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*"The Finance
Advisory
Committee
(FAC) met on
April 12, 2012 to
update its 4-
sector revenue
forecast."*

Summary

March collections significantly increased compared to the prior year, as the state experienced a decline in Individual Income Tax refunds. This decline is due to a technical timing issue. March General Fund revenues totaled \$626.4 million. Excluding one-time adjustments, these base collections were 18.7% above last year. Overall March collections were \$18.5 million above the January Baseline forecast.

Year-to-date, base revenues are 6.7% higher than last year. In total, year-to-date General Fund collections are \$16.0 million above the January forecast.

In comparison to monthly revenues of \$626.4 million, March 2012 General Fund spending was \$345.9 million, or \$(74.0) million below last year. Fiscal year-to-date, General Fund revenues of \$6.4 billion have been offset by \$6.7 billion in spending.

The March revenue results were affected by calendar issues. March had fewer income tax refund processing days than in 2011, which artificially increased collections. Most refunds are processed on Wednesday of each week. In 2011, there were 4 Wednesdays in February and 5 in March. In 2012, the reverse occurred with 5 Wednesdays in February and 4 March Wednesdays.

From an overall fiscal year perspective, it is difficult to interpret the final landing point for Individual Income tax collections as the state is still processing refund checks and depositing payments. Department of Revenue (DOR) data suggests that while the overall number of tax returns filed year-to-date is above last year, processing rates may be lower. As DOR continues to process these

returns, April will be a significant month in determining the ultimate magnitude of Individual Income tax collections.

Finance Advisory Committee

The Finance Advisory Committee (FAC) met on April 12, 2012 to update its 4-sector revenue forecast. The FAC is a 15 member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC's Consensus Baseline revenue forecast. The JLBC Staff and 2 University of Arizona models are the other 3 inputs.

The FAC heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. The JLBC Staff provided members with revised [FY 2012 - FY 2015 fiscal estimates](#) based on the 4-sector revenue forecast and the budget actions of the House and Senate Appropriations Committees in February.

The April 4-sector forecasts base revenue growth of 3.4% in FY 2013, 6.3% in FY 2014 and 7.2% in FY 2015. The April forecasts declined from the prior January estimates. The primary reason for the decline was lower figures from the 2 University of Arizona (UA) models. In particular, the "low risk" scenario was reduced from 1.4% revenue growth to a (2.5)% revenue decline in FY 2013.

JLBC Staff also developed an alternative scenario to address 2 concerns with the April 4-sector projection: 1) The projected 3.4% growth is lower than many general economic projections; and 2) The forecasts assume accelerating growth through FY 2015. Budget projections typically become more cautious in the long run due to uncertainty.

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Summary (Continued)

This alternate April scenario is based on annual 5% growth for FY 2013 – FY 2015. Over this period of time, however, the April alternative produces total General Fund Revenue collections very comparable to the April 4-sector. Between FY 2012 and FY 2015, the April forecasts are approximately \$(165) million lower than the Appropriation Committee revenue projections.

Table 1 below outlines a comparison of these projections:

	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>
Jan. 4-Sector	5.3%	5.1%	6.9%	5.0% ^{1/}
April 4-Sector	5.6%	3.4%	6.3%	7.2%
Alt April	5.6%	5.0%	5.0%	5.0%

^{1/} 7.9% in January was adjusted to 5.0% in Appropriation Committee estimates

Probability of a Recession

During the FAC meeting, 2 panelists commented about a “zero percent” likelihood of a recession in FY 2013. These comments raise the question of whether the 4-Sector forecast should include the (2.5)% UA model result.

The 4-Sector forecast does not automatically include a recession scenario. Two of the models are base forecasts - they provide the most likely revenue outcome. These base forecasts represent a 50% probability of exceeding and 50% probability of falling below the projection. The 4-Sector also includes 2 “lower risk” scenarios. These forecasts reflect lower revenue projections than the base forecasts - they may either be slower growth or an actual decline in revenues.

As noted, 2 of the FAC panelists suggested that the risk of Arizona entering another recession over the forecast horizon was 0%. The U.S. economy has experienced a total of 11 recessions in the post-World War II era. Many of these recessions resulted from unexpected economic events, or shocks, such as the oil embargo in 1973 and the 9/11 terrorist attack in 2001.

Given the inability of economic forecasters to predict unexpected events, JLBC Staff believes it is prudent to assume more than a 0% chance of a recession in the near term. This is especially true considering the weakness of the ongoing economic recovery, which makes the current economy even more susceptible to shocks than under more normal circumstances.

I.H.S. Global Insight, a large forecasting company that provides economic forecasts for the U.S. and other nations, is currently placing the odds of another recession within the year at 20%. This recession scenario assumes a surge in oil prices due to further deterioration

in U.S. - Iran relations and panic in financial markets as Europe’s sovereign debt problems become increasingly severe. Under this “20% probability” scenario, the U.S. economy would contract in the second half of 2012 as the labor market weakens, housing foreclosures rise, and household income declines.

As a result, JLBC Staff continues to believe that a recession scenario has an appropriate role in the current 4-sector forecast. The magnitude of the UA (2.5%) downturn is debatable, but the possibility of such a scenario should not be dismissed.

Comparison with Executive Revenue Estimates

With the release of the April 4-sector scenario, there has been renewed discussion of the Executive’s Revenue estimates. The Executive states their FY 2013 base growth rate is 5.0%.

When comparing the revenue estimates of the various forecasts, a common starting point is base revenue. This base estimate is designed to reflect the underlying growth in the economy and excludes tax law changes, Urban Revenue Sharing, and other one-time factors.

The January 4-Sector reflects FY 2013 base revenue growth of 5.1%. In comparison, the Executive has said their FY 2013 base growth rate is lower - 5.0%. Since the Executive’s forecast exceeds the January forecast by \$133 million in FY 2013, there are clearly methodological differences in the JLBC and Executive estimate. After analyzing the 2 estimates, the primary issue is the treatment of Urban Revenue Sharing to cities, which is based on 15% of income tax collections from 2 years prior.

Due to the recovery of income taxes in FY 2011, Urban Revenue Sharing (URS) will increase by \$89.2 million, or 21% in FY 2013. The JLBC estimates exclude the URS changes. The Executive has chosen to apply this General Fund revenue loss to their growth rate. This adjustment, however, artificially dampens their projected growth. After adjusting for this issue and other methodology differences, the Executive growth rate is 6.4% compared to 5.1% in the January forecast. Please see [Comparison of Legislative and Executive Revenue Estimates](#) for more information.

Table 2 summarizes these different base revenue projections:

	<u>FY 13</u>
January 4-Sector	5.1%
April 4-Sector	3.4%
April Alternate	5.0%
Executive	5.0%
Adjusted Executive ^{1/}	6.4%

^{1/} Reflects same calculation method as JLBC

March Revenues

	<u>FY 2012 Collections</u>	<u>Difference From January Forecast</u>	<u>Difference From FY 2011</u>
March	\$ 626.4	\$ 18.5	\$ 137.1
Year-to-Date	\$ 6,391.1	\$ 16.0	\$ 561.5

Sales Tax collections were \$372.4 million, or 3.9% above March 2011 and \$2.6 million above the January JLBC Baseline forecast for the month. Excluding the \$72.3 million from the temporary 1-cent sales tax increase, collections were \$297.2 million, or 3.3% above March 2011. The temporary 1-cent continues to grow more than the base tax because of certain exemptions.

Year-to-date, base sales tax collections are 5.1% above the prior year and are \$2.8 million above forecast.

Table 4 displays the March growth rates for the largest categories.

	<u>March</u>	<u>YTD</u>
Retail	6.8%	6.6%
Contracting	(3.5)%	8.6%
Utilities	4.4%	0.8%
Use	(5.6)%	4.6%
Restaurant & Bar	4.1%	7.8%

Retail and contracting together account for about 60% of all sales tax revenues. March retail, which reflects February's sales, grew by 6.8%. Retail began to grow in December 2010. In recent months, retail growth has continued to grow, but at a slower rate, due in part to the stronger base in the prior year. This trend may continue considering the high growth rates in February through June of last year. Contracting collections have been more volatile, and decreased by (3.5)% this month.

Individual Income Tax net revenues were \$72.3 million in March, or \$76.9 million greater than the prior year. Collections were \$4.8 million above the JLBC Baseline forecast. Year-to-date, revenues have grown 7.2% and are \$(13.9) million below forecast.

As indicated in Table 5, withholding increased by 2.5% in March for a year-to-date increase of 3.1%.

Total Payments grew by 8.7% in March for a year-to-date increase of 29.4%.

As mentioned in the summary section, the trend of income tax refunds reversed in March, with the number of refunds processed decreased compared to March of last year, and the dollar amount of refunds less than forecast for the month. Year-to-date, however, as noted in Table 5, refunds are 4.5% greater than the prior year.

	<u>March</u>	<u>YTD</u>
Withholding	2.5%	3.1%
Estimated + Final Payments	8.7%	29.4%
Refunds	(20.5)%	4.5%

Corporate Income Tax net collections were \$65.9 million in March, which is \$14.6 million above the prior year. Collections were \$25.0 million above the JLBC Baseline forecast. Year-to-date, collections have grown 33.6% and are \$42.1 million above forecast.

The **Lottery Commission** reports that March ticket sales were \$78.3 million, which is \$18.3 million, or 30.5%, above sales in the prior year. This increase in sales was primarily the result of a record multi-state lottery jackpot of \$656 million won on March 30. Year-to-date ticket sales are \$484.7 million, which is 11.6% above last year's sales.

Non-General Fund

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 \$103.1 million in March were up \$4.5 million, or 4.6%, compared to March of last year. Year-to-date revenues are up 0.5% compared to the prior year.

“... the trend of income tax refunds reversed in March, with the number of the number of refunds processed decreased compared to March of last year.”

Table 6

General Fund Revenue: Change from Previous Year and January Baseline Forecast March 2012

	Current Month					FY 2012 YTD (Nine Months)				
	Actual March 2012	Change From March 2011		January Forecast		Actual March 2012	Change from March 2011		January Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$297,171,837	\$9,479,365	3.3 %	(\$535,615)	(0.2) %	\$2,716,056,553	\$132,298,745	5.1 %	\$2,784,931	0.1 %
- 1¢ Increase*	\$75,218,813	4,571,876	6.5	3,097,348	4.3	676,270,290	61,704,848	10.0	6,833,479	1.0
Income - Individual	72,291,367	76,856,435	--	4,776,901	7.1	2,149,273,026	144,921,442	7.2	(13,915,027)	(0.6)
- Corporate	65,888,224	14,641,527	28.6	25,014,658	61.2	433,438,422	108,919,795	33.6	42,138,329	10.8
Property	808,578	151,777	23.1	1,259	0.2	11,275,819	(1,563,347)	(12.2)	50,995	0.5
Luxury - Tobacco	2,116,079	687,003	48.1	0	0.0	18,754,363	726,694	4.0	(226,233)	(1.2)
- Liquor	2,389,224	(835,758)	(25.9)	0	0.0	23,530,670	1,455,362	6.6	289,531	1.2
Insurance Premium	86,160,831	(8,297,826)	(8.8)	(9,023,018)	(9.5)	248,963,144	(24,323,172)	(8.9)	(7,606,229)	(3.0)
Estate	0	0	--	0	--	200,825	(236,547)	(54.1)	0	0.0
Other Taxes	1,186,787	65,785	5.9	206,411	21.1	1,549,431	(437,576)	(22.0)	201,783	15.0
Sub-Total Taxes	\$603,231,740	\$97,320,184	19.2 %	\$23,537,944	4.1 %	\$6,279,312,544	\$423,466,244	7.2 %	\$30,551,560	0.5 %
Other Revenue										
Lottery	5,461,740	(200,800)	(3.5)	(3,385,324)	(38.3)	40,282,920	4,829,470	13.6	(8,776,686)	(17.9)
License, Fees and Permits	2,702,210	462,850	20.7	165,327	6.5	20,904,383	(298,680)	(1.4)	(755,856)	(3.5)
Interest	2,724	(3,102)	(53.2)	(7,276)	(72.8)	2,104,941	216,640	11.5	(16,909)	(0.8)
Sales and Services	2,152,904	276,358	14.7	(580,584)	(21.2)	20,509,913	(1,299,184)	(6.0)	(933,948)	(4.4)
Other Miscellaneous	2,034,730	(1,226,251)	(37.6)	(1,334,205)	(39.6)	24,963,156	5,728,918	29.8	2,465,781	11.0
Disproportionate Share	0	0	--	0	--	0	(27,146,306)	(100.0)	0	--
Transfers and Reimbursements	481,565	279,441	138.3	138,204	40.3	12,695,916	(2,403,688)	(15.9)	(6,534,854)	(34.0)
Sub-Total Other Revenue	12,835,873	(411,504)	(3.1) %	(5,003,858)	(28.0) %	121,461,230	(20,372,828)	(14.4) %	(14,552,471)	(10.7) %
TOTAL BASE REVENUE	\$616,067,613	\$96,908,680	18.7 %	\$18,534,086	3.1 %	\$6,400,773,773	\$403,093,416	6.7 %	\$15,999,089	0.3 %
Other Adjustments										
Urban Revenue Sharing	(35,368,620)	4,131,923	--	0	0.0	(318,317,580)	37,187,307	--	0	0.0
Budget Plan Transfers	45,692,062	36,044,798	373.6	0	0.0	295,762,375	108,317,030	57.8	0	0.0
Tax Recovery Program	0	0	--	0	--	12,867,428	12,867,428	--	0	0.0
Sub-Total Other Adjustments	10,323,442	40,176,721	-- %	0	0.0 %	(9,687,777)	158,371,765	-- %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$626,391,055	\$137,085,401	28.0 %	\$18,534,086	3.0 %	\$6,391,085,997	\$561,465,182	9.6 %	\$15,999,089	0.3 %
Non-General Funds										
Highway User Revenue Fund	\$103,096,614	\$4,512,896	4.6 %	\$3,625,642	3.6 %	\$901,931,502	\$4,792,221	0.5 %	(\$6,224,710)	(0.7) %

* Total March collections including the temporary 1¢ increase approved by the voters in May 2010 were \$372.4 million. This amount is \$14.1 million, or 3.9%, above March 2011 and \$2.6 million, or 0.7%, above forecast. Year-to-date, total collections including the 1¢ increase were \$3,392.3 million. This amount is \$194.0 million, or 6.1%, above March 2011 and \$9.6 million above forecast.

Economic Indicators

NATIONAL

The Conference Board's **U.S. Leading Economic Index** increase of 0.7% in February marked the fifth straight month of growth in the index. This reading also represents the largest month over month percentage gain during the last 12 months. Of the 10 components in the index, 8 grew during February, though improvements in financial markets accounted for half of this gain. Consumer expectations and new purchasing orders were the only 2 components that declined during the month.

The Conference Board's **U.S. Consumer Confidence Index** retreated by (1.4) points in March, to a reading of 70.2. This amount represents a month-over-month percentage decrease of (2.0)% and is largely the result of a mixed job market outlook. However, consumers are still 10% more confident (as measured by this index) than they were this time last year, and several additional monthly declines would likely have to be sustained before consumers notably reduced discretionary spending.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.3% in March and 2.7% for the year. Recent index growth has primarily been the result of rising energy prices, which grew 3.2% in February and 1.9% in March. Core inflation, which excludes energy and food prices, increased by a more subdued 0.2% in March and 2.3% over the past year.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

In February, 48 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.3% compared to the prior month. Year-over-year, the Arizona index is 2.4% above last year. While this is a significant improvement, Arizona's index is still (12.1)% below its peak, which occurred in August 2007. See [Tracking Arizona's Recovery](#) for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona's leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national delivery times from a manufacturing survey, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona's leading index projects that state GDP will grow at an annualized rate of 4.4% over the next 6 months. This is higher than the 3.8% growth projection in January, and higher than the 2.4% projection in February 2011.

Housing

The number of Maricopa County **pending foreclosures** increased from 17,833 in February to 18,029 in March. The March total is (65.0)% below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#) for additional historical information.

The total housing inventory in the Greater Phoenix area decreased from 37,630 in March 2011 to 21,863 in March 2012, a (41.9)% decrease. In the Metropolitan Phoenix area, the **median price of a single family home** was \$124,500 in February. This represents an increase of 3.3% from January, but a (6.5)% decrease from February of last year.

Another measure of the health of the Arizona real estate market is permitting activity. Single-family housing permits increased in February 2012. For the 3-month period through February, a total of 970 **single-family building permits** had been issued statewide, a 46.4% increase from last year. See [Tracking Arizona's Recovery](#) for additional historical information.

The performance of the multi-family housing sector has been significantly better than single-family housing. For the 3-month period ending in February, a total of 501 **multi-family building permits** had been issued in the state, a 162.1% increase from the prior year. Even with this growth, multi-family permitting activity still remains (65.5)% below the peak of activity in April 2007.

"Consumer prices, as measured by the U.S. Consumer Price Index (CPI), increased 0.3% in March and 2.7% for the year."

Economic Indicators (Continued)

Employment

The latest estimate of **nonfarm employment** showed that the state added 18,900 jobs in March over February. While job gains typically occur in March, this year's job gain was the largest since March 2006 and more than 50% above the average increase for March over the last 10 years. It is also noteworthy that all major sectors of the Arizona economy added jobs (month over month) in March for only the third time over the last 6 years.

The month-over-month job gains in March came primarily from the **Leisure and Hospitality** industry (+7,700 jobs) and the **Construction** sector (+3,800 jobs). The private sector as a whole contributed to 97% of March's employment increase.

Employers in the state had 47,000, or 1.9%, more workers on their payrolls in March than one year ago. For the first quarter of calendar year 2012, nonfarm employment was up by 1.7%, or 41,700 jobs, the best performance in 5 years.

Other measures of the labor market based on unemployment insurance data also suggest that the Arizona economy is improving. For example, there were (10.9)% fewer **claims for first-time jobless benefits** in March than a year ago. Also, although the number of initial claims increased from 19,799 in February to 20,523 in March, or 3.7%, this increase was significantly less than the average March increase of 15.8% over the last 10 years. The number of initial claims filed each month is now roughly (50)% below the peak level 3 years earlier.

The total number of **claimants receiving unemployment insurance benefits** in the state each month is also on a downward trend. The Arizona Department of Administration (ADOA) reported 52,352 claimants of unemployment insurance benefits in March, or (16.5)% fewer claimants than 1 year earlier. This figure does not include those individuals who receive extended benefits under federal mandates. Weekly unemployment insurance data, which includes all types of benefits, including extended benefits and emergency unemployment compensation, showed a total of 97,128 jobless claims for the week ending on April 7. Compared to the same week last year, total claims were down by (29.7)%.

The same data showed that among those claimants who finished collecting regular benefits, the average duration of the unemployment period was 17.4 weeks in March compared to 18.8 weeks 1 year earlier. The average length of unemployment in March was the lowest since September 2009.

The state's **unemployment rate** declined from 8.7% in February to 8.6% in March. The jobless rate in the same month last year was 9.6%. The jobless rate has been below 9.0% for 3 consecutive months and is currently at its lowest level since February 2009. However, Arizona's unemployment rate continues to exceed the national average, which was 8.2% in March. Some analysts believe that the jobless rate could start moving up in future months as previously discouraged workers (those who left the labor force) resume their job search.

Although the outlook for jobs in Arizona is growing brighter, the way to full recovery remains long. In spite of the positive employment news in March, the state had still (258,500) fewer jobs that month than at the outset of the recession in December 2007. Thus, the state is not likely to return to peak employment levels for at least another few years. See [Tracking Arizona's Recovery](#) for additional historical information.

State Agency Data

At the beginning of April, total AHCCCS caseloads equaled 1.29 million members, a (0.8)% decrease from the prior month. Overall AHCCCS caseloads are currently (3.3)% below April 2011 levels.

The traditional AHCCCS population, which consists primarily of lower-income children and their parents, decreased (0.2)% from March and increased 5.1% from a year ago. The total population in this program is almost 900,000. This growth has been offset by declines in other populations. The Proposition 204 childless adult program has not allowed new participants since July and this population has declined (93,653) since July to 130,839. Of the decline, (10,880) is attributed to members who were transferred to the SSI program. As a whole, the Proposition 204 program has declined (3.1)% compared to the prior month, and (23.8)% from the prior year.

There were 39,240 **TANF recipients** in the state in March, a monthly caseload decrease of (0.5)%. Year-over-year, the number of TANF recipients has declined by (5.7)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. The FY 2011 budget reduced the lifetime limit to 36 months. The FY 2012 budget further reduces this limit to 24 months. Previously, the maximum had been 60 months. The FY 2012 budget assumed caseloads of approximately 36,000 in FY 2012.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In March, there were a total 1.1 million food stamp recipients in

Economic Indicators (Continued)

the state, or almost no change from the prior month. Compared to the same month last year, food stamp participation was up by 7.8%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Correction's (ADC) inmate population** increased to 39,918 inmates between January 2012 and March 2012. Relative to the prior 3-month period, the population has increased by 17 inmates. Compared to a year ago, the population has declined by (152) inmates.

Table 7

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 (SA)	March	8.6%	(0.1)%	(1.0)%
- Initial Unemployment Insurance Claims	March	20,523	3.7%	(10.9)%
- Unemployment Insurance Recipients	March	52,352	(2.9)%	(16.5)%
- Non-Farm Employment - Total	March	2.46 million	0.8%	1.9%
Manufacturing	March	150,500	0.2%	1.2%
Construction	March	114,400	3.4%	6.0%
- Average Weekly Hours, Manufacturing	February	41.2	0.0%	2.7%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$32.1 million	(3.4)%	2.8%*
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$159.1 million	0.2%	5.1%*
- Residential Building Permits (3-month moving average)				
Single-family	Dec-Feb	970	19.1%	46.4%
Multi-unit	Dec-Feb	501	59.3%	162.1%
- Greater Phoenix Home Sales				
Single-Family	February	8,186	3.3%	(4.4)%
Townhouse/Condominium	February	1,424	16.8%	(2.5)%
- Greater Phoenix Median Home Price				
Single-Family	February	\$124,500	3.3%	(6.5)%
Townhouse/Condominium	February	\$77,500	10.7%	(8.8)%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	January	102.84	0.9%	1.3%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	March	18,029	1.1%	(49.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	March	21,863	(7.9)%	(41.9)%
- Phoenix Sky Harbor Air Passengers	February	3.15 million	(2.6)%	5.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	January	\$5.15	2.8%	(20.0)%
- Arizona Consumer Confidence Index (1985 = 100)	1 st Quarter 2012	69.5	20.9%	10.7%
- Arizona Coincident Index (July 1992 = 100)	February	180.90	0.3%	2.4%
- Arizona Leading Index -- 6 month projected growth rate	Dec-Feb	4.4%	0.6%	2.1%
- Arizona Personal Income	4th Quarter 2011	\$235.5 billion	0.9%	4.5%
- Arizona Population	July 1, 2011	6.48 million	N/A	1.1%
- AHCCCS Recipients	April	1,293,637	(0.8)%	(3.3)%
Acute Care Traditional Spend Down		888,632	(0.2)%	5.1%
Prop 204 Childless Adults		-	-	(100.0)%
Other Prop 204		130,839	(5.4)%	(40.8)%
Kids Care		152,316	(0.9)%	1.3%
Long-Term Care – Elderly & DD		11,142	(4.3)%	(44.8)%
Emergency Services		52,128	0.2%	2.3%
TANF Recipients		58,580	1.7%	32.9%
- TANF Recipients	March	39,240	(0.5)%	(5.7)%
- SNAP (Food Stamps) Recipients	March	1,141,247	0.0%	7.8%
- ADC Inmate Growth (3-month average)	Jan-March	39,918	17 inmates	(152) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	February	18,368	(49)	(709)
Maricopa County	February	25,481	(149)	(585)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	4th Quarter 2011 (3rd Estimate)	\$13.4 trillion	3.0%	1.6%
- Consumer Confidence Index (1985 = 100)	March	70.2	(2.0)%	10.0%
- Leading Indicators Index (2004 = 100)	February	95.5	0.7%	3.0%
- U.S. Semiconductor Billings (3-month moving average)	Dec-Feb	\$4.35 billion	(1.7)%	(5.8)%
- Consumer Price Index, SA (1982-84 = 100)	March	229.1	0.3%	2.7%

*Adjusted for 1¢ sales tax

JLBC Meeting

At its April 3, 2012 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Review of Requested Exchange of Fund Transfers for the Department of Environmental Quality – The Committee gave a favorable review of the DEQ request to replace or modify the fund source for 2 of their enacted budget fund transfers.

Department of Environmental Quality – Review of Waste Fee Rules – The Committee gave a favorable review of DEQ's proposed changes to certain waste fees. Overall, the changes would decrease solid waste fee collections while increasing revenues from hazardous waste fees. The new fees are scheduled to become effective in FY 2013.

School Facilities Board – Consider Approval of Index for School Facilities Board (SFB) Construction Costs – The Committee considered 2 different adjustments in the cost-per-square-foot factors used in SFB funding formulas. One option was a 2.1% adjustment based on the average of the change in a national and Phoenix based construction cost index. The other option was based on the SFB Staff request to adjust the factors by

6.6% or 7.26% depending on the grade level. The Committee did not approve either adjustment.

Arizona Commerce Authority – Review of Application Fees for Incentive Programs – The Committee gave a favorable review of the Authority's proposed fee schedule.

Attorney General – Review of Uncollectible Debts – The Committee gave a favorable review of the Attorney General's FY 2009 and FY 2010 listing of uncollectible state debts.

As a result of the favorable review, the State Comptroller is authorized to remove \$19.1 million of uncollectible debts from FY 2009 and \$31.9 million of uncollectible debts from FY 2010 from the state accounting system.

Department of Education – Report on Education Learning and Accountability System – The Committee heard an information only item from Superintendent of Public Instruction, John Huppenthal. The Superintendent gave an overview of current issues regarding Arizona Department of Education (ADE) data systems and indicated that ADE needs \$32.5 million in order to replace its existing systems

JCCR Meeting

At its March 27, 2012 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Corrections – Review of Revised FY 2012 Building Renewal Allocation Plan – The Committee gave a favorable review of the department's proposal to make security improvements at the Cibola Prison Unit.

Northern Arizona University – Review of Energy Services and Performance Contract – The Committee gave a favorable review of Northern Arizona Universities' \$18.0 million financing plan to fund a variety of energy conservation projects. The projects will be essentially funded from energy savings.

Summary of Recent Agency Reports

Public Safety Personnel Retirement System – Report on Shared Cost Structure, Funding Status and Rate of Return – Pursuant to A.R.S. § 38-848.02, the Public Safety Personnel Retirement System (PSPRS) is required to report annually on the shared cost structure of the employees and employers, the funding status and the rate of return for the system. PSPRS reported that the FY 2013 PSPRS employee contribution rate is set at 9.55%. The aggregate employer contribution rate is 27.18% and individual employer contribution rates, which range from 5.00% to 136.04%, are available on the PSPRS website.

PSPRS had an overall funded status of 61.9% in FY 2011. The funded status of each employer is also available on the PSPRS website and ranges from 11.60% to 265.90%. Last year, the one-year market rate of investment return for the system was 17.5%. To calculate contribution rates, PSPRS uses a 7-year smoothing period which had a rate of return of 4.4%. (Marge Zylla)

March Spending

March 2012 General Fund spending was \$345.9 million. March expenditures were less than the prior year primarily due to the timing of education formula payments.

FY 2012 Spending

March 2012 spending of \$345.9 million was \$(74.0) million less than March 2011 (*See Table 8*).

- In March, Universities spending was \$(15.4) million less than the prior year. The universities received a \$198 million lump sum reduction in FY 2012, which will be spread out throughout the fiscal year.
- Economic Security spending decreased by \$(24.2) million from the previous year to \$5.2 million. This decline was primarily due to operating transfers among agency funds and does not reflect actual expenditures.
- The Department of Education spent \$64.5 million, or \$(31.7) million less than the previous year due to the timing of formula payments.

Agency	<u>March 12</u>	<u>Change from March 11</u>	<u>Year to Date</u>	<u>YTD Change from FY 11</u>
AHCCCS	125.7	(3.8)	1,189.3	45.5
Corrections	67.2	8.0	677.3	26.0
Economic Security	5.2	(24.2)	496.1	3.5
Education	64.5	(31.7)	2,662.5	(18.0)
Health Services	9.6	(12.2)	562.6	60.7
Public Safety	1.2	(0.1)	39.7	4.6
School Facilities Board	0.1	(0.1)	163.6	96.6
Universities	41.5	(15.4)	597.0	(124.3)
Leaseback Debt Service	0.0	0.0	49.1	(3.0)
Other	<u>30.9</u>	<u>5.5</u>	<u>270.3</u>	<u>(78.3)</u>
Total	345.9	(74.0)	6,707.5	13.3

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 11
	March 12	Change from March 11	Year-to-Date	
Department of Administration	696.9	(964.1)	12,006.0	(4,179.0)
Department of Admin Sale/Leaseback D/S	-	-	49,050.7	(3,016.2)
Office of Administrative Hearings	60.8	59.5	617.2	(48.1)
Department of Agriculture	749.4	99.3	5,750.3	(838.6)
AHCCCS	125,676.2	(3,774.1)	1,189,303.2	45,522.0
Attorney General	1,065.0	57.6	12,415.0	(379.3)
AZ Capital Post Conviction Public Defender	53.9	2.4	463.6	(64.3)
State Board of Charter Schools	51.8	25.1	545.6	(6.6)
Department of Commerce/AZ Commerce Authority	2,625.0	2,541.8	23,625.0	20,728.3
Community Colleges	-	-	51,433.0	(47,886.8)
Corporation Commission	33.1	2.4	387.4	(80.0)
Department of Corrections	67,236.9	8,041.1	677,268.6	26,023.0
AZ State Schools for the Deaf & Blind	1,107.8	51.8	15,373.7	(716.7)
Department of Economic Security	5,237.0	(24,231.9)	496,090.9	3,488.4
Department of Education	64,497.5	(31,654.9)	2,662,511.5	(18,024.6)
DEMA	257.6	(449.6)	4,790.9	(3,664.2)
Department. of Environmental Quality	-	-	-	(0.6)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	13.4	4.1	129.9	(8.6)
State Board of Equalization	22.2	4.7	431.4	(36.5)
Board of Executive Clemency	51.2	(11.4)	592.7	(89.5)
Department of Financial Institutions	172.6	23.0	1,978.7	(121.0)
Department of Fire, Life, Bldg Safety	48.4	(70.0)	1,289.1	(353.0)
Office of the State Forester	189.4	150.3	3,602.3	1,606.1
Arizona Geological Survey	57.5	16.0	648.4	107.2
Government Information Tech.	-	(39.0)	(3.1)	(384.3)
Governor	417.1	318.3	3,490.6	(1,389.7)
Gov. - OSPB	97.1	23.5	1,356.1	(58.2)
Department of Health Services	9,611.2	(12,219.0)	462,599.3	60,655.1
Arizona Historical Society	177.5	7.5	2,402.8	(2,368.6)
Prescott Historical Society of AZ	41.6	17.3	517.8	(46.0)
Independent Redistricting Comm.	405.2	404.5	3,447.3	3,446.6
Commission on Indian Affairs	3.9	2.4	35.2	(11.3)
Department of Insurance	339.6	(5.4)	3,849.8	(557.1)
Judiciary	-	-	-	-
Supreme Court	1,076.4	421.2	10,744.0	(5,246.6)
Superior Court	9,492.3	1,106.3	56,857.8	1,033.3
Court of Appeals	913.7	327.6	10,104.2	(1,201.5)
Department of Juvenile Corrections	2,978.4	796.2	34,658.1	(5,752.6)
State Land Department	21.8	(110.5)	743.9	(1,729.7)
Law Enforcement Merit System	4.7	0.6	42.4	(12.5)
Legislature	-	-	-	-
Auditor General	1,295.0	233.0	13,000.0	(339.2)
House of Representatives	1,004.6	156.2	9,085.6	(210.9)
Joint Legislative Budget Comm.	142.5	29.4	1,471.8	(131.3)

Agency	March 12	Change from March 11	Year-to-Date	YTD Change from FY 11
Legislative Council	311.3	40.1	3,900.2	248.9
Senate	580.0	(13.4)	6,147.8	(423.5)
Board of Medical Student Loans	20.5	3.6	41.7	(319.7)
Mine Inspector	86.6	22.0	827.0	(36.2)
Department of Mines & Mineral Resources	-	(8.7)	-	(815.8)
Nav. Streams & Adjudication	6.5	1.5	110.2	3.6
OSHA	-	-	-	-
Arizona State Parks Board	-	-	-	(20,000.0)
Pioneers' Home	8.9	(187.8)	1,577.1	396.0
Comm. for Postsecondary Ed.	-	(0.5)	1,396.8	785.9
Department of Public Safety	1,200.0	(431.7)	39,690.4	4,620.0
Arizona Department of Racing	37.8	(71.7)	2,772.1	(768.7)
Radiation Regulatory Agency	44.6	44.6	1,077.6	46.3
Arizona Rangers Pension	-	-	-	(8.3)
Real Estate Department	136.9	(17.9)	1,764.6	(444.2)
Department of Revenue	2,472.8	642.0	35,233.0	3,921.6
School Facilities Board	63.2	(2.4)	163,649.6	96,555.6
Secretary of State	559.7	(243.9)	7,004.3	(5,107.9)
Tax Appeals Board	12.4	(3.0)	192.8	(7.0)
Department of Transportation	5.8	4.9	37.6	0.2
State Treasurer	28.5	(120.0)	2,112.1	109.7
Universities				
Board of Regents	169.2	(632.7)	15,903.3	(652.5)
Arizona State University	18,003.1	(7,432.6)	261,933.4	(57,252.2)
Northern Arizona University	6,431.6	(2,120.3)	88,379.4	(19,081.5)
University of Arizona	16,872.6	(5,262.5)	230,783.0	(47,361.4)
Department of Veteran Services	456.8	387.4	6,089.9	(3,209.6)
Department of Water Resources	396.1	(7.1)	3,725.0	(1,464.9)
Department of Weights & Measures	79.8	18.9	789.4	(43.8)
Other		(46.0)	679.4	(77.3)
Grand Total	345,911.2	(74,043.9)	6,707,525.8	13,270.3