

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491
Fax:
(602) 926-5416



www.azleg.gov/jlbc.htm

“Year-to-date, revenues are (14.1)% below the prior year, and \$(30.4) million below the enacted budget forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on April 30, 2010

Summary



March General Fund revenue collections were \$403.0 million. This amount was (16)% below March of last year. January and February had broken a string of 15 consecutive months of double digit percent declines in revenues compared to the prior year.

The return to a double digit decline, however, is more a function of income tax refund processing than a new slump in economic activity. Compared to 2009, more refunds were processed in March than February, which caused a significant decline in individual income tax revenues last month.

Since this shift in refund activity had already been factored into the forecast, March collections were actually \$3.3 million over the budget for the month. Year-to-date, revenues are (14.1)% below the prior year, and \$(30.4) million below the enacted budget forecast.

Preliminary April results suggest that the year-to-date revenue loss may grow from \$(30) million in March to \$(50) million in April. Given that the state remains in the midst of processing income tax returns, it is difficult to gauge the impact of the April results on the accuracy of the year-end revenue forecast.

March 2010 General Fund spending was \$361.8 million. March expenditures were

lower than the prior year due to an Arizona Department of Education (ADE) payment to school districts being deferred. Year-to-date spending is (\$668.1) million less than the prior year.

Fiscal year to date, General Fund revenues are \$5.44 billion compared to spending of \$7.11 billion for a shortfall of \$(1.67) billion. This shortfall is slightly less than February's \$(1.71) billion.

The Treasurer's daily borrowing averaged \$647 million. This level continues to be near the borrowing cap of \$700 million with the servicing bank.

Budget News

Revised Revenue Forecast - The JLBC Staff updated its 4-sector consensus forecast as part of the April 13th Finance Advisory Committee meeting (*see p. 8*). In general, the Committee anticipated better economic conditions over the next several years, but warned that the return to 2007's pre-recession conditions will take 3 to 5 years.

While the enacted March budget presumes a (9.4)% revenue decline in FY 2010, the April FAC consensus forecasts a (10.7)% reduction. Given the year-to-date drop of (14.1)%, both forecasts seem too optimistic. As a result, the

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Summary (continued)

Table 1

	General Fund Revenues (\$ in Millions)		
	FY 2010 <u>Collections</u>	Difference From <u>Budget Forecast</u>	Difference <u>From FY 2009</u>
March	\$ 403.0	\$ 3.3	\$ (160.6)
Year-to-Date	\$ 5,438.5	\$ (30.4)	\$ (320.9)

JLBC Staff has projected that revenues will fall (12.0)% this fiscal year.

The 4-sector consensus envisions a return to baseline revenue growth starting in FY 2011, but at a slightly lower level than the enacted budget. The consensus anticipates a 3.4% increase in FY 2011 revenues, compared to the budgeted growth of 4.2%. The 4-sector consensus projects even higher growth in the out years, ranging from 7.2% to 9.6% through FY 2015.

For more information, see [FAC Meeting](#).

Long-Term Budget Projections - Based on the updated revenue estimates, the JLBC Staff revised its long term budget projections through FY 2014 on April 23rd. Based on the JLBC revenue estimate, the FY 2010 budget is now projected to end FY 2010 with a \$(150) million shortfall. This shortfall is presumed to be carried over into FY 2011 and eventually resolved as part of that year's budget.

The carry-forward shortfall and the lower 4-sector revenue estimate results in a projected FY 2011 shortfall of \$(368) million. This estimate is based on the passage of the budget-related ballot propositions in May and November.

If these ballot propositions fail, the FY 2011 shortfall would rise to \$(892) million. This \$524 million increase is due to 2 factors. First, rejection of the 1 cent sales tax would trigger conditional spending reductions that would offset \$862 million of the \$918 million from the tax increase for a net loss of \$(56) million. Second, failure of the "First Things First" and "Growing Smarter" ballot propositions in November would result in the loss of \$(469) million in anticipated General Fund revenue.

The FY 2011 shortfall could grow by another \$(400) million to \$(1.3) billion depending on the outcome of Congressional efforts to extend the enhanced federal match rate for Medicaid programs. While the enacted March budget eliminated \$385 million in General Fund support for Proposition 204 programs starting in January 2011, the new

federal health care law requires states to retain their current Medicaid eligibility levels. If states reduce their coverage, they risk losing all federal Medicaid funding.

In response, the Legislature has transmitted SB 1043 to the Governor. The bill restores Proposition 204 funding if the Congress extends the enhanced federal match rate under the federal stimulus program to June 2011. The current enhanced match rate is scheduled to end in December 2010. If extended, the enhanced match rate would generate sufficient savings to offset the cost of restoring Proposition 204. In that circumstance, the FY 2011 shortfall would not increase.

The U.S. House has passed the enhanced match extension, but the U.S. Senate has not yet acted. While 30 states have assumed the extension in their budgets, that outcome is not guaranteed. If Congress did not approve the extension, the state would have to decide whether to incur the \$385 million cost of Proposition 204 without the offsetting savings. Doing so would increase the overall FY 2011 shortfall to \$(1.3) billion.

Beyond FY 2011, numerous factors affect the FY 2014 estimates. Depending on the particular assumptions, the projected FY 2014 ending balance ranges from a \$700 million surplus to a \$(1) billion shortfall.

For more information, see [Long Term Budget Projections](#).

Potential ADE Shortfall - The Department of Education is reporting that they may have an \$80 million shortfall in FY 2010 due to higher than expected student growth and a reduction in land endowment earnings. This estimate is still subject to change and could be revised considerably over the next 2 months. Any ADE shortfall would be over and above the \$150 million revenue shortfall forecasted by JLBC Staff. One potential solution being discussed is to shift the use of federal stimulus funds from FY 2011 to FY 2010 to pay a portion of this amount in the current fiscal year.

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March Revenues

“The retail sector increased by 0.8% compared to March 2009... the first positive month in retail collections compared to the same month in the prior year since November 2007.”

Sales Tax collections were \$269.3 million in March. These revenues were down (4.6)% compared to last March, and were \$(9.4) million below the forecast. The March decline marked the 26th consecutive month of year-over-year reductions. March collections continue the single digit percentage decline which began in February, after a string of 15 consecutive months of double digit declines compared to the previous year.

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

	<u>March</u>	<u>YTD</u>
Retail	0.8%	(7.1)%
Contracting	(33.6)%	(40.1)%
Utilities	(1.3)%	0.4%
Use	(1.9)%	(20.6)%
Restaurant & Bar	3.9%	(2.7)%

As noted in previous months, retail and contracting together account for about 30% of all sales tax revenues. The retail sector increased by 0.8% compared to March 2009. This is the first positive month in retail collections compared to the same month in the prior year since November 2007. However, contracting continued its poor performance, with a (33.6)% decrease compared to March of last year.

Individual Income Tax net revenues were \$(18.8) million in March as refunds exceeded withholding and payments. Collections were \$(26.4) million below the forecast. Year-to-date collections are down by (12.0)%.

As indicated in Table 3 below, withholding tax payments increased by 0.9% in March, the second consecutive month of increase after 16 months of declines.

	<u>March</u>	<u>YTD</u>
Withholding	0.9%	(3.8)%
Estimated + Final Payments	(1.4)%	(24.4)%
Refunds	37.1%	4.7%

March refunds totaled \$(342.2) million, which was 37.1% above the prior year, and a \$(25.3)

million loss relative to the forecast. In part, this increase is due to a shift in refunds from February to March.

Corporate Income Tax net collections were \$66.5 million in March. This amount was \$26.0 million above the forecast for the month. March is not one of the 4 traditionally large collection months for corporate income tax. April collections are currently running below forecast, so it is possible that some of the increase in March represents payments which would have normally been received in April. Year-to-date, corporate collections are (44.9)% below last year.

The **Lottery Commission** reports that March ticket sales were \$55.5 million, which is 21.8% above sales last year. Year-to-date, ticket sales are \$50.9 million or 14.3% above last year. While ticket sales have increased, distributions to state beneficiaries are down \$(8.5) million. As we have noted in previous months, it appears that sales have increased as prize payouts have increased (which reduces payments to state beneficiaries).

Non-General Funds

Tobacco Tax revenues were \$26.6 million in March. Collections were down (20.4)% compared to the prior year, and were \$(2.5) million below the estimate for the month. Year-to-date collections are down by (14.4)%.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those programs.

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees.

HURF collections of \$98.2 million in March were down \$(12.3) million or (11.1)% compared to March of last year. Year-to-date, total HURF collections of \$882.9 million are down \$(56.7) million or (6.0)% compared to the prior year.

State of Arizona

General Fund Revenue:

Change from Previous Year and Enacted Budget Forecast March 2010

	Current Month					FY 2010 YTD (Nine Months)				
	Actual March 2010	Change From March 2009		Forecast		Actual March 2010	Change from March 2009		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$269,271,852	(\$12,897,781)	(4.6) %	(\$9,356,743)	(3.4) %	\$2,538,178,364	(\$383,743,017)	(13.1) %	(\$29,060,081)	(1.1) %
Income - Individual	(18,809,855)	(90,643,480)	--	(26,429,673)	--	1,774,339,603	(242,217,974)	(12.0)	(44,550,017)	(2.4)
- Corporate	66,484,298	21,662,247	48.3	26,042,410	64.4	209,686,374	(170,665,436)	(44.9)	37,654,058	21.9
Property	666,075	47,198	7.6	181,075	37.3	13,064,033	1,464,838	12.6	342,806	2.7
Luxury - Tobacco	2,438,215	(162,481)	(6.2)	(652,603)	(21.1)	19,280,450	(3,495,794)	(15.3)	(2,099,650)	(9.8)
- Liquor	2,959,549	629,651	27.0	479,549	19.3	21,752,895	276,866	1.3	(235,112)	(1.1)
Insurance Premium	90,845,362	962,081	1.1	11,475,362	14.5	266,333,220	12,558,128	4.9	9,616,927	3.7
Estate	0	2,151	(100.0)	0	--	384,828	261,646	212.4	51,444	15.4
Other Taxes	750,276	707,594	--	721,276	--	1,306,083	876,698	204.2	762,174	140.1
Sub-Total Taxes	\$414,605,772	(\$79,692,820)	(16.1) %	\$2,460,653	0.6 %	\$4,844,325,850	(\$784,684,045)	(13.9) %	(\$27,517,451)	(0.6) %
Other Revenue										
Lottery	6,880,200	5,502,700	399.5	3,780,200	121.9	25,964,900	(2,346,600)	(8.3)	1,127,300	4.5
License, Fees and Permits	2,672,889	(693,722)	(20.6)	732,889	37.8	19,521,917	(5,440,226)	(21.8)	1,688,589	9.5
Interest	(65,287)	(211,858)	--	(65,287)	--	581,767	(9,360,846)	(94.1)	(592,770)	(50.5)
Sales and Services	2,132,244	(991,808)	(31.7)	(1,787,756)	(45.6)	22,256,426	(11,427,774)	(33.9)	903,536	4.2
Other Miscellaneous	3,115,921	(4,066,406)	(56.6)	115,921	3.9	27,424,043	(5,030,953)	(15.5)	(2,250,622)	(7.6)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(223,105)	(379,036)	--	(1,923,105)	--	33,905,690	3,813,832	12.7	(3,785,948)	(10.0)
Sub-Total Other Revenue	14,512,862	(840,130)	(5.5) %	852,862	6.2 %	129,654,743	(29,792,567)	(18.7) %	(2,909,915)	(2.2) %
TOTAL BASE REVENUE	\$429,118,634	(\$80,532,950)	(15.8) %	\$3,313,515	0.8 %	\$4,973,980,593	(\$814,476,612)	(14.1) %	(\$30,427,366)	(0.6) %
Other Adjustments										
Urban Revenue Sharing	(52,387,052)	8,252,731	--	0	0.0	(471,483,471)	74,274,579	--	0	0.0
Budget Plan Transfers	26,231,427	(88,346,341)	(77.1)	0	0.0	200,586,708	(316,144,527)	(61.2)	0	0.0
Leaseback Proceeds	0	0	--	0	--	735,419,300	735,419,300	--	0	0.0
Sub-Total Other Adjustments	(26,155,625)	(80,093,610)	-- %	0	0.0 %	464,522,537	493,549,352	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$402,963,009	(\$160,626,560)	(28.5) %	\$3,313,515	0.8 %	\$5,438,503,130	(\$320,927,260)	(5.6) %	(\$30,427,366)	(0.6) %
Non-General Funds										
Highway User Revenue Fund	\$98,210,000	(\$12,258,000)	(11.1) %	(\$11,304,000)	(10.3) %	\$882,888,000	(\$56,723,000)	(6.0) %	(\$41,102,000)	(4.4) %
Tobacco Tax (All Funds Total)	\$26,554,421	(\$6,810,488)	(20.4) %	(\$2,487,650)	(8.6) %	\$244,651,047	(\$41,074,871)	(14.4) %	\$1,877,346	0.8 %

Economic Indicators

NATIONAL

According to the advance estimate of the **U.S. Real Gross Domestic Product (GDP)** for the 1st quarter of 2010, the nation's economy grew at an annual rate of 3.2%, down from 5.7% in the prior quarter. Economic growth in the 1st quarter of 2010 was largely dependent on the inventory cycle, which accounted for about half of the overall growth in real GDP. Consumer spending accelerated from 1.6% to 3.6% while both residential and non-residential construction contributed negatively to economic growth. State and local government spending fell by (3.8)%, the largest decline in almost 30 years.

In April, the Conference Board's **U.S. Consumer Confidence Index** increased to 57.9, up 5.6 points from a revised March level of 52.3. The April reading was at its highest level since September 2009. The latest survey result from the Conference Board suggests that consumers are slowly gaining confidence in the economic outlook. The index was close to 100 prior to the onset of the recession.

In March, the Conference Board's **U.S. Index of Leading Economic Indicators** was 109.6, a 1.4% increase over the prior month, and the largest gain since July 2009. The index has advanced in each of the last 12 months. Much of the sustained increase can be attributed to the financial components of the index (interest rate spread and money supply), which reflect the Federal Reserve's efforts to restore liquidity in the banking system.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.1% in March. Compared to the same month in the prior year, the CPI was up by 2.4%. The core CPI, which excludes food and energy prices, remained unchanged in March and was 1.2% above last year's level. Given the currently high unemployment rate and low industrial capacity utilization rate, most analysts consider the near-term risk of high inflation to be insignificant.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. were \$3.61 billion in February, a (3.7)% decrease from the prior month but a 47.8% improvement over February 2009 levels. Sales of semiconductors are now

back to pre-recession levels. The increase in the demand for semiconductors is primarily the result of growth in the sales of electronic products in emerging economies, according to SIA.

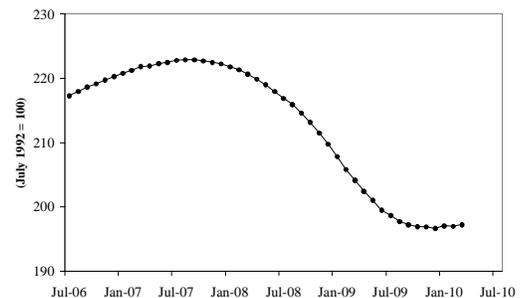
ARIZONA

The JLBC Staff has posted a new set of graphs on its website called [Tracking Arizona's Recovery](#). These graphs measure the current status of certain key economic indicators compared to the peak of the expansion in 2007, including employment, retail and contracting sales taxes and foreclosure activity. In general, this data suggests that the state's economy has bottomed out and has stabilized, but at levels far below 2007.

Another of the tracking indicators is the Federal Reserve Bank of Philadelphia's coincident index which gauges current economic activity in each state. The index combines four indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

The March **state coincident index** for Arizona increased by 0.1% over the prior month's reading. The index has remained essentially flat for the last 6 months, but remains 11.5% off the August 2007 peak.

Arizona Coincident Economic Activity Index



Employment

According to latest release of employment data by Arizona Department of Commerce, the state added 4,900 **nonfarm payroll jobs** in March. This represented a 0.2% increase over the prior month, or about one-third of the average increase in the prior 10 years. Year-over-year, total nonfarm employment is down by (3.2)%. The goods-producing sector of the

“The goods-producing sector of the economy, however, has sustained significantly larger job losses (12.8%) in the last 12 months than the service-providing sector (1.9%).”

Economic Indicators (Continued)

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economy, however, has sustained significantly larger job losses (12.8%) in the last 12 months than the service-providing sector (1.9%). The year-over-year percentage decline in employment is now approximately the same in the government sector as in the private sector.

The Arizona economy has lost a total of (315,400) jobs since the recession started in December 2007. This figure represents a (11.6)% reduction in total nonfarm employment in the state. See [Tracking Arizona’s Recovery](#), for historical information.

The **construction sector** shed (2,300) jobs in March with most of these losses occurring in specialty trades such as plumbing, painting and electrical work. Year over year, construction employment is down by (20.0)%, or (27,500) jobs. With its 109,900 payroll employees, the construction sector now represents no more than 4.6% of the total workforce in the state, the lowest such figure in more than 20 years. During the height of the real estate boom, almost one in ten employees in the state worked in the construction industry.

The **manufacturing sector** lost (400) jobs in March, which was comparable to job losses for the same month in the prior 10 years. Year over year, manufacturing employment is down by (6.6)%, or equivalently (10,300) jobs. About one-third of these job losses have occurred in the computer and electronic parts sub-sector of the industry. The state’s 146,800 manufacturing employees are now the lowest since August 1979.

The state’s **unemployment rate** rose to 9.6% in March, following a 0.3% increase in January and another 0.1% increase in February. The state’s unemployment rate in March 2009 was 8.7%. The national unemployment rate remained unchanged at 9.7% last month.

The Department of Commerce reported that 27,064 **initial claims for unemployment insurance** were filed in March. This represented (30.9)%, or (12,110), fewer claims than a year ago. March marked the fifth consecutive month with a year-over-year decline in claims. Initial jobless claims peaked in April when more than 41,000 individuals filed for benefits.

Housing

Two new housing indicators are being added to the MFH – notice of trustee sales and pending foreclosures in Maricopa County.

After a homeowner defaults on their mortgage, the initial step in the foreclosure process is the filing of a “Notice of Trustee Sale” with the County Recorder. In March, a total of 8,045 **Notice of Trustee Sales** were recorded. While this measure has fallen (24.7)% since the measure reached a recent high of 10,689 in March 2009, the pre-recession average was 1,108 notices a month.

Once a Notice of Trustee Sale has been recorded, the property becomes a pending foreclosure. In March, there were a total of 49,102 **pending foreclosures**, down (2.6)% from the prior month when the measure reached a recent high, but up 23.5% on a year-over-year basis. See [Tracking Arizona’s Recovery](#), for historical information.

Housing construction remains weak. An average of 1,352 permits have been issued per month between January and March 2010. At an annualized rate, this would equate to 16,224 permits. In a normal market, approximately 35,000 permits would be issued in a year.

State Agency Data

Participation in income driven programs saw slight declines, but remained significantly above last year.

In April, **AHCCCS caseloads** equaled 1.36 million members, a (0.1)% decline over the prior month. AHCCCS caseloads are currently 13.3% above April 2009 levels. The FY 2010 budget funded a projected June caseload growth of 14.4%, for a total of 1,435,445 members.

There were 78,282 **TANF recipients** in the state in February, a monthly caseload decrease of (3.7)%. Year-over-year, the number of TANF recipients has declined by (9.2)%. The FY 2010 budget assumed that the June 2010 TANF caseload would be 84,287.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income

Economic Indicators (Continued)

households to purchase food. In February, there were a total 1.03 million food stamp recipients in the state, an increase of 0.9% over the prior month. Compared to the same month last year, food stamp participation was up by 29.0%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The **Department of Correction's (ADC) inmate population** 3-month average count totaled 40,464 inmates between January and March 2010. During the period, the department has an average monthly decrease of (12) inmates and a year-over-year increase of 596 inmates. The department was funded for growth of 151 inmates per month in FY 2010, fiscal year-to-date, however, population growth has increased by an average of 11 inmates per month.

Table 5

ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	March	9.6%	0.1%	0.9%
- Initial Unemployment Insurance Claims	March	27,064	15.6%	(30.9)%
- Unemployment Insurance Claimants	February	92,691	(5.6)%	18.9%
- Non-Farm Employment – Total	March	2.40 million	0.2%	(3.2)%
Manufacturing	March	146,800	(0.3)%	(6.6)%
Construction	March	109,900	(2.0)%	(20.0)%
- Average Weekly Hours, Manufacturing	March	39.0	0.3%	(0.3)%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$28.6 million	(8.1)%	(39.1)%
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$141.1 million	(1.4)%	(1.8)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jan-Mar	1,170	8.9%	87.2%
Multi-unit	Jan-Mar	183	(6.0)%	(10.3)%
- Greater Phoenix Existing Home Sales				
Single-Family	March	10,860	37.0%	26.1%
Townhouse/Condominium	March	1,300	35.4%	95.6%
- Greater Phoenix Median Home Sales Price				
Single-Family	March	\$148,000	2.1%	10.7%
Townhouse/Condominium	March	\$103,500	(3.4)%	(10.7)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	March	8,045	5.8%	(24.7)%
Pending Foreclosures (Active Notices)	March	49,102	(2.6)%	23.5%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	February	110.11	(1.5)%	(1.6)%
- Months Supply of Housing, (ARMLS)	March	6.5 months	0.0 months	(1.3) months
- Phoenix Sky Harbor Air Passengers	February	2.90 million	(6.1)%	2.8%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	January	\$7.81	12.3%	(13.8)%
- Arizona Consumer Confidence Index (1985 = 100)	4 th Quarter 2009	50.2	(16.6)%	NA
- Arizona Coincident Index (July 1992 = 100)	March	197.26	0.1%	(3.4)%
- Arizona Personal Income	4 th Quarter 2009	\$218.1 billion	1.1%	(1.8)%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	April	1,356,447	(0.1)%	13.3%
- TANF Recipients	February	78,282	(3.7)%	(9.2)%
- SNAP (Food Stamps) Recipients	February	1,033,542	0.9%	29.0%
- ADC Inmate Growth (3-month average)	Jan-Mar	40,464	(12) inmates	596 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	Dec/Feb	19,736	(107)	(553)
Maricopa County	Dec/Feb	29,265	(254)	(354)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	1st Quarter 2010 (Advance Estimate)	\$13.3 trillion	3.2%	2.5%
- Consumer Confidence Index (1985 = 100)	April	57.9	10.7%	41.9%
- Leading Indicators Index (2004 = 100)	March	109.6	1.4%	12.0%
- U.S. Semiconductor Billings (3-month moving average)	Dec-Feb	\$3.61 billion	(3.7)%	47.8%
- Consumer Price Index, SA (1982-84 = 100)	March	217.7	0.1%	2.4%

FAC Meeting

At its April 13, 2010 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. 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 the “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 (10.7)% in FY 2010, prior to any tax law changes. Year-to-date collections through March are down (14.1)% compared to the same period last year. The enacted budget was based on a (9.4)% decrease for FY 2010.

For FY 2011, each component of the 4-sector consensus showed improvement from FY 2010, with positive growth rates that equated to a total estimated growth rate of 3.4%. The state budget assumes a 4.2% growth rate.

Beyond FY 2011, the 4-sector consensus projects 7% to 9% growth until FY 2015.

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Elliot Pollack and the State Treasurer, Dean Martin. The presenters generally believed that the recession is over but recovery is likely to be gradual and take place over the course of several years.

Some of the panel members expressed concern that, due to an expansion of the monetary base, increased economic activity may lead to future inflation.



JLBC Meeting

At its April 20, 2010 meeting, the Joint Legislative Budget Committee considered the following issues:

Review of Fund Transfers – The Committee gave a favorable review of the Parks Board, Arizona Criminal Justice Commission and Department of Housing proposals to shift funds to meet the fund transfer requirements in the budget.

Department of Health Services – Review of Capitation Rate Changes – The Committee gave a favorable review to the Department of Health Services proposed capitation rate changes for Title XIX programs as these adjustments will be covered by the existing appropriations.

Government Information Technology Agency – Quarterly Review of the Arizona Public Safety Communication Advisory Commission – The Committee gave a favorable review of the Arizona Public Safety Communication Advisory Commission’s FY 2010 second quarter progress and expenditures.

JCCR Meeting

At its April 27, 2010 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Review of FY 2010 Emergency Building Renewal Project – The Committee favorably reviewed the department’s proposal to spend \$160,000 of its \$1,000,000 FY 2010 building renewal appropriation for the repair of the water well system at Safford’s Fort Grant prison.

Arizona Department of Administration – FY 2010 Rent Exemptions and FY 2011 Quarterly Rent Payments – The Committee recommended FY 2011 quarterly rent payments for the Corporation Commission and FY 2010 partial rent exemptions for 8 agencies.

School Facilities Board – Review of \$100 Million Lease-Purchase Issuance – The Committee tabled this item until the next meeting, which would have allowed the School Facilities Board to issue a \$100.0 million federal bond for FY 2011 new construction projects.

School Facilities Board – Review of Lease-Purchase Refinancing – The Committee favorably reviewed the School Facilities Board to enter into a refinancing agreement that reduces the board’s lease-purchase obligation by \$60.0 million in FY 2011 with the provision that the board submit a final debt service schedule associated with the refinancing agreement.

March Spending

March 2010 spending of \$362 million was \$(349) million below March 2009. For the year-to-date, spending of \$7.1 billion is (\$668) million below 2009 (*See Table 6*).

- The Arizona Department of Education (ADE) has spent \$3.1 billion year-to-date in 2010, or \$44.6 million more than 2009. In March, ADE spending was (\$304.5) million lower than the prior year. March expenditures were lower than the prior year due to an Arizona Department of Education (ADE) payment to school districts being deferred. As part of the 7th Special Session, the K-12 rollover was increased from \$602 million to \$952 million. A portion of this \$350 million increase was implemented by withholding the April 1st payment, which is recorded at the end of March.
- Spending in AHCCCS and DES is a combined (\$99.3) million less in March than in 2009. This is generally consistent with the FY 2010 budget assumption that caseload growth in Medicaid spending in those agencies would be offset by varying degrees by enhanced federal match from the federal stimulus legislation.
- The Department of Health Services (DHS) spending in March was \$41.6 million

higher than March of 2009. This increase is the result of a Title XIX transfer to AHCCCS being made in March of 2010 compared to January in the prior fiscal year. Year-to-date spending is (\$87.8) million below FY 2009 due to the enhanced federal match in the federal stimulus legislation.

Summary of Recent Agency Reports

AHCCCS – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a FY 2010 General Appropriation Act footnote, AHCCCS has submitted preliminary actuarial estimates of the capitation rate increases for FY 2011.

AHCCCS has indicated that, due to the enacted budget and in recognition of the state's fiscal challenges, they are working toward a goal of 0% growth in capitation rates while maintaining actuarial soundness. The preliminary review of the capitation rates for contract year 2011 estimates a 4.5% - 6.5% average cost increase for utilization increases in the Acute Care program and 2 -4% in the ALTCS program. AHCCCS intends to offset the utilization increases by holding provider rates flat with possible reductions in some service categories. The FY 2011 enacted budget assumes capitation rate growth of 0% for both the Acute Care program and ALTCS program. (Amy Upston)

Arizona Department of Agriculture – Report on FY 2011 Fee Authority Plan – The FY 2011 Environment Budget Reconciliation Bill (BRB) (Laws 2010, 7th Special Session, Chapter 7) allows the Department of Agriculture to raise its fees in FY 2011 with the intent that the fee increases not exceed \$561,000 and that a specific fee plan be developed for legislative consideration by April 1, 2010. According to the department, they plan on raising fees by \$389,000 in FY 2011, which includes \$172,000 in FY 2009 continued fee authority. The \$172,000 in continued fee authority will be raised from meat, poultry, and dairy inspection fees, livestock farm service calls, and pesticide registration fees. The remaining \$217,000 will be raised from meat, dairy, and poultry inspections; certified veterinarian inspection and

health certificates; state and federal phytosanitary certificates; and certified nursery fees. (Leatta McLaughlin)

Arizona Community Colleges – Report on Workforce Development Expenditures – The Arizona Community Colleges are reporting on their previous year's workforce development plan activities and expenditures. A.R.S. § 15-1472 requires each community college district to establish a workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training. Total revenues in FY 2009 were \$15,030,500 and total expenditures in the same year were \$18,134,500. (Marge Zylla)

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2010. In that report, ADE estimates that it will experience a \$(47.4) million net funding shortfall for formula programs for FY 2010. Since issuing the report, however, ADE has separately increased its shortfall estimate to \$80 million primarily because state land trust revenues that help fund K-12 formula programs are providing \$29 million less than expected for FY 2010. The revised \$80 million shortfall figure reflects 100th Day Average Daily Membership (ADM) counts from public schools for the current school year, but is not yet final due to ongoing data adjustments and corrections. (Steve Schimpp)

Department of Environmental Quality – Report on FY 2011 Fee Authority Plan – The FY 2011 Environment Budget Reconciliation Bill (BRB) (Laws 2010, 7th Special Session, Chapter 7) allows the Department of Environmental

Quality (DEQ) to raise its fees in FY 2011 with the intent that the fee increases not exceed \$5,779,100 and that a specific fee plan be developed for legislative consideration by April 1, 2010. The fee increases would offset a General Fund reduction in DEQ's budget. The department provided 2 alternatives for raising fees by \$5,779,100 in FY 2011. Under the department's preferred scenario, DEQ would raise Air Quality Fees on vehicle registrations from its current \$1.50 to \$2.60. Alternatively, DEQ could raise multiple fees including vehicle registration fees, permitting fees, hazardous waste fees, landfill registration fees, waste management fees, and aquifer protection permit fees. (Aaron Galeener)

School Facilities Board – Report on FY 2009 District Building Renewal Spending – Pursuant to A.R.S. § 15-2031H, the School Facilities Board (SFB) is submitting its annual report on district building renewal fund spending from the prior fiscal year. SFB reports that in FY 2009, 161 school districts reported spending a total of \$34,813,400 from their respective building renewal funds on 1,483 projects. Of this amount, \$25,675,900 was spent on primary projects, while \$9,118,000 was spent on secondary projects, and \$19,500 of the spending was uncategorized. Primary projects are defined by statute as those which are necessary to meet the minimum adequacy guidelines adopted by SFB for academic space. All other projects are considered to be secondary projects. (Jack Brown)

Department of Water Resources – Report on FY 2011 Fee Authority Plan – The FY 2011 Environment Budget Reconciliation Bill (BRB) (Laws 2010, 7th Special Session, Chapter 7) allows the Department of Water Resources (DWR) to raise its fees in FY 2011 with the intent that the fee increases not exceed \$5,662,900 and that a specific fee

Summary of Recent Agency Reports (Continued)

plan be developed for legislative consideration by April 1, 2010. The fee increases would offset a General Fund reduction in DWR's budget. The plan submitted by the department only raises fees by \$2 million in FY 2011. The \$2 million in fee authority will be raised from a variety of fee increases including assured and adequate water supply fees, well fees, dam safety fees, groundwater fees, and surface water fees. (Aaron Galeener)

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY '09
	March 10	Change from March 09	Year-to-Date	
Department of Administration	856.2	943.1	13,528.1	(9,466.6)
Office of Administrative Hearings	1.6	(10.9)	671.6	(224.7)
Department of Agriculture	505.6	(5.8)	6,838.3	(1,557.2)
AHCCCS	109,332.0	(66,830.0)	1,056,838.1	(203,936.5)
Arizona Commission on the Arts	92.7	(35.0)	656.2	(571.7)
Arizona Exposition and State Fair Board	-	-	400.0	400.0
Attorney General	736.9	(304.4)	14,301.5	(2,352.2)
AZ Capital Post Conviction Public Defender	16.0	(35.0)	473.7	(137.0)
State Board of Charter Schools	40.4	5.0	561.6	(127.3)
State Bd. of Chiropractic Exam.	-	-	148.0	148.0
Department of Commerce	48.7	(166.5)	2,416.6	(23,377.9)
Community Colleges	-	-	99,319.8	(9,357.2)
Corporation Commission	35.4	(42.2)	413.8	(3,248.0)
Department of Corrections	70,153.9	(4,952.8)	636,923.3	(38,191.4)
AZ Criminal Justice Commission	-	-	(4.6)	(1,014.4)
AZ State Board of Cosmetology	-	-	252.0	252.0
AZ St. Schools for the Deaf & Blind	244.6	(375.5)	15,307.2	(4,552.7)
Dept. of Economic Security	(28,351.0)	(32,534.2)	478,727.0	(185,066.8)
Department of Education	58,933.8	(304,460.5)	3,059,626.5	44,599.1
DEMA	897.4	575.5	6,944.6	(1,897.5)
Dept. of Environmental Quality	330.2	882.9	4,127.4	(315.6)
DEQ-WQARF	-	-	7,000.0	(6,000.0)
Office of Equal Opportunity	0.1	(10.9)	157.1	(7.8)
State Board of Equalization	20.3	7.8	477.2	(59.6)
Board of Executive Clemency	43.6	(13.3)	759.7	(90.9)
Dept. of Financial Institutions	119.4	(39.9)	2,479.8	(319.6)
Department of Fire, Life, Bldg Safety	77.4	(108.4)	1,828.1	(589.2)
State Board of Funeral Directors	-	-	100.0	100.0
Arizona Geological Survey	10.1	(20.6)	606.8	(83.6)
Government Information Tech.	34.1	(75.0)	351.4	(817.1)
Governor	465.4	93.1	5,916.7	428.4
Gov. - OSPB	121.7	(22.7)	1,547.0	(75.3)
Department of Health Services	52,892.2	41,618.4	455,573.7	(87,780.2)
Arizona Historical Society	76.7	(65.4)	3,198.0	(402.9)
Prescott Historical Society of AZ	35.3	8.6	542.7	(29.8)
Independent Redistricting Comm.	-	(15.1)	26.1	(174.6)
AZ Commission of Indian Affairs	5.8	(32.0)	76.9	(111.5)
Department of Insurance	305.5	4.0	4,495.7	(1,179.5)
Judiciary				
Supreme Court	606.4	(215.2)	13,528.2	969.7
Superior Court	1,860.6	(7,719.6)	63,547.1	(4,966.0)
Court of Appeals	377.8	(547.3)	10,543.2	(109.0)
Dept. of Juvenile Corrections	2,901.4	(1,036.3)	50,763.9	(5,861.6)
State Land Department	(1,167.2)	(1,997.8)	10,640.2	(2,662.0)
Law Enforcement Merit System	0.1	(3.8)	54.3	(4.8)

Agency	March 10	Change from March 09	Year-to-Date	YTD Change from FY '09
Legislature				
Auditor General	1,155.2	716.5	11,423.3	(1,739.6)
House of Representatives	868.1	(33.1)	9,646.1	(280.1)
Joint Legislative Budget Comm.	140.7	(40.2)	1,804.1	(115.9)
Legislative Council	294.6	(637.2)	3,211.9	(6,360.5)
AZ Library and Archives	338.7	(37.0)	5,152.2	(585.8)
Senate	599.0	(21.1)	6,831.4	2.7
Dpt. of Liquor Licenses	7.1	(149.9)	747.7	(2,427.0)
Board of Medical Student Loans	-	-	801.9	(199.1)
Mine Inspector	78.3	(35.2)	1,015.3	(184.0)
Dpt. of Mines & Mineral Resources	154.7	(1.6)	607.1	(167.9)
Nav. Streams & Adjudication	6.2	(18.6)	106.0	(118.6)
State Board of Nursing	-	(0.8)	-	(93.5)
OSHA	-	-	14.4	14.4
Arizona State Parks Board	-	1,181.1	21,900.3	(2,857.6)
Personnel Board	-	(3.9)	-	(260.4)
Arizona Pioneers Home	-	5.3	-	(5.3)
Comm. for Postsecondary Ed.	176.0	(204.2)	2,428.0	(116.5)
State Board of Psychologist Exam.	-	-	300.0	300.0
Department of Public Safety	2,026.4	190.7	42,110.5	(1,161.4)
Arizona Department of Racing	32.2	(105.3)	4,066.6	2,107.7
Radiation Regulatory Agency	-	-	1,071.3	(296.3)
Arizona Rangers Pension	1.0	(0.1)	10.3	0.1
Real Estate Department	134.2	(5.5)	2,544.1	(575.3)
Department of Revenue	4,256.2	617.7	26,545.8	(27,788.3)
School Facilities Board	25.3	41.6	103,984.7	(83,762.4)
Secretary of State	3,419.8	2,323.4	5,515.7	(213.3)
Tax Appeals Board	10.4	(5.4)	198.3	(14.0)
Office of Tourism	-	-	200.0	(112.2)
Department of Transportation	2.8	(1.1)	42.8	(6.2)
State Treasurer	136.8	(23.7)	2,044.8	68.1
Universities				
Board of Regents	106.2	358.6	19,921.5	4,049.4
Arizona State University	33,435.2	9,073.6	345,234.6	904.9
Northern Arizona University	11,220.2	3,078.8	116,222.9	374.7
University of Arizona	29,041.4	7,961.8	300,833.4	878.3
Department of Veteran Services	740.7	391.9	6,930.7	1,285.1
AZ State Veterinary Medical Examining Board	-	-	250.0	250.0
Department of Water Resources	800.9	2,826.4	12,966.2	5,914.2
Dept. of Weights & Measures	11.1	(70.1)	878.7	(240.2)
Other	(65.5)	1099.2	20,836.7	(4,730.0)
Grand Total	361,815.0	(349,065.1)	7,111,083.8	(668,084.3)