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"July collections were \$(24.5) million below the monthly forecast based on the recently enacted state budget."

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on August 31, 2007.

What's Inside

July General Fund revenue collections were \$688.2 million, or 4.4% above July 2006. July collections were \$(24.5) million below the monthly forecast based on the recently enacted state budget. *(See page 11.)*

The July performance of the major categories was mostly disappointing:

- Sales tax collections were 0.6% above last year. Monthly collections were \$(27.2) million short of the forecast.
- Corporate income tax collections were (13.4)% lower than last July, and \$(6.9) million below forecast.

The main bright spot was individual income tax collections, which were 15.1% higher than last year. This growth resulted in revenues being \$8.7 million above forecast. This high growth, however, may reflect the timing of withholding receipts, which unexpectedly declined (2.9)% in June.

As reported in the July Monthly Fiscal Highlights, preliminary FY 2007 figures (which are subject to revision) indicate the state ended the year \$(226) million below the forecast. While the FY 2007 budget remains balanced, the shortfall would reduce the carry forward into FY 2008 from \$529 million to \$303 million. Since the enacted FY 2008 budget assumes an ending

balance of less than \$1 million, this would result in a FY 2008 cash shortfall unless other areas of the budget perform better than expected.

With only 1 month of new fiscal year revenues, it remains too early to project full fiscal year 2008 results. Any FY 2008 revenue shortfall would be added to the FY 2007 carry forward loss in determining the overall FY 2008 budget problem.

The Monthly Fiscal Highlights include a summary of the July JLBC and JCCR meetings *(pages 5-6)*. Among the items considered:

- The JLBC gave a favorable review to the Department of Health Services' (DHS) contract compliance expenditure plan, with the provision that DHS only proceed with hiring 44 of the proposed 73 positions.
- The JLBC gave a favorable review to the Department of Public Safety's (DPS) spending plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM), with the provision that DPS only provide the Pima County Sheriff's Office with 11 positions and \$1.3 million.
- The JCCR favorably reviewed a Parks Board plan to spend \$1.5 million to study developing a new recreation area at Lake Havasu.

The Highlights also include a summary of recent statutory reports submitted to JLBC *(pages 7-*

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“Overall, sales tax collections increased only slightly above last year. The two largest categories, retail and contracting, were both lower than last July.”



“The overall growth in individual collections was driven by the 14.9% increase in withholding over July 2006.”

10). Among the reports:

- The Department of Corrections (ADC) provided an update on its bed plan. Regarding provisional beds, ADC will contract for beds at several out-of-state facilities over the next several months. With regard to new beds, the Department of Administration (ADOA) projects that in early 2008 a contract will be awarded for 2,000 new private beds, and construction

- will begin on 4,000 new public beds.
- The Arizona Board of Regents provided an update on the Phoenix Medical Campus (PMC). This fall PMC opened with its first class of 24 students. In addition, the Arizona Biomedical Collaborative research building was recently completed and now houses researchers from both the University of Arizona and Arizona State University.

July Revenues

Sales Tax collections were \$392.9 million in July, or 0.6% above last year. *Table 1* displays the July growth rates for the major sales tax categories.

	July
Retail	(0.6)%
Contracting	(5.2)%
Utilities	13.5%
Use	8.0%
Restaurant & Bar	3.8%

Overall, sales tax collections increased only slightly above last year. The two largest categories, retail and contracting, were both lower than last July. These decreases, however, were offset by strong growth in utilities and the use tax.

In the past two years, sales tax collections have been robust in the month of July. Collections increased 13.4% in July 2005 and 12.3% in July 2006. Given those increases, it was difficult to achieve a high level of growth for a third year in a row. The resulting lower level of growth drove sales to end up being \$(27.2) million less than forecast for July.

Individual Income Tax collections were \$268.0 million in July. This amount was 15.1% higher than last year, and \$8.7 million above forecast. *Table 2* displays the July growth rates for individual categories.

	July
Withholding	14.9%
Estimated + Final Payments	(0.3)%
Refunds	(3.0)%

The overall growth in individual collections was driven by the 14.9% increase in withholding over July 2006. Withholding can increase in any one month for a variety of factors, so it is difficult to draw any conclusions from the July data. June withholding payments, for example, actually decreased (2.9)% from last year.

In addition to the growth in withholding, July refunds declined from last July.

Corporate Income Tax collections were \$33.8 million in July, or (13.4)% below last year. This is the third month in a row that corporate collections have declined. As a result, corporate was \$(6.9) million below forecast for the month.

Insurance Premium Tax collections were \$40.9 million in July, or 26.2% above July of last year. This amount was \$3.2 million above the forecast. The large increase in July 2007 revenues was actually due to a low level of collections received in July 2006. This low level of revenues was the result of payment processing delays that arose from the implementation of new technology.

	(\$ in Millions)		
	FY 2008 Collections	Difference From Forecast ^{1/}	Difference From FY 2007
July	\$ 688.2	\$ (24.5)	\$ 28.8

^{1/} Enacted FY 2008 budget (June 2007).

Recent Economic Indicators

The **U.S. Index of Leading Economic Indicators** continued to trace a saw-tooth pattern with a 0.4% advance in July. The index reversed June's decline with its 3rd increase in the last 6 months. The components making positive contributions were led by consumer expectations, vendor performance, and a decrease in new unemployment insurance claims, while building permits and interest rates were among the negative influences.

U.S. semiconductor billings slipped (1.0)% in June (3-month moving average) from the prior period and were (6.8)% below the level reported a year ago. June's decline was the 7th in the last 8 months. For the year to date through June 2007, U.S. sales totaled \$19.9 billion, which was (8.8)% below the level reported for 2006's first half. Worldwide semiconductor sales improved 2.1% on a year-to-date basis though June. Price competition continues to curb revenue even as unit sales of products such as cell phones and DRAM (dynamic random access memory) devices are showing strong growth.

The Conference Board's **U.S. Consumer Confidence Index** declined (6.2)% in August, reversing the improvement reported the prior month. It is likely that the recent turmoil in financial markets touched off by the housing slump contributed to the decline. Consumers' assessment of current conditions, future business conditions, and the labor market outlook all faded since the previous survey.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) climbed 0.3% in July, continuing a trend toward slower inflation in recent months. July's 2.6% year-over-year increase compared favorably to the 3.4% and 3.2% average increases posted in 2005 and 2006, respectively. Although food prices increased 0.3% in July, energy costs fell (1.0)%. Excluding the impact of food and fuel prices, the core CPI increased 0.2% in July and was 2.2% higher than a year ago.

Arizona's labor market produced mixed results in July. Total **non-farm employment** dipped by (18,800), or (0.7)%, from the prior month, mostly due to seasonal factors. The average July job loss during the last 10 years was (27,100), or (1.2)%. Overall, employment expanded 2.8% on a year-over-year basis in July. Arizona's unemployment rate rose to 3.7% in July but remained well below the 4.6% U.S. average.

The **construction** sector usually grows in July, but this year's increase of 900 jobs was well below the average gain of 1,500 jobs posted during the last 10 years. This left statewide construction employment (1.6)% below the level posted in July 2006. Meanwhile, **manufacturing** was flat again in July and its job count was (1,800), or (1.0)%, below the total reported a year ago.

The other goods-producing sector was a bright spot. Arizona's mining industry added 300 workers in July, which is raised its year-over-year growth rate to 16.8%. High metals prices appear to ensure that the mining sector will continue to expand in the months ahead.

The Realty Studies group at Arizona State University reported a Greater Phoenix **single-family median sales price** of \$265,000 in July, which was virtually unchanged from the \$264,900 median price in July 2006. The number of existing **single-family homes sold** decreased (11.8)% in July from June and was (21.9)% below the number sold in July 2006.

The **townhouse-condominium median sales price** edged down (0.1)% in July to \$181,000, which was 1.1% above the June 2006 median sales price. The **number of units sold** dropped (12.9)% from the prior month and was also (12.9)% less than the number sold a year ago.

The housing slump was also reflected in new home construction. Statewide **single-family residential building permits** (3-month moving average) were down (4.8)% from the prior period and (32.8)% on a year-over-year basis. The multi-family segment had similar results, with month-to-month and year-to-year declines of (7.8)% and (28.5)%, respectively.

Through the first 6 months of 2007, a total of 30,055 housing units were authorized statewide, which was (26.3)% less than the number authorized in 2006's first half. The total value of housing units permitted was \$4.99 billion for the year to date through June 2007, a (29.3)% drop from a year ago.

The **Arizona Business Conditions Index (BCI)** soared 12.3% in July to 65.1, the highest level recorded since April 2006. July's surge was mostly due to increased production, continued strength in new orders, and a significant increase in delivery times. However,



“Meanwhile, manufacturing was flat again in July and its job count was (1,800), or (1.0)%, below the total reported a year ago.”

Recent Economic Indicators (Continued)

it was not clear whether longer delivery times resulted from rising demand or were caused by other supply chain constraints.

Arizona consumers were not as sanguine about the outlook. The Behavior Research Center's (BRC) **Arizona Consumer Confidence Index** dipped to 101.9 in 2007's 3rd quarter survey, which was (4.1)% below the previous reading reported in January 2007. The BRC observed that consumers' concerns about their current situation, labor market prospects, and future business conditions were the forces driving the decline in confidence.

The **Department of Corrections' inmate population** increased by an average of 236 inmates per month from May through July.

The total population grew by 2,250 inmates from a year ago. The budget for FY 2008 anticipates inmate population growth of 1,920, or a net increase of 160 inmates per month.

The number of TANF recipients increased 0.4% to 78,876 in June and was (8.1)% below the level reported in June 2006. The FY 2008 budget projects the TANF caseload will grow by 2.5%. The **AHCCCS caseload** jumped 0.7% in August and now stands 3.0% higher than the total from August 2006. The FY 2008 budget projects growth of 1.9% from June 2007 to June 2008.

Table 4

RECENT 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	July	3.7%	0.3%	(0.4)%
- Non-Farm Employment – Total	July	2.67 million	(0.7)%	2.8%
Manufacturing	July	186,700	0.0%	(1.0)%
Construction	July	245,600	0.4%	(1.6)%
- Contracting Tax Receipts (3-month average)	May-Jul	\$80.5 million	7.0%	(2.9)%
- Retail Sales Tax Receipts (3-month average)	May-Jul	\$171.1 million	3.1%	1.2%
- Residential Building Permits (3-month moving average)				
Single-unit	Apr-Jun	3,953	(4.8)%	(32.8)%
Multi-unit	Apr-Jun	755	(7.8)%	(28.5)%
- Greater Phoenix Existing Home Sales				
Single-Family	July	4,330	(11.8)%	(21.9)%
Townhouse/Condominium	July	980	(12.9)%	(12.9)%
- Greater Phoenix Median Home Sales Price				
Single-Family	July	\$265,000	0.7%	0.0%
Townhouse/Condominium	July	\$181,000	(0.1)%	1.1%
- Phoenix Sky Harbor Air Passengers	June	3.66 million	0.3%	1.3%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$8.30	7.0%	19.1%
- Leading Indicators Index	May	120.8	(0.3)%	1.7%
- Business Conditions Index (>50 signifies expansion)	July	65.1	12.3%	18.0%
- Consumer Confidence Index	3 rd Quarter 2007	101.9	(4.1)%	(0.8)%
- Business Leaders Confidence Index	3 rd Quarter 2007	50.5	(1.7)%	1.8%
- Arizona Personal Income	1 st Quarter 2007	\$202.3 billion	2.1%	6.2%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	August	1,061,629	0.7%	3.0%
- TANF Recipients	June	78,876	0.4%	(8.1)%
- DOC Inmate Growth (3-month average)	May-Jul	37,038	236 inmates	2,250 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	2 nd Quarter 2007	\$11.5 trillion	3.4%	1.8%
- Consumer Confidence Index	August	105.0	(6.2)%	4.8%
- Leading Indicators Index	July	138.1	0.4%	0.4%
- U.S. Semiconductor Billings (3-month moving average)	Apr-Jun	\$3.30 billion	(1.0)%	(6.8)%
- Consumer Price Index (3-month moving average)	May-Jul	208.2	0.3%	2.6%

JLBC Meeting

At its August 16, 2007 meeting, the Joint Legislative Budget Committee (JLBC) considered the following issues:

Attorney General – Review of Allocation of Settlement Monies – State v. Purdue Pharma L.P., et. al. – The Committee gave a favorable review to the allocation of \$717,500 from the Purdue Pharma L.P. consent judgment. All of the funds will be deposited into the Consumer Fraud Revolving Fund. In May 2007, the AG and 25 other states entered into a consent judgment with Purdue Pharma as a result of allegations the company encouraged doctors to prescribe the pain drug, OxyContin, for uses not approved by the Federal Drug Administration (FDA).

When this item first came up for review during the June 2007 JLBC Meeting, the Chairman requested that the AG provide an estimate of the costs incurred to litigate the case. The AG estimated these costs to be \$28,000. After subtracting these costs, the AG would use the remaining settlement monies to pursue other consumer fraud cases.

Attorney General – Review of Allocation of Settlement Monies – State v. Warner Chilcott – The Committee gave a favorable review to the allocation of \$128,000 from the Warner-Chilcott settlement. Of the total, \$95,000 in civil penalties will be put into the Consumer Revolving Fund for future consumer fraud cases. The remaining \$33,000 will be put into the Antitrust Enforcement Revolving Fund. In June 2007, the AG entered into a multi-state settlement agreement with Warner-Chilcott due to allegations that Warner-Chilcott and Barr Pharmaceuticals made an agreement blocking generic distribution of Ovcon, an oral contraceptive.

Department of Economic Security – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase – The Committee gave a favorable review of the DES implementation plan for distributing a developmental disabilities provider rate increase totaling about \$7 million

General Fund and \$18.6 million Total Funds. The plan calls for the application of a 3.2% increase over the FY 2007 benchmark and adopted rates for most services, which would fulfill the statutory requirement to raise the rates paid to services providers contracting with the division to at least 100% of the FY 2008 benchmarks.

Department of Economic Security – Review of FY 2008 Expenditure Plan for Workforce Investment Act Monies – The Committee gave a favorable review of DES' spending plan for \$2.9 million of the discretionary portion of federal Workforce Investment Act (WIA) monies. Recipients include the Department of Education, Department of Commerce, Local Workforce Investment Areas, and DES.

Government Information Technology Agency – Review of Web Portal Contract – The Committee gave a favorable review to the new State Web Portal operation contract with the provision that GITA provide a list of discretionary projects and activities to the JLBC Staff by October 15. The Arizona @ Your Service web portal works with state agencies to provide electronic delivery of government services such as licensing, permitting, data sharing and access to government information. Fixed expenses include \$1.9 million in the first year for day-to-day operations and \$380,000 for transition from the old contract. Since the GITA submission did not include detailed information on the discretionary projects, the Committee asked for more information.

Department of Health Services – Review of Behavioral Health Title XIX Capitation Rate Changes – The Committee gave a favorable review to the department's capitation rate adjustments with the conditions that administrative costs remain within the FY 2008 budgeted levels, and any capitation rate savings be reverted and not transferred for program expansions. The proposed capitation rates are currently expected to cost \$(4.6) million less than budgeted.

Department of Health Services – Review of Children's Rehabilitative Services Capitation Rate Changes – The Committee gave a favorable review to the DHS Children's Rehabilitative Services (CRS) capitation adjustments with provisions that administrative costs remain within the FY 2008 budgeted levels, and any capitation rate savings be reverted and not transferred for program expansions. The proposed capitation rates are currently expected to cost \$(338,000) less than budgeted.

Department of Health Services – Review of the Contract Compliance Special Line Item Expenditure Plan – The Committee gave a favorable review of the DHS \$7.3 million expenditure plan of Contract Compliance with the provisions that the favorable review does not constitute an endorsement of General Fund support to expand the program in the future, and DHS proceed with hiring no more than 44 of the proposed 73 positions. The FY 2008 General Appropriation Act included only the 44 positions. A review of the remaining 29 positions will occur after DHS submits additional information. The Committee requested that DHS report back by September 13, 2007 with an explanation of how the particular staffing levels were derived, more specific information on how the \$1 million for indirect costs would be used, and the performance measures selected to assess the effectiveness of additional staff. The purpose of the funding is to improve contract monitoring and compliance among the Regional Behavioral Health Authorities and to ensure DHS is meeting its obligations in the Arnold v. Sarn and JK v. Gerald lawsuits.

Administrative Office of the Courts – Review of Reimbursement of Appropriated Funds – The Committee gave a favorable review to the use of \$3.8 million in projected reimbursements. The reimbursements are monies received by AOC for services provided to local courts and their personnel.

JLBC Meeting (Continued)

Department of Public Safety – Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission – The Committee gave a favorable review to the DPS expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM), with the provision that DPS reduce the Pima County Sheriff's Office (PCSO) initiative to 11 positions and \$1.3 million. The favorable review included \$5.9 million for GIITEM local enforcement grants to be distributed to PCSO, "Border District" Sheriff's Offices and Police Departments, Southern Arizona prisons

for detention liaison and prison officers, and the Arizona Fraudulent Identification Task Force. The favorable review also includes \$3.6 million for 23 DPS GIITEM officers.

The Committee requested that DPS report back on the establishment of performance measures for PCSO as part of its quarterly GIITEM report due October 30, 2007. In addition, the Committee requested that if the 11 PCSO positions are filled and if established performance objectives are met by January 1, 2008, DPS notify the committee.

Arizona State Retirement System – Review of FY 2008 Information Technology Expenditure Plan – The Committee gave a favorable review of the \$2.8 million FY 2008 IT Expenditure for expenses associated with upgrades to the IT system. Implementation began in FY 2002 and is planned to reach completion in FY 2008. The Committee also requested that ASRS continue to provide semi-annual progress reports on the project status, with the next report due by December 31, 2007.

JCCR Meeting

At its August 16, 2007 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

Arizona Department of Administration – Review of FY 2008 Building Renewal Allocation Plan – The Committee gave a favorable review to the Arizona Department of Administration (ADOA) FY 2008 Building Renewal Allocation Plan, with the provision that ADOA allocate funds to address health and safety issues at the 1616 W. Adams building. The \$7.3 million Building Renewal Allocation Plan addresses roofing projects totaling \$2.0 million at 7 sites, 5 HVAC projects totaling \$321,000, 4 water and sewer projects for \$437,000, and 9 infrastructure projects for \$3.2 million. The plan also includes \$1.3 million for construction insurance, project management, and contingencies.

Arizona State Parks Board – Review of State Lake Improvement Fund Projects – The Committee gave a favorable review to the proposal for \$952,100 from the State Lake Improvement Fund (SLIF) for upgrades to existing facilities at Lake Havasu State Park. The Committee also gave a favorable review to the plan for a \$1.5 million study concerning the development of a new recreation area at Lake Havasu to be called

Contact Point. The review included a provision that the Parks Board submit the Request for Proposals (RFP) before its release.

The Parks Board would like to develop Contact Point to relieve congestion at the current Lake Havasu State Park. The total estimated cost of the project is \$19 million. The Committee expressed interest in: 1) whether the Parks Board had considered having a private entity construct and operate the proposed marina; 2) how an additional park on Lake Havasu would affect boat densities; and 3) if the current level of law enforcement on the lake would be sufficient to address additional boaters. The Committee requested to see the draft RFP to determine if it addressed the concerns discussed above. In addition, the Committee requested information on how much revenue is generated by boating at Lake Havasu State Park, how much additional revenue the Contact Point project is expected to generate, and the effect of this funding on other State Parks projects.

School Facilities Board – Review of FY 2008 New School Construction Report – The Committee gave a favorable review of the School Facilities Board's (SFB) new construction report for FY 2008. SFB estimates statewide

student growth at 3% in FY 2008, with districts in growing areas of the state experiencing increases of up to 20%. To accommodate this growth in enrollment, 85 new construction projects are scheduled to be underway in FY 2008, costing an estimated \$449 million. This includes \$35 million for land acquisition, \$376 million for construction projects and \$38 million for expenditures that were shifted from FY 2007.

The SFB currently projects a FY 2008 funding shortfall of \$(73) million. This shortfall was first reported in the June edition of the Monthly Fiscal Highlights. At that time, SFB was estimating an \$(80) million shortfall.

Arizona State University – Review of Revised Scope of Academic Renovations and Deferred Maintenance Phase IIB Bond Projects – The Committee gave a favorable review to the scope revision for the Nursing Backfill Renovations. The cost for the Nursing Backfill Renovation project will increase from \$5.0 million to \$8.0 million, with the additional \$3.0 million funded with unallocated funds from the Phase IIB bond issuance, leaving the total cost of the Academic Renovations and Deferred Maintenance Phase IIB projects unchanged.

Summary of Recent Agency Reports



Corporation Commission – Report on Corporations Division Filings – Pursuant to a footnote in the General Appropriation Act, the Corporation Commission submitted a quarterly report on the status of reducing processing delays in its Corporations Division.

For expedited filings, the amount of time required to process the filings fell from an average of 42 business days on March 25, 2005 to 3.8 business days for the quarter ending June 30, 2007. By comparison, at the end of the third quarter of FY 2007, the turnaround time was 4.6 business days. The commission’s goal for processing expedited filings is 5 business days or less.

For regular filings, the amount of time required to process the filings fell from an average of 103 business days on March 25, 2005 to 23 business days for the quarter ending June 30, 2007. By comparison, at the end of the third quarter of FY 2007, the turnaround time was 28 business days. The commission’s goal for processing regular filings is 30 business days or less.

Arizona Department of Corrections – Report on Monthly Bed Plan Update – The Arizona Department of Corrections (ADC) has been providing monthly reports to JLBC Staff updating the status of several topics related to their bed plan. The highlights include the following:

Provisional Beds

- Effective July 1, ADC gained access to 720 minimum and medium security level beds at the Diamondback Facility in Watonga, Oklahoma. Including the 1,440 beds ADC previously contracted for, the department now has access to a total of 2,160 beds at this facility. The department received sufficient funding in the FY 2008 budget to occupy all beds by August 13, however, ADC now plans to occupy all beds by mid-September.
- The transfer of inmates to the Indiana New Castle Facility ceased on April 24 due to security concerns and a disturbance at the facility. The department reports that the

security upgrades have been completed and operations have returned to normal. ADC plans to restore the population to 630 inmates in the immediate future and is prepared to resume transferring the remaining 630 inmates. ADC received funding in the FY 2008 budget to utilize all 1,260 beds at this facility for the entire fiscal year.

- ADC has awarded a contract to a private vendor for 1,340 minimum and medium security beds at a facility in Hinton, Oklahoma. The department reports they will have access to 916 medium custody beds beginning in September and up to an additional 1,084 beds beginning in May. The FY 2008 budget provided funding to the department to fill 916 beds (at 105 beds per week) beginning September 3 and an additional 424 beds (not 1,084) beginning in May 2008.

New In-State Construction

- The FY 2008 budget authorizes 2,000 new private prison beds. The Arizona Department of Administration (ADOA) plans to award the new contract by February 2008.
- The budget also authorized 4,000 new public beds. ADOA plans to select a builder by late 2007 with construction beginning early in 2008.

Private Beds

- The department received \$3.7 million to fund a 4.6% increase for in-state private prison contractors and \$1.1 million for an additional 4.5% increase for beds at the Central Arizona Correctional Facility (CACF). Due to a delayed opening, the CACF did not receive a 4.5% per diem increase provided to all private prison facilities in operation on July 1, 2006. As a result, the additional monies provided to CACF in FY 2008 bring the facilities funding in line with the increase provided to private prisons in FY 2007. The department reports the \$3.7 million has been allocated to increase the per diem payments to four in-state private providers. Details relating to the additional allocation of \$1.1 million to the CACF were not provided.

Arizona Department of Corrections – Report on Community Accountability Pilot Program – A.R.S. § 41-1609.05 required the Arizona Department of Corrections (ADC) to establish a Community Accountability Pilot Program (CAPP). Statute authorizes the department to contract with a private or non-profit entity to provide supervision and treatment services for eligible offenders who have violated the terms and conditions of community supervision. The pilot program is scheduled to end July 1, 2012.

The department awarded the CAPP contract to a private vendor and the program began on April 13, 2006. Since the program’s inception, a total of 157 eligible offenders have been referred to the program and have completed 3,593.1 hours of programming and counseling services. Of those referred to CAPP:

- 31 offenders, or 19.7%, have successfully graduated;
- 106 offenders, or 67.5%, were terminated due to committing new crimes, failed urinalysis tests, absconding, or failure to report to parole officers; and
- 20 offenders remain enrolled in the program.

Arizona Department of Corrections – Report on FY 2005 Operating Per Capita Cost Report and Public versus Private Prison Cost Comparison – Pursuant to A.R.S. § 41-1609.01, the Arizona Department of Corrections (ADC) is required to submit a biennial public versus private cost and services comparison. Further, the FY 2007 General Appropriation Act requires ADC to provide the operating per capita cost report for FY 2005. ADC had previously indicated it contracted with a private entity to complete the reports. ADC indicated that they would be submitting technical manuals for both FY 2005 reports. The technical manuals would provide details on the methodology, assumptions, procedures, time lines, and sources of data. ADC anticipated these manuals would be published in September.

Summary of Recent Agency Reports (Continued)

The FY 2005 Operating Per Capita Cost Report provides the total operating costs, per day average costs, and total daily per capita costs incurred by the department to incarcerate inmates at all prison facilities. Based on the report, costs vary by prison type, prison complex, prison unit, custody level, and inmate gender. The department reports the overall operating cost per inmate to be \$58.21 per day.

The FY 2005 Public versus Private Prison Cost Comparison is intended to provide a cost comparison of the services provided by private vendors the department has contracted with and the cost of equivalent services provided by the state. In FY 2005, contracts with private vendors were entirely for Level 2 male inmates. As a result, the report utilizes the per capita cost of level 2 male inmates identified in the Operating Per Capita Cost Report and adjusts for equipment and building depreciation, state central services, Work Incentive Pay Plan, discharge costs, transportation, and grants. Based on the report, the per capita cost at state operated facilities is \$49.28 per day, as compared to \$53.06 for private providers.

Arizona Department of Corrections – Report on Transition Release Program

– Pursuant to A.R.S. § 31-285B, the Arizona Department of Corrections (ADC) is required to submit a quarterly report that details the cost reductions to the department from an inmate early release Transition Program and the number of participants who did not receive an early release under the Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services. The ADC Transition Release Program began in March 2004 and allows eligible inmates in the Transition Program to be released 3 months earlier than the inmate's earliest release date.

Between April 1 and June 30, 2007, the department reports that 102 participants successfully completed the Transition Program and their term

of community supervision while an additional 139 participants completed the Transition Program and are continuing their term of community supervision. During the same period, 17 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is responsible for 9,771 bed days saved, resulting in a savings of \$166,107.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2007 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its end-of-year budget status for FY 2007. In that report, ADE estimates that it will experience a net formula funding surplus of \$74.1 million for FY 2007. ADE had previously reported an estimated net formula funding surplus of \$39.1 million for FY 2007. The difference is primarily due to lower than projected costs for current year enrollment growth in FY 2007 under year-end data. The estimated \$74.1 million surplus includes \$13.2 million in non-reverting Special Education Voucher Fund monies. ADE's total formula funding reversion to the General Fund from FY 2007, therefore, is currently estimated at \$60.9 million.

Government Information Technology Agency and Department of Revenue – Report on Business Re-Engineering/Integrated Tax System (BRITS) – BRITS is the new computer system being implemented by the Department of Revenue (DOR) to integrate their separate tax systems, improve enforcement, and increase revenues to the state. At the October 24, 2006 JLBC meeting, the Committee asked that the Government Information and Technology Agency (GITA) and DOR provide joint monthly status reports on the project until its conclusion.

The GITA/DOR Joint BRITS Oversight Report for July 2007 reports that individual income tax is on schedule for a December 2007 implementation, and that all of the Information Technology Authorization Committee's (ITAC) 7 conditions for the BRITS project are being implemented. Specifically,

DOR began working on ITAC's final 2 conditions in the past month. The final 2 items include providing GITA with a plan and cost estimate for extension of the BRITS data center hosting contract, and reporting to GITA on BRITS file server requirements to support full BRITS implementation.

Department of Health Services – Report on AIDS Drug Assistance Program Expenditures – Pursuant to Executive Orders 97-10 and 98-3, the Department of Health Services submitted information on the expenditures from its AIDS Drug Assistance Program in FY 2007. According to the report, the program served an average of 843 clients a month in FY 2007. This is a decrease of (17) clients a month, or (2.0)% from FY 2006 levels. The average money spent per participant in FY 2007 was \$980, up 11.2% from FY 2006 levels.

In total, the program spent \$9,908,300 on medications in FY 2007. This includes \$8,915,600 from Federal Funds and \$992,700 in General Fund monies. In comparison, the program expended \$9,090,600 in FY 2006.

Department of Health Services – Report on *Arnold v. Sarn* – Pursuant to a footnote in the FY 2007 General Appropriation Act, the Department of Health Services has submitted a quarterly report to the Committee on the department's progress toward settling the *Arnold v. Sarn* lawsuit. On July 17, 2007 a status hearing was held allowing parties involved in the case and the Court Monitor to comment on the transition of the Maricopa County Regional Behavioral Health Authority (RBHA) from ValueOptions to Magellan. DHS reports that all parties have been satisfied with DHS's technical assistance and involvement in ensuring a smooth transition. An agreement has also been reached between ValueOptions and Magellan, resulting in ValueOptions withdrawing their protest for the criteria used to award the RBHA contract.

During the past quarter, DHS submitted information to the Court Monitor to show compliance with the 2006 and 2007 Revised Completion

Summary of Recent Agency Reports (Continued)

Date obligations. DHS is also still in the process of developing a strategy regarding the Good Shepherd Properties. DHS had previously purchased these properties with the intention of housing 56 adults with serious mental illness (SMI) at the Good Shepherd Properties. In May, the Superior Court ruled that this plan violates the terms of the exit stipulations related to housing and that adults with SMI cannot occupy more than 25% of the units.

At the August 16th JLBC meeting, DHS informed the Legislature that June 2008 is still the proposed timeframe for exiting the lawsuit. There will be another audit performed by the Court Monitor in October while they are transitioning the Maricopa County RBHA to Magellan. Although DHS stated this endeavor will be “challenging,” they are still “optimistic” about meeting the June 2008 deadline.

Department of Juvenile Corrections – Report on Restitution Fund – Pursuant to A.R.S. § 41-2826(F), the Arizona Department of Juvenile Corrections (DJC) is required to submit an annual report detailing all revenues and expenditures made from the department’s Restitution Fund. The DJC submitted its latest report on August 15, 2006.

These monies are used to pay restitution and monetary assessments on behalf of youth working in the Committed Youth Work Program who were unable to make these court-ordered payments when they were originally sentenced to DJC. As of August 7, 2007, the DJC reports that Restitution Fund revenues and expenditures for FY 2007 totaled \$33,245, as compared to \$40,780 in FY 2006. The 18.5% decrease is due to a lower juvenile population in FY 2007.

State Mine Inspector – Mining Reclamation Consulting Expenditures Annual Report – Pursuant to A.R.S. § 27-1234B, the State Mine Inspector is required to report annually on payments made to consultants for

assistance in the review of sand and gravel reclamation plans in order to ensure that the lands used for mining are properly reclaimed for public use once mining is completed. In FY 2007, the State Mine Inspector expended \$174,800 on 8 consultants for 104 mines that are currently in the reclamation process. There is a consulting fee of \$2,775 for each operation. The State Mine Inspector initially pays 50% of consulting fees up front (\$1387.50) and the balance upon publication of the review.

A.R.S. § 27-935B requires this same report for payments made to consultants for assistance in the review of reclamation plans for materials other than sand and gravel. In FY 2007, there were no plan submittals that required consulting expenditures.

Arizona State Parks Board – Report on Park Operating Expenditures – Pursuant to a General Appropriation Act footnote, the Arizona State Parks Board is providing the park operating expenditure report for FY 2007.

Operating expenditures for the 28 state parks and 3 regional offices totaled \$12,662,200 for FY 2007 compared to \$12,328,200 in FY 2006. Of the FY 2007 amount, \$10,079,700, or 79.6%, was spent on Personal Services and Employee Related Expenditures. Kartchner Caverns State Park represented approximately 21.1% of the total operating expenditures, with no other park representing more than 6.7%. The State Parks Enhancement Fund (SPEF) provided \$7,655,000, or 60.4% of the total operating expenditures. This amount is a decrease from the FY 2006 amount of \$10,035,700. Laws 2006, Chapter 344 shifted \$2,650,000 from SPEF to the General Fund to offset projected shortfalls in park fee revenue.

State Parks Board – Annual Report on Out-of-State Travel – Pursuant to a FY 2007 General Appropriation Act footnote, the State Parks Board is submitting a report of out-of-state travel expenses in FY 2007. The footnote stipulates that during FY

2006 and FY 2007, out-of-state travel expenses by State Parks Board staff shall not exceed \$5,000 each year from appropriated or non-appropriated monies.

At a total of \$4,300, out-of-state travel expenses for Parks Board staff for FY 2007 were within the \$5,000 limit. These expenses were incurred primarily for attendance at conferences and meetings.

Commission for Postsecondary Education – Report on Postsecondary Education Fund – A.R.S. § 15-1853 requires the Commission for Postsecondary Education to report quarterly on its Postsecondary Education Fund.

Total revenues to the fund in FY 2007 were \$2,082,700. A large portion of this amount comes from intergovernmental revenue, a combination of federal Leveraging Educational Assistance Partnership (LEAP) funding and institutional matching funds, which totals \$1,587,700.

Total expenditures from the fund in FY 2007 were \$2,109,600. Of that total, the commission allocated \$263,300 to its operating budget. The remaining \$1,846,300 was allocated to the programs administered by the commission. Of these remaining monies, the commission spent \$1,122,400 on LEAP, a program which provides financial aid to students at an Arizona postsecondary educational institution.

Arizona Department of Public Safety – Report on Staffing Levels – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on staffing levels for both crime lab and sworn personnel. DPS indicates they currently have 143 authorized crime lab positions. Of this amount, 134 (or 93.7%) are currently filled, as compared to 127 filled positions at the end of the prior quarter.

DPS currently has 1,306 authorized sworn full-time positions, including 100 authorized sworn positions for the Gang and Immigration Intelligence

Summary of Recent Agency Reports (Continued)

Enforcement Mission (GIITEM). Of the 1,306 authorized sworn positions, 1,152 (or 88.2%) are currently filled, representing a net increase of 21 positions in the 4th quarter.

Arizona Department of Transportation – Quarterly Report on Motor Vehicle Division Wait Times – The Motor Vehicle Division (MVD) was appropriated an additional 25 FTE Positions in FY 2007 for MVD customer service staff to reduce customer wait time. Laws 2006, Chapter 344, requires the Arizona Department of Transportation (ADOT) to report to the Legislature quarterly on customer wait times in MVD field offices and vehicle registration renewal by mail turnaround times.

The number of MVD counter clerks increased by 104, or 14.9%, from 698 in FY 2006 to 802 in the 4th quarter of FY 2007, with a resultant decrease of (13.5) minutes, or (48.6)%, in customer wait time from receiving a ticket until arriving at the counter from 27.8 minutes in FY 2006 to 14.3 minutes in the 4th quarter of FY 2007. ADOT reports that there was an additional wait time of 3.4 minutes from arrival at the office until receiving a numbered ticket.

Arizona Board of Regents/University of Arizona College of Medicine – Report on Phoenix Update – Pursuant to a General Appropriation Act footnote, the Arizona Board of Regents (ABOR), with input from the University of Arizona (UA) and Arizona State University (ASU), is required to provide an update to the JLBC on the University of Arizona Phoenix Medical Campus (PMC) and general efforts to curb the statewide physician shortage. According to the joint UA and ASU Arizona Physician Workforce Study, Arizona had a physician shortage of 2,200 doctors in 2005 relative to the national average physician-to-population ratio.

The Legislature first provided funding for the operation of the PMC in FY 2006. In early August 2007, the Phoenix Medical Campus welcomed its first class of 24 students. The

campus is comprised of the Translational Genomics Research Institute (TGen) research building, the three former Phoenix Union High School buildings in which medical students take classes, and the Arizona Biomedical Collaborative research building (ABC 1). ABC 1, which opened in July 2007, houses researchers from the ASU Department of Biomedical Informatics on the first two floors and UA researchers and lab space on the top two floors.

ABOR previously submitted updates on the Phoenix Medical Campus in FY 2007. The report submitted by ABOR on August 15, 2007 includes updated information on the following topics:

Formal Relationships with Area Hospitals – In December 2006, the College of Medicine entered into a memorandum of understanding (MOU) with Banner Health, under which Banner Health will become the College's primary academic hospital affiliation in Phoenix. Since this partnership was forged, both entities have formed an Executive Steering Committee with several working groups that will address various issues affecting the campus, such as financing, graduate medical education, communication, faculty practice organization planning, facilities, and private practice physician involvement. The College of Medicine will hire a consulting firm to develop a financial modeling strategy to better define the most advantageous relationship with Banner Health.

Partnerships with Private Medical Schools and Expansion of Medical Services to Rural Areas – The UA College of Medicine's Rural Workforce Taskforce began talks with the private medical school Midwestern University to expand residency opportunities at rural sites that could potentially serve as dual training sites for allopathic and osteopathic students. Both organizations are considering the possibility of establishing joint allopathic and osteopathic accreditation in the first year of residency at these locations.

Creation of New Residency Positions – Several new residency programs have been developed in various health care facilities in Phoenix: an orthopedics program at Banner Health, a trauma surgery fellowship at the Maricopa Integrated Health System (MIHS), and new fellowships in pediatric emergency and endocrinology at the Phoenix Children's Hospital. Additionally, new programs are in the development phase at various locations: a plastic surgery fellowship at Banner Good Samaritan, burn and critical care surgical fellowships at Maricopa Medical Center/ Scottsdale Healthcare, and a surgery program at MIHS/Scottsdale with planned training slots.

Additional Reporting Requirements – ABOR's report does not include further updates from the February 15th report on the availability of clinical rotations for medical students in the state and efforts to attract out of state doctors. The UA College of Medicine believes that by establishing additional residency positions, more out-of-state medical students will be able to choose Arizona to complete their residencies, after which UA estimates one-half would practice in Arizona.

Arizona Department of Water Resources – Report on Fees Collected in the Assured and Adequate Water Supply Fund – Pursuant to a FY 2007 General Appropriation Act footnote, the Department of Water Resources (DWR) provided its quarterly report on the fees collected by the Assured and Adequate Water Supply (AAWS) Program.

Laws 2005, Chapter 217 established the AAWS Administration Fund to provide for the costs of the AAWS Program. New fees were approved in September 2006. Collections in the last quarter of FY 2007 amounted to \$237,200. Total revenue in FY 2007 amounted to approximately \$776,600. DWR anticipates that the fees will eventually generate approximately \$1,100,000 per year for the operations of the AAWS program.

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast July 2007

	Current Month					FY 2008 YTD (One Month)				
	Actual July 2007	Change From July 2006		Forecast		Actual July 2007	Change from July 2006		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	392,889,822	\$2,429,591	0.6 %	(\$27,245,378)	(6.5) %	\$392,889,822	\$2,429,591	0.6 %	(\$27,245,378)	(6.5) %
Income - Individual	268,029,537	35,146,944	15.1	8,680,337	3.3	268,029,537	35,146,944	15.1	8,680,337	3.3
- Corporate	33,803,209	(5,230,033)	(13.4)	(6,859,691)	(16.9)	33,803,209	(5,230,033)	(13.4)	(6,859,691)	(16.9)
Property	271,790	(30,528)	(10.1)	(78,210)	(22.3)	271,790	(30,528)	(10.1)	(78,210)	(22.3)
Luxury	3,964,730	(1,083,894)	(21.5)	(1,950,270)	(33.0)	3,964,730	(1,083,894)	(21.5)	(1,950,270)	(33.0)
Insurance Premium	40,869,149	8,473,197	26.2	3,169,149	8.4	40,869,149	8,473,197	26.2	3,169,149	8.4
Estate	222,856	146,449	191.7	222,856	--	222,856	146,449	191.7	222,856	--
Other Taxes	64,491	(3,469)	(5.1)	(634)	(1.0)	64,491	(3,469)	(5.1)	(634)	(1.0)
Sub-Total Taxes	\$740,115,584	\$39,848,257	5.7 %	(\$24,061,841)	(3.1) %	\$740,115,584	\$39,848,257	5.7 %	(\$24,061,841)	(3.1) %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	1,950,743	(56,152)	(2.8)	(503,357)	(20.5)	1,950,743	(56,152)	(2.8)	(503,357)	(20.5)
Interest	631,247	763,693	--	925,447	--	631,247	763,693	--	925,447	--
Sales and Services	1,998,131	138,652	7.5	(305,169)	(13.2)	1,998,131	138,652	7.5	(305,169)	(13.2)
Other Miscellaneous	39,595	(1,141,551)	(96.6)	(830,505)	(95.4)	39,595	(1,141,551)	(96.6)	(830,505)	(95.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	474,311	315,690	199.0	264,311	125.9	474,311	315,690	199.0	264,311	125.9
Sub-Total Other Revenue	5,094,027	20,332	0.4 %	(449,273)	(8.1) %	5,094,027	20,332	0.4 %	(449,273)	(8.1) %
TOTAL BASE REVENUE	\$745,209,611	\$39,868,589	5.7 %	(\$24,511,114)	(3.2) %	\$745,209,611	\$39,868,589	5.7 %	(\$24,511,114)	(3.2) %
One-Time Revenue										
Urban Revenue Sharing	(57,044,910)	(11,109,022)	24.2	0	0.0	(57,044,910)	(11,109,022)	24.2	0	0.0
Sub-Total One-Time Revenue	(57,044,910)	(11,109,022)	24.2 %	0	0.0 %	(57,044,910)	(11,109,022)	24.2 %	0	0.0 %
TOTAL REVENUE	\$688,164,701	\$28,759,567	4.4 %	(\$24,511,114)	(3.4) %	\$688,164,701	\$28,759,567	4.4 %	(\$24,511,114)	(3.4) %