ARIZONA

MONTHLY FISCAL HIGHLIGHTS

April 2006

Summary

General Fund revenue collections were $596.1 million in March, which was 5.0% above the same month last year. March collections are $21.0 million higher than the revised January JLBC Baseline FY 2006 forecast for the month and are $66.1 million over the original enacted FY 2006 forecast. For the fiscal year-to-date, revenues are $129.9 million above the January forecast and $606.4 million higher than the original enacted forecast.

The FY 2006 General Appropriation Act requires any revenues above the enacted forecast to be deposited into the Budget Stabilization Fund (BSF). Permanent law caps BSF balances at 7% of General Fund revenue. Under JLBC Staff's January Baseline Revenue forecast, this amount would equal $440 million. When accounting for the 7% cap, $440 million of the $606 million in excess revenues would be deposited into the BSF. The remaining $166 million, plus any future FY 2006 excess revenues, will be retained in the General Fund in that circumstance. Of the $440 million, $333 million has already been deposited into the BSF, and the remainder will be deposited after the end of the fiscal year.

After adjusting for the loss of one-time FY 2005 Vehicle License Tax (VLT) revenues, March's growth over the prior year is 7.7%. While this is a healthy increase, it is well below the high growth rates of the past several months. Of the 3 largest revenue categories, the March sales tax growth of 18.5% was comparable to prior months in FY 2006. Corporate income tax collections were also strong, increasing 17.2% over the prior year. Individual income tax collections, however, were (30.8)% below March of last year. The reduction in individual income tax collections was largely driven by a 36.7% increase in taxpayer refunds.

The March Monthly Fiscal Highlights also includes a summary of recent statutory reports submitted to JLBC *(see page 6)*.

The JCCR met on April 18th. A summary of the meeting can be found on page 5.

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State of Arizona
General Fund Revenue: Change from Previous Year and January Forecast
March 2006

	Current Month					FY 2006 YTD (Nine Months)				
		Change From					Change from			
	Actual	March 2005		Revised Forecast		Actual	March 2005		Revised Forecast	
	March 2006	Amount	Percent	Amount	Percent	March 2006	Amount	Percent	Amount	Percent
Taxes										
Sales and Use	$345,767,996	$53,913,243	18.5 %	$23,285,946	7.2 %	$3,142,691,972	$463,507,606	17.3 %	$52,684,127	1.7 %
Income - Individual	75,235,164	(33,462,017)	(30.8)	(29,896,068)	(28.4)	2,309,736,614	382,682,932	19.9	43,276,376	1.9
- Corporate	74,828,375	10,999,758	17.2	10,011,692	15.4	510,011,560	74,708,272	17.2	13,669,784	2.8
Property	613,344	147,733	31.7	313,344	104.4	15,363,713	202,635	1.3	878,686	6.1
Luxury	4,812,707	(1,212,498)	(20.1)	(860,293)	(15.2)	48,610,057	1,305,182	2.8	(214,868)	(0.4)
Insurance Premium	103,343,432	9,847,041	10.5	15,848,991	18.1	242,047,305	19,165,080	8.6	17,317,805	7.7
Estate	467,879	(1,703,844)	(78.5)	(307,121)	(39.6)	11,494,946	(15,488,159)	(57.4)	(1,206,637)	(9.5)
Other Taxes	52,759	(589,732)	(91.8)	(14,241)	(21.3)	493,715	(1,890,321)	(79.3)	(26,988)	(5.2)
Sub-Total Taxes	$605,121,656	$37,939,684	6.7 %	$18,382,250	3.1 %	$6,280,449,882	$924,193,227	17.3 %	$126,378,285	2.1 %
Other Revenue										
Lottery	9,047,200	7,184,800	385.8	5,547,200	158.5	36,956,700	14,628,300	65.5	2,313,900	6.7
License, Fees and Permits	3,036,935	(483,203)	(13.7)	(193,865)	(6.0)	23,736,973	3,131,232	15.2	465,226	2.0
Interest	6,206,292	3,734,697	151.1	1,245,192	25.1	41,760,264	25,078,209	150.3	5,561,134	15.4
Sales and Services	3,894,870	(2,213,887)	(36.2)	(538,230)	(12.1)	39,317,513	5,977,347	17.9	606,010	1.6
Other Miscellaneous	2,930,230	61,769	2.2	416,730	16.6	18,787,876	2,719,547	16.9	(360,521)	(1.9)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,260,796	(878,806)	(41.1)	(3,899,204)	(75.6)	18,754,461	(13,231,154)	(41.4)	(5,071,646)	(21.3)
Sub-Total Other Revenue	26,376,323	7,405,370	39.0 %	2,577,823	10.8 %	179,313,787	38,303,481	27.2 %	3,514,103	2.0 %
TOTAL BASE REVENUE	**$631,497,979**	**$45,345,054**	**7.7 %**	**$20,960,073**	**3.4 %**	**$6,459,763,669**	**$962,496,708**	**17.5 %**	**$129,892,388**	**2.1 %**
One-Time Revenue										
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	0	0.0	(318,921,695)	(39,117,261)	14.0	0	0.0
VLT Transfer	0	(12,439,441)	(100.0)	0	--	0	(98,938,468)	(100.0)	0	--
Judicial Enhancement	0	(391)	(100.0)	0	--	0	(2,120,880)	(100.0)	0	--
Sub-Total Transfers In	(35,435,744)	(16,786,194)	90.0 %	0	0.0 %	(318,921,695)	(140,176,609)	78.4 %	0	0.0 %
TOTAL REVENUE	**$596,062,235**	**$28,558,860**	**5.0 %**	**$20,960,073**	**3.6 %**	**$6,140,841,974**	**$822,320,099**	**15.5 %**	**$129,892,388**	**2.2 %**

Table 1

MARCH REVENUES

Sales Tax revenue increased by 18.5% on a year-over-year basis in March and was $23.3 million above the revised forecast for the month. The following table displays the March and year-to-date growth rates for the major categories:

Table 2

Sales Tax Growth Rates

	March	Year-to-Date
Retail	14.3%	15.2%
Contracting	33.0%	27.9%
Utilities	7.0%	11.3%
Use	42.4%	23.8%
Restaurant & Bar	9.9%	12.9%

The 42.4% increase in March use tax collections continued the recent rapid growth in that category. The high rate of growth was likely driven by large increases in energy prices. According to the most recent data from January, the price of natural gas in Arizona rose 42.5% above last year.

Individual Income Tax collections were $75.2 million in March, a (30.8)% reduction from last March and $(29.9) million below the revised forecast for the month. While withholding collections increased 10.6% over March of last year, this gain was offset by a 36.7% increase in refunds. Compared to last year, the rate at which the Arizona Department of Revenue has processed income tax returns is about the same.

Corporate Income Tax collections were $74.8 million in March, a 17.2% increase from a year ago. For the fiscal year to date, corporate income tax revenues have increased 17.2% from last year.

The General Fund portion of March **Luxury Tax** collections was $4.8 million, or (20.1)% below March 2005.

Among the remaining categories, **Insurance Premium Tax** collections increased 10.5% from March of last year and were $15.8 million above the revised forecast.

RECENT ECONOMIC INDICATORS

The Conference Board's **U.S. Consumer Confidence Index** jumped 4.4% in March to its highest level in almost 4 years. The assessment of current conditions improved and consumers outlook for the job market remained positive.

The **U.S. Index of Leading Economic Indicators** edged down (0.1)% in March. Although vendor performance, stock prices, consumer expectations, and manufacturers' new orders all made positive contributions, building permits and unemployment insurance claims were among the factors pushing the index lower.

Semiconductor sales continued to perform well in February. Although the 3-month moving average of **U.S. semiconductor billings** dipped (0.2)%, the Semiconductor Industry Association (SIA) reported that February is traditionally a slow sales period. Sales were running 17.7% ahead of last year's pace on a year-over-year basis. The SIA expects unit sales of cell phones to increase by more than 10% in 2006, with personal computer sales growth projected to be in the 8% to 10% range.

The **U.S. Consumer Price Index (CPI)** 3-month moving average advanced 0.5% in March and stood 3.6% above its level from a year ago. The latest reading reflected a 0.4% increase for the month of March, which was fueled by rising gasoline prices. With food and energy costs excluded, the core CPI increased 2.1% from March 2005.

Arizona's employment picture remained very bright. The statewide job count reached 2.61 million in March, which was 5.6% higher than a year ago. Manufacturing continued to improve, with its 2.1% year-over-year increase following several years of decline. Industries driven by the housing sector – construction, building materials, and furniture dealers – were growing at a double-digit pace. Strong job growth allowed the **unemployment rate** to fall to 4.1% in March.

The University of Arizona's **Business Leaders Confidence Index** eased to 58.0 in the 2nd quarter 2006 survey. The outlook for sales and profits improved from the prior survey. The assessments of the state economy, the national outlook, hiring, and capital expenditures remained positive but not as strong as the previous quarter

Table 3

General Fund Revenues
Compared to Enacted and Revised Forecasts and FY 2005 Collections
($ in Millions)

	FY 2006 Collections	Difference From May 2005 Forecast [1/]	Difference From Jan 2006 Forecast [2/]	Difference From FY 2005
March	$ 596.1	$ 66.1	$ 21.0	$ 28.6
Year-to Date	$ 6,140.8	$ 606.4	$ 129.9	$ 822.3

1/ Originally enacted FY 2006 budget (May 2005)
2/ JLBC January Baseline Budget

The **Arizona Business Conditions Index** increased 3.1% to 63.6 in March. The materials inventory and new orders components posted strong results, while the production, purchases, and delivery time components lost ground.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** dipped from February's record $265,000 to $263,000 in March, which was 23.5% above the level from March 2005. The number of single-family homes sold was (27.6)% below last year's results. The **townhouse-condominium median price** dropped from February's record $175,000. March's $173,000 median price was 33.1% above March 2005, while the number of units sold fell (6.9)% from a year ago.

Arizona personal income increased 8.6% on a year-over-year basis in 2005's 4th quarter to an annual rate of $185.5 billion. Arizona's 2005 annual growth rate ranked 2nd among the states behind Nevada.

The **Department of Corrections' inmate population** increased by an average of 162 inmates per month from January through March. The total population increased by 1,230 inmates from a year ago.

The number of TANF recipients decreased (1.8)% to 90,370 in February and was (11.4)% below the level from February 2005. The **AHCCCS caseload** was virtually unchanged in April from the prior month and was (1.1)% below the level from a year ago.

Table 4

RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	March	4.1%	(0.3)%	(0.5)%
- Jobs	March	2.61 million	0.9%	5.6%
- Contracting Tax Receipts (3-month average)	Dec-Feb	$74.0 million	7.0%	31.8%
- Retail Sales Tax Receipts (3-month average)	Dec-Feb	$173.2 million	13.7%	14.1%
- Residential Building Permits - (3-month moving average)				
Single-unit	Dec-Feb	5,454	(2.1)%	(2.8)%
Multi-unit	Dec-Feb	1,017	18.1%	5.2%
- Greater Phoenix Existing Home Sales				
Single-Family	March	7,265	33.2%	(27.6)%
Townhouse/Condominium	March	1,750	38.9%	(6.9)%
- Greater Phoenix Median Home Sales Price				
Single-Family	March	$263,000	(0.8)%	23.5%
Townhouse/Condominium	March	$173,000	(1.1)%	33.1%
- Arizona Tourism Barometer	February	111.0	1.1%	10.2%
- Phoenix Sky Harbor Air Passengers	February	3.13 million	(5.6)%	2.9%
- Arizona Average Natural Gas Price ($ per thousand cubic feet)	January	$8.21	(11.0)%	42.5%
- Leading Indicators Index	February	119.7	(0.1)%	(0.6)%
- Business Conditions Index (>50 signifies expansion)	March	63.6	3.1%	(8.6)%
- Consumer Confidence Index	1st Quarter 2006	114.6	14.6%	9.9%
- Business Leaders Confidence Index	2nd Quarter 2006	58.0	(3.2)%	(7.6)%
- Arizona Personal Income	4th Quarter 2005	$185.5 billion	1.7%	8.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	April	1,039,781	0.0%	(1.1)%
- TANF Recipients	February	90,370	(1.8)%	(11.4)%
- DOC Inmate Growth (3-month average)	Jan-Mar	33,723	162 inmates	1,230 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	4th Quarter 2005	$11.2 trillion	1.7%	3.2%
- Consumer Confidence Index	March	107.2	4.4%	4.1%
- Leading Indicators Index	March	138.4	(0.1)%	2.2%
- U.S. Semiconductor Billings (3-month moving average)	Dec-Feb	$3.70 billion	(0.2)%	17.7%
- Consumer Price Index (3-month moving average)	Jan-Mar	198.9	0.5%	3.6%

JCCR MEETING

At its April 18, 2006 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

Game and Fish Department Headquarters Relocation – The Committee favorably reviewed the department's plans to relocate its headquarters from the Deer Valley property to the Ben Avery property. The Committee also requested the department submit information regarding the future use of the Deer Valley property when plans are finalized. As requested during the February 23 meeting, the department submitted additional information regarding the scope, purpose, and estimated cost of the project.

The estimated cost for the project is $16.5 million. The department plans to use a 25-year Privatized-Lease-To-Own (PLTO) agreement to purchase the new facility. Building construction should be completed by June 2007. Over the life of the lease, annual payments will increase from $1.5 to $1.9 million, for a total estimated cost of $42.5 million. The department determined that the non-appropriated Wildlife Conservation Fund is its most appropriate fund source to pay for the lease. Monies in this fund are generated from tribal gaming. The lease cost of $1.5 million represents 27% of the fund's projected FY 2006 revenue.

In addition to providing increased office and storage space, the facility will include a vehicle maintenance and fueling facility, which will be operated jointly with the Arizona Department of Transportation.

Yuma-La Paz Community College Bond Issuance – The Committee favorably reviewed the issuance of $53.9 million in bonds for campus building projects. This issuance is the second part of a $73.9 million voter-approved bond election. Previously, the Committee had favorably reviewed a bond issuance of $20 million. With the addition of this $53.9 million to other outstanding debt, the Community College's annual debt service requirements will be $5.8 million through FY 2009, and $5.3 million through FY 2031. The additional debt service will be financed through increased property tax revenue generated from an increased tax rate and new construction. The projects that are expected to be constructed from these bond issuances will complete the facilities plan through year 2010.

State Parks Lake Improvement Grants – The Committee recommended that the State Parks Board limit State Lake Improvement Fund (SLIF) monies used for administrative expenses to $3.8 million in FY 2006. The Committee also recommended that SLIF grants be used for major lakes and rivers that allow gas powered boats.

As requested during the February 23 meeting, the State Parks Board provided additional information regarding the appropriate level of administration expenses paid with SLIF monies. The $3.8 million for administrative expenses would fully fund the anticipated level of expenditures.

SUMMARY OF RECENT AGENCY REPORTS

Arizona Department of Administration – Emergency Telecommunication Services Revolving Fund Expenditure Plan – As part of the September 1, 2005 Joint Legislative Budget Committee's favorable review of the FY 2006 Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan, the Committee requested additional detail on the operational costs and the new hardware costs contained in the plan be provided by April 1, 2006.

The major focus of the wireless expenditure plan is to provide Wireless Phase II capabilities to cellular callers across the state. Wireless Phase II compliance requires answering facilities to be able to identify the location of a cellular caller within 50 to 300 meters. With the completion of Wireless Phase II in both Maricopa and Pima Counties, 80% of the access lines in Arizona are Phase II compliant. The estimated cost to bring the remaining 20% of the state's access lines into Phase II compliance by FY 2011 is $23 million. The Arizona Department of Administration estimates ongoing maintenance costs through FY 2011 will be $77.5 million.

The tax rate of $0.37 per month on wireless phones is projected to generate $13 million in FY 2006 for the ETSF. However, in FY 2007 due to a statutory decrease in the tax rate from $0.37 to $0.28 per month, revenues are projected to decrease to $10 million. The department believes that due in part to the decreasing tax rate, revenues will not support the future costs of upgrading and maintaining the statewide emergency telecommunications network.

Attorney General – Quarterly Report on Expenditures from Appropriation for Crane Lawsuit – In September 2001, 7 school districts filed the Crane lawsuit, which claimed that the current Arizona school finance system is unconstitutional because it does not provide at-risk students with programs and funding needed in order to meet state academic standards. In FY 2004, the Legislature appropriated $500,000 to the Attorney General for legal fees incurred by outside counsel in defending the state. In December 2003, the Maricopa County Superior Court ruled that the state is not constitutionally required to provide districts with a high proportion of at-risk students additional funding.

The Attorney General reports quarterly to the JLBC. As of March 31, 2006, a total of $470,400 has been spent. The agency spent a total of $3,800 since last quarter's report.

Corporation Commission – Report on Corporations Division Filings – Pursuant to a footnote in the General Appropriation Act, the Corporation Commission has submitted a quarterly report on the status of reducing processing delays in its Corporations Division. The Legislature added $629,700 in Other Funds in FY 2006 to hire staff to reduce the filings backlog and reduce processing times. Significant backlogs and processing delays had developed in the Corporations Division because of increases in the number of corporation filings, which in FY 2005 grew 20% over FY 2004 levels.

Between March 25, 2005 and March 31, 2006, a total of 119,624 filings were received by the Corporations Division.

For expedited filings, the amount of time required to process the filings fell from an average of 59.2 days on March 25, 2005 to 6.6 days on March 31, 2006. During the past quarter, the amount of time required to process filings decreased from an average of 10.4 days in December 2005 to 6.6 days on March 31, 2006. The commission's goal for processing expedited filings is 5 business days or less.

For regular filings, the amount of time required to process the filings fell from an average of 150.5 days on March 25, 2005 to 37.2 days on March 31, 2006. During the past quarter, the amount of time required to process filings decreased from an average of 55.5 days in December 2005 to 37.2 days on March 31, 2006. The commission's goal for processing regular filings is 30 business days or less.

Arizona Department of Corrections – Report on Monthly Bed Plan Update – The Department of Corrections (ADC) has been providing monthly reports to JLBC Staff updating the status of several topics:

Bed Update

- Arizona inmates currently occupy all of the 2,064 available provisional beds located at out-of-state facilities in Oklahoma and Texas. The department reported that unless the number of inmates in provisional beds changes, it will make no further report on this issue.
- Correctional Services Corporation (CSC), the firm contracted to operate the 1,000-bed private facility in Florence housing level-3 sex offenders, estimated that the prison will be ready for inmate occupancy in December, ADC reported.
- The department continues to fully utilize the 1,400-bed level-2 and level-3 beds at the Kingman facility. The department in January finalized a contract amendment resolving issues concerning fuel sources and related costs. The department reported that unless Kingman's status changes, it will make no further report on this issue.
- The Coconino Sheriff's Department requested in February that ADC remove half of the 88 ADC inmates housed at the Coconino County jail to provide more room for county detainees. ADC transferred 44 inmates on February 23 but returned 44 inmates to the Coconino County jail a week later on March 2. On March 21, the department again transferred 44 inmates from the Coconino County jail, bringing the ADC inmate population there to its current level. ADC currently houses a total of 92 inmates at the Coconino and Navajo County jails.
- Previous issues following the October privatization of inmate stores, including a high number of refunds and unfilled orders, have been resolved, the department reported. The department reported that unless this program's status changes, it will make no further report on this issue.

Community Accountability Program

- The department reported that the program should be fully operational by the end of April. Inmates were enrolled beginning in late February. The program contract was awarded on January 18.

Maricopa Health Care Contract

- The department expects to award a contract for health care in Maricopa County by mid-April after Phoenix Memorial Hospital (PMH) withdrew its bid for consideration. PMH had filed a second protest letter in early February but withdrew its bid later that month.

Department of Corrections – Report on Transition Release Program – Pursuant to A.R.S. § 31-285B, the Arizona Department of Corrections (ADC) is required to submit a quarterly report that details the cost reductions to the department from an inmate early release Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services. Statute requires a savings of at least $17 per day per inmate by releasing eligible inmates 90 days early from confinement and placing them in the Transition Program. The cost savings are to be deposited from the department's operating budget into the Transition Program Drug Treatment Fund and used to fund the program.

ADC awarded a service contract in March 2004. From January 1 through March 31, 2006, the department reports that 122 inmates successfully completed the Transition Program and their term of community supervision. As a result, there were 9,217 bed days saved and $156,689 in savings, based on savings of $17 per day for each bed during this time period. Since program inception, a total of 393 inmates, or 52% of program participants, successfully completed the Transition Release Program and their term of community supervision with savings of 49,881 bed days and $847,977.

Department of Economic Security – Report on Preliminary Actuarial Estimates of the Long Term Care Developmental Disabilities Capitation Rate Increases for the Following Fiscal Year – Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) has submitted preliminary actuarial estimates of the capitation rate increases for the upcoming fiscal year for its Long Term Care Developmental Disabilities program.

Based on a review of historical encounter cost and utilization trend data, the Division of Developmental Disabilities capitation rates are estimated to grow approximately 4%-6% beginning July 1, 2006. The FY 2007 JLBC Baseline assumed capitation rate growth of 3.0%.

JLBC Staff asked DES for the additional information regarding the preliminary rates. DES affirmed that there were no new or expanded programs in the increase, but did not provide any details regarding the reasons for the 4%-6% capitation rate increase. DES mentioned that the incontinence brief lawsuit, *Ekloff v. Rodgers*¸ would likely impact the capitation rate, but did not indicate if their estimates included the incontinence brief lawsuit.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2006 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for formula-funded and other major programs for FY 2006. In that report, ADE estimates that it will experience a $(29.1) million shortfall for FY 2006.

ADE's current $(29.1) million shortfall estimate is $1.8 million less than its $(30.9) million estimate from March 2006. The difference is primarily due to a $1.9 million surplus that ADE now anticipates for special education voucher funding for FY 2006.

The current $(29.1) million FY 2006 shortfall estimate is subject to considerable change through at least May 15, which is the deadline for school districts to revise their budgets in order to qualify for funding for current year ADM growth. In addition, the exact FY 2006 shortfall amount will not be known until after the close of the fiscal year because corrections to Basic State Aid funding allocations can be made after a fiscal year ends pursuant to A.R.S. § 15-915. Allocations for current year ADM growth, in particular, are subject to change after the end of a fiscal year due to ongoing data revisions and corrections.

Governor's Office of Strategic Planning and Budgeting – Report on Federal Revenue Maximization Initiative – Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative.

The summary lists 10 ongoing projects, unchanged from the January report. OSPB reports that 3 projects or potential projects with budget implications had new developments from the prior report:

- *Medicare Part B*: The Department of Health Services reported that it claimed about $85,000 in Medicare Part B revenues and expects to claim an additional $219,000 in Medicare Part A and Part B revenues for prior-year costs at Arizona State Hospital.
- *Title IV-E (Child Welfare)*: The Department of Economic Security reported passage of the federal Deficit Reduction Act would likely reduce savings available through the Targeted Case Management and Title IV-E Administrative Claiming initiatives.
- *Special Needs Waiver for Children 0-5*: The report said initial estimates were that the program would likely "break even" while providing more services; "in light of broader AHCCCS 1115 waiver renewal," the project is being put on hold.

Arizona Board of Regents – Enrollment Counting Day Spring Report – Laws 2005, Chapter 330 required the Arizona Board of Regents (ABOR), by April 15, 2006, to report to the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting on full-time equivalent (FTE) student enrollments as of the 21st day and the 45th day of the spring 2006 semester, delineated by university. Chapter 330 specified the 45th day because A.R.S. § 15-1466.01 requires community colleges to conduct their enrollment counting at that time. Chapter 330 also stipulated that the report analyze advantages and disadvantages of each enrollment count for state funding purposes.

ABOR reports that, throughout the Arizona University System, enrollment dropped from 101,185 FTE students on the 21st day to 100,141 FTE students on the 45th day, a decline of (1,043) FTE students, or (1.0)%. If the part-statutory, part-conventional student enrollment funding formula used by JLBC Staff were applied to the lower, 45th day enrollment counts, annualized General Fund support for the university system as a whole would decline by $(5.9) million, or (0.7)% of FY 2006 General Fund expenditures.

Comparing these figures to those reported by ABOR for the fall semester, enrollment dropped from 107,765 FTE students on the 21st day to 105,964 FTE students on the 45th day, a decline of (1,802) FTE students, or (1.7)%. The fall semester decline would correspond to an annualized General Fund decrease of $(9.7) million dollars, or (1.1)% of FY 2006 General Fund expenditures.

Department of Revenue – Report on Business Re-Engineering/Integrated Tax System (BRITS) – BRITS is the new computer system being implemented by the Department of Revenue (DOR) to integrate their separate tax systems, improve enforcement, and increase revenues to the state. Given the importance of this issue, in April 2003 the Appropriations Chairmen asked DOR to provide quarterly reports on the additional revenue received from implementing BRITS. The implementation of BRITS began in FY 2003 with the awarding of the contract to Accenture, LLP on August 20, 2002. Accenture is financing the cost of BRITS, and is paid from the increased revenues generated by BRITS.

The original contract called for BRITS to be completed in FY 2007 for a total cost of $133.7 million, including $122.7 million for the base contract and $11 million for estimated interest. DOR currently estimates a total cost of $136.7 million, including $122.7 million for the base contract, $7 million for estimated interest, $6.6 million for a contract extension for Accenture to operate and maintain the BRITS data center for 4 years from October 1, 2003 through September 30, 2007, and $422,300 for a contract modification for corporate income tax. The decrease from $11 million to $7 million for estimated interest is due to Accenture having to finance less BRITS costs, since BRITS revenues now exceed projections. The $6.6 million contract extension for Accenture to operate the BRITS data center had been an additional cost option in the original contract, which DOR chose on its own to implement.

The original contract called for BRITS to be completed in FY 2007. However, DOR had problems with the transaction privilege tax conversion to BRITS in January 2004, which will delay the BRITS conversions of corporate income tax from September 2004 to July 2006, and of individual income tax from September 2006 to an undetermined date.

DOR reports $129.2 million of total BRITS additional revenue through March 31, 2006, compared to a projected level of $80.7 million, or $48.5 million ahead of schedule. Accenture has been paid $97.7 million for increased collections, which is $29.2 million ahead of schedule. The state/county/city have received $17.2 million, which is $5.1 million ahead of schedule. DOR has $12.1 million of "credit" available to pay future Accenture billings, which is the extent to which Accenture's 85% share of the $129.2 million of total BRITS revenue exceeds the $97.7 million they have already been paid.

DOR has spent $102 million for BRITS through March 31, 2006, including $6 million for interest. Future interest payments should be minimal, given the current $12.1 million of "credit" available for making payments to Accenture. Small amounts of additional interest could accrue due to disputed billings or the timing of DOR's payments. DOR estimates $7 million for total interest as a worst case scenario.