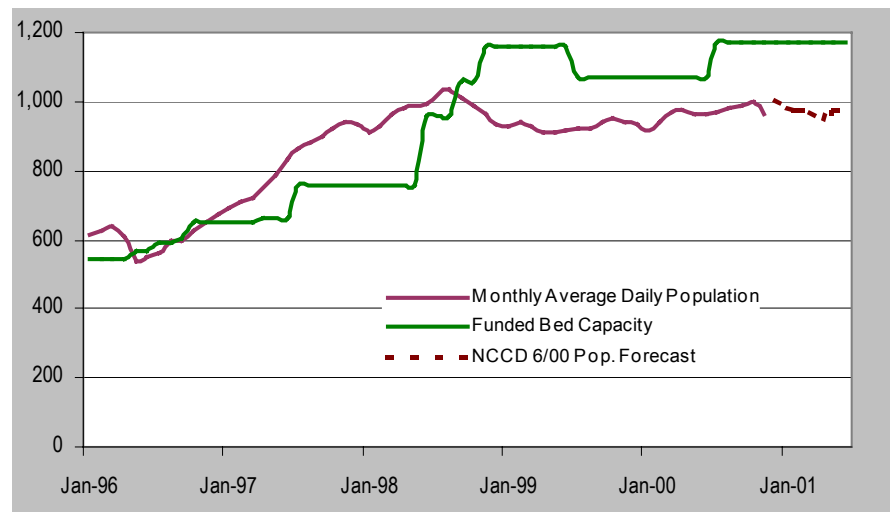
The Department of Juvenile Corrections (DJC) experienced tumultuous increases in population at their secure-care facilities during the two-year period from March 1996 to April 1998, with the average daily population rising from 538 to 1,037. Subsequently, the number of juveniles has declined slightly and now increases at a much more predictable rate. It is worth noting that DJC has also successfully been vacated from *Johnson v. Upchurch*, a federal case that lasted 12 years and was finally resolved in May 1999.

During the period of rapid population growth, the annual operating budgets and the number of facilities were also increasing. But the slowdown of the last 18 months allows for a reduction of 150 funded beds and savings of \$7.6 million over two years.

Similar to the Department of Corrections, the budget includes \$1 million in funding over the biennium in Building Renewal maintenance funds. Over the past several years the state has spent millions improving the DJC infrastructure and facilities. One hundred percent funding of the formula from the Corrections Fund will help maintain that investment.

Finally, \$1.6 million is recommended over the biennium to provide travel stipends in an attempt to recruit and retain staff for the facility near Buckeye. •

DJC Population: Current and Forecast as of December 1, 2000





The next step: improving customer service

Every agency's mission is to deliver the highest quality of courteous, efficient and cost-effective service to the citizen-owners and employees of State government

- merit- and incentive-based pay,
- classification funding,
- retirement incentives,
- targeted pay adjustments, and
- funding for the employee compensation package.

Employee compensation package.

As detailed below, the Executive Budget contains \$290 million to address compensation issues. Adding specific agency recommendations not reflected in this table, that amount exceeds \$300 million.

After several years of compensation packages that have not kept pace with inflation - much less remain competitive with the private sector or other political subdivisions - it is imperative that a significant pay plan be developed for State employees.

Based on a Department of Administration (ADOA) study, compensation in the ADOA Personnel System is, on average, 13.2% below market. It is no coincidence that State government suffers from a turnover rate approaching 18%.

Millions are spent annually recruiting and retraining employees. The public demands that State government provide quality levels of service, yet it is difficult to meet those demands when necessary positions are vacant.

Cost of living. The Executive recommendation includes \$87.2 million over FYs 2002 and 2003 for cost-of-living adjustments for the ADOA Personnel System.

While merit pay is an important component of any compensation plan, improvements must be made to entry-level salaries: That is where State government is least competitive and one of the reasons that such a large percentage of employees are lost in the first four years of service.

The increased funding would provide for a 4% increase on January 1, 2002 (from a \$1,500 minimum to a

ONE OF THE MOST IMPORTANT ROLES of the Executive Branch is to ensure that State government is efficiently and effectively providing appropriate, essential services to its citizens, in a manner that meets or exceeds the expectations of the people who rely on those services.

This Executive Budget contains many initiatives designed to fulfill that mission. The majority of the initiatives target three central themes, employee compensation and training, Information Technology investments, and customer service improvements.

Employee compensation and development

No public- or private-sector employer can achieve consistent success unless it attracts, trains, motivates and retains top people.

Improving State employee pay is one of the Governor's top priorities. The Executive recommendation for Fiscal Years 2002 and 2003 contains a number of proposals that provide:

- across-the-board pay adjustments,

Employee Compensation

In millions of dollars

	FY 2002	FY 2003	Biennium
ADOA			
1-1-02: 4% (\$1,500-\$3,500)	21.7	43.0	64.7
4-1-02: 2% merit	3.4	13.5	16.9
1-1-03: 5%		22.5	22.5
4-1-03: 2% merit		3.5	3.5
Correctional Officers addition	6.6	10.9	17.5
Subtotal ADOA	31.7	93.4	125.1
Universities/Other Systems			
1-1-02: 4%	18.0	36.0	54.0
1-1-03: 5%		22.5	22.5
Subtotal U's/Other	18.0	58.5	76.5
CMR/Retirement			
1/1/02	2.5	5.0	7.5
1/1/03		2.5	2.5
Retirement incentives		5.0	5.0
Subtotal	2.5	12.5	15.0
Total New Pay	52.2	164.4	216.6
H&D Adjustments			
10-1-01	18.7	32.9	51.6
10-1-02		10.4	10.4
Subtotal	18.7	43.3	62.0
Other Adjustments			
Elected Officials rec	1.1	1.4	2.5
1-1-01: CMR approved	4.5	4.5	9.0
Subtotal	5.6	5.9	11.5
Total Funding	76.5	213.6	290.1

\$3,500 maximum), and a 5% increase on January 1, 2003.

Merit pay. The Executive recommendation provides \$20.4 million for a 2% merit increase for ADOA Personnel System employees on April 1 in Fiscal Years 2002 and 2003. This will mark the sixth consecutive year of merit funding structured to reward the most valuable and productive employees.

Universities and Other Systems. Aside from the ADOA system, thousands of State employees and supervisors face similar compensation dilemmas. The Governor has recommended that those systems be allocated \$76.5 million over the biennium. The recommendation provides the flexibility for each of those systems to determine what type of allocation best addresses their needs.

Classification reviews/retirement. While not as significant as the other funding amounts, \$15 million is recommended over the biennium to provide for specific classification adjustments and retirement incentives. A number of worthy ideas have been suggested to enhance recruitment and retention, offering a greater incentive to spend more years serving the State.

Due to the passage of Laws 2000, Chapter 37, 2nd Regular Session ("HMO Reform"), providers were able to increase health and dental premiums beyond the premium caps established in the existing contract. The Executive recommends \$62 million to cover the anticipated increased premiums. In order to minimize the potential increase in premiums, ADOA will issue a new Request for Proposal (RFP) for health and dental benefits.

Corrections pay plan. In FY 2000, a \$14.3 million pay plan for Correctional Service Officers (CSOs) was funded to match the salary structure provided to Maricopa County officers. In addition, the Department of Corrections (DOC) offers a bonus to those employees willing to work at the Lewis complex.

Even with those changes, DOC continues to suffer from a high vacancy rate. While the overall CSO vacancy rate is 18%, at some prisons it is as high as 44%. The high number of CSO vacancies has been especially harmful at the Florence, Eyman and Lewis complexes. In fall 1998, ADOA authorized the use of a 10% geographic stipend for those three facilities.

Resources must be provided so that this critical government function can recruit needed personnel. The Executive Budget provides \$17 million in additional funding so that by January 1, 2003, CSOs and their immediate supervisors will receive a \$4,000 increase over their current pay.

Agency pay plans

ADOT engineers. Arizona Department of Transportation records indicate turnover rates for engineers and other technical staff for calendar years 1998 and 1999 were, respectively, 11.2% and 12.6%.

Numerous issues have created an environment where staff members in these classifications are leaving the Department for higher paying jobs. These issues include:

- the expanding Arizona economy,
- the tight labor market,
- the State's efforts to accelerate construction of the regional freeway system, and
- increased federal spending on highway reconstruction.

ADOT implemented an alternative pay plan effective January 1, 2000. It calls for 10% salary increases for eligible participants in Phase I and 5% increases in Phases II and III. Phases II and III would go into effect in FY 2002 and 2003, respectively. To participate in this Plan, eligible employees are required to give up merit system protection.

The alternative pay plan appears to be having the desired effect: From January 1, 2000, through April 30,

2000, the average turnover rate has dropped to 10.7%.

To continue the reversal of the turnover trend, the Executive Recommendation provides \$2.3 million through FY 2003 to support the Department's phase two and three efforts to attract, retain and motivate its technical labor force.

Attorney General. In an operation as diverse and complex as the State of Arizona, receiving quality legal representation is vital. A total of \$7.5 million has been provided to help the Attorney General attract and retain top legal experts. This recommendation would compensate attorneys at an average pay that falls between Maricopa County and the federal government.

DHS surveyors. The State recently developed an alternative salary plan (ASP) to address the difficulty in recruiting nurses.

While the ASP has elevated nursing salaries overall, significant discrepancies remain between licensing and surveyor positions at the Assurance and Licensure Division and similar positions within Child Care Licensure, Behavioral Health Licensure and Assisted Living Licensure.

To restore salary equity, adequately compensate key surveyor positions, and create a career ladder, the Executive provides \$231,500 from the General Fund. When matched with federal funding, the amount would provide \$343,500 to equalize surveyor salaries and increase pay by 2.5% for key positions.

DEQ. Between January and September 2000, the Department of Environmental Quality lost 108 employees from its 750 positions. With a turnover rate of 19.2%, DEQ has become an expensive training ground for the benefit of other political subdivisions and the private sector.

With the requirements of licensing timeframes and the complicated issues that DEQ encounters on a daily basis, pay levels have resulted in the Department losing hundreds of years

of State service and institutional knowledge.

The budget includes \$1 million in new funding for DEQ to implement a performance-based incentive pay plan. DEQ recognizes that establishing a quality professional development and management training program for its managers and employees is as important as salary increases in retaining quality staff.

To assist DEQ in attaining its goal, the Executive provides an increase of \$320,800 to establish a training program for professional development and management leadership.

CPS Training Academy. Arizona's children need the best protection possible from abuse and neglect. Case managers experience a high level of stress, and, consequently, turnover is high. Case managers surveyed report that increased pay and training are viewed as positives, resulting in longevity on the job.

The Department of Economic Security (DES) is proposing a Child Protective Services (CPS) Training Academy. The Academy will train case managers in an environment that focuses on issues specific to the business of child welfare as it is carried out in Arizona. The Executive provides \$4 million for the staffing and implementation of the CPS Training Academy.

Information technology

Virtually every day, some aspect of technology reshapes our world. The Executive Budget Recommendation contains several technology initiatives to improve the State's data management and to make public information more readily available to Arizonans.

No Wrong Door. Governor Hull recognizes a significant opportunity for improving the quality of life for underprivileged children and their families by creating stronger ties among the nearly fifty State programs for children and families.

To enhance coordination among those programs, Executive Order 98-8 established the Governor's Children and Family Service Delivery Team. Community and government leaders, the executive directors from DES, DHS, the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Juvenile Corrections, and the Administrative Office of the Courts are working together to leverage existing programs and ensure excellent service. The Government Information Technology Agency (GITA) is responsible for ensuring integration across the agencies is achieved using technology and automation tools.

The Executive has taken a definite leadership position on the provision of children's services. There should be "No Wrong Door" for children and their families who need help. In the next biennium, a computer system will be developed to support the business requirements of the eligibility and assessment functions of service provision. This business strategy is intended to ensure that appropriate services will be available to all eligible children and families, regardless of which door - or which State agency - they initially choose to enter for help.

Data Center consolidation. Integration of computing platforms and leveraging resources to provide more consistent services to customers has become increasingly important in both the public and private sectors.

During the past decade most states have consolidated computer operations and modernized their computing infrastructure. For example, Missouri realigned five data centers into one, with a corresponding annual savings of about \$2.7 million, through reduction in software licensing costs and fewer personnel required to operate the single center.

Arizona operates five separate data centers inside the boundaries of the Capital Corridor in Phoenix. Four of the five are located within a half-mile of each other. Numerous studies

over the past ten years have concluded that the State is not fully leveraging its assets and resources in a manner that benefits the state as a whole.

ADOA has been operating as a computer service center for State agencies since 1972. Agencies that utilize the largest portion of mainframe resources are DOC, ADOA and AHCCCS. DOC and AHCCCS need service 24 hours a day, seven days a week to serve their customers.

In FY 2001, the Executive began the first phase of consolidating the State's mainframe operations in an effort to reduce the State's overall mainframe costs. The Department of Revenue (DOR) and ADOT will both discontinue production on their internal mainframes and begin production at the ADOA data center.

Over the next five years, the State should save about \$1 million from the first phase of this data consolidation effort. While mainframe costs for DOR and ADOT will increase, the other ADOA customers will enjoy a 35% reduction in their data center rates.

Student Accountability Information System. In 1995 the Department of Education (ADE) launched a project to build a Student Accountability Information System (SAIS) with a simple goal in mind: bring financial and academic accountability into the State's K-12 system.

The project began with a successful pilot program in Pinal County, and in 1999 ADE began making payments to schools using the SAIS platform. SAIS is now the platform from which ADE transacts business with every local education agency in Arizona.

Over \$4.2 billion per year is spent on K-12 education in Arizona, and 48% is directly appropriated from the State General Fund. Recently passed Proposition 301 requires specific financial and academic accountability measures for the completion of SAIS, including a July 1, 2001, deadline by which each school district and charter school must submit electronic data on

a school-by-school basis, including student-level data, to ADE in order to receive education funds.

The Executive recommends \$600,000 annually through the General Fund for maintenance costs associated with the first phase of implementation, to commence July 1, 2001. Also included is a continuation of the FY 2001 appropriated amount of \$2.5 million for achievement profile development and, in FY 2003, the advent of solutions teams to assist failing schools.

Electronic government. ADOT's Motor Vehicle Division (MVD) is experiencing 13% annual growth in transactions. This equates to an additional 1.3 million transactions per year.

In order to advance the utilization of emerging technologies, improve customer service and create additional efficiencies, the Executive is providing \$2 million for the biennium. This funding will specifically provide online services that offer customers the convenience of 24-hour service, reduce visits to MVD field offices and provide more cost-effective service delivery. MVD is a national leader and role model for implementing electronic services, including on-line vehicle registrations. The recommendation intends to build on this success and continue Arizona's leadership in the field.

E-government solutions. At DOR, the only way to file business taxes is by paper filing. Personal income tax is limited to the Federal/State Electronic Filing program and paper filings. Although the Federal/State e-file program received a number of returns in FY 2000, most of them came from tax practitioners. The general public expects alternative ways to file and paying taxes. Additionally, Arizona's 5% population growth adds to the volume of hard-copy returns.

Manual data entry is a dying process, and it is becoming increasingly difficult for the Department to hire, retain or contract with outside serv-

ices for data entry. Most State revenue agencies are going to online filing or Telefile and are redirecting the data entry function into data correction or Internet filing.

A comprehensive e-government technology strategy is needed to better serve the taxpayers and businesses of Arizona. A listing by tax-type follows:

2-D bar-coding of returns. DOR has begun a phased-in deployment of technology to scan bar-coded tax returns for more efficient data capture and reduced processing time. The Executive recommendation of \$148,500 for FYs 2002 and 2003 will result in improved efficiency by reducing data entry error and in far more timely service to taxpayers in resolving questions and account issues.

Telefiling of tax returns. While an Internet connection is rapidly becoming commonplace in most homes, it is important to remember that not all taxpayers have or want to file their tax returns on-line. Fortunately, existing technology makes it possible for taxpayers to file their returns over the telephone.

The Executive is providing \$982,800 in FY 2002 and FY 2003 for DOR to set up a system allowing taxpayers without access to a computer and who file the 140EZ form or are eligible for the sales tax rebate can enter their tax information via telephone.

Legacy system issues

Transaction Privilege Tax System. At DOR, the electronic system that collects the Transaction Privilege Tax (TPT) from merchants was developed in 1982. The TPT system has reached a critical stage, since the temporary workarounds needed to properly and efficiently handle mandated changes to administer the tax code can only continue for a few more years. A long-term overhaul is needed as soon as possible.

The Executive recommends FY 2001 supplemental funding \$370,000 for a short-term solution for the TPT system. This provides for truly only a short term fix resulting in the recommendation of an additional \$5.0 million in FY 2002 for further improvements to this vital system. Any final plan will require approval from GITA and the Information Technology Advisory Committee (ITAC).

Human Resource Management System. Eight million dollars in additional funding is recommended for ADOA to address significant changes to the Human Resource Management System. This system was developed in an antiquated programming language and is becoming increasingly difficult to support and maintain. Procurement and development of any new system would not occur until ITAC has authorized the project.

Mobile data computers. In 1990 the Department of Public Safety (DPS) constructed a Mobile Data Terminal (MDT) system for patrol field units in Phoenix, Tucson and the I-10 corridor. This terminal system provides direct information to field officers for wanted/warrant and stolen vehicle checks, as well as MVD license checks. This direct link to the Arizona Criminal Justice Information System and the MVD database reduces dispatcher hours and gives officers direct information in a timely manner.

Unfortunately, the existing MDT system has become both technically and operationally obsolete. Worse, the company that provided technical support discontinued the product in December 1998 and closed its doors permanently in February 1999. No new terminals or spares are available. It is now just a matter of time until the system deteriorates to the point of no longer being usable. The system configuration is such that one major point of failure would instantly render the entire system unusable.

To prevent a system failure, the Executive proposes \$1.2 million in FY 2003 to replace the aging system, in-

cluding the in-car computers, by lease-purchasing the equipment over five years. The new network offers current technology and faster transmission and is vendor supported.

Improving services

Equipped with the right tools and the right personnel, State government can rightfully focus on the consumer. It is important that the State's customers expect and receive excellent service. The Executive is recommending the funding of several issues that will help State agencies improve services for Arizona citizens.

MVD staffing and facilities.

Wait-times throughout the system have decreased immensely. On average individuals can anticipate a wait-time of less than 20 minutes; when just two years ago these times averaged 37.7 minutes (*see graph below*).

To further reduce wait-times and to meet growing demand, the Executive Budget provides \$1.8 million over two years and a total of 59 new positions. In addition, the Capital Outlay Budget includes \$10 million for new and remodeled service centers.

Land Department processing. In greater Phoenix alone, the State Land Department manages over 250,000 acres of prime urban property, conservatively worth \$4 billion. Sixty-five

percent of all the land in north Phoenix is State Trust land. Combining rapid growth and the Trust's vast holdings, one can readily understand the importance of being able to lease and sell land on a timely basis to meet market demand for residential housing, municipal and commercial ventures.

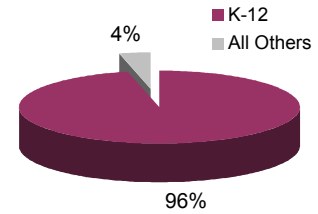
The number of long-term lease applications, as well as school site lease applications resulting from the new law that created the school facilities fund, has increased drastically in the last year. Sale and lease applications will also increase due to the Growing Smarter Act and the Arizona Preserve Initiative.

Currently there is a backlog of 80 long-term lease applications and a like number of urban sales applications. The 51 highest priority long-term leases are worth an estimated \$41.3 billion over the life of the leases, or \$447.5 million per year.

The Executive recommends \$344,000 to facilitate an increase in the Department's revenue-producing capabilities, which primarily benefits the K-12 system (*see graph above right*).

State primacy for NPDES permitting. The State of Arizona does not have primacy over the program related to the National Pollutant Discharge Elimination System (NPDES).

K-12 share of State Trust land \$\$



The lack of primacy means that critical environmental issues affecting the State are made by federal government agencies.

Programs include:

- permitting time frames,
- surface water discharges from point sources, such as wastewater treatment plants,
- storm water discharges from cities, developers and homebuilders,
- industrial discharges to sewer systems, and
- confined animal feeding operation, such as dairies and cattle feedlots.

The Executive recommends \$1 million over the biennium to enable DEQ to acquire primacy over NPDES and assume all permitting and enforcement decision-making related to NPDES that are presently handled by the U.S. Environmental Protection Agency.

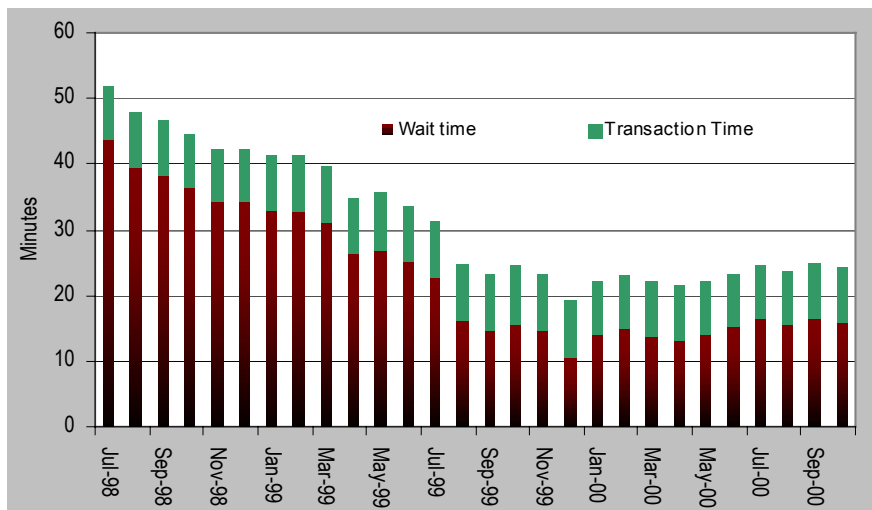
Arizona taxpayers will benefit from the State's primacy by:

- a streamlined permitting process,
- eliminating procedural redundancies in the certification process,
- reduction or elimination of backlogs that affect the ability of businesses to operate, and
- the reduction of permit issuance time and turnaround times related to technical assistance.

Conclusion. For the more than 100 State government budget units, the Executive Budget contains hundreds of recommendations to better serve the citizens. For more detail please refer to the compendium document that contains the EXECUTIVE BUDGET DETAIL. •

MVD Customer Visit Times

July 1998 through September 2000





ARIZONA'S ECONOMY IS EXPECTED TO ADD ABOUT 92,900 jobs in 2000, after statistical revisions, for a 4.3% growth rate. In comparison, the Executive biennial budget recommendation provides for a growth in new State employees of less than 1%, or 474.8 new Full-Time Equivalent (FTE) positions. Of the new positions, 363.3 are concentrated in high public priority areas such as the Department of Public Safety (150.0), Department of Health Services (103.5), Department of Economic Security (74.2) and Arizona Health Care Cost Containment System (35.6).

As reported in the budget detail that follows, the net increase in positions is 249.4 FTE, comprised of two components:

- a net increase of 13.9 FTE positions (5.6% of the total) added through technical changes to the appropriation base; and

Technical Changes

FY 2001 to FY 2002
Total Funds FTE

Agency	FY 2002 Increase
Department of Economic Security.....	34.0
Arizona State University - Main Campus.....	29.0
Arizona State University - East Campus	12.0
School Facilities Board	8.0
State Land Department.....	6.0
Arizona Exposition & State Fair Board	4.0
Department of Insurance	2.0
Department of Health Services	0.5
Arizona Health Care Cost Containment System.....	0.5
Board of Osteopathic Examiners.....	-0.5
Board of Occupational Therapy Examiners	-0.5
Government Information Technology Agency	-1.0
University of Arizona - Health Sciences Center	-2.1
Department of Commerce.....	-6.0
Department of Juvenile Corrections	-8.0
University of Arizona - Main Campus	-22.1
Northern Arizona University	-41.9
TOTAL	13.9

FTE increases

The Executive Budget provides for State employee growth at less than one-fourth the growth rate in the private sector

- a net increase of 235.5 FTE positions (94.4% of the total) resulting from newly funded and eliminated programs.

The Fiscal Year 2002 Executive Budget provides for the addition of 13.9 FTE as technical changes to the budget. While those FTE do not represent newly created positions, they appear in the budget to display the impact of changes in funding for existing FTE or the transfer of existing staff to other agency budgets. The 13.9 positions are divided into three groups:

- 9.0 FTE positions represent a net change in positions affecting several agencies of State government. This category represents 9.0 FTE positions transferred between non-appropriated to appropriated funding sources.
- 35.0 FTE positions are added through the first-time appropriation of existing positions previously funded from non-appropriated sources.
- (30.1) FTE positions were eliminated through miscellaneous changes such as one-time adjustments, agency reorganizations, funding shifts, University enrollment adjustments or privatization of certain agency functions.

New FTE positions, FY 2002

FTE totals were adjusted to reflect only programs that were newly funded or eliminated in FY 2002. Thus, information presented here may differ from individual agency operating budget recommendations and from tables in other sections of the Executive Budget. The specific adjustments are detailed below, by agency.

The Executive Budget provides an aggregate increase of 235.5 FTE for all budget units, the majority concentrated in high priority programs of Arizona State government.

The additions are necessary to respond to the need for:

- more police officers to patrol highways and enhance public safety;
- increased licensure staff to inspect Arizona's health facilities to assure high levels of care;
- additional workers for the Children's Protective Services programs; and
- increased staffing for increasing caseloads and service demands in medical assistance, programs for the de-

velopmentally disabled, Long-term Care and other human service delivery programs.

Following is an itemized listing, by agency, of the Executive's recommendations for increased FTE positions:

Department of Public Safety 78.0

- 68.0 FTE positions for additional highway patrol officers and related support staff
- 6.0 FTE for the Crime Laboratory
- 2.0 FTE for the Board of Fingerprinting
- 2.0 FTE for increased staffing for the Precursor Chemical Enforcement effort

Department of Economic Security 58.1

- 48.7 FTE for additional case managers for Child Protective Services
- 27.0 FTE related to growth in the Long-term Care caseload
- 26.9 FTE for the Child Protective Services Training Academy
- 16.0 FTE for enhanced child care staffing
- 9.4 FTE Adoption Subsidy program case managers
- 5.0 FTE for the Substance Abuse Treatment program
- (74.9) FTE reduced to reflect the transfer of the Temporary Assistance for Needy Families (TANF) program to the Navajo Nation

Department of Administration 34.8

- 10.0 FTE for Data Center consolidation
- 7.0 FTE employee benefits customer service representatives for retired State employees
- 5.0 FTE for the Worker's Compensation program shift from contract to in-house staffing
- 4.0 FTE for the Americans with Disabilities Act Program Office
- 3.0 FTE for additional project management support for the PLTO program
- 2.0 FTE for Capital Police
- 1.0 FTE for security
- 1.0 FTE health and dental specialist in the employee benefits program
- 1.0 FTE economist with the Governor's Regulatory Review Commission
- 0.8 FTE for information technology support

Arizona Health Care Cost Containment System 34.3

- 17.3 FTE eligibility workers to meet demographic growth in the AHCCCS Long-term Care program

- 8.4 FTE eligibility workers to meet demographic growth in the AHCCCS Acute Care Medical program
- 4.0 FTE to expand the Fraud Investigations program into Pima County
- 1.6 FTE information technology programmers to implement the requirements of the Health Insurance Portability and Accountability Act
- 1.0 FTE for Assurance and Licensure Services operated by the Department of Health Services

FTE Change From Prior Year by Area of Government

FY 2001- FY 2002

All Appropriated Funds

All Budget Units

Area of Government	FY 2001 FTE Budgeted	FY 2002 FTE Recommended	FY 2002 FTE Change
General Gov't	4,689.3	4,759.9	70.6
Health/Welfare	7,402.6	7,578.5	175.9
Inspection	1,858.4	1,905.9	47.5
Education	16,057.3	16,085.2	27.9
Protect'n/Safety	13,983.2	13,919.7	-63.5
Transportation	4,187.0	4,151.0	-36.0
Nat'l Resources	909.5	936.5	27.0
TOTAL	49,087.3	49,336.7	249.4

FY 2001- FY 2002

General Fund

All Budget Units

Area of Government	FY 2001 FTE Budgeted	FY 2002 FTE Recommended	FY 2002 FTE Change
General Gov't	3,187.4	3,187.2	-0.2
Health/Welfare	5,812.5	5,617.1	-195.4
Inspection	851.9	855.4	3.5
Education	15,788.8	15,776.7	-12.1
Protect'n/Safety	13,073.6	12,958.1	-115.5
Transportation	2.0	2.0	0.0
Nat'l Resources	582.0	583.0	1.0
TOTAL	39,298.2	38,979.5	-318.7

FY 2001- FY 2002

Other Appropriated Funds

All Budget Units

Area of Government	FY 2001 FTE Budgeted	FY 2002 FTE Recommended	FY 2002 FTE Change
General Gov't	1,501.9	1,572.7	70.8
Health/Welfare	1,590.1	1,961.4	371.3
Inspection	1,006.5	1,050.5	44.0
Education	268.5	308.5	40.0
Protect'n/Safety	909.6	961.6	52.0
Transportation	4,185.0	4,149.0	-36.0
Nat'l Resources	327.5	353.5	26.0
TOTAL	9,789.1	10,357.2	568.1

- 1.0 FTE to implement administrative activities related to the Medicaid in the Public Schools program
- 0.5 FTE to incorporate the Baby Arizona program operated by the Department of Health Services into the AHCCCS Acute Care program
- 0.5 FTE to implement the Freedom to Work program

New FTE Positions

FY 2001 to FY 2002
Total Funds FTE

Agency	FY 2002 Increase
Department of Public Safety	78.0
Department of Economic Security.....	58.1
Department of Administration.....	34.8
Arizona Health Care Cost Containment System.....	34.3
Arizona State Schools for the Deaf and the Blind.....	29.0
Department of Health Services	21.5
Department of Education	16.0
Department of Environmental Quality.....	16.0
Arizona State Retirement System	15.0
State Parks Board.....	13.0
Department of Veterans' Services.....	10.0
Attorney General.....	9.3
Department of Agriculture	9.0
Board of Nursing.....	9.0
Secretary of State.....	6.0
State Land Department.....	6.0
Office of Tourism	5.0
Department of Insurance	5.0
Corporation Commission	5.0
Department of Gaming.....	4.0
Board of Medical Examiners	3.0
Board of Cosmetology	3.0
Registrar of Contractors.....	2.0
Government Information Technology Agency	2.0
Game and Fish Department.....	2.0
Department of Commerce.....	2.0
Department of Building & Fire Safety	2.0
State Board for Private Post-Secondary Education	1.0
Radiation Regulatory Agency.....	1.0
Drug and Gang Prevention Resource Center.....	1.0
Council for the Deaf and the Hard of Hearing.....	1.0
Board of Technical Registration	1.0
Board of Examiners of Nursing Care Institution Administrators and Adult Care Home Managers	1.0
Board of Behavioral Health Examiners.....	1.0
Board of Occupational Therapy Examiners.....	0.5
State Personnel Board.....	-0.5
Structural Pest Control Commission	-1.0
Department of Transportation	-36.0
Department of Corrections	-41.0
Department of Juvenile Corrections	-93.5
Total	235.5

Arizona State Schools for the Deaf and the Blind 29.0

- 26.0 FTE added as a result of excess voucher funds from the Department of Education
- 3.0 FTE to serve as parent advisors to work with parents of deaf infants

Department of Health Services 21.5

- 16.5 FTE for Assurance and Licensure to address backlog issues
- 5.0 FTE information technology staff positions to meet federal Health Insurance Portability Act requirements

Department of Education 16.0

- 8.0 FTE for information technology services
- 6.0 FTE for the Research and Policy Unit to develop and update achievement profiles
- 1.0 FTE in the State Board of Education Monitoring program to provide oversight activities and fiscal accountability
- 1.0 FTE to investigate allegations of unprofessional or improper behavior by certified teachers and administrators
- 1.0 FTE in Charter School Administration to assist customer inquiries and daily reporting functions
- (1.0) FTE reduction resulting from the phase-out of the A+ Accountability program

Department of Environmental Quality 16.0

- 9.0 FTE for the National Pollutant Discharge Elimination System
- 2.0 FTE for information technology services
- 2.0 FTE for personnel training and development
- 2.0 FTE for the Arizona-Mexico Border program
- 1.0 FTE for the Hazardous Waste Management program

Arizona State Retirement System 15.0

- 12.0 FTE to implement the agency's information technology plan
- 2.0 FTE to enhance member services
- 1.0 FTE to enhance the agency's investment management support effort

State Parks Board 13.0

- 7.0 FTE for park operations
- 6.0 FTE for Karchner Caverns State Park

Department of Veterans' Services 10.0

- 6.0 FTE for the phase-in of the new Southern Arizona Veterans' Cemetery in Sierra Vista

<ul style="list-style-type: none"> • 3.0 FTE to implement an adult daycare program at the Arizona State Veterans' Home • 2.0 FTE Veterans Benefits Counselor III positions within the Veterans' Services program • (1.0) FTE reduced to reflect the Department's desire to use funds from a vacant position for other programmatic needs 		<ul style="list-style-type: none"> • 2.0 FTE Internet fraud investigators in the Securities Division. 	
Attorney General	9.3		Secretary of State 6.0
<ul style="list-style-type: none"> • 0.3 FTE to reflect the addition of a nurse to assist with Medicaid fraud investigations • 6.0 FTE for the Technology Crime Unit • 3.0 FTE for the creation of a Tobacco Enforcement Unit 			<ul style="list-style-type: none"> • 4.0 FTE to absorb workload resulting from the shift of Uniform Commercial Code filings from the counties to the Secretary of State • 2.0 FTE to open a branch office in Tucson
Department of Agriculture	9.0		Department of Gaming 4.0
<ul style="list-style-type: none"> • 6.0 FTE for the Food Safety and Quality Assurance program • 2.0 General Fund FTE for improvements in the Department's Information Technology program • 1.0 General Fund FTE for the Pest Exclusion program at the Arizona State Agricultural Laboratory 			<ul style="list-style-type: none"> • 1.0 FTE to add a gaming systems engineer • 1.0 FTE information technology manager • 1.0 FTE administrative officer • 1.0 FTE to provide an applications investigator
Board of Nursing	9.0		Board of Medical Examiners 3.0
<ul style="list-style-type: none"> • 9.0 FTE to perform investigations and help reduce caseload backlog (seven of the additional positions are temporary and will be eliminated at the end of FY 2002) 			<ul style="list-style-type: none"> • 3.0 FTE to perform investigations
State Land Department	6.0		Board of Cosmetology 3.0
<ul style="list-style-type: none"> • 3.0 FTE to increase the Department's revenue-generating capabilities • 2.0 FTE to provide increased capability for federal condemnation actions • 1.0 FTE to provide a public information and communication specialist 			<ul style="list-style-type: none"> • 3.0 FTE to perform cosmetology inspections
Office of Tourism	5.0		Registrar of Contractors 2.0
<ul style="list-style-type: none"> • 3.0 FTE for tourism promotion program oversight and accountability • 2.0 FTE for procurement compliance 			<ul style="list-style-type: none"> • 2.0 FTE to provide investigators to meet the growth in consumer complaints
Department of Insurance	5.0		Government Information Technology Agency 2.0
<ul style="list-style-type: none"> • 3.0 FTE for the expansion of Health Maintenance Organization regulatory activities • 1.0 FTE for the Producer Licensing Section • 1.0 FTE for the Provider Timely Pay unit 			<ul style="list-style-type: none"> • 1.0 FTE portal analyst for the E-government program • 1.0 FTE for telecommunications oversight
Corporation Commission	5.0		Game and Fish Department 2.0
<ul style="list-style-type: none"> • 1.0 FTE attorney for the Law Division • 2.0 FTE accounting and rates positions for the Utilities Division 			<ul style="list-style-type: none"> • 2.0 FTE for wildlife management training
			Department of Commerce 2.0
			<ul style="list-style-type: none"> • 2.0 FTE for Small Community planning
			Department of Building and Fire Safety 2.0
			<ul style="list-style-type: none"> • 1.0 FTE Deputy Fire Marshall • 1.0 FTE clerk typist
			State Board for Private Post-Secondary Education 1.0
			<ul style="list-style-type: none"> • 1.0 FTE for increased licensee processing
			Radiation Regulatory Agency 1.0
			<ul style="list-style-type: none"> • 1.0 FTE inspector
			Drug and Gang Prevention Resource Center 1.0
			<ul style="list-style-type: none"> • 1.0 FTE to assist with financial reporting and strategic planning efforts

Commission for the Deaf and Hard of Hearing 1.0

- 1.0 FTE to provide consumer information to the public

Board of Technical Registration 1.0

- 1.0 FTE administrative assistant for the new Certified Home Inspector program

Board of Examiners of Nursing Care Institution Administrators 1.0

- 1.0 FTE investigator to meet the growing number of complaints

Board of Behavioral Health Examiners 1.0

- 1.0 FTE complaint investigator

Board of Occupational Therapy Examiners 0.5

- 0.5 FTE part-time administrative assistant

State Personnel Board (0.5)

- (0.5) FTE reduction for an information-processing specialist position that is no longer needed

Structural Pest Control Commission (1.0)

- (1.0) FTE abolished

Department of Transportation (36.0)

- 24.0 FTE for improved customer service at Motor Vehicle Division offices

- 3.0 FTE for electronic government initiatives

- (14.0) FTE reduced to reflect the transfer of the Grand Canyon Airport

- (49.0) FTE abolished to fund the engineering pay plan

Department of Corrections (41.0)

- 30.0 FTE to provide a rapid growth contingency for the Department should earlier opening of facilities under construction become necessary

- 10.0 FTE to establish a Protective Services Unit within the Inspections and Investigations program

- (44.0) FTE reduced to convert Lewis Prison education program from in-house staff to a contract with Rio Salado Community College

- (26.0) FTE reduced for the delay of the Rast Unit at the Lewis Prison Complex

- (11.0) positions reduced resulting from the delay of the purchase of 1,400 private beds for persons convicted while driving under the influence (DUI)

Department of Juvenile Corrections (93.5)

- 2.5 FTE for the Female Mental Unit at the Black Canyon facility

- (96.0) FTE reduced to reflect declining caseloads in juvenile correctional facilities

New FTE positions, FY 2003

The FY 2003 Executive Budget provides for the addition of 225.4 FTE. As with the FY 2002 recommendation, this increase is comprised of two types of FTE increases: (1) the reduction of 11.0 FTE through technical adjustments to the FY 2002 recommended base budget and (2) a net addition of 224.4 FTE for various State agency programs.

Department of Health Services 82.0

- 14.0 FTE required for meeting the anticipated increase in daily census at the Arizona Community Protection and Treatment Center
- 67.5 FTE to open the new Arizona State Hospital
- 0.5 FTE for staffing to implement federal mandates associated with the Health Insurance Portability and Accountability Act

Department of Public Safety 72.0

- 65.0 FTE for additional Highway Patrol personnel and related support staff
- 5.0 FTE for the Crime Laboratory
- 2.0 FTE to provide technical support for the Department's mobile data computers

Department of Transportation 35.0

- 35.0 FTE for enhanced customer service at Motor Vehicle Division offices and to open a new office

Department of Economic Security 16.1

- 23.0 FTE for the Long-term Care program due to expected increases in client caseload
- 1.7 FTE case managers in the Adoption Subsidy program
- (8.6) FTE reduced to reflect an anticipated decline in caseload

Department of Corrections 8.0

- 26.0 FTE for opening the Rast Unit and the Lewis Prison Complex
- 8.0 FTE to purchase private beds for persons convicted of driving while impaired
- (26.0) FTE eliminated related to the rapid growth contingency recommendation provided in FY 2002

Corporation Commission 7.0

- 2.0 FTE Corporation Commissioners, per Prop. 103
- 4.0 support staff to assist additional Corporation Commissioners

Technical Changes

FY 2002 to FY 2003

Total Funds FTE

Agency	FY 2002 Increase
Department of Veterans' Services	1.0
Department of Public Safety	-11.0
TOTAL	1.0

FTE Change From Prior Year by Area of Government

FY 2002- FY 2003

All Appropriated Funds

All Budget Units

Area of Government	FY 2002 FTE Budgeted	FY 2003 FTE Recommended	FY 2003 FTE Change
General Gov't	4,759.9	4,754.9	-5.0
Health/Welfare	7,578.5	7,681.9	103.4
Inspection	1,905.9	1,911.9	6.0
Education	16,085.2	16,085.2	0.0
Protect'n/Safety	13,919.7	13,989.7	70.0
Transportation	4,151.0	4,186.0	35.0
Nat'l Resources	936.5	940.5	4.0
TOTAL	49,336.7	49,550.1	213.4

FY 2002- FY 2003

General Fund

All Budget Units

Area of Government	FY 2002 FTE Budgeted	FY 2003 FTE Recommended	FY 2003 FTE Change
General Gov't	3,187.2	3,190.2	3.0
Health/Welfare	5,617.1	5,718.0	100.9
Inspection	855.4	865.4	10.0
Education	15,776.7	15,776.7	0.0
Protect'n/Safety	12,958.1	12,996.1	38.0
Transportation	2.0	2.0	0.0
Nat'l Resources	583.0	574.0	-9.0
TOTAL	38,979.5	39,122.4	142.9

FY 2002- FY 2003

Other Appropriated Funds

All Budget Units

Area of Government	FY 2002 FTE Budgeted	FY 2003 FTE Recommended	FY 2003 FTE Change
General Gov't	1,572.7	1,564.7	-8.0
Health/Welfare	1,961.4	1,963.9	2.5
Inspection	1,050.5	1,046.5	-4.0
Education	308.5	308.5	0.0
Protect'n/Safety	961.6	993.6	32.0
Transportation	4,149.0	4,184.0	35.0
Nat'l Resources	353.5	366.5	13.0
TOTAL	10,357.2	10,427.7	70.5

- 1.0 FTE administrative services officer for the Pipeline Safety program
- State Parks Board** 4.0
- 4.0 FTE for park operations
- Department of Insurance** 3.0
- 1.0 FTE for the Producer Licensing program
 - 2.0 FTE fraud investigators
- Department of Administration** 3.0
- 3.0 FTE for Capitol Police
- Department of Juvenile Corrections** 2.0
- 2.0 FTE parole officers to work with interstate juveniles assigned probation in Arizona
- Department of Environmental Quality** 2.0
- 2.0 FTE for personnel training and development
- Arizona Health Care Cost Containment System** 1.3
- 1.3 FTE for information technology services related to the implementation of the Health Insurance Portability and Accountability Act
- Department of Veterans' Services** 1.0
- 1.0 FTE social worker for the Conservator Program
- Department of Real Estate** 1.0
- 1.0 FTE auditor
- Board of Technical Registration** 1.0
- 1.0 FTE inspector for the new Certified Home Inspector program

New FTE Positions

FY 2002 to FY 2003
Total Funds FTE

Agency	FY 2003 Increase
Department of Health Services	82.0
Department of Public Safety	72.0
Department of Transportation	35.0
Department of Economic Security	16.1
Department of Corrections	8.0
Corporation Commission	7.0
State Parks Board	4.0
Department of Insurance	3.0
Department of Administration	3.0
Department of Juvenile Corrections.....	2.0
Department of Environmental Quality	2.0
Arizona Health Care Cost Containment System	1.3
Department of Veterans' Services	1.0
Department of Real Estate	1.0
Board of Technical Registration.....	1.0
Board of Behavioral Health Examiners	1.0
Board of Nursing	-7.0
Arizona State Retirement System.....	-8.0
Total	224.4

- Board of Behavioral Health Examiners** 1.0
- 1.0 FTE to process anticipated increase in licensee applications
- Board of Nursing** (7.0)
- (7.0) FTE recommended in FY 2002 on a temporary basis, reduced in anticipation that the caseload backlog will be eliminated
- Arizona State Retirement System** (8.0)
- 2.0 FTE for members services support
 - (10.0) FTE reduced to reflect implementation of the information technology service plan

Proposed Legislative Changes to Implement the Executive Budget Recommendation

Agency	Issue	Citation
Department of Corrections	Contingency Funding for Higher-Than-Expected Population Growth and Safety Concerns	<i>Footnote in General Appropriations Bill</i>
	The Executive recommendation for the DOC budget is based on a population growth rate of 75 inmates per month. The Executive recommends additional funding from the Corrections Fund, at the discretion of the DOC Director, if the Director has concerns about rapid growth or safety.	
Corporation Commission	Agency Funding & Position Reorganization	<i>Amends various sections of Arizona Revised Statutes, including §§ 10-129.01; 40-108; 40-401; 40-408; 44-2039</i>
	<i>The Commission needs these changes to implement program changes included in the Executive Recommendation. This would allow the agency to use other funds instead of General Fund monies to cover the portion of its administration expenses that should be charged to other funds.</i>	
Department of Corrections, Capital Outlay	Wide/Local Area Network Funding	<i>Footnote in Capital Outlay Appropriations Bill</i>
	The Executive recommendation for the DOC budget is based on a population growth rate of 75 inmates per month. If the growth between October 31, 2000, and December 31, 2001, is less than 50 inmates per month, the Corrections Fund will not be immediately needed for construction of new beds. The Executive recommends using the Corrections Fund to create a Department-wide computer network to connect the administrative offices at each prison with the central office.	
	Amending Previous Funding for the New Prison Complex	<i>Changes to Laws 1999, First Special Session, Chapter 2 - Capital Outlay Appropriation</i>
	Slower growth at DOC has allowed the construction of the new prison complex to be delayed by at least two years. The changes to the previous funding delete the General Fund appropriations in FYs 2002 and 2003 and spread out the Corrections Fund appropriations over a longer period. Please refer to Capital Outlay section for specific recommendation.	
Department of Economic Security	Child Support Contingency Funds	<i>Add a new Contingency Funds special line-item</i>
	Revenues are difficult to forecast in Child Support enforcement, and expenditures will continue to increase as collections increase. If revenues are not sufficient to cover expenditures in FY 2003, the Division of Child Support Enforcement will be able to use a \$500,000 General Fund contingent line-item appropriation. A footnote is required to ensure that the Division spends all of its Child Support Enforcement Administration Fund monies before it spends any of the funds in the contingency appropriation.	
	TANF transfer to SSBG	<i>Eliminates two footnotes in DCYF appropriation regarding TANF transfers to SSBG</i>
	The two footnotes were included to require the Department to spend these funds on certain activities and in certain years. Beginning in FY 2002, DES will spend all of these funds in Children Services in FY 2002. No footnotes are required for expenditure of these funds.	
	FY 2000 Corrections to Cover FY 2001 General Fund in Developmental Disabilities program	<i>Adjusts appropriations for Family Builders in FY 2000 & FY 2001</i>
	After fund shifts and appropriation transfers, DES may need additional General Fund to cover its expenditures in FY 2001. The footnote may allow DES to use TANF instead of General Fund in Family Builders in FY 2000.	
	Elimination of Wheels to Work Program	<i>Repeal A.R.S. §§ 43-1090.01; 43-1177; 46-142</i>
	The Executive recommendation eliminates funding for the Wheels to Work program and will be offering revised policy options addressing welfare transportation needs.	
	FY 2000 Corrections to Cover FY 2001 General Fund in Developmental Disabilities program	<i>FamilyBuilders program for FY 2000 & FY 2001 expenditures</i>
	After fund shifts and appropriation transfers, DES may still need \$1.8 million General Fund to cover its anticipated expenditures in FY 2001.	

Agency	Issue	Citation
Department of Public Safety	GITEM Other Jurisdiction Match	<i>Gang Intelligence and Team Enforcement</i>
	The Executive recommendation in FY 2002 includes General Fund monies to hire the full complement of GITEM officers: 56 DPS officer positions and 57 officers from other law enforcement agencies. Starting in FY 2003, the Executive recommends that (a) other jurisdictions pay a 15% match for their officers participating in GITEM, and (b) the General Fund monies added in FY 2002 are used to replace aging vehicles.	
	HURF/ Highway Fund DPS Expenditure Limits	<i>A.R.S. §§ 28-6537 and 28-6993</i>
	In order to appropriate amounts recommended in the Executive Budget, these two sections of law should be deferred for the biennium or repealed.	
Department of Public Safety	CJEF Distribution to General Fund Redirected to Crime Lab Assessment Fund	<i>Notwithstanding A.R.S. § 41-2415(C)</i>
	The Executive recommends funding for DNA testing of inmates six months prior to their release from a DOC prison. The ORB change is required to enable DOC to pull the blood samples from its prisoners.	
	DNA Database Expansion	<i>Notwithstanding A.R.S. § 13-4438</i>
The Executive recommends funding for DNA testing of inmates six months prior to their release from a DOC prison. The ORB change is required to enable DOC to pull the blood samples from its prisoners.		
Department of Administration	Surplus Property Appropriation Status	<i>A.R.S. § 41-2606(C) Surplus Materials Revolving Fund</i>
	The Surplus Property Federal Fund and State Fund were converted to appropriated status by Laws 1998, Chapter 241. In FY 2000, there was not enough expenditure authority to pay to agencies the proceeds from sales, and the program was forced to show payments as reductions in revenues rather than as expenditures. In FY 2001, the same process will have to take place. The Executive recommends converting the payments due agencies to non-appropriated status while maintaining the appropriated status of the program's administrative costs.	
	Personnel Division Fund	<i>A.R.S. § 41-764(C)</i>
	Statute requires Fund balances exceeding \$500,000 to revert to the General Fund. To provide funding for the replacement of the State's payroll system, the Executive recommends eliminating this language.	
	Privatized Lease-to-Own Initiative (PLTO)	<i>Requires specific authorization in the Public Finance ORB</i>
	For FY 2003, the Executive recommends transferring the excess fund balance of \$1.7 million from the Certificate of Participation Fund (5005) to the Capital Outlay Stabilization Fund (COSF #1600) to provide funding for costs associated with the PLTO project.	
	Construction Insurance Fund Excess Balance	<i>Requires specific authorization in the Public Finance ORB</i>
For FY 2003, the Executive recommends transferring the excess fund balance of \$600,000 from the Construction Insurance Fund (#4219) to the General Fund to offset costs associated with the replacement of the State's payroll system.		
Surplus Property Fund-Excess Fund Balance	<i>Requires specific authorization in the Public Finance ORB</i>	
For FY 2003, the Executive recommends transferring an excess fund balance of \$400,000 from the Surplus State Property Fund (#4214) to the General Fund to offset costs associated with the replacement of the State's payroll system		

Agency	Issue	Citation
Department of Administration	Retiree Accumulated Sick Leave Pro Rata	<i>A.R.S. § 38-616(C)</i>
	The Executive recommends adjusting the RASL rate to 1.04% in FY 2002 and to 1.01% in FY 2003 to more accurately reflect costs associated with the program over the biennium. The Executive also recommends adjusting the administrative cost language to allow the Department to spend either \$150,000 or 1.5% of total deposits to the Fund, whichever is greater.	
Board of Executive Clemency	Reclassify Case Analysts to Hearing Officers	<i>Amend A.R.S. § 31-402(F) and (G)</i>
	Truth in Sentencing has caused the workload of the Board of Executive Clemency to shift from parole hearings to revocation and clemency hearings. The Executive recommends reclassifying Case Analysts to Hearing Officers and expanding the duties of Hearing Officers to handle the shifting workload. The duties of each position are specified in statute. In order for the Hearing Officers to perform the duties of the Case Analysts, a change in statute is necessary.	
Office of Administrative Hearings	Cost Allocation Plan	<i>A.R.S. §41-1092.01(E) and (K)</i>
	An amount would be swept at the beginning of each fiscal year from user agencies that is based on their FY 2000 use of the Office of Administrative Hearings (OAH). The agency would then be able to use OAH to the extent necessary without any further costs. During the next biennial budget-building cycle, previous years' use would be examined in order to build the necessary cost allocation amounts in the next year's budgets.	
	Create Office of Administrative Hearings Fund	<i>A.R.S. § 41-1092.01</i>
	With the implementation of the Cost Allocation Plan, it is recommended that all non-General Fund amounts be deposited into the Office of Administrative Hearings Fund from each individual agency at the beginning of each fiscal year.	
Department of Veterans' Services	Southern Arizona State Cemetery Fund	<i>Legislation is required to establish a Southern Arizona State Cemetery Fund</i>
	The Executive Recommendation for FYs 2002 and 2003 dedicates burial fees collected by the Cemetery to be used to supplement the General Fund in the operations of the facility.	
Department of Water Resources	Water Protection Fund	<i>Notwithstanding A.R.S. § 45-2112(B)</i>
	A.R.S. § 45-2112 requires an annual appropriation to the Water Protection Fund. Notwithstanding A.R.S. § 45-2112(B) provides the annual appropriation from the State General Fund to the Arizona Water Protection Fund for FYs 2001-2002 and 2002-2003 as specified by the General Appropriations Act.	
Department of Insurance	Producer Licensing	<i>Amend A.R.S. Title 20, Ch. 2, Transaction of Insurance Business; Ch. 3, Financial Provisions & Procedures; Ch. 4, Particular Types of Insurers</i>
	The Gramm-Leach-Bliley Act of 1999 allows banks and other previously barred financial institutions to offer insurance products and allows out-of-state producers to transact business within Arizona using a license issued by another state. Arizona businesses would get reciprocal treatment from other states. Arizona statutes do not comply with these changes in the federal law.	

Elected Officials' Salaries

IN 1970, THE ARIZONA LEGISLATURE established the Commission on Salaries for Elective State Officers. The Commission is required to conduct a biennial salary review and make recommendations to the Governor regarding salaries for elected State officers, justices, judges of courts of record, the clerks of the Superior Court and others.

After receiving the recommendations, the Governor is required to include the Governor's recommendations for exact rates of pay in the next budget transmitted to the Legislature.

On December 10, 1999, the Commission on Salaries for Elected State Officers forwarded to the Governor its salary adjustment recommendations for Fiscal Years 2001, 2002 and 2003. As a part of the Executive's Fiscal Years 2000 and 2001 Mid-Biennium Update, increases for the Supreme

Court, Chief Justice; Supreme Court, Associate Justices; Appellate Court, Division I; Appellate Court Division II; Superior Court; and Corporation Commissioners were proposed and subsequently approved by the Legislature. Recommendations that impacted FYs 2002 and 2003 were deferred, as the Executive believed recommending increases beyond the biennium would bind future Legislatures to fund increases they may not support.

However, Laws 2000, Chapter 52 synchronized with the biennial budget cycle the submission date for the Commission's salary recommendations to the Governor and the submission of the Governor's recommendations for rates of pay to the Legislature. (Prior to the passage of Chapter 52 the Commission submitted recommendations on October 1 of odd-

numbered years.) The timing of the Commission's recommendations, in the midst of a biennial budget, made recommendations difficult. However, this will not be a problem in the development of future biennial budgets.

The table below summarizes the positions for which the Executive has recommended a salary adjustment for the Fiscal Year 2002 and 2003 biennium. The salaries identified under "Executive Proposed Salary" will become effective unless the House or Senate takes action in 90 days.

The Executive recommendations are commensurate with State employees' pay packages that have been approved and that are being recommended. (For more information on the Executive's proposed compensation plan, please refer to the "Better Government" section of this document.) •

Judges	Salary Effective January 1, 2001	Commission Proposed Salary	Commission Proposed Effective Date	Executive Proposed Salary	Executive Proposed Effective Date
Supreme Court, Chief Justice	129,150	145,467	January 1, 2002	133,025	January 1, 2002
Supreme Court, Associate Justices	126,525	142,510	January 1, 2002	130,321	January 1, 2002
Appellate Judges, Division I	123,900	139,553	January 1, 2002	127,617	January 1, 2002
Appellate Judges, Division II	123,900	139,553	January 1, 2002	127,617	January 1, 2002
Superior Court Judges	120,750	136,596	January 1, 2002	124,373	January 1, 2002

Elected Officials	Current Salary	Commission Proposed Salary	Commission Proposed Effective Date	Executive Proposed Salary	Executive Proposed Effective Date
Governor	95,000	145,000	January 1, 2003	107,350	January 1, 2003
Secretary of State	70,000	105,000	January 1, 2003	79,100	January 1, 2003
Attorney General	90,000	125,000	January 1, 2003	101,700	January 1, 2003
State Treasurer	70,000	100,000	January 1, 2003	79,100	January 1, 2003
Superintendent	85,000	115,000	January 1, 2003	96,050	January 1, 2003
Mine Inspector	50,000	70,000	January 1, 2003	56,500	January 1, 2003
<i>Clerk of the Courts:</i>					
Maricopa & Pima	60,000	95,000	January 1, 2003	67,800	January 1, 2003
Other Counties	50,000	75,000	January 1, 2003	56,500	January 1, 2003



Meeting the State's infrastructure needs

The FY 2002 and FY 2003 Executive Budget provides for capital projects throughout Arizona

THE EXECUTIVE BUDGET CAPITAL Program looks far beyond the next biennium by providing funding for several significant projects.

The Governor recommends development of a new State Health Laboratory. The Governor also proposes modifications to the five-year, \$194.9 million prison construction program as part of meeting one of the most important missions of government: protection and safety of the public.

DHS Health Laboratory

The Department of Health Services (DHS) has requested a new public health laboratory for seven consecutive budget cycles, and the obvious need for a new facility increases every year.

Outdated, overcrowded and functionally obsolete, the laboratory places employees at serious risk. The Governor recommends issuing Certificates of Participation (COPs) to fund a \$30 million facility that is long overdue and central to public health.

Over the years, the laboratory has been trimmed to a handful of essential public health functions. All tests and laboratory functions that could reasonably be privatized have been. The remaining core functions continue to be performed at the State lab. Federal mandates and the lack of private sector alternatives also determine laboratory operations.

The critical nature of the tests conducted at the facility is frequently misunderstood. Following are a few examples:

"Typing." Numerous private labs test for the presence of particular pathogens (e.g., e coli), enabling doc-

tors to prescribe appropriate treatments. However, private labs test only for the presence or absence of a pathogen and do not determine specific strains.

Identifying the specific type is required to investigate the source of disease outbreaks. Such specific information requires additional costly analysis and is of no particular benefit to individual health care providers.

As part of its public health charge, the State must be able to differentiate among types of pathogens in order to react to and combat public health crises such as mass food poisoning and epidemics. Although private testing facilities serve individual citizens well, they do not support public health concerns.

Bioterrorism. The federal government requires each state to have a laboratory capable of reacting to threats of bioterrorism. In 1998, the State laboratory nimbly responded to the threat of anthrax. Although the threat was later determined to be a hoax, the laboratory proved an intimacy with federal protocol and demonstrated the ability to appropriately support the federal government in times of such crises. There have been several other instances in the past year of hoaxes involving one of the known risk organisms.

Privatization and subsidies. The State laboratory undertakes tasks that private sector facilities are not willing to perform, such as handling volatile, toxic chemicals and bacteria. The market has demonstrated that certain tests cannot be privatized, as no bidders have responded to particular privatization efforts. Through extensive subsidies, paying multiple times

the cost of a test that the State laboratory could perform, it is conceivable that private bidders could be given an incentive to emerge. However, it would be inappropriate to subsidize core public health functions that are adequately performed by the State laboratory.

A new laboratory is an essential component of public health in Arizona. As construction is continually delayed, the cost of the facility continues to escalate. Of greater concern are the hazards that exist in the outdated structure and the compromises to public health.

New prison complex

The Department of Corrections (DOC) prison population is currently projected to grow at the rate of 75 inmates per month. This figure is down from the 132 inmates per month projection used in the last biennium to plan the construction of the new prison facilities.

The reduction in growth is reflected in inmate counts, initially expected to show an average daily population of 29,041 for FY 2001. However, by the end of October 2000 the prison population in Arizona was only 26,574.

Given the reductions in prison population growth, it will not be necessary to bring new prison beds online as quickly as previously thought. Accordingly, the Executive recommends delaying these openings so that the first 1,100 Level 4 beds in the new Tucson prison will open in July 2004. The next 1,100 Level 3 beds are to open in October 2005, followed by 1,100 Level 3 beds in December 2006. The final 1,100 Level 3 beds are rec-

ommended for opening in March 2008.

The delay in the opening of these beds means that construction can also be delayed. Accordingly, the Executive recommends reductions of \$88.9 million for FY 2002 and \$704,100 for the FY 2003 Corrections Fund prison construction appropriations. To complete the new prison complex in Tucson, the Executive recommends \$36.7 million for FY 2004, \$33.5 million for FY 2005, \$35.6 million for FY 2006, \$36.9 million for FY 2007, and \$4.1 million for FY 2008.

However, if the inmate growth rate returns to the rate experienced during most of the 1990s - over 100 per month - construction must start on the new prison complex.

The Executive recommends that, if the inmate population exceeds 26,624 on December 31, 2001 (or an average gain of more than 100 per month over 14 months), ADOA begin construction of the new complex in January 2002.

State office centralization

Arizona's population growth ranked second in the nation over the past 18 years, averaging 4% per year. Total population as of July 1999 is 4.8 million.

Accompanying that population increase is increased demand for State services in all areas. To accommodate

demand, there are 2,500 facilities in the Department of Administration (ADOA) Building System.

To continue to keep pace with growth and increased demand for quality service, ADOA has entered into a contracting arrangement that allows the State to both consolidate operations and reduce expenditures for costly private lease space. The "privatized lease to own" project (PLTO) allows for the design and construction of two State office buildings on the Capitol Mall, totaling 485,000 square feet. Lease cost savings are estimated at \$13.6 million over the 25-year term and do not take into account eventual State ownership.

One building will house DEQ as the major tenant along with eight other State agencies, all relocated from private lease space. The second building will house ADOA and four other agencies, also from private lease space. ADOA occupies all or part of six office buildings on the Capitol Mall, and the space that ADOA vacates will be filled by nine agencies, seven relocated from private lease space.

The Executive recommends \$7.7 million over the biennium for back-filling, relocation, and voice and data service costs. All moves and relocations are to be completed by April 1, 2003.

Agency requests

State agency requests for Capital Outlay funding in FY 2002 and FY 2003 exceeded \$1.3 billion. The two-year total included \$569.9 million in General Fund requests and \$803.9 million in Other Appropriated Funds. Requests do not include the \$88.4 million in General Fund monies and \$88.9 million in Other Appropriated Funds that the Legislature has already approved for FY 2002.

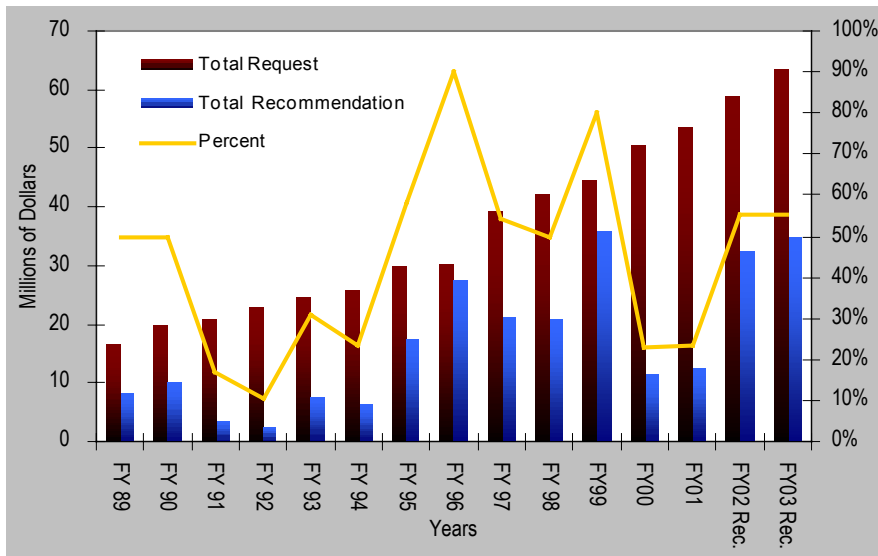
Agency capital requests from the General Fund include:

- \$118.9 million for DOC
- \$3.5 million for ADOA
- \$203 million for the Universities
- \$38.0 million for DHS
- \$20.2 million for the Department of Juvenile Corrections (DJC), and
- \$70.6 million for the Department of Public Safety (DPS), Department of Economic Security (DES) and Arizona Schools for the Deaf and Blind (ASDB).

Other Fund requests consisted of \$714.8 million from the Department of Transportation (ADOT) and \$22.4 million total from the ADOA Capital Outlay Stabilization Fund, Department of Game and Fish, and the State Parks Board.

Building Renewal

Requests and Recommendations, FY 1989 through FY 2003)



Building Renewal

The FY 2002 Executive Budget provides \$26.4 million in General Fund monies for Building Renewal, including \$6.1 million for ADOA Building System and \$20.3 million for the Board of Regents Building System. The Executive recommends 2.0 FTE positions to supervise FY 2002 Building Renewal projects.

The Building Renewal FY 2002 recommendation is 41% higher than the average annual Building Renewal appropriation since the beginning of the program in FY 1989.

The Executive FY 2003 recommendation provides \$24.9 million in General Fund monies for Building Renewal, including \$3 million for the ADOA Building System and \$21.9 million for the Board of Regents Building System. In addition to the \$3 million for ADOA from the General Fund, the Executive recommends that \$3.5 million in Capital Outlay Stabilization Fund (COSF) monies be used for Building Renewal. The Executive recommends 2.0 FTE positions to supervise FY 2003 Building Renewal projects.

The Building Renewal FY 2003 recommendation is 51% higher than the average annual Building Renewal

appropriation since the beginning of the program in FY 1989.

With the FY 2002 and FY 2003 recommendations, \$190.9 million has been dedicated for the Building Renewal requirements of the ADOA and Board of Regents building systems since FY 1996. Comparatively, from FY 1989 until FY 1995, \$55.4 million was appropriated for Building Renewal.

Capital Outlay

Prison construction. The FY 2002 Executive recommendation includes reductions in the previous appropriations for the construction of a new Tucson prison complex of \$88.9 million in Corrections Fund and \$65 million in General Funds, eliminating the appropriations for FY 2002. As a result of reduced population estimates, the construction of the new complex has been delayed.

For FY 2003, the Executive recommendation further reduces the appropriations for the new Tucson prison complex by \$704,100 from the Corrections Fund and \$8.1 million from the General Fund. This recommendation eliminates the General Fund appropriation for FY 2003 and leaves the Corrections Fund at a FY

2003 recommendation of \$29.4 million.

Highway construction. The Executive recommends reductions - \$20 million in FY 2002 and \$20 million in FY 2003 - in a prior General Fund appropriation for Highway Construction and recommends that ADOT secure the funds through an additional Board Funding Obligation (BFO) established per A.R.S. § 28-7678.

DPS remote officer housing. Housing officers in remote trailers provides shorter commutes to patrol work stations and reduced response times for emergencies in rural areas.

For FY 2002, the Executive recommends \$606,000 for land and six doublewide manufactured homes to house DPS officers and their families, replacing aging units - three each in Ajo and Wikieup - that are due for replacement.

For FY 2003, the Executive recommends \$492,000 to purchase five units: one in Jacobs Lake, requiring the purchase of land, and four on land subleased from ADOT on the Navajo/Hopi reservation.

State Health Lab. For FY 2003, the Executive recommends \$4.1 million as the first lease-purchase payment on a 10-year Certificate of Participation for the replacement of the State Health Lab. The Executive recommends 3.0 FTE positions to supervise this project.

Other Funds

As detailed in the table on page 55, both ADOT and the Game and Fish Department have several projects recommended as part of the FY 2002 Executive Capital Outlay Budget. Those agencies have dedicated sources of funds that can be used solely for projects that support their missions. The ADOA Capital Outlay Stabilization Fund has one project for which funds from a similar revolving fund may be used.

The majority of the funding is recommended for ADOT. The State Transportation Board has specific responsibility for establishing project priorities. Historically, the Legislature has provided a lump-sum appropriation for the statewide highway construction program. The Executive also recommends 100% funding for the State Highway Fund Building Renewal formula for the ADOT Building System. The Executive recommends 100% of the Building Renewal formula funding for several "Other Fund" agencies, including the Lottery and the Arizona Expositions and State Fair Board.

New this year, the Executive recommends that the Corrections Fund provide the Building Renewal monies for DOC and DJC facilities. This policy shift has lowered the General Fund recommendation for Building Renewal by \$3 million from what it would have been without the shift.

Because Building Renewal is funded at 50% from the General Fund and 100% from Other Funds, the resulting Corrections Fund recommendations for Building Renewal are \$6 million for FY 2002 and \$6.6 million for FY 2003. The Executive recommends 5.0 FTE positions to supervise these projects.

Capital Outlay Stabilization Fund

Privatized Lease to Own (PLTO) project. ADOA is consolidating its operations into one of two PLTO project buildings on the Capitol Mall. Agencies occupying private space will be moving into the space vacated by ADOA. The Executive recommends \$213,700 in FY 2002 and \$3.1 million in FY 2003 for tenant improvements associated with PLTO.

Corrections Fund

New Reception and Diagnostic Center siting. The Executive recommends \$1 million in Corrections Fund to fund the siting of a new reception and diagnostic center for inmate proc-

General Fund Capital Outlay, FY 2002 and FY 2003

Thousands of Dollars

FY 2002

Appropriations Already Enacted	<i>FY 2002 Request</i>	<i>Executive Recommendation</i>
ADOA: New Prison Complex	64,980.8	64,980.8
DEMA: Clifton Flood Control (Ch.181)	650.0	650.0
State Parks: Spur Cross Ranch (Ch.135)	1,250.0	1,250.0
University of Arizona - Sierra Vista	1,500.0	1,500.0
Highway Construction	20,000.0	20,000.0
Subtotal	88,380.8	88,380.8
Building Renewal		
Universities	40,644.4	20,322.2
ADOA	12,157.0	6,078.5
Subtotal	52,801.4	26,400.7
Capital Projects		
ADOA: New Prison Complex		-64,980.8
ADOT: Highway Construction		-20,000.0
ADOT: Statewide Officer Remote Housing	750.0	606.0
Subtotal Capital Projects		-84,374.8
Total FY 2002 General Fund		30,406,700

FY 2003

Appropriations Already Enacted	<i>FY 2003 Request</i>	<i>Executive Recommendation</i>
ADOA: New Prison Complex	8,119.7	8,119.7
University of Arizona – Sierra Vista	1,500.0	1,500.0
Highway Construction	20,000.0	20,000.0
Subtotal	29,619.7	29,619.7
Building Renewal		
Universities	43,849.9	21,925.0
ADOA	12,998.7	2,999.4
Subtotal	56,848.6	24,924.4
Capital Projects		
ADOA New Prison Complex		-8,119.7
Highway Construction		-20,000.0
DHS: State Health Lab	29,827.0	4,076.0
ADOT: Statewide Officer Remote Housing	550.0	492.5
Subtotal Capital Projects		-23,551.2
Total FY 2003 General Fund		30,992.9

essing prior to commitment to a DOC prison. The Executive recommends that an additional 1.0 FTE Position be funded from the \$1 million to handle all environmental, archeological and other governmental permits requirements to determine if a site is worth pursuing.

Prison construction. The Executive recommendation provides for a reduction in the previously passed FY 2003 appropriation of \$704,100. The new total FY 2003 prison construction appropriation would be \$29.4 million.

LAN/WAN. The Executive recommends a trigger to establish that, if the DOC inmate population on De-

ember 31, 2001, is less than 27,274, this \$9.8 million is appropriated from the Corrections Fund in FY 2003 for installation of a Department-wide WAN/LAN. This would provide for the modernizing of DOC networking capabilities.

Miners' Fund

The Executive recommends \$100,000 from the Miners' Hospital Fund for a nurse call system.

The current system is approximately thirty years old, is not hooked up in all the rooms at the facility, and does not have a central panel that can be monitored. The rooms cannot be identified at the nurses' station, causing the nurses to look into many rooms before finding the patient issuing the call. Thus, the existing call system does not meet the mandates set forth by federal and state nursing regulations.

The recommendation includes funding for removal of the existing system, equipment costs, installation and system training. The cost is subject to change after a complete site survey from an engineer and after completed engineered drawings.

Game and Fish Fund

Game and Fish facilities improvements. The Executive recommendation provides \$170,000 in FY 2002 for facilities improvements. The Department has identified two projects to be completed with the funding:

- \$90,000 to complete Americans with Disabilities Act improvements to the Deer Valley Headquarters, regional offices and Ben Avery Shooting Range.
- \$80,000 to complete the Tucson warehouse.

For FY 2003, the Executive recommendation provides \$170,000:

- \$60,000 for safety improvements at the Ben Avery Shooting range,
- \$74,000 for improvements in Winema Road to the wildlife area in Springerville, and

Other Fund Capital Outlay, FY 2002

Thousands of Dollars

Appropriations Already Enacted	<i>Fund</i>	<i>Executive Recommendation.</i>
DOC: New Prison Complex	Corrections	88,930.8
Subtotal		88,930.8
Building Renewal		
Department of Corrections	Corrections	5,518.8
Department of Juvenile Corrections	Corrections	440.8
ADOT: Highway Fund	State Highway	2,740.9
State Fair Board	Enterprise	1,147.1
Game & Fish	Game and Fish	307.6
Department of Health Services: SAMHC	SAMHC Building Renewal	75.8
Lottery	Lottery	34.7
Subtotal		10,265.7
Capital Projects		
ADOA: Privatized Lease-to-Own Project (PLTO)	COSF	213.7
DOC: New Prison Complex	Corrections	-88,930.8
DOC: Siting of New Reception & Diagnostic Center	Corrections	1,000.0
Arizona Pioneer's Home: Nurse Call System	Miner's	100.0
Game & Fish: Facility Improvements	Game and Fish	170.0
Game & Fish: Shooting Range Development	Game and Fish	100.0
Game & Fish: Migratory Waterfowl Habitat	Waterfowl	100.0
ADOT: Highway Construction	State Highway	168,967.1
ADOT: Highway Construction -15% Urban	State Highway	82,256.0
ADOT: Debt Service	State Highway	44,569.0
ADOT: Asbestos/ Lead Inspections Testing	State Highway	700.0
ADOT: Payson MVD Service Center	State Highway	856.0
ADOT: Equipment Racks	State Highway	350.0
ADOT: Holbrook District Sewer System	State Highway	257.0
ADOT: West Phoenix Remodel MVD Service Center	State Highway	1,331.0
ADOT: Vehicle Wash Buildings	State Highway	554.0
ADOT: De-Icing Storage Building	State Highway	886.0
ADOT: Surprise Remodel MVD Service Center	State Highway	2,253.0
ADOT: Tucson Lab Upgrade and Addition	State Highway	160.0
ADOT: Tucson/Marana MVD Service Center	State Highway	1,092.0
ADOT: New River MVD Service Center	State Highway	1,092.0
Subtotal Capital Projects		218,076.0
Total FY 2002 Other Fund		317,272.5

- \$36,000 for a storage building at the House Rock wildlife area near Page.

Shooting range development. The Executive recommends \$100,000 for continued support for the annual statewide Shooting Range Development Program. The program provides competitive matching grants for im-

provements on a 50-50 basis. State monies would be matched by \$100,000 in user group contributions, and Game and Fish work crews would provide the labor.

Waterfowl Habitat Fund

Migratory waterfowl habitat. The Executive recommends \$100,000 for the development of migratory water-

fowl habitat. Revenues are generated through the sale of duck stamps and earmarked for purchasing land suitable for waterfowl habitat. The recommendation is an estimate of the revenues that will be generated during FY 2002 and FY2003.

State Highway Fund

ADOT BUILDING SYSTEM

The FY 2002 Executive Budget includes \$295.8 million for highway construction from the State Highway Fund. The FY 2003 recommendation provides \$315.5 million.

Highway construction - 15% urban. The Highway User Revenue Fund (HURF) formula earmarks a specific percentage of funds for the construction of urban access roads in Maricopa and Pima counties.

For FY 2002, the Executive recommends the \$82.3 million estimate of available monies be utilized for this purpose; for FY 2003, \$85.8 million.

Debt service. The Executive recommends \$44.6 million in FY 2002 for debt service on revenue bonds, and \$41.3 million in FY 2003.

Asbestos/lead inspections testing. The Executive recommends \$700,000 in FY 2002 to test all occupied buildings for asbestos and lead contamination. Federal regulating agencies, including the Environmental Protection Agency and OSHA, require inspection of all buildings for asbestos-containing material prior to modifications that would disturb this material. This requirement has halted all ADOT maintenance projects until the inspections can be performed.

Payson MVD service center. The Executive recommends funding to build an MVD service center in Payson. The land purchase was recommended for FY 2001. The 4,500-square-foot service center would relieve over-crowding in the existing 1,880-square-foot facility, where customers must wait outside. Annual additional operating costs are estimated to be \$15,000.

Other Fund Capital Outlay, FY 2003

Thousands of Dollars

Appropriations Already Enacted	Fund	Executive Recommendation
DOC: New Prison Complex	Corrections	30,069.7
Subtotal		30,069.7
Building Renewal		
Department of Corrections	Corrections	6,080.8
Department of Juvenile Corrections	Corrections	487.1
ADOT: Highway Fund	State Highway	2,832.5
ADOA	COSF	3,500.0
State Fair Board	Enterprise	1,209.7
Game & Fish	Game and Fish	331.0
Department of Health Services: SAMHC	SAMHC Building Renewal	78.9
Lottery	Lottery	38.3
Subtotal		14,558.3
Capital Projects		
ADOA: Privatized Lease-to-Own Project (PLTO)	COSF	3,053.0
DOC: New Prison Complex	Corrections	-704.1
DOC: Siting of New Reception & Diagnostic Center	Corrections	9,771.6
Game & Fish: Facility Improvements	Game and Fish	170.0
Game & Fish: Shooting Range Development	Game and Fish	100.0
Game & Fish: Migratory Waterfowl Habitat	Waterfowl	100.0
ADOT: Highway Construction	State Highway	188,377.0
ADOT: Highway Construction -15% Urban	State Highway	85,811.0
ADOT: Debt Service	State Highway	41,334.0
ADOT: Vehicle Wash Buildings	State Highway	554.0
ADOT: De-Icing Storage Building	State Highway	886.0
ADOT: Tucson/Marana MVD Service Center	State Highway	2,188.0
ADOT: New River MVD Service Center	State Highway	2,188.0
Subtotal Capital Projects		333,828.5
Total FY 2003 Other Fund		378,456.5

Equipment racks. The Executive recommends funding to install and replace equipment racks at maintenance facilities. The existing units lack proper foundation and pose potential safety issues. ADOT has received appropriations in FYs 1997 through 2001 for this purpose.

De-icer buildings. The Executive recommends \$886,000 in both FY 2002 and FY 2003 for construction of steel-frame metal buildings to provide storage for bulk sand, cinders and de-icer materials statewide. Storage helps extend the life of materials that otherwise would remain outside and exposed to moisture. The Department

proposes constructing 16 buildings over the next four years.

Statewide vehicle wash buildings. The Executive recommends funding of \$554,000 in both FY 2002 and FY 2003 for EPA/DEQ-compliant vehicle wash facilities in Williams and Seligman. Designation of motor oil and road asphalt as environmental hazards requires the construction of controlled wash facilities.

Holbrook District sewer system. The Executive recommends replacement of the septic system of the Holbrook District Office with a connection to the Holbrook city sewage system. Additionally, the truck barn floor would drain to the city sewage sys-

tem, bringing the facility into compliance with environmental regulations. The new tanks would comply with EPA and DEQ requirements.

Remodel West Phoenix MVD service center. The Executive recommends remodeling the 40,000-square-foot MVD service center. The current facility is in need of extensive remodeling and lacks adequate restrooms.

Remodel Surprise MVD service center. The Executive recommends \$2.3 million to expand the Surprise facility from 6,200 square feet to 14,000 square feet to accommodate a 247% population increase 1990 to

1999. The recommendation also provides for extensive remodeling of the existing square footage.

Tucson lab upgrade and addition. The Executive recommends \$160,000 to expand the existing construction materials testing lab. The expansion of the facility dating from 1965 will accommodate testing equipment to conduct additional required tests.

Tucson/Marana MVD service center: land. The Executive recommends funding to purchase land in Marana for an MVD service center. This 12,000 square-foot service center would relieve overcrowding in the

existing Tucson service center to accommodate a Marana population base that has quadrupled in the last decade. Annual operating costs are estimated to be \$926,800.

New River MVD service center: land. The Executive recommends funding to purchase land in New River for an MVD service center. This 12,000 square-foot service center would service the 25,000 additional homes being built in New River as well as other construction north of Phoenix. Annual operating costs are estimated to be \$926,800. •

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