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**“July General Fund revenue collections of \$622.1 million were \$(26.3) million below forecast.”**

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on August 27, 2010.

## Summary



The initial collection of the temporary 1 cent sales tax helped increase July General Fund revenue collections by 8.6% over the prior year. Without the tax increase, however, base revenues would have actually fallen (4.5)% compared to the prior year.

July is the second consecutive month of revenue declines followed by positive growth in April and May. These latest collections may be evidence that the economic recovery may be slower than anticipated.

July General Fund revenue collections of \$622.1 million were \$(26.3) million below forecast. Of the \$622.1 million, the 1 cent sales tax generated \$64.6 million, which was \$(7.5) million below forecast.

In comparison, July 2010 General Fund spending was \$1.5 billion, or \$(254) million below July 2009. Given shifts in rollover and payment deferral schedules, however, it is difficult to draw any conclusions from the decline in spending.

With \$622.1 million in revenues and \$1.5 billion in spending, the state's operating fund balance fell dramatically in July. After ending June with more than \$1.5 billion in the operating fund, the balance fell to \$800 million by the beginning of August. The state

pays its bills out of the operating fund balance, which consists of General Fund monies and certain dedicated funds.

As measured by the operating fund, the state is in a better financial position than a year ago. During August, the balance has not fallen below \$600 million. Last year, the operating fund was negative and the state had to borrow as much as \$397 million on a single day.

### Budget Update

In early August, the federal government enacted legislation providing additional federal assistance to Arizona. In total, it would provide an estimated \$448 million of additional funding to Arizona in FY 2011.

Of this amount, \$236 million is due to an extension of the enhanced Medicaid match rate, which was originally scheduled to expire January 1, 2011. The remaining \$212 million comes from the creation of the “Education Jobs Fund”, which would provide additional funds to Arizona to retain or create education jobs.

In the July Monthly Fiscal Highlights (MFH), JLBC estimated the FY 2011 shortfall to be between \$0 and \$(1.0) billion. Because of the recently enacted federal assistance

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## Summary (Continued)

Table 1

	General Fund Revenues (\$ in Millions)		
	FY 2011 <u>Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2010</u>
July	\$ 622.1	\$ (26.3)	\$ 49.1
Year-to-Date	\$ 622.1	\$ (26.3)	\$ 49.1

legislation, the upper-end of the FY 2011 shortfall is now estimated at approximately \$(700) million.

See the [JLBC Staff Federal Assistance Update](#) and the [Budget Status Slideshow](#) for additional information.

## July Revenues

“Excluding the temporary 1¢ increase, base [sales tax] collections were down (3.1)% compared to last July.”

**Sales Tax** collections were \$346.3 million in July, consisting of \$281.7 million in base revenues and \$64.6 million from the temporary 1¢ increase. July collections reflect June sales, which was the first month of the 1¢ increase.

Excluding the temporary 1¢ increase, base collections were down (3.1)% compared to last July. Including the 1¢ increase, collections were \$(24.9) million below the forecast.

Table 2 displays the July growth rates for the largest categories

Table 2

	Sales Tax Growth Rates Compared to Prior Year	
	July	YTD
Retail	(0.7)%	(0.7)%
Contracting	(27.2)%	(27.2)%
Utilities	(9.0)%	(9.0)%
Use	17.7%	17.7%
Restaurant & Bar	0.5%	0.5%

Retail and contracting together account for about 60% of all sales tax revenues. Contracting continued its poor performance, with a (27.2)% decrease compared to July of last year, while the retail category fell by (0.7)%.

The temporary 1¢ increase generated \$64.6 million for July, or \$(7.5) million below forecast. Collections of the temporary tax are expected to increase over the next several months as the impact of exemptions to the rate decreases. For most sales tax categories, there is a 120-day exemption to the new rate for any purchase under contract prior to the effective date of the tax increase.

For the Prime Contracting category, any contract signed prior to the effective date of

the increase is exempt from the tax increase for the duration of the contract. In July, about half of the contracting collections were exempt from the new rate.

**Individual Income Tax** net revenues were \$237.8 million in July, or 1.3% above the prior year. Collections were \$0.5 million above the forecast.

As indicated in Table 3 below, withholding tax payments decreased by (1.8)% in July, a second month of decline after 4 months of increases. Throughout the year, it will be difficult to interpret the withholding collections, due to changes in the state withholding system.

Prior to July 1, 2010, employees' state withholding amount was based on a percentage of their federal withholding. As a result, each time the federal government changed its withholding tables, state withholding amounts would automatically change as well.

To prevent future one-time shifts in state withholding receipts resulting from federal tax legislation, the Legislature authorized the Department of Revenue (DOR) to establish new state withholding tables as of July 1. Under the new table, employee state withholding amounts are calculated as a percentage of their gross taxable wages (generally between 1.8% and 5.1%). DOR designed the withholding table to be revenue neutral.

It is still unclear how this change is affecting state withholding revenue. A small sample of payroll data that was analyzed for the first pay period after July 1 suggests that the new withholding calculation may have initially

## July Revenues (Continued)

resulted in larger collections than under the old system. However, anecdotal information indicates that a number of employees promptly adjusted their withholding rates in response to the smaller take-home pay under the new DOR table. Thus, comparisons to withholding collections before July 2010 should be interpreted with caution.

	<u>July</u>	<u>YTD</u>
Withholding	(1.8)%	(1.8)%
Estimated + Final Payments	(7.3)%	(7.3)%
Refunds	(26.9)%	(26.9)%

**Corporate Income Tax** net collections were \$23.4 million in July. This amount was (30.3)% below July 2009, but \$1.1 million above the forecast for the month.

The **Lottery Commission** reports that July ticket sales were \$42.5 million, which is 11.6% above sales last year. No transfers of lottery proceeds were made to the General Fund in the month of July.

**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 \$100.3 million in July were Up \$2.6 million or 2.6% compared to July of last year.

Table 4

## General Fund Revenue: Change from Previous Year and Enacted Budget Forecast July 2010

	Current Month					FY 2011 YTD (One Months)				
	Actual July 2010	Change From July 2009		Forecast		Actual July 2010	Change from July 2009		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use w/o 1¢ *	\$281,714,731	(\$8,913,903)	(3.1) %	(\$17,337,889)	(5.8) %	\$281,714,731	(\$8,913,903)	(3.1) %	(\$17,337,889)	(5.8) %
Income - Individual	237,766,843	2,987,559	1.3	475,446	0.2	237,766,843	2,987,559	1.3	475,446	0.2
- Corporate	23,446,669	(10,194,042)	(30.3)	1,072,269	4.8	23,446,669	(10,194,042)	(30.3)	1,072,269	4.8
Property	198,694	29,492	17.4	38,694	24.2	198,694	29,492	17.4	38,694	24.2
Luxury - Tobacco	2,568,000	339,887	15.3	0	0.0	2,568,000	339,887	15.3	0	0.0
- Liquor	2,500,000	(201,953)	(7.5)	0	0.0	2,500,000	(201,953)	(7.5)	0	0.0
Insurance Premium	40,998,702	(881,486)	(2.1)	(1,298)	(0.0)	40,998,702	(881,486)	(2.1)	(1,298)	(0.0)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	52,019	(7,862)	(13.1)	(481)	(0.9)	52,019	(7,862)	(13.1)	(481)	(0.9)
<b>Sub-Total Taxes</b>	<b>\$589,245,657</b>	<b>(\$16,842,309)</b>	<b>(2.8) %</b>	<b>(\$15,753,260)</b>	<b>(2.6) %</b>	<b>\$589,245,657</b>	<b>(\$16,842,309)</b>	<b>(2.8) %</b>	<b>(\$15,753,260)</b>	<b>(2.6) %</b>
<b>Other Revenue</b>										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	1,981,635	(526,969)	(21.0)	381,635	23.9	1,981,635	(526,969)	(21.0)	381,635	23.9
Interest	914	1,369	--	914	--	914	1,369	--	914	--
Sales and Services	1,175,648	(570,575)	(32.7)	(224,352)	(16.0)	1,175,648	(570,575)	(32.7)	(224,352)	(16.0)
Other Miscellaneous	1,979,943	(1,686,768)	(46.0)	(3,320,057)	(62.6)	1,979,943	(1,686,768)	(46.0)	(3,320,057)	(62.6)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,585,743	(8,729,696)	(77.1)	185,743	7.7	2,585,743	(8,729,696)	(77.1)	185,743	7.7
<b>Sub-Total Other Revenue</b>	<b>7,723,884</b>	<b>(11,512,638)</b>	<b>(59.8) %</b>	<b>(2,976,116)</b>	<b>(27.8) %</b>	<b>7,723,884</b>	<b>(11,512,638)</b>	<b>(59.8) %</b>	<b>(2,976,116)</b>	<b>(27.8) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$596,969,541</b>	<b>(\$28,354,947)</b>	<b>(4.5) %</b>	<b>(\$18,729,376)</b>	<b>(3.0) %</b>	<b>\$596,969,541</b>	<b>(\$28,354,947)</b>	<b>(4.5) %</b>	<b>(\$18,729,376)</b>	<b>(3.0) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(39,500,543)	12,886,509	--	(1,643)	0.0	(39,500,543)	12,886,509	--	(1,643)	0.0
1¢ TPT Increase*	64,609,954	64,609,954	--	(7,548,334)	(10.5)	64,609,954	64,609,954	--	(7,548,334)	(10.5)
<b>Sub-Total Other Adjustments</b>	<b>25,109,411</b>	<b>77,496,463</b>	<b>-- %</b>	<b>(7,549,977)</b>	<b>(23.1) %</b>	<b>25,109,411</b>	<b>77,496,463</b>	<b>-- %</b>	<b>(7,549,977)</b>	<b>(23.1) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$622,078,952</b>	<b>\$49,141,516</b>	<b>8.6 %</b>	<b>(\$26,279,353)</b>	<b>(4.1) %</b>	<b>\$622,078,952</b>	<b>\$49,141,516</b>	<b>8.6 %</b>	<b>(\$26,279,353)</b>	<b>(4.1) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$100,345,000	\$2,582,000	2.6 %	\$1,621,000	1.6 %	\$100,345,429	\$2,582,285	2.6 %	\$1,621,429	1.6 %

\* Sales and Use line excludes revenue from the temporary 1¢ increase approved by the voter in May 2010. That revenue is shown under One-Time Revenues. Total collections including the 1¢ increase were \$346.3 million. This amount is \$55.7 million, or 19.2%, above July 2009 and \$(24.9) million, or (6.7)%, below forecast.

## Economic Indicators

### NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis (BEA), the second estimate of the **U.S. Real Gross Domestic Product (GDP)** for the second quarter of 2010 was revised down from 2.4% to 1.6%. The downward revisions came, as expected, in foreign trade and manufacturing inventories, but there were partial offsets from higher energy consumption and inventories.

The Conference Board's **U.S. Index of Leading Economic Indicators** rose 0.1% in July, reversing a portion of June's (0.3)% loss. An expanding workweek, greater delivery times, and a favorable interest rate spread outweighed the negative contributions from fewer building permits and declining consumer expectations. The forward-looking measure has only retreated once in the last 16 months, suggesting that the turnaround that began in April 2009 is not yet over.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, rose by 0.3% in July, following 3 months of price declines. The increase in consumer prices was primarily due to higher energy prices. The core CPI, which excludes food and energy prices, edged up 0.1% in July and is now 1.0% above last year's level. The absence of inflationary pressures is primarily the result of significant excess capacity in the economy.

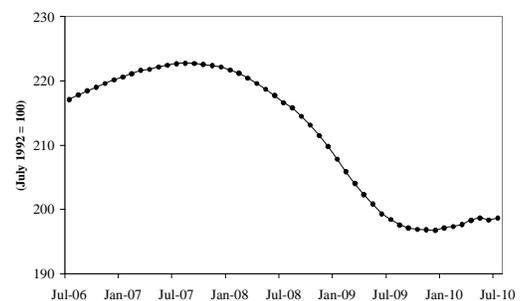
The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. reached \$4.58 billion in June, the best performance in more than 9 years. This was a 4.3% improvement from the prior month and a 55.5% increase over June 2009 levels. SIA expects the exceptionally robust growth rate to start moderating in the second half of 2010.

### 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.

The **state coincident index** for Arizona rose by 0.1% in July, following June's (0.2)% decline. Arizona was one of 43 states nationwide for which the measure improved last month. As seen in the graph below, the Arizona coincident index has remained essentially unchanged since May following 5 months of consecutive gains. This suggests that the recovery seen earlier in the year has weakened. See [Tracking Arizona's Recovery](#), for additional historical information.

Arizona Coincident Economic Activity Index



### Employment

According to latest release of employment data by Arizona Department of Commerce, the state had (16,000) or (0.3)% fewer **nonfarm payroll employees** in July than in the previous month. By way of comparison, the average job loss for July in the 10-year period preceding the start of the recession was (1.2)%.

Private sector employment experienced the first year-over-year increase (2,100 jobs or 0.1%) since November 2007. While this is good news, it is also worth noting that private sector employment has shrunk by (13.0)% since this time. The government sector continued to shed jobs, however, and employed (8,900) or (2.3)% fewer employees in July than in the prior year.

July 2010 total nonfarm employment was down by (0.3)%, or (6,800) jobs compared to July 2009. This was the 30<sup>th</sup> straight month with year-over-year job losses in the state, the longest streak in recorded history (data available from 1939). Year-over-year job losses peaked in June 2009 when there were reportedly (217,200), or (8.4)%, fewer people on the payrolls than in the previous year. Since the onset of the recession in December 2007, the state has lost (364,500) jobs, or (13.4)% of its workforce. This figure overstates the

*“Private sector employment experienced the first year-over-year increase (2,100 jobs or 0.1%) since November 2007.”*

## Economic Indicators (Continued)

*"The number of new Maricopa County foreclosure notices – the initial step in the foreclosure process – spiked 31.8% in July to 8,138."*

impact of the recession, however, since the state's employment level tends to be lower during the summer months. Seasonally adjusted employment figures released by the federal Bureau of Labor Statistics shows a net job loss of (10.2)% for this period. See [Tracking Arizona's Recovery](#), for additional historical information.

The **average weekly hours** of production workers in manufacturing industries is a leading indicator since "factory hours" tend to lead the business cycle as employers usually adjust work hours before increasing or decreasing the size of their workforce. According to the Arizona Department of Commerce, preliminary data indicates that the average work week in July was 39.7 hours, a 0.8% improvement over the prior month. This was a sharp reversal from the previous month's decline of (1.5)%. Due to seasonal factors, however, this indicator can vary considerably from month to month. For this reason, it is more useful to focus on the trend over the last 6 to 12 months, which shows that the measure has been gradually improving.

The state's **unemployment rate** remained unchanged at 9.6% in July, for the third month in a row. The jobless rate is essentially at the same level as one year ago. The unemployment rate for the nation as a whole was 9.5%.

The Department of Commerce reported that 30,859 **initial claims for unemployment insurance** were filed in July. At this level, there were (140), or (0.5)%, fewer claims than in the prior month. July marked the 9th consecutive month with year-over-year declines in first-time claims. Claims peaked in April 2009 when more than 41,000 individuals filed for initial jobless benefits. See [Tracking Arizona's Recovery](#), for additional historical information.

### Housing

The number of new Maricopa County **foreclosure notices** – the initial step in the foreclosure process – spiked 31.8% in July to 8,138. This increase follows 3 months of declines in the measure. The number of **pending foreclosures** – inventory at risk of being sold by the trustee at some point in the future – declined for the 5<sup>th</sup> straight month to 42,152. Pending foreclosures are currently (10.6)% below last year's levels and are (18.1)% below the December 2009 peak of 51,466. See [Tracking Arizona's Recovery](#), for additional historical information.

In Metropolitan Phoenix, the **single-family median resale home price** totaled \$144,000 with a total of 8,945 **existing home sales**. Relative to the prior month, these measures were down (2.4)% and (16.6)%, respectively. Year-over-year, the median resale price rose 2.9% while the total number of units bought and sold declined (22.2)%. In the single family segment, the sale of foreclosed homes accounted for 43.2% of total transactions. Over the past 12 months, foreclosures ranged from 32.4% (September 2009) to 45.3% (January 2010) of total sales.

Based on MLS data released in July, the **month's supply of housing** indicator increased to 7.8 months in July, 1.8 months above June levels. Relative to last July, the measure is up 2.3 months. The increase appears to be consistent with what is being reported nationally and is due to a relatively large decrease in the number of sales, as opposed to an increase in the number of listings. Between May and July 2010, an average of 931 **single-family residential building permits** were authorized per month based on data released by the U.S. Census Bureau. In percentage terms, single-family permitting activity is down (37.3)% from a year ago. While **Multi-family permits** are up on a month-to-month basis, they are down (38.7)% from last year.

### State Agency Data

Participation in income driven programs has either moderated or declined somewhat in the last few months, as evidenced by the data presented below.

In August, **AHCCCS caseloads** equaled 1.35 million members, a 0.01% increase over the prior month. AHCCCS caseloads are currently 3.9% above August 2009 levels. Total enrollment has stayed essentially unchanged since December 2009. The FY 2011 budget funded a projected August 2010 caseload growth of 6.5% above August 2009 levels, for a total of 1.39 million members.

There were 68,750 **TANF recipients** in the state in June, a monthly caseload decrease of (5.1)%. Year-over-year, the number of TANF recipients has declined by (17.5)%. This decline is the result of DES instituting a more aggressive diversion program. The diversion program provides a lump sum payment to those at risk of needing cash assistance in order to divert them from the

## Economic Indicators (Continued)

TANF program. The FY 2011 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 households to purchase food. In June, there were a total 1.05 million food stamp recipients in the state, an increase of 0.7% over the prior month. Compared to the same month last year, food stamp participation was up by 16.9%. 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** totaled 40,512 inmates between May and July 2010 - an average decline of (62) inmates per month during the period. Year-over-year, the 3-month average count increased by 72 inmates.

**Adult and juvenile probation caseload** in May and June, respectively, totaled 27,771 individuals in Maricopa County - (198) fewer probationers than the prior month and 576 probationers more than a year ago. The non-Maricopa probation caseload was 19,939 probationers during the period, (29) less than the prior month and (208) less than a year ago. With the exception of Maricopa County, who assumes all costs related to probation programs, the state and counties share the costs of probation programs.

*“Compared to the same month last year, food stamp participation was up by 16.9%.”*

## Economic Indicators (Continued)

Table 5

### ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	July	9.6%	0.0%	0.2%
- Initial Unemployment Insurance Claims	July	30,859	(0.5)%	(20.5)%
- Unemployment Insurance Claimants	June	87,787	4.4%	(23.4)%
- Non-Farm Employment - Total	July	2.35 million	(0.7)%	(0.3)%
Manufacturing	July	149,400	(0.5)%	(1.4)%
Construction	July	114,200	(0.3)%	(10.9)%
- Average Weekly Hours, Manufacturing	July	39.7	0.8%	2.3%
- Contracting Tax Receipts (3-month average)	May-Jul	\$31.5 million	2.1%	(24.8)%
- Retail Sales Tax Receipts (3-month average)	May-Jul	\$133.8 million	3.7%	(1.5)%
- Residential Building Permits (3-month moving average)				
Single-unit	May-Jul	931	(7.1)%	(37.3)%
Multi-unit	May-Jul	73	6.3%	(38.7)%
- Greater Phoenix Existing Home Sales				
Single-Family	July	8,945	(16.6)%	(22.2)%
Townhouse/Condominium	July	1,470	(14.8)%	(0.3)%
- Greater Phoenix Median Home Sales Price				
Single-Family	July	\$144,000	(2.4)%	2.9%
Townhouse/Condominium	July	\$94,500	(5.4)%	(12.1)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	July	8,138	31.9%	(11.2)%
Pending Foreclosures (Active Notices)	July	42,152	(0.4)%	(10.6)%
Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	May	111.0	0.9%	7.2%
- Arizona Months Supply of Housing, (ARMLS)	July	7.8 months	1.3 months	2.3 months
- Phoenix Sky Harbor Air Passengers	May	3.31 million	(2.1)%	3.3%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$6.13	12.5%	(0.5)%
- Arizona Consumer Confidence Index (1985 = 100)	3 <sup>rd</sup> Quarter 2010	49.1	(1.0)%	(18.4)%
- Arizona Coincident Index (July 1992 = 100)	July	198.67	0.1%	0.1%
- Arizona Personal Income	1 <sup>st</sup> Quarter 2010	\$220.0 billion	1.1%	1.0%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	August	1,352,987	0.0%	3.9%
- TANF Recipients	June	68,750	(5.1)%	(17.5)%
- SNAP (Food Stamps) Recipients	June	1,047,023	0.7%	16.9%
- ADC Inmate Growth (3-month average)	May-Jul	40,512	(62) inmates	72 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	May/June	19,939	(29)	(208)
Maricopa County	May/June	27,771	(198)	576
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2nd Quarter 2010 (Second Estimate)	\$13.2 trillion	1.6%	3.0%
- Consumer Confidence Index (1985 = 100)	July	50.4	(7.2)%	6.3%
- Leading Indicators Index (2004 = 100)	July	109.8	0.1%	7.1%
- U.S. Semiconductor Billings (3-month moving average)	Apr-Jun	\$4.58 billion	4.3%	55.5%
- Consumer Price Index, SA (1982-84 = 100)	July	217.6	0.3%	1.3%

## JLBC Meeting

At its August 11, 2010 meeting, the Joint Legislative Budget Committee considered the following issues:

**Attorney General – Review of Allocation of Settlement Monies** – The Committee gave a favorable review of the AG's allocation plans for the \$350,000 that the AG will receive from 2 settlements related to enforcement of consumer protection and consumer fraud statutes. The amounts to be deposited into the Consumer Protection-Consumer Fraud Revolving Fund are: \$327,500 from Dey, Inc., a pharmaceutical company, and \$100,000 from Avondale Automotive, an auto dealership. An additional \$22,500 will be paid by Dey Inc. to compensate outside counsel.



**Department of Health Services – Review of FY 2011 Behavioral Health Capitation Rates** – The Committee gave a favorable review to the department's proposed Children's Behavioral Health and General Mental Health/Substance Abuse capitation rates, but gave an unfavorable review to the department's proposed Seriously Mentally Ill rates.

At the budgeted caseload level, the proposed rates would cause a \$15 million shortfall in DHS' General Fund budget. However, Title XIX caseload growth has begun to slow. At its current level, caseload savings would offset approximately 50% of the capitation rate shortfall. If this slowing trend continues throughout the year, the entire shortfall could be offset by caseload savings.

## JCCR Meeting

At its August 10, 2010 meeting, the Joint Committee on Capital Review considered the following issues:

**Arizona Department of Administration – Review of FY 2011 Building Renewal Allocation Plan** – The Committee gave a favorable review to the department's \$5.0 million FY 2011 Building Renewal Allocation Plan with the provision that the department report any change in the spending plan to the JLBC Staff, including reallocations between projects and allocations from the contingency plan.

**Arizona Department of Administration – Review of FY 2009 Capitol Mall Fire Alarm Replacement Project** – The Committee gave a favorable review to the department's request to spend \$491,000 to replace fire alarm systems in 2 Capitol Mall office buildings.

**Arizona Department of Administration – Review of Lewis Prison Water Project** – The Committee gave a favorable review to the department's request to expend the remaining \$2.2 million in lease-purchase proceeds to construct a new water well at the Lewis prison. The Committee favorably reviewed and approved the \$6.8 million lease-purchase issuance at its December 2007 meeting and subsequently favorably reviewed the use of \$4.6 million of these monies at its October 2008 meeting.

**Arizona Department of Administration – FY 2011 Quarterly Rent Payments** – The Committee recommended FY 2011 quarterly rent payments instead of 1 annual payment for 11 agencies to facilitate their cash flow.

**Arizona State University – Review of Building Acquisition Bond Project** – The Committee favorably reviewed the university's request to issue an \$11.5 million revenue bond to acquire an office building in the Centerpoint Commercial Complex adjacent to the Tempe campus with the provision that the university not issue the bond unless the appraisals are at or below the requested \$11.5 million issuance, along with the standard university financing provisions.

The expected annual debt service payments of \$1.1 million would mainly be paid by redirecting the current rent the university pays for this building to bond payments.

**Arizona State University – Review of Building Renewal Bond Projects** – The Committee favorably reviewed the university's request to issue a \$28.2 million revenue bond to fund 20 building renewal projects, along with the standard university financing provisions.

The expected annual debt service payments of \$2.3 million will be paid from indirect cost recovery monies (25%) and from tuition monies (75%).

## JCCR Meeting (Continued)

**Arizona Game and Fish Department – Review of Remaining Flagstaff Area Shooting Range Project** – The Committee gave a favorable review to the department's request to expend \$607,600 in remaining funds to begin construction of the Flagstaff Area Shooting

Range. A total of \$1.8 million was appropriated for this project of which \$1.2 million was favorably reviewed by the Committee at its March 2010 meeting to purchase the land for the shooting range.

## Summary of Recent Agency Reports

**Arizona Department of Administration/Arizona Board of Regents – Report on Private Leases** – Pursuant to A.R.S. § 41-792D, the Arizona Department of Administration (ADOA) and Arizona Board of Regents (ABOR) submitted biennial reports of all approved office leases that exceeded the Lease Cost Review Board's (LCRB) estimated average cost per square foot for privately-owned office space in FY 2009 and FY 2010. The LCRB estimated that the average cost per square foot for privately-owned office space would be \$20.35 in FY 2009 and \$23.50 in FY 2010.

ADOA approved 9 lease contracts that exceeded the LCRB estimated target rate in FY 2009 and none in FY 2010. According to ADOA, the FY 2009 actual costs exceeded the average rate due to limited office space in rural areas, geographic restrictions for agency offices, and amortized tenant improvement costs.

ABOR approved 40 lease contracts in FY 2009 that exceeded the LCRB estimated target rates and 28 lease contracts in FY 2010. According to ABOR, the actual costs exceeded the target rates due to high market rates in certain areas, specific geographical parameters or requirements, and unique space requirements such as laboratories. (Leatta McLaughlin)

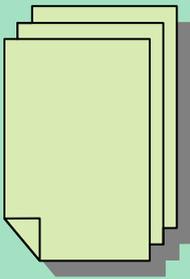
**Arizona Department of Corrections – Report on Expenditures** – Pursuant to a footnote in the FY 2011 General Appropriation Act, the Arizona Department of Corrections (ADC) is required to report on the monthly and year-to-date expenditures for the current and prior fiscal year. The report is also to include potential shortfalls, any estimated surpluses to offset the shortfalls, and a plan for eliminating the shortfall. Highlights of the report are as follows:

- Excluding further administrative adjustments for health care and other expenses, ADC expended \$960.3 million (including \$50 million in Federal Funds for correctional officer personal services. This compares to \$966.0 million expended in FY 2009).
- ADC estimates FY 2010 expenditures, after all administrative adjustments to be \$972.8 million, \$(11.2) million less than their FY 2010 appropriation.
- ADC has indicated there is a revenue shortfall in the Corrections Fund in the amount of \$(513,200). The Corrections Fund receives revenues from luxury taxes on liquor and tobacco.

(Martin Lorenzo)

**Department of Corrections – Report on Transition Release Program** – Pursuant to A.R.S. § 31-285, the State 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.

In FY 2010, the department reports that 855 participants successfully completed the Transition Program and their term of community supervision while an additional 1,010 participants completed the Transition Program and are continuing their term of community supervision. A total of 45 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is



## Summary of Recent Agency Reports (Continued)

responsible for 78,886 bed days saved which translates to a savings of \$1,341,062.

(Martin Lorenzo)

### **Department of Public Safety – Quarterly Report on GIITEM –**

Pursuant to the General Appropriation Act, the Department of Public Safety (DPS) is required to report quarterly on the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). In FY 2010, DPS spent or encum-bered \$8.6 million of the \$9.4 million appropriation for the direct DPS immigration staff. In terms of local law enforcement grants, DPS had spent \$228,400 of the FY 2010 \$2.6 million appropriation and all of the remaining \$4 million in non-lapsing FY 2009 monies. The \$2.4 million in remaining FY 2010 local law enforcement grants will be available for use in FY 2011. (Eric Billings)

### **Department of Public Safety – Quarterly Report on Photo**

**Enforcement** – Pursuant to a footnote in the General Appropriation Act, the Department of Public Safety (DPS) is required to report quarterly on the Photo Enforcement program in FY 2010. During the fourth quarter of FY 2010, the Photo Enforcement Program issued 70,952 Notices of Violation (NOVs) and 80,183 citations from 40 mobile units and 36 stationary units. Of these NOVs, 41,962 became either civil or criminal citations. A total of 14,926 NOVs were paid within 40 days of issuance with an additional 11,608 citations also receiving payment.

Since the inception of the program in September 2008, a total of 1,635,953 NOVs and citations have been issued and 427,812, or 26.2%, have been paid.

The NOVs and citations issued by the Photo Enforcement Program generated \$12 million in revenue for

the fourth quarter of FY 2010 and \$68 million since the program's inception. The General Fund share was \$5.2 million in the fourth quarter and \$39.9 million since the program's start.

DPS ended the photo radar program effective July 15. (Eric Billings)

### **Arizona Department of Transportation – STAN Annual Report**

– Pursuant to A.R.S. § 28-7009M, the State Transportation Board has submitted their fourth annual report on the Statewide Transportation Acceleration Needs (STAN) account activities.

The STAN account was originally funded with \$245 million from the General Fund and \$124 million from the State Highway Fund (SHF). The Legislature subsequently reduced the General Fund appropriation by \$(104) million and the SHF appropriation by \$(42) million. As of June 30, 2010, the STAN account has also generated \$33.4 million in interest.

The Arizona Department of Transportation (ADOT) indicates that of the remaining \$256.4 million, all funding has already been committed and 11 projects have been completed or are near completion.

ADOT reports that as a result of the FY 2009 transfer of \$(104) million from the STAN account to the General Fund, STAN funding for 3 projects in Maricopa County was eliminated. Of these 3 projects, 2 of them have now been selected for funding with American Reinvestment and Recovery Act funds and are currently under construction. The remaining project is near the Williams Gateway Airport. The project is now funded by the city of Mesa through the issuance of Highway Project Advancement Notes along with \$10 million in restored STAN funding. (Juan Beltran)

## July Spending

### FY 2010 Spending

July 2010 spending of \$1.5 billion was \$(254) million lower than July 2009 (See Table 6).

- In July, the Arizona Department of Education spending was \$(299.0) million lower than the prior year. July 2010 expenditures were lower than the prior year due to rollover payments being made to school districts later in the year. Current year spending includes 1 regular state aid payment and 1 rollover payment, compared to 1 regular payment and 2 rollover payments in the prior year.

- Spending by AHCCCS, DHS and DES in July is large compared to the agencies' overall annual appropriation due to the draw down of federal Medicaid matching funds. At the beginning of each quarter, these Medicaid agencies transfer significant amounts of General Fund monies in order to draw down matching federal funds for the entire quarter.
- University spending was \$55.1 million in July, or \$(32.0) million lower than the prior year. The decreased expenditure amount reflects the payment deferral from FY 2010 being paid later than a year ago.

*“July 2010 spending of \$1.5 billion was (\$254) million lower than July 2009.”*

**Table 6**  
General Fund Spending (\$ in Millions)

<u>Agency</u>	<u>July 11</u>	<u>Change from July 10</u>	<u>Year to Date</u>	<u>YTD Change from FY 10</u>
AHCCCS	202.7	55.3	202.7	55.3
Corrections	56.5	(7.0)	56.5	(7.0)
Economic Security	326.1	15.6	326.1	15.6
Education	622.4	(299.0)	622.4	(299.0)
Health Services	101.8	(21.1)	101.8	(21.1)
Public Safety	20.5	0.3	20.5	0.3
School Facilities Board	0.8	0.6	0.8	0.6
Universities	55.1	(32.0)	55.1	(32.0)
Other	<u>(646.3)</u>	<u>(519.4)</u>	<u>(646.3)</u>	<u>(519.4)</u>
<b>Total</b>	<b>1,505.0</b>	<b>(254.4)</b>	<b>1,505.0</b>	<b>(254.4)</b>

Table 7

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 10
	July 10	Change from July 09	Year-to-Date	
Department of Administration	1,886.5	505.0	1,886.5	505.0
Office of Administrative Hearings	231.6	134.8	231.6	134.8
Department of Agriculture	2,765.4	2,036.4	2,765.4	2,036.4
AHCCCS	202,721.5	55,312.6	202,721.5	55,312.6
Arizona Commission on the Arts	51.4	(22.2)	51.4	(22.2)
Attorney General	1,298.1	(256.2)	1,298.1	(256.2)
AZ Capital Post Conviction Public Defender	72.6	(5.5)	72.6	(5.5)
State Board of Charter Schools	129.8	81.6	129.8	81.6
Department of Commerce	181.6	38.8	181.6	38.8
Community Colleges	33,106.6	-	33,106.6	-
Corporation Commission	46.1	33.1	46.1	33.1
Department of Corrections	56,451.7	(6,987.9)	56,451.7	(6,987.9)
AZ Criminal Justice Commission	-	2.5	-	2.5
AZ St. Schools for the Deaf & Blind	2,056.5	(418.7)	2,056.5	(418.7)
Dept. of Economic Security	326,084.5	15,626.5	326,084.5	15,626.5
Department of Education	622,438.4	(299,028.8)	622,438.4	(299,028.8)
DEMA	1,018.4	13.3	1,018.4	13.3
Dept. of Environmental Quality	0.1	(529.2)	0.1	(529.2)
Office of Equal Opportunity	16.7	(3.0)	16.7	(3.0)
State Board of Equalization	49.2	(0.2)	49.2	(0.2)
Board of Executive Clemency	53.1	(44.9)	53.1	(44.9)
Dept. of Financial Institutions	453.8	134.1	453.8	134.1
Department of Fire, Life, Bldg Safety	127.0	(88.5)	127.0	(88.5)
Office of the State Forester	323.0	323.0	323.0	323.0
Arizona Geological Survey	48.8	0.9	48.8	0.9
Government Information Tech.	74.6	18.8	74.6	18.8
Governor	560.8	(61.1)	560.8	(61.1)
Gov. - OSPB	192.1	(9.0)	192.1	(9.0)
Department of Health Services	101,837.5	(21,070.0)	101,837.5	(21,070.0)
Arizona Historical Society	286.5	35.1	286.5	35.1
Prescott Historical Society of AZ	51.8	(17.5)	51.8	(17.5)
Independent Redistricting Comm.	-	(24.6)	-	(24.6)
Department of Insurance	1,687.1	1,216.2	1,687.1	1,216.2
Judiciary				
Supreme Court	1,434.50	(153.70)	1,434.50	(153.70)
Superior Court	14,903.60	(1,433.20)	14,903.60	(1,433.20)
Court of Appeals	2,833.8	1,460.0	2,833.8	1,460.0
Dept. of Juvenile Corrections	14,764.9	8,281.2	14,764.9	8,281.2
State Land Department	626.2	(1,940.7)	626.2	(1,940.7)
Law Enforcement Merit System	14.9	5.6	14.9	5.6
Legislature				
Auditor General	3,826.5	2,212.9	3,826.5	2,212.9
House of Representatives	1,106.9	(209.9)	1,106.9	(209.9)
Joint Legislative Budget Comm.	198.3	(34.0)	198.3	(34.0)

Agency	July 10	Change from July 09	Year-to-Date	YTD Change from FY 10
Legislative Council	1,091.2	526.3	1,091.2	526.3
AZ Library and Archives	30.5	(543.6)	30.5	(543.6)
Senate	1,956.7	1,026.0	1,956.7	1,026.0
Dpt. of Liquor Licenses	-	(214.0)	-	(214.0)
Mine Inspector	180.3	88.5	180.3	88.5
Dpt. of Mines & Mineral Resources	37.4	(8.8)	37.4	(8.8)
Nav. Streams & Adjudication	8.1	0.2	8.1	0.2
Arizona State Parks Board	20,000.0	19,999.5	20,000.0	19,999.5
Personnel Board	-	(17.8)	-	(17.8)
Pioneers' Home	130.6	130.6	130.6	130.6
Comm. for Postsecondary Ed.	-	(41.9)	-	(41.9)
Department of Public Safety	20,466.1	31.9	20,466.1	31.9
Arizona Department of Racing	447.5	254.1	447.5	254.1
Radiation Regulatory Agency	389.5	270.9	389.5	270.9
Arizona Rangers Pension	1.2	0.0	1.2	0.0
Real Estate Department	504.3	242.4	504.3	242.4
Department of Revenue	4,740.8	83.4	4,740.8	83.4
School Facilities Board	766.2	552.9	766.2	552.9
Secretary of State	859.0	579.7	859.0	579.7
Tax Appeals Board	67.0	43.4	67.0	43.4
Department of Transportation	8.7	6.1	8.7	6.1
State Treasurer	414.7	143.3	414.7	143.3
Universities				
Board of Regents	175.9	(286.5)	175.9	(286.5)
Arizona State University	24,194.9	(14,615.6)	24,194.9	(14,615.6)
Northern Arizona University	8,551.9	(4,419.8)	8,551.9	(4,419.8)
University of Arizona	22,135.0	(12,724.4)	22,135.0	(12,724.4)
Department of Veteran Services	1,223.6	368.9	1,223.6	368.9
Department of Water Resources	789.8	(773.7)	789.8	(773.7)
Dept. of Weights & Measures	80.2	(40.0)	80.2	(40.0)
Other	219.4	-317.6	219.4	-317.6
<b>Grand Total</b>	<b>1,504,981.1</b>	<b>(254,484.8)</b>	<b>1,504,981.1</b>	<b>(254,484.8)</b>