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“March collections were... \$(2.8) million below the January revised budget forecast”.

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on April 30, 2009.

Summary



March General Fund revenue collections were \$563.6 million. This amount included \$114.6 million in budgeted fund transfers from the January Special Session. Excluding these transfers and Urban Revenue Sharing, March collections were (12.4)% below the prior year, and \$(2.8) million below the January revised budget forecast.

For the first 9 months of FY 2009, General Fund collections are down (13.4)% when compared to last year (excluding Urban Revenue Sharing and one-time transfers). The year-to-date shortfall is \$(158.2) million below the January revised budget forecast. *(See Table 1 and page 2 for more information).*

Sales taxes and individual income tax withholding are the 2 main sources of revenue collections. Sales tax revenues are (19.3)% below March of last year, and withholding tax collections are down (5.9)%. These decreases are partially offset by decreased individual income tax refunds. This decrease in refunds is likely a function of the timing of refund processing by the Department of Revenue.

While the March revenue loss was small, preliminary April results suggest that the forecast loss will be at least \$(400) million in April. The dollar level of individual income tax refunds in April may exceed last year by 30%, and the level of payments may decline by over 30%. If the preliminary projection holds, the year-to-date revenue loss through April would be approximately \$(550) million relative to the January forecast.

Interpreting the March and April results is especially challenging given that we are in the middle of the tax filing season. At this time of year, the state can receive income tax payments or issue refunds in a single day that exceed \$100 million. If processing is ahead or lags last year's pace, this can affect year over year comparisons by a substantial amount.

The Department of Revenue indicates that they are currently up to date on processing returns that have been received by the department. The number of returns is down from last year, however, and the department is receiving an increased number of returns with no payment or partial payment.

FY 2009 Revenue Projections

The Legislature enacted a revised FY 2009 budget during the 1st Special Session in the last week of January. This January base revenue estimate was \$8.54 billion, excluding Urban Revenue Sharing and one-time financing sources. This amount would be a (9.7)% reduction in base revenues compared to FY 2008.

At the March Finance Advisory Committee meeting, JLBC Staff recommended that the budget forecast be based on a (14.5)% decline in FY 2009 revenues *(see FAC Meeting summary on page 7)*. This would equate to General Fund base revenues of \$8.05 billion, excluding fund transfers and Urban Revenue Sharing.

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Summary (continued)

FY 2009 Shortfall

With the recent March adjustments to the January Special Session, the state had a projected FY 2009 ending balance of \$50 million. With a March forecast of a (14.5)% revenue loss, the year-end revenue shortfall would be \$(487) million. After adjusting for the \$50 million ending balance, the net shortfall would be \$(437) million. The net shortfall was estimated at \$(510) million in the March *Monthly Fiscal Highlights*, however, Laws 2009, Chapter 2 increased the state's withholding tax rates to solve the \$(73) million withholding problem which was included in that amount.

If the preliminary April year-to-date loss of \$(550) million holds true, the projected year-end forecast loss of \$(487) million will need to be revised substantially upward, potentially in the range of \$200-\$300 million. The JLBC Staff is in the process of further refining this estimate.

Economic Indicators – The release of new economic data suggests that the state's already weakened economy is further deteriorating. The decrease in March sales tax collection of (19.3)% is the largest decrease relative to last year so far this fiscal year. The Arizona Department of Commerce's March employment report indicates that the state has lost (183,100) jobs or (6.9%) of its workforce in the last 12 months. The current level of payroll employees in the state, 2.48 million, is roughly the same as in June 2005. The state's unemployment rate of 7.8% in March is the highest since August 1983 and is expected to increase for some time.

JLBC/JCCR Meetings – The *Monthly Fiscal Highlights* includes a summary of the April JLBC meeting (page 7). There was no JCCR meeting in April.

March Revenues

Table 1

	General Fund Revenues Compared to Forecast and FY 2008 Collections (\$ in Millions)			
	<u>FY 2009 Collections</u>	<u>Difference From June '08 Forecast</u> ^{1/}	<u>Difference From Jan '09 Forecast</u> ^{2/}	<u>Difference From FY 2008</u>
March	\$ 563.6	\$ (160.6)	\$ (2.8)	\$ 23.9
Year-to-Date	\$ 5,757.8	\$ (1,301.2)	\$ (158.2)	\$ (431.1)

^{1/} Enacted FY 2009 budget (June 2008).

^{2/} Revised JLBC Baseline

Sales Tax collections were \$282.2 million in March. These revenues were down (19.3)% compared to last March, and were \$(39.4) million below the budget forecast. Sales tax collections are down (12.2)% through the first 9 months of the fiscal year. The March decline marked the 15th consecutive month of year-over-year reductions, and the 5th consecutive month of double digit declines compared to the previous year.

Table 2 displays the March growth rates for the largest categories.

Table 2

	Sales Tax Growth Rates Compared to Prior Year	
	<u>Mar</u>	<u>YTD</u>
Retail	(15.7)%	(11.5)%
Contracting	(32.4)%	(22.5)%
Utilities	(17.4)%	0.5%
Use	(23.8)%	(9.3)%
Restaurant & Bar	(5.1)%	(5.1)%

As noted in previous months, retail and contracting together account for two-thirds of all sales tax revenues. The retail sector decreased

March Revenues (Continued)

by (15.7)% in March, and contracting fell by (32.4)%.

As noted in *Table 3*, through March, taxable sales in the retail category are down (11.5)% from the prior fiscal year. The largest subcategory within retail is the General Merchandise and Miscellaneous Retail category, which is down (6.5)%. The largest subcategory decline is in Motor Vehicles, which represents 20.9% of the total, and is down (32.7)% compared to the prior year.

Individual Income Tax net revenues were \$71.8 million in March. Collections were up 16.0% compared to the prior year, and were \$23.1 million greater than the budget forecast. *Table 4* displays March and year-to-date growth rates for individual categories.

	March	YTD
Withholding	(5.9)%	(5.9)%
Estimated + Final Payments	(14.9)%	(24.1)%
Refunds	(12.2)%	4.9%

March net individual income tax collections were above the prior year and the budget forecast due to a significantly lower than anticipated amount of refunds processed during the month. Refunds were \$35 million below last March, and \$44 million below the forecast for the month. As noted above, this decrease in refunds is likely due to the timing of refund processing by the Department of Revenue. Preliminary April refunds are significantly greater than the prior year.

Withholding tax collections were down (5.9)% compared to March last year. This decrease is an improvement from the double-digit losses in the last 2 months.

It is difficult to draw conclusions from payment and refund data during March and April due to processing differences between this year and last. However, if the trends seen so far during the month of April continue, April collections will lag significantly below April of last year, as well as the budget forecast.

Corporate Income Tax collections were \$44.8 million in March, or (26.9)% below last year. Collections were \$5.4 million above forecast for the month. March collections were above forecast, however March is a relatively small collection month for corporate income tax. Year-to-date, collections are (21.1)% below last year. Final results for the fiscal year will be largely determined by April and June collections.

The **Lottery Commission** reports that ticket sales for the month of March were \$45.6 million, which was \$(7.5) million below sales in March 2008. Year-to-date, ticket sales have decreased by (0.3)% compared to last year. Through March, a total of \$30.0 million in lottery revenues has been deposited into the General Fund.

"The U.S.

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largest since

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Table 3
YTD (9-Month) Taxable Retail Sales by Subcategory

	% of Total Sales	% Change Over FY 2008
General/Misc. Merchandise	30.5%	(6.5)%
Motor Vehicles/Misc. Auto.	20.9%	(32.7)%
Bldg Materials and Supplies	7.4%	(14.8)%
Food and Liquor Stores	7.4%	(3.0)%
Furniture, Home Furnishings	6.9%	(15.1)%
Clothing and Accessories	5.8%	(12.9)%
Manufacturing	5.6%	(11.4)%
Other Subcategories	<u>15.5%</u>	<u>3.6%</u>
Total	100.0%	(11.5)%

Economic Indicators

NATIONAL

According to the federal Bureau of Economic Analysis, **real GDP (Gross Domestic Product)** contracted by (6.1)% in the 1st quarter of 2009 following a (6.3)% reduction in the prior quarter. The sharp decline in real output was primarily due to a (51.8)% reduction in private investments.

The Conference Board's **U.S. Consumer Confidence Index**, a measure based on a survey of 5,000 U.S. households, increased from a reading of 26.9 in March to 39.2 in April. The index reached its highest level since November 2008 and posted the largest gain (12.3 points) since November 2005. Consumers' assessment of both current and future conditions improved in April, with a more optimistic short-term outlook for jobs and business conditions leading the advance.

The Conference Board's **U.S. Index of Leading Economic Indicators** decreased by (0.3)% in March, following a (0.2)% decline in February. Year-over-year, the index is down by (3.8)%. Positive contributions from the increase in money supply and a steepening of the yield curve were more than offset by plunging building permits, sharp drops in stock prices, and faster vendor performance (i.e., quicker delivery time, which is typically associated with decreases in demand for manufacturing supplies).

The **U.S. Consumer Price Index (CPI)** declined by (0.1)% in March. The year-over-year decrease of (0.4)% was the largest since August 1955. The reduction in CPI is mainly attributable to falling energy prices. The core CPI, which excludes food and energy prices, has remained relatively stable over the last 4 to 6 months.

ARIZONA

New economic data made available since the release of last month's *Monthly Fiscal Highlights* points to a further deterioration of the state's economy. The decline is broad-based, as evidenced by continued job losses, increased unemployment, record-high claims for jobless benefits, rapidly declining housing prices, sharply reduced air passenger traffic, and either record-low or near record-low confidence among both consumers and

business leaders.

The only silver lining in the current economic malaise is that the sharp drop in home prices has increased housing affordability in the metro-Phoenix area to levels not seen since at least the first quarter of 1995. (The affordability index released by ASU's Realty Studies Group goes back to 1995.) Another benefit of the sharp reduction in housing prices is that the sales volume of existing homes has increased significantly in recent months. As a result, the months' supply of housing (i.e., the number of months required to sell the current inventory of homes) has fallen by almost half over the last 12 months.

According to the Commerce Department's most recent *Workforce Report*, **nonfarm payroll employment** in March declined by (6.9)% when compared to the same month in the prior year. This figure translates into a net loss of (183,100) jobs over the last 12 months. Since the start of the national recession in December 2007, Arizona's economy has lost (230,400) jobs. More than half of those job losses have occurred in the last 6 months. The current level of payroll employees in the state (2.48 million) is roughly the same as in June 2005.

The month of March marked the 27th consecutive month with year-over-year job losses in the **construction sector**. With 143,000 employees on their payrolls in March, the construction sector was back to the level recorded in April 1998. The construction sector has shed (55,200) jobs or (27.9)% of its workforce over the last 12 months.

The **manufacturing sector** is also experiencing continued job losses. In the month of March, the industry lost another (200) jobs and as a result employed (9,300) fewer workers than a year ago. The last time the manufacturing industry reported year-over-year job gains was in October 2006. The industry now employs fewer individuals than at any time during the 1990/1991 recession.

The state's **unemployment rate** increased from 7.4% in February to 7.8% in March, the highest rate since August 1983. The state's unemployment rate in March 2008 was 4.7%. The national unemployment rate last month was 8.5%.

"Since the start of the national recession in December 2007, Arizona's economy has lost (230,400) jobs. More than half of those job losses have occurred in the last 6 months."

Economic Indicators (Continued)



The Department of Commerce reported that a record-high 39,174 **initial claims for unemployment insurance** were filed in March, an increase of 117.1% over last year. For the week ending on April 4, a new record-high of 98,092 Arizona residents filed continued claims for jobless benefits.

According to the U.S. Census Bureau, an average of 625 **single-family residential building permits** were issued between January and March 2009. In percentage terms, single-family permitting activity fell by (63.6)% from the same 3 month period a year ago. Year-over-year, **Multi-family permits**, on average, also fell over the last three months to a total of 204, or (70.8)% below levels a year ago.

ASU's March real estate report indicates the Greater Phoenix **single-family median resale home price** was \$133,640 based on 8,610 transactions. For the second straight month, the median resale price for foreclosed properties (\$146,880) was greater than those for traditional transactions (\$127,000). According to the report, however, the relatively high resale price for foreclosed transactions in March continues to be due to: 1) a large number of more expensive homes being foreclosed on (there were three transactions with values over \$2 million and roughly 187 sales were in the \$300,000 range), and 2) previously purchased foreclosed homes are being resold at prices (15.0)% lower. Of the 8,610 **single-family existing home sales**, there were 5,940 traditional sales or more than double the 2,670 foreclosed transactions. Year-over-year, the number of traditional and foreclosed transactions increased 81.9% and 29.9%, respectively.

The **S&P/Case-Shiller Home Price Index** measures the change in housing prices based on repeat sales. In February, the home price index in Phoenix was (4.5)% below January levels. Compared to last year, the index is down by (35.2)%-- the greatest drop among all 20 metropolitan areas tracked. At its current level, the index, and therefore average home prices, are similar to levels seen in 2002.

Based on MLS data released in April, the **month's supply of housing** in March was 8.1 months. On a seasonally adjusted basis, this

was the lowest supply of unsold homes since January 2007. The comparable figure in March 2008 was 14.8 months.

A total of 2.8 million passengers entered and exited aircraft at the **Phoenix Sky Harbor International Airport** in March. This was a decrease of (14.4)% from last year and the third largest year-over-year decline in passenger traffic since November 1980.

In April, **AHCCCS caseloads** increased to a total of 1,196,699 members, a 1.8% increase over the prior month. At current levels, the AHCCCS caseloads are 8.7% above April 2008 levels. The revised FY 2009 budget funded a projected caseload growth of 7.8%, or a total of 1,234,901 members.

There were a reported 86,218 **TANF recipients** in the state in February, a decrease of (0.6)% from the prior month. Year-over-year, caseload is up by 8.0%. The FY 2009 budget assumes the TANF caseload will grow by 2.5%.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February, there were a total 801,339 food stamp recipients in the state, an increase of 3.1% over the prior month. Compared to the same month last year, food stamp participation was up by 26.9%.

Between January and March 2009, the **Department of Correction's (ADC) inmate population** increased by an average of 178 inmates per month. ADC now has an average population of 39,868 inmates, or 1,747 more inmates than in the same period last year. (Hans Olofsson, Martin Lorenzo)

Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	March	7.8%	0.4%	3.1%
- Initial Unemployment Insurance Claims	March	39,174	12.1%	117.1%
- Non-Farm Employment – Total	March	2.48 million	(0.3)%	(6.9)%
Manufacturing	March	166,400	(0.1)%	(5.3)%
Construction	March	143,000	(2.3)%	(27.9)%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$47.0 million	(8.9)%	(28.5)%
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$143.8 million	(2.6)%	(13.7)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jan-Mar	625	2.7%	(63.6)%
Multi-unit	Jan-Mar	204	6.4%	(70.8)%
- Greater Phoenix Existing Home Sales				
Single-Family, Traditional Sales	March	5,940	40.9%	81.9%
Single-Family, Foreclosed Sales	March	2,670	(37.8)%	29.9%
Townhouse/Condominium, Traditional Sales	March	605	33.0%	(5.5)%
Townhouse/Condominium, Foreclosed Sales	March	295	(39.2)%	126.9%
- Greater Phoenix Median Home Sales Price				
Single-Family, Traditional Sales	March	\$127,000	(4.5)%	(44.8)%
Single-Family, Foreclosed Sales	March	\$146,880	(10.7)%	(22.4)%
Townhouse/Condominium, Traditional Sales	March	\$115,000	(5.0)%	(32.7)%
Townhouse/Condominium, Foreclosed Sales	March	\$105,075	(18.2)%	(27.1)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	February	111.89	(4.5)%	(35.2)%
- Months Supply of Housing, (ARMLS)	March	8.1 months	(0.6) months	(6.7) months
- Phoenix Sky Harbor Air Passengers	February	2.8 million	(6.2)%	(14.4)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	January	\$8.71	5.3%	(1.0)%
- Consumer Confidence Index (1985 = 100)	1st Quarter 2009	44.2	N/A	(58.4)%
- Business Leaders Confidence Index	2 nd Quarter 2009	33.0	2.8%	(10.6)%
- Arizona Personal Income	4 th Quarter 2008	\$213.4 billion	(0.7)%	1.0%
- Arizona Population	July 1, 2008	6.50 million	146,759	2.3%
- AHCCCS Recipients	April	1,196,699	1.8%	8.7%
- TANF Recipients	February	86,218	(0.6)%	8.0%
- SNAP (Food Stamps) Recipients	February	801,339	3.1%	26.9%
- DOC Inmate Growth (3-month average)	Jan-Mar	39,868	178 inmates	1,747 inmates
United States				
- Gross Domestic Product (Chained 2000 dollars, seasonally adjusted)	1 st Quarter 2009	\$11.3 trillion	(6.1)%	(2.6)%
- Consumer Confidence Index (1985 = 100)	April	39.2	45.7%	(37.5)%
- Leading Indicators Index (2004 = 100)	March	98.1	(0.3)%	(3.8)%
- U.S. Semiconductor Billings (3-month moving average)	Dec-Feb	\$2.45 billion	(4.1)%	(24.9)%
- Consumer Price Index, SA (1982-84 = 100)	March	212.714	(0.1)%	(0.4)%

FAC Meeting

At its March 31st, 2009 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, U.S. economy, and Arizona employment. The FAC is a 15-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

JLBC Staff provided members with the latest 4-sector consensus estimates for “Big 3” revenue collections. The 4-sector consensus estimate is a composite of equally weighted estimates from:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model;
- The FAC panel; and
- JLBC Staff.

Based on the 4-sector consensus, revenues are projected to decline by (13.0)% in FY 2009, prior to any tax law changes. This is down from the January FAC meeting, at which time the 4-sector consensus projected a FY 2009 growth rate of (9.7)%. Year-to-date collections through February are down (13.5)% as compared to the same period last

year. Based on the year-to-date decline and poor revenue performance in January and February, it was recommended that a (14.5)% decline be used for FY 2009 rather than the consensus forecast.

For FY 2010, each component of the 4-sector consensus showed improvement from FY 2009, however the overall forecast still called for a further decline of (2.1)%.

Panel members heard formal presentations from Elliott Pollack, Dennis Doby, and the State Treasurer, Dean Martin, in addition to comments from Marshall Vest.

The presenters generally expected economic growth to bottom out sometime in FY 2009 or FY 2010. The presenters also agreed that the recovery is likely to be gradual and the imbalances in the housing and credit markets will take several years to correct.

Beyond FY 2010, the 4-sector consensus projects a modest recovery beginning in FY 2011, with a return to trend revenue growth in FY 2012.



JLBC Meeting

At its April 28, 2009 meeting, the Joint Legislative Budget Committee considered the following issues:

AHCCCS – Review of Revised Acute Care Capitation Rate Changes – The Committee gave a favorable review to 3 capitation rate changes: reducing the physician services portion of Acute Care capitation rates, eliminating dental sealants for primary teeth as a covered service, and shifting costs for the Department of Economic Security’s state – only Developmental Disabilities program to AHCCCS’ Acute Care program. The proposed rates would allow AHCCCS to reduce their costs consistent with the January budget revisions.

Attorney General – Review of Allocation of Settlement Monies

Eli Lilly

The Committee gave a favorable review to the Attorney General’s (AG) \$2.2 million allocation plan for attorney’s fees and consumer fraud activities. The settlement is a result of the investigation of the marketing of a drug used for the treatment of bipolar disorders.

Pfizer, Inc.

The Committee gave a favorable review to the AG’s \$2.5 million allocation plan for attorney’s fees and consumer fraud activities. The settlement is a result of the investigation of the marketing and sale of a pain medication.

JLBC Meeting (Continued)

Countrywide

The Committee gave a favorable review to the AG's \$4.3 million allocation plan as a result of the multistate suit brought against Countrywide Financial Corporation, based on an investigation of their lending practices. Of the settlement amount, \$4,098,300 will be distributed to Arizona consumers: half to borrowers who have experienced a home foreclosure and the other half to be used for foreclosure relief and mitigation programs that are administered by the AG. In addition, the AG will receive \$200,000 for attorney's fees and consumer fraud activities.

Great Expectations – The Committee gave a favorable review to the AG's \$525,000 allocation plan as a result of the consent agreement with Great Expectations, a referral dating service. Of the settlement amount, \$250,000 will be paid to Arizona consumers whom have already filed complaints with the AG. In addition, the AG will receive \$275,000 for their consumer fraud unit.

Community Colleges – Review Renewal of Diné College's Funding Compact – The Committee gave a favorable review to the 10-year renewal of the funding compact between the state and the Navajo Nation. Consistent with statute, the compact allows 10% of transaction privilege tax (TPT) revenues that are generated within the Navajo Nation to be used for Diné College.

Fund Transfer Exchanges – Review of Requested Exchange of Fund Transfers – The Committee gave a favorable review to the requested exchange of fund transfers for the Corporation Commission, the Arizona Department of Housing, the Department of Insurance and the Arizona State Parks Board. Subject to JLBC review, the Special Session budget legislation permits agencies to revise their fund transfers downward if other fund transfers are increased by the same amount. In the single largest shift, the Committee favorably reviewed replacing a \$3 million transfer from the State Parks Enhancement Fund with a \$2 million transfer from the State Lake Improvement Fund and a \$1 million transfer from the Heritage Fund.

Arizona State Schools for the Deaf and Blind – Review of Intended Use of Voucher Fund Expenditures – The Committee gave a favorable review to the Arizona State Schools for the Deaf and Blind's (ASDB) expenditure plan for the \$878,500 appropriation to the Voucher Fund to pay for expenses associated with projected enrollment growth and inflation. ASDB plans to use the monies for personnel and supplies.

Department of Environmental Quality – Review of Intended Use of Monies in the Indirect Cost Recovery Fund – The Committee gave a favorable review to the Department of Environmental Quality's (DEQ) intended uses of the Indirect Cost Recovery Fund in excess of their FY 2009 appropriation of \$11.9 million. The Committee favorably reviewed the option to increase Indirect Cost Recovery Fund expenditures to a total of \$12.5 million for the entire fiscal year. The Indirect Cost Recovery Fund is used to pay administrative and overhead expenses for DEQ programs.

Arizona Pioneers' Home – Consider Approval of Requested Transfer of Appropriations – The Committee approved the agency's request to transfer up to \$100,000 from the Personal Services line to the Employee Related Expenditures (ERE) line in FY 2009. The agency projects that total ERE costs will be \$1.6 million for FY 2009, exceeding the appropriated amount of \$1.5 million.



Summary of Recent Agency Reports

Arizona Department of Administration – Semi-Annual State Employee Health Insurance Report – Pursuant to A.R.S. § 38-658, the Arizona Department of Administration (ADOA) is submitting their required semi-annual report on the health insurance program. The Health Insurance Trust Fund had receipts of \$714 million for Plan Year (PY) 2008, with expenses of \$716 million, decreasing the balance by \$(2) million to \$116 million as of September 30, 2008. The program provides health insurance for 133,099 active state employees, retirees, and dependents. Of this amount, 57,908 are active employees, including university employees, and 9,046 are retirees. The total annual cost per member averaged \$4,577 for active employees and their dependents and \$7,886 for retirees and their dependents. These costs are covered by both member and employer premiums.

Statute requires ADOA to report on performance standards for the program, as well as customer satisfaction. In PY 2008, nearly \$55,000 in penalties was assessed to vendors, an improvement from the \$98,000 in penalties assessed for PY 2007. Penalties were imposed for failure to meet goals for claims processing and customer service. (Eric Jorgensen)

Department of Health Services – Report on Arnold v. Sam – Pursuant to a FY 2009 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted the 2nd quarter report on settling the *Arnold v. Sam* lawsuit.

DHS reports that since the adoption of the court ordered Performance Improvement Plan (PIP) in April 2008, the contractor (Magellan) has successfully accomplished 35 out of 41 goals outlined in the PIP. The contractor has achieved particular goals in staff training, improved

Individual Service Plan (ISP) functional assessment quality and case management team treatment. To date, DHS has imposed sanctions totaling \$112,000 against the contractor, including \$18,500 in January 2009 for not demonstrating full compliance with the provisions of the ISP.

In January 2009, the Court Monitor filed her 2008 Independent Review with the court. The Court Monitor found “serious deficiencies in the provision of clinically sound practices” arising from 3 systemic problems:

- The behavioral health management system is re-bid every 3 years, which leads to instability.
- The behavioral health system lacks local control as a result of contractors that are located outside of Maricopa County.
- Guaranteed profits for the contractors means that monies needed for care are taken out of the system.

DHS states that it was not given an opportunity to comment on the Court Monitor’s findings prior to the release of her report. DHS has the following comments on the Court Monitor’s report:

- The perceived instability is lessened by the fact that DHS has the option to extend contracts for 1 year or 2 years beyond their original 3-year term.
- The contractor has established a local presence through partnerships with behavioral health agencies within Maricopa County.
- Contractors are not guaranteed profit, as contracts with DHS stipulate a risk corridor that range between a profit of up to 4% and a loss of up to 4%.

Following the release of the Court

Monitor’s report, a status hearing was set for February 23, 2009. This hearing has since been rescheduled for May 18, 2009. The court also issued an order requiring the Governor to file a brief by May 4, 2009 that proposes solutions to systemic problems in the Maricopa County behavioral health system. (Art Smith)

Phoenix Convention Center – Certificate of Completion – The City of Phoenix has submitted the Certificate of Completion (dated March 25, 2009) for the Convention Center expansion project to the State Treasurer. Per A.R.S. § 9-622, the certificate includes:

- A certification that the project was completed as of January 11, 2009.
- A list of agreements entered into by the city that require future scheduled payments.
- A certification that the project meets all of the eligibility requirements of A.R.S. § 9-605.
- A certification that the total cost of the project is \$600 million, with \$300 million funded from municipal sources.

The submittal of the Certificate of Completion triggers the state’s obligation to begin paying the debt service and related costs on \$300 million in construction bonds beginning in FY 2010. The FY 2010 obligation is for \$5 million. Debt service will grow to maximum of \$30 million per year by FY 2033. (Tim Everill)

Department of Water Resources – Report on Fees Collections in the Assured and Adequate Water Supply Fund – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Water Resources (DWR) has submitted the amount of fees collected by the Assured and Adequate Water Supply (AAWS) program. The AAWS Administration Fund consists of

Summary of Recent Agency Reports (Continued)

monies that are paid to DWR for applications related to assured and adequate water supplies. DWR reports that for the quarter ending March 31, 2009, the department

collected \$47,100. This amount is \$(141,800), or (75)%, below collections for the same period in FY 2008. (Leah Kritzer)

State of Arizona

General Fund Revenue:

Change from Previous Year and January Baseline Forecast March 2009

	Current Month					FY 2009 YTD (Nine Months)				
	Actual March 2009	Change From March 2008		Forecast		Actual March 2009	Change from March 2008		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	282,169,633	(\$67,464,946)	(19.3) %	(\$39,431,267)	(12.3) %	\$2,921,921,381	(\$405,037,167)	(12.2) %	(\$85,106,339)	(2.8) %
Income - Individual	71,833,625	9,904,736	16.0	23,147,754	47.5	2,016,557,577	(334,800,188)	(14.2)	(101,061,089)	(4.8)
- Corporate	44,822,051	(16,519,333)	(26.9)	5,395,851	13.7	380,351,810	(101,949,356)	(21.1)	17,773,085	4.9
Property	618,877	(92,489)	(13.0)	5,477	0.9	11,599,195	(949,202)	(7.6)	402,409	3.6
Luxury - Tobacco	2,600,696	447,935	20.8	92,504	3.7	22,776,245	(1,410,796)	(5.8)	(237,962)	(1.0)
- Liquor	2,329,898	1,304,198	127.2	1,248,098	115.4	21,476,028	1,090,298	5.3	651,418	3.1
Insurance Premium	89,883,281	8,700,415	10.7	3,205,081	3.7	253,775,092	13,451,548	5.6	3,681,227	1.5
Estate	(2,151)	(2,151)	--	(2,151)	--	123,182	(144,940)	(54.1)	18,869	18.1
Other Taxes	42,682	7,488	21.3	(4,318)	(9.2)	429,385	(2,995)	(0.7)	21,276	5.2
Sub-Total Taxes	\$494,298,592	(\$63,714,147)	(11.4) %	(\$6,342,971)	(1.3) %	\$5,629,009,895	(\$829,752,798)	(12.8) %	(\$163,857,106)	(2.8) %
Other Revenue										
Lottery	1,377,100	(1,977,000)	(58.9)	1,377,100	--	28,311,100	2,957,581	11.7	1,377,100	5.1
License, Fees and Permits	3,366,611	1,014,958	43.2	123,611	3.8	24,962,143	(1,491,018)	(5.6)	(1,074,758)	(4.1)
Interest	146,571	(6,236,466)	(97.7)	(1,443,029)	(90.8)	9,942,613	(66,336,524)	(87.0)	(4,353,172)	(30.5)
Sales and Services	3,124,052	(66,569)	(2.1)	124,052	4.1	33,684,200	(3,295,770)	(8.9)	1,744,226	5.5
Other Miscellaneous	7,182,327	(878,491)	(10.9)	4,253,227	145.2	32,454,996	4,674,109	16.8	4,496,534	16.1
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	155,931	(222,975)	(58.8)	(844,069)	(84.4)	28,467,794	(3,366,114)	(10.6)	3,425,329	13.7
Sub-Total Other Revenue	15,352,592	(8,366,543)	(35.3) %	3,590,892	30.5 %	157,822,846	(66,857,736)	(29.8) %	5,615,259	3.7 %
TOTAL BASE REVENUE	\$509,651,184	(\$72,080,690)	(12.4) %	(\$2,752,079)	(0.5) %	\$5,786,832,741	(\$896,610,534)	(13.4) %	(\$158,241,847)	(2.7) %
Other Adjustments										
Urban Revenue Sharing	(60,639,781)	(3,594,870)	6.3	0	0.0	(545,758,050)	(32,353,854)	6.3	0	0.0
'09 Budget Plan Transfers	18,872,407	3,872,407	25.8	0	0.0	245,645,598	226,769,419	--	0	0.0
'09 Budget Revision Transfers	95,705,361	95,705,361	--	0	0.0	271,085,637	271,085,637	--	0	0.0
Sub-Total Other Adjustments	53,937,987	95,982,898	-- %	0	0.0 %	(29,026,815)	465,501,202	-- %	0	0.0 %
TOTAL REVENUE	\$563,589,171	\$23,902,208	4.4 %	(\$2,752,079)	(0.5) %	\$5,757,805,926	(\$431,109,332)	(7.0) %	(\$158,241,847)	(2.7) %