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“July continued last fiscal year’s trend of increasing revenue collections, as it marked the twelfth consecutive month of year-over-year growth in base General Fund revenues.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on August 26, 2011.

Summary



July continued last fiscal year’s trend of increasing revenue collections, as it marked the twelfth consecutive month of year-over-year growth in base General Fund revenues. General Fund revenue collections totaled \$765.1 million. Excluding one-time revenue adjustments, these collections were 8.4% above last year.

July collections were driven by growth in two areas. The first was an increase in sales tax collections, with gains occurring in every tax category. Individual income tax (IIT) collections, also showed gains based on continued withholding growth. Because July of last year was the first month the State used new withholding tables, this continued growth is exclusive of the effects of the withholding changes.

July General Fund collections were \$35.4 million above the enacted budget forecast. As enacted in April, the budget was based on a revenue growth rate of 5.7% throughout FY 2012. As reported last month, however, FY 2011 collections were higher than anticipated. As a result, base revenue would now need to grow by 1.0% to meet the budgeted level. By excluding one time and statutory adjustments, base revenues are intended to reflect the natural growth in the economy. Including statutory changes, revenue would need to grow by 1.8% to reach the budgeted amount

In comparison to July revenue of \$765.1 million, July 2011 General Fund spending was \$1.67 billion. July expenditures were \$165.0 million higher than the prior year, primarily due

to differences in the timing of several debt service payments. Overall, July spending tends to be relatively large compared to overall fiscal year spending due to the payment of part of the K-12 payment deferral and other technical adjustments.

Updated FY 2011 Ending Balance Projection

In the July MFH, JLBC Staff estimated that higher than expected FY 2011 revenue collections would eliminate at least \$300 million of the \$(332) million shortfall assumed by the FY 2011 revisions enacted in April. Since that time, the state has finished the "13th month," a time period where the state continues to record FY 2011 revenues and spending obligations.

After making these year-end adjustments, FY 2011 revenues were \$8.39 billion compared to FY 2011 spending of \$8.36 billion. This would leave the state with an approximate ending balance of \$29 million.

However, it is important to note that it will take several months to confirm the year-end adjustments and calculate the state’s official fiscal year ending balance. The General Appropriation Act requires the Executive Branch to provide a preliminary estimate of the FY 2011 ending balance by September 15, 2011. The Department of Administration is required to publish its final FY 2011 accounting by December 1, 2011.

State Impact of Federal Budget Legislation

The recent enactment of the federal debt ceiling legislation has raised the question of its

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impact on Arizona. There has been interest in whether it will affect the level of federal aid and the state's own credit rating.

In terms of federal aid, the debt ceiling legislation is unlikely to result in a substantial change to federal assistance in the current fiscal year, although the impact could increase in future years. The Budget Control Act (BCA) of 2011 increased the federal debt ceiling, established caps on discretionary spending and made minor changes in some mandatory spending. The legislation is estimated to reduce projected federal deficits by a cumulative \$917 billion through FY 2021.

The legislation requires the enactment of at least another \$1.2 trillion in savings over 10 years. If Congress fails to act enact specific deficit proposals by the end of this calendar year, the \$1.2 trillion will be achieved through across the board reductions.

Several observations about the federal legislation:

Agreed Upon Reductions

- Of the \$917 billion in agreed upon reductions, the newly enacted caps on discretionary spending will reduce the federal deficit by a cumulative \$741 billion over the next 10 years. This amount is measured from the Congressional Budget Office's (CBO) baseline, which grows spending in the outyears for inflation. The reduction is backloaded toward the end of the 10 years.
- The lower federal deficit will reduce federal debt interest payments, thereby accounting for another \$156 billion in savings. Mandatory spending would decline by \$20 billion over the next 10 years, primarily due to changes in higher education financial aid.
- Relative to the CBO Baseline, the discretionary caps would lower nationwide discretionary spending by \$(25) billion in federal FY 2012 and \$(47) billion in FY 2013. This amount includes both security (primarily defense) and non-security programs. State government grant funding largely comes from the non-security budget, which represents only one-third of total discretionary spending.
- A different picture, however, emerges once the enacted caps are compared to federal FY 2011 spending rather than the inflation-adjusted CBO baseline. Compared to the current year FY 2011 non-security budget of \$361 billion, the BCA leaves that spending virtually unchanged in FY 2012 (\$359 billion) and FY 2013 (\$361 billion again).

- The BCA does not break out security and non-security caps beyond FY 2013, but the overall spending limit continues to grow each year through FY 2021. As a result, the discretionary reductions are achieved through slowing the rate of growth rather than year over year reductions in the total level of spending.
- The BCA only sets aggregate spending caps and does not specify the funding level for any particular program. The specific program dollar amounts would be determined in the regular federal appropriations process.

Future Reductions

- In terms of additional deficit reduction, the BCA requires action on at least another \$1.2 trillion in 10-year deficit reduction proposals by the end of the year. This reduction could occur in 1 of 2 ways.
- First, a joint congressional committee is supposed to provide recommendations for achieving \$1.5 trillion in added deficit reduction. They have the ability to propose any type of deficit reduction including mandatory spending cuts and revenue increases. In terms of mandatory spending changes, the state would potentially be most affected by a reduction in the share of Medicaid costs paid for by the federal government. It is difficult to predict in advance, however, whether Medicaid would be a component of the congressional committee recommendations.
- If Congress fails to enact the joint committee's deficit reduction plan, \$1.2 trillion in savings would occur through automatic across-the-board reductions. These reductions would apply to most discretionary programs except Veteran's Medical Care and Pell Grants. These cuts, however, would not take place until January 2013, or 3 months after the beginning of federal FY 2013. As a result, the Congress could modify the automatic trigger any time during calendar year 2012.
- The discretionary across-the-board reduction would be approximately 9%. After some technical adjustments to the \$361 billion non-security base in FY 2013, that reduction would equate to approximately \$25 billion to \$30 billion.
- Among the major state-related discretionary programs, the following would be subject to the across-the-board reduction: federal Department of Education grants, housing assistance, homeland security, job training and health block grants.

Summary (Continued)

- The across-the-board reduction also applies to some mandatory programs, but numerous state-administered programs are exempted, including: Medicaid, Temporary Assistance to Needy Families (TANF), Supplemental Nutrition Assistance Program (Food Stamps), some federal Child Care funding, Foster Care, School Lunch and School Breakfast, Vaccines and Federal Highway Aid. Any mandatory reductions would appear to be effective for federal FY 2013.

In summary, the already agreed upon reductions in the BCA would appear to have only a small impact on the aggregate level of federal assistance in the current fiscal year. The next round of reductions could have a more noticeable effect, especially if the joint committee considers the federal share of Medicaid costs as part of mandatory cuts. There is no indication, however, that this particular issue is currently being considered.

If Congress fails to act on a deficit reduction proposal, the automatic across-the-board cuts would reduce federal grants by approximately 9% starting in federal FY 2013. Numerous state-administered programs -- like Medicaid, TANF, and Foster Care -- would be exempt from such reductions.

State Debt Rating

The federal debt ceiling debate and the subsequent federal downgrade by Standard and Poor's has focused attention on the issue of credit ratings. The state experienced its own downgrade a year ago.

On July 15th, 2010, Moody's Investor Services lowered Arizona's overall credit rating to Aa3, which is the 4th highest investment grade rating. Moody's also took action to lower Arizona's credit rating specifically for General Fund backed issuances to A1.

The rating of Aa3 from Moody's leaves Arizona with the 3rd lowest credit rating amongst states (shared with 3 others), with only Illinois and California having a lower credit rating.

Along with a rating, credit agencies' also provide an outlook in terms of the future direction of rating changes. With the July 2010 downgrade, Moody's changed their outlook from negative to stable. However, in February 2011, Moody's again lowered Arizona's outlook to negative.

Standard & Poor's (S&P) also provided feedback on Arizona's creditworthiness when the agency downgraded Arizona's rating in December 2009 to AA-. This rating also represents the 4th highest investment grade rating on S&P's respective rating scale (in

comparison, the Federal government's credit rating is AA+). In addition, S&P lowered Arizona's credit rating specifically for General Fund backed issuances to A+.

Since the downgrade in December 2009, S&P has affirmed a continued negative outlook for Arizona's credit rating, however, the agency noted that if the enacted FY 2012 budget reductions remain intact and revenues continue to improve, the state's credit outlook could be revised to stable.

Both agencies continue to express similar concerns about the state's fiscal policies and economic conditions, including:

- Limited financial flexibility due to constitutional limits on raising revenue and reducing spending.
- Structural budget imbalances and a reliance on one-time budget solutions. (S&P noted that the FY 2012 budget made significant progress towards addressing the state's structural shortfall).
- Continued economic difficulties related to the slowdown in the housing sector.
- Significant revenue declines in the past several fiscal years.

Given the recent federal credit rating downgrade and deficit reduction legislation, there has been some speculation that the recent federal activity could negatively impact state credit ratings. Specifically, some analysts have mentioned that states with high proportions of Medicaid spending or economic activity dependent on federal spending could experience downward pressure on their credit ratings due to reductions in federal spending. Because the impact of the BCA on specific federal programs is partially unknown at this point, it may take some time to see if certain Arizona specific concerns are significantly affected (such as Medicaid or defense spending).

July Revenues

Table 1

General Fund Revenues (\$ in Millions)			
	FY 2012 <u>Collections</u>	Difference From <u>Forecast</u>	Difference From FY 2011
July	\$ 765.1	\$ 35.4	\$ 105.2
Year-to-Date	\$ 765.1	\$ 35.4	\$ 105.2

“Sales Tax collections were \$382.4 million, or 10.4% above July 2010.”

Sales Tax collections were \$382.4 million, or 10.4% above July 2010. Excluding the \$75.5 million from the temporary 1-cent increase, collections were \$306.9 million, or 9.0% above July 2011. The temporary 1-cent tax grew significantly more than the base tax because last year’s 1-cent collections reflected a 120-day exemption for purchases under contract prior to the effective date of the tax.

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

Sales Tax Growth Rates Compared to Prior Year		
	<u>July</u>	<u>YTD</u>
Retail	7.5%	7.5%
Contracting	13.8%	13.8%
Utilities	11.8%	11.8%
Use	24.0%	24.0%
Restaurant & Bar	8.9%	8.9%

Retail and contracting together account for about 60% of all sales tax revenues. Contracting’s large gain this month follows the trend begun in the second half of FY 2011, which grew 7.6% over the same period in the prior year. However, losses in the first half of FY 2011, as well as prior years, left overall FY 2011 Contracting collections (60.5%), below the FY 2007 peak.

Individual Income Tax net revenues were \$258.1 million in July. Collections were \$12.0 million, or 8.6% above the forecast.

As indicated in Table 3, withholding grew by 4.6% in July. While somewhat lower than previous months, due in part to July having 1 less processing day this year than last year, withholding is still showing growth. Since July of last year was the first month using the new withholding tables, this continued growth is exclusive of the effects of the withholding changes.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year		
	<u>July</u>	<u>YTD</u>
Withholding	4.6%	4.6%
Estimated + Final Payments	4.6%	4.6%
Refunds	(35.8)%	(35.8)%

Corporate Income Tax net collections were \$25.6 million in July, or \$2.2 million above the prior year. Collections were \$7.5 million above the forecast.

The **Lottery Commission** reports that July ticket sales were \$45.8 million, which is \$3.3 million, or 7.8%, above sales in the prior year.

Non-General Fund

Tobacco Tax revenues were \$29.1 million in July. Collections were up 6.4% compared to the prior year.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those programs, along with funding the Early Childhood Development and Health Board.

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 \$101.0 million in July were up \$0.7 million, or 0.6%, compared to July of last year.

General Fund Revenue: Change from Previous Year and Enacted April Budget Forecast July 2011

	Current Month					FY 2012 YTD (One Months)				
	Actual July 2011	Change From July 2010		Forecast		Actual July 2011	Change from July 2010		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$306,929,173	\$25,214,442	9.0 %	\$14,353,865	4.9 %	\$306,929,173	\$25,214,442	9.0 %	\$14,353,865	4.9 %
- 1¢ Increase*	75,468,031	10,858,077	16.8	5,835,138	8.4	75,468,031	10,858,077	16.8	5,835,138	8.4
Income - Individual	258,103,165	20,336,322	8.6	11,975,634	4.9	258,103,165	20,336,322	8.6	11,975,634	4.9
- Corporate	25,640,524	2,193,855	9.4	7,535,939	41.6	25,640,524	2,193,855	9.4	7,535,939	41.6
Property	226,218	27,524	13.9	21,486	10.5	226,218	27,524	13.9	21,486	10.5
Luxury - Tobacco	2,756,417	469,042	20.5	456,904	19.9	2,756,417	469,042	20.5	456,904	19.9
- Liquor	3,138,495	1,377,769	78.3	1,337,333	74.2	3,138,495	1,377,769	78.3	1,337,333	74.2
Insurance Premium	37,617,965	(3,380,737)	(8.2)	(4,891,793)	(11.5)	37,617,965	(3,380,737)	(8.2)	(4,891,793)	(11.5)
Estate	220,652	220,652	--	220,652	--	220,652	220,652	--	220,652	--
Other Taxes	48,400	(3,619)	(7.0)	1,565	3.3	48,400	(3,619)	(7.0)	1,565	3.3
Sub-Total Taxes	\$710,149,040	\$57,313,327	8.8 %	\$36,846,723	5.5 %	\$710,149,040	\$57,313,327	8.8 %	\$36,846,723	5.5 %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	1,699,486	(282,149)	(14.2)	(474,198)	(21.8)	1,699,486	(282,149)	(14.2)	(474,198)	(21.8)
Interest	771	(143)	(15.6)	(499,229)	(99.8)	771	(143)	(15.6)	(499,229)	(99.8)
Sales and Services	755,937	(419,711)	(35.7)	(338,043)	(30.9)	755,937	(419,711)	(35.7)	(338,043)	(30.9)
Other Miscellaneous	1,206,655	(773,288)	(39.1)	209,338	21.0	1,206,655	(773,288)	(39.1)	209,338	21.0
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,266,746	(318,997)	(12.3)	(350,377)	(13.4)	2,266,746	(318,997)	(12.3)	(350,377)	(13.4)
Sub-Total Other Revenue	5,929,595	(1,794,288)	(23.2) %	(1,452,509)	(19.7) %	5,929,595	(1,794,288)	(23.2) %	(1,452,509)	(19.7) %
TOTAL BASE REVENUE	\$716,078,635	\$55,519,039	8.4 %	\$35,394,214	5.2 %	\$716,078,635	\$55,519,039	8.4 %	\$35,394,214	5.2 %
Other Adjustments										
Urban Revenue Sharing	(35,368,620)	4,131,923	--	0	0.0	(35,368,620)	4,131,923	--	0	0.0
Budget Plan Transfers	84,342,486	45,504,873	117.2	0	0.0	84,342,486	45,504,873	117.2	0	0.0
Budget Legislation	0	0	--	0	--	0	0	--	0	--
Leaseback Proceeds	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	48,973,866	49,636,796	-- %	0	0.0 %	48,973,866	49,636,796	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$765,052,501	\$105,155,835	15.9 %	\$35,394,214	4.9 %	\$765,052,501	\$105,155,835	15.9 %	\$35,394,214	4.9 %
Non-General Funds										
Highway User Revenue Fund	\$100,996,672	\$651,243	0.6 %	(\$853,939)	(0.8) %	\$100,996,672	\$651,243	0.6 %	(\$853,939)	(0.8) %
Tobacco Tax (All Funds Total)	\$29,112,108	\$1,758,882	6.4 %	\$0	0.0 %	\$29,112,108	\$1,758,882	6.4 %	\$0	0.0 %

* Total July collections including the temporary 1¢ increase approved by the voters in May 2010 were \$382.4 million. This amount is \$36.1 million, or 10.4%, above July 2010 and \$20.2 million, or 5.6%, above forecast.

Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** increased by 3.3% in July to 59.5. While there was a slight improvement in confidence among consumers in July, the latest reading indicates that consumer sentiments remain considerably below the levels at the beginning of the year. Uncertainty about current and future job prospects continues to weigh heavily on consumers' minds. Weak consumer confidence typically leads to less spending on goods and services.

The Conference Board's **U.S. Index of Leading Economic Indicators** rose by 0.5% in July, to 115.8. A large increase in the money supply and a favorable interest rate spread contributed positively to the index, while the vendor performance index and a decline in consumer expectations pulled it back. Absent the advance of the financial components, the index would have fallen by (0.6)%.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.5% in July. The CPI increase was primarily due to rising energy prices, especially the price of gasoline, which rose by 4.7% in July. Core inflation, which excludes energy and food prices, increased by 0.2%. Year over year, core inflation is up by 1.8%. While this suggests that inflationary pressures remain relatively muted, it should be noted that the core inflation has been creeping up in each of the last 7 months.

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.

Arizona was 1 of 33 states for which the coincident index increased in July. From June to July, Arizona's index increased by 0.1% compared to an increase of 0.2% for the nation as a whole. July's Arizona index was 0.9% above last year.

While Arizona's index has improved compared to the same time period last year, the index remains (13.6)% below its peak reading in August 2007. In contrast, the national coincident index has declined (4.5)% since its

historical peak in January 2008. See [Tracking Arizona's Recovery](#) for additional historical information.

Employment

According to the Employment and Population Statistics Unit of the Department of Administration, the state lost (22,700) **nonfarm jobs** in July over June. Job losses typically occur in July as schools are in recess. The job loss this July was less than the average July workforce reduction of (29,700) in the prior 10 years.

In July, the state had 20,700, or 0.9%, more persons on the payrolls than 1 year ago. July marked the 7th consecutive month with year-over-year gains in employment. The 0.9% gain in July was the best performance since November 2007. Private sector employment, which makes up almost 85% of all nonfarm jobs, has grown by 1.9% over the prior year whereas government employment has declined by (4.5)% over the same period. More than 80% of job losses in the public sector have occurred in local government education.

The construction sector added 800 jobs in July. Year over year, construction employment is up by 0.9%, or 1,000 jobs, the first such gain since December 2006. Construction employment has declined by (54)% since the height of the housing boom in the summer of 2006.

The manufacturing industry has been one of the bright spots both nationally and in the state since the start of 2011. Manufacturing employment has expanded, year over year, in each of the last 7 months. With 151,200 employees on the payroll in July, the manufacturing sector employed 2.2%, or 3,300 more persons, than one year ago. It is uncertain, however, whether this expansion will continue in the ensuing months due to growing concerns about the health of the global economy.

Nonfarm employment in Arizona remains (378,100), or (13.9)% below the pre-recession peak of 2.72 million jobs in December 2007. This suggests that the state is likely several years away from returning to pre-recession levels. See [Tracking Arizona's Recovery](#) for additional historical information.

“Nonfarm employment in Arizona remains (378,100), or (13.9)% below the pre-recession peak of 2.72 million jobs.”

Economic Indicators (Continued)

“The July total [number of active foreclosures] is (52.6)% below the peak in December 2009 (51,466).”

The state’s seasonally adjusted **unemployment rate** rose from 9.3% to 9.4% in July, following a 0.2% increase in June. Over the same period, the U.S. jobless rate remained essentially flat at 9.1%. While Arizona’s unemployment rate has edged up over the last 2 months, it still remains (0.5)% below last year.

The federal Bureau of Labor Statistics (BLS) reported that 27,959 Arizona residents filed **initial claims for unemployment insurance** in July, essentially the same number as in the prior month. The average number of claims for July in the 10-year period prior to the onset of the last recession was close to 20,000. Initial claims in July were (9.4)% below last year’s level. 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

In July, the number of new Maricopa County **foreclosure notices** decreased (6.3)% from June levels to 4,194. The number of Maricopa County **pending foreclosures** decreased from 26,473 in June to 24,393 in July. The July total is (52.6)% below the peak in December 2009 (51,466). See [Tracking Arizona’s Recovery](#) for additional historical information.

While foreclosure notices and pending foreclosures continue their decline from recent highs, they continue to be a major influence on existing home sales and the respective prices. In the Metropolitan Phoenix area in July, there were a total of 8,625 **existing single-family home sales** that resulted in a **median resale home price** of \$127,200. Relative to the prior year, the number of sales is down (3.6)%, while prices are (11.7)% lower. Of the existing sales, 29.2%, or 2,515 were foreclosures.

State Agency Data

In August, **total AHCCCS caseloads** equaled 1.38 million members, a 1.0% increase over the prior month. Overall AHCCCS caseloads are currently 1.2% above August 2010 levels. The FY 2012 budget funded a projected August caseload decline of (0.5)% from the previous year for a total of 1.35 million members.

The FY 2012 budget included significant changes to the eligibility of several AHCCCS

populations for services. Because of these changes, the economic indicators section will now include an expanded report of AHCCCS caseloads across several populations.

In terms of specific categories, the spend down and KidsCare populations saw significant declines from the prior year of (30.4)% and (38.7)%, respectively. These declines are due to enrollment freezes for the programs, as the spend down program has been frozen since May 2011, while the KidsCare program has had an enrollment freeze since March 2010. The Proposition 204 childless adult category has declined (0.3)% from the prior month as new enrollment under this category stopped in early July.

There were 41,284 **TANF recipients** in the state in July, a monthly caseload increase of 0.4%. Year-over-year, the number of TANF recipients has declined by (27.9)%. 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 July, there were a total 1.1 million food stamp recipients in the state, a 1.8% increase over the prior month. Compared to the same month last year, food stamp participation was up by 5.5%. 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** decreased to 40,180 inmates between June and August 2011. Relative to the prior 3-month period, the population has decreased by (23) inmates. Compared to a year ago the population has declined by (332) inmates.

Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate (SA)	July	9.4%	0.1%	(0.5)%
- Initial Unemployment Insurance Claims	July	27,959	0.0%	(9.4)%
- Unemployment Insurance Claimants	June	69,087	2.1%	(21.3)%
- Non-Farm Employment - Total	July	2.34 million	(1.0)%	0.9%
Manufacturing	July	151,200	(0.1)%	2.2%
Construction	July	113,400	0.7%	0.9%
- Average Weekly Hours, Manufacturing	July	39.4	(4.1)%	(1.3)%
- Contracting Tax Receipts (3-month average)	May-Jul	\$34.1 million	3.0%	8.1%*
- Retail Sales Tax Receipts (3-month average)	May-Jul	\$147.8 million	(4.0)%	10.5%*
- Residential Building Permits (3-month moving average)				
Single-family	Apr-Jun	998	1.8%	(0.4)%
Multi-unit	Apr-Jun	47	(42.7)%	(31.1)%
- Greater Phoenix Existing Home Sales				
Single-Family	July	8,625	(17.7)%	(3.6)%
Townhouse/Condominium	July	1,155	(21.7)%	(21.4)%
- Greater Phoenix Median Resale Home Price				
Single-Family	July	\$127,200	(1.1)%	(11.7)%
Townhouse/Condominium	July	\$80,000	(0.6)%	(15.3)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	July	4,194	(6.3)%	(48.5)%
Pending Foreclosures (Active Notices)	July	24,393	(7.9)%	(42.1)%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	May	100.40	0.0%	(9.5)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	27,663	(5.3)%	(35.5)%
- Phoenix Sky Harbor Air Passengers	June	3.51 million	0.2%	6.4%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$6.05	5.4%	(1.3)%
- Arizona Consumer Confidence Index (1985 = 100)	3 rd Quarter 2011	54.0	4.0%	10.0%
- Arizona Coincident Index (July 1992 = 100)	July	176.89	0.1%	0.9%
- Arizona Personal Income	1 st Quarter 2011	\$229.9 billion	1.8%	4.3%
- Arizona Population	April 1, 2010	6.39 million	N/A	N/A
- AHCCCS Recipients	August	1,383,401	1.0%	1.2%
Acute Care Traditional		885,979	1.5%	2.9%
Spend Down		2,837	(31.6)%	(30.4)%
Prop 204 Childless Adults		217,126	(0.3)%	0.4%
Other Prop 204		159,307	0.5%	4.9%
KidsCare		16,662	(5.6)%	(38.7)%
Long-Term Care – Elderly & DD		51,377	0.2%	2.1%
Emergency Services		49,753	4.0%	(7.6)%
- TANF Recipients	July	41,284	0.4%	(27.9)%
- SNAP (Food Stamps) Recipients	July	1,127,728	1.8%	5.5%
- ADC Inmate Growth (3-month average)	June-Aug	40,180	(23) inmates	(332) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	May	18,990	(37)	(936)
Maricopa County	May	26,184	(73)	(1,645)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	1st Quarter 2011 (Final Estimate)	\$13.4 trillion	1.9%	2.3%
- Consumer Confidence Index (1985 = 100)	July	59.5	3.3%	16.7%
- Leading Indicators Index (2004 = 100)	July	115.8	0.5%	6.2%
- U.S. Semiconductor Billings (3-month moving average)	Mar-May	\$4.52 billion	0.9%	3.2%
- Consumer Price Index, SA (1982-84 = 100)	July	224.43	0.5%	3.6%

*Adjusted for 1¢ sales tax

Summary of Recent Agency Reports

Department of Corrections - Report on Inmate Utility Fees - Pursuant to A.R.S. § 31-239, the Department of Corrections (ADC) shall annually report on monies collected from inmates who use electrical appliances. The report shall also include information on the expenditure of any monies collected. Statute requires the department to charge a fee, not to exceed \$2.00 per month, to inmates possessing at least one electrical appliance. For FY 2011, the department assessed a monthly utility fee of \$2.00 and collected \$488,982.41. (Stefan Shepherd)

Department of Economic Security (DES) - Semi-Annual Report on CPS - Pursuant to A.R.S. § 8-818, DES has submitted its semi-annual financial and program accountability report. According to the report, out-of-home placements increased from 10,512 in December to 11,082 in June. Caseloads are above the department's goals and turnover for Child Protective Services (CPS) Specialists was approximately 23.4%. Employee satisfaction is stable at a 3.7 rating out of 5.0. The highlights of this report, covering the last 6 months of FY 2011, are summarized below.

- The CPS Training Academy had 121 new case managers in training as of April 2011.
- As of April 2011, the number of filled positions was 826 of 1,043 authorized and funded positions, excluding those in training. This figure is 62 higher than last December. Considering only filled positions, caseloads per worker remain considerably higher than caseload goals, with investigations at 15 (goal: 10), in-home at 31 (goal: 19), and out-of-home at 26 (goal: 16).
- DES reports that annualized case manager turnover during January - April 2011 was 23.4%, with 95 case managers leaving the Division of Children, Youth and Families (DCYF). The turnover rate varies by district, from a high of 51% in District 4, to a low of 13.2% in the CPS Hotline. The report also shows that 90 new case managers were hired over the same time period. The 23.4% turnover rate is down from 25.5% annualized rate in the last report.
- The percent of CPS dependency cases denied or dismissed in the last 6 months

remained at the same level (0.1%) as the previous 6 months, while the percent of Office of Administrative Hearing's decisions affirming CPS case findings increased from 88.0% to 89.0%. The percent of complaints validated by the Ombudsman decreased from 2.9% to 2.8% (8 of 279 complaints).

- The number of children in out-of-home family placements increased from 8,776 in December to 9,118 in June, while the number of congregate care placements increased from 1,284 to 1,438. DES also reports that from December to June the number of children aged 0-3 in shelter care increased from 12 to 24, the number of children aged 0-6 in group homes stayed the same at 14 and the number of children in shelter care for more than 21 days decreased from 433 to 400. The June numbers are labeled as preliminary. (Aaron Galeener)

Department of Education - Report on Federal Monies for English Learners - Pursuant to A.R.S. § 15-756.10, paragraph 3, the Department of Education (ADE) recently submitted a report that includes an itemized list of all federal monies received by the department for English language learners in FY 2011. ADE received \$24.1 million in federal Title III (Language Instruction for Limited English Proficient and Immigrant Students) funding for FY 2011. Of that amount, approximately \$22.6 million was distributed directly to school districts and charter schools. The remaining \$1.5 million was used for state administration, technical assistance, and to meet federal set-aside requirements for immigrant education. (Steve Schimpp)

State Parks Board - Annual Report on Out-of-State Travel - Pursuant to a FY 2011 General Appropriation Act footnote, the State Parks Board submitted a report on out-of-state travel expenses in FY 2011. The footnote stipulates that during FY 2011, out-of-state travel expenses by State Parks Board staff shall not exceed \$5,000 each year from appropriated or non-appropriated monies. The Parks Board did not have any out-of-state travel expenses in FY 2011. (Art Smith)

Summary of Recent Agency Reports (continued)

Department of Public Safety (DPS) – 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 2011.

Since the inception of the program in September 2008, a total of 1,695,625 Notices of Violation (NOVs) and citations have been issued and 454,577, or 26.8%, have been paid.

DPS ended the Photo Radar Program effective July 15, 2010. During the fourth quarter of FY 2011, 990 citations that were issued prior to the end date were paid. The NOVs and citations issued by the Photo Enforcement Program generated \$181,500 in revenue for the fourth quarter of FY 2011 and \$79.0 million since the program's inception. The General Fund received \$1.3 million in the fourth quarter, which includes balances from revenue in prior quarters, and \$48.4 million since the program's start. (Eric Billings)

Arizona Board of Regents – Report on University Retention and Graduation Rates – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents is required to submit an annual report on retention and graduation rates at each university campus. Highlights from the 2011 report include:

- Fall 2010 retention rates reflect the percentage of first-time, full-time, degree-seeking students who initially enrolled in Fall 2009 and who re-enrolled in the same university in Fall 2010.
 - Arizona State University 84%; Northern Arizona University's 71%; and the University of Arizona's 77%.
- Six-year graduation rates reflect the percent of first-time, full-time, degree-seeking students who received their degree within 6 years of their initial Fall enrollment at the same university. The 2011 report shows the percentage of students who enrolled in Fall 2004 who graduated from the same university within 6 years.
 - ASU 59%; NAU 49%; and UA 77%.

(Marge Zylla)

July Spending

“July 2011

spending of \$1.7

billion was \$165.0

million higher

than July 2010.”

July 2011 General Fund spending was \$1.7 billion. July expenditures were higher than the prior year in part due to differences in the timing of debt service payment.

FY 2012 Spending

July 2011 spending of \$1.7 billion was \$165.0 million higher than July 2010 (*See Table 6*).

- In July, University spending was \$16.5 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.

- AHCCCS spending was \$160.9 million in July, which is a decrease of \$41.8 million from the prior year. This decrease is due to two factors. In July 2010, AHCCCS made June 2010 acute care capitation payments in July 2010, thereby increasing the July 2010 budget by approximately \$84 M. This decrease is partially offset by a lower federal matching rate in FY 2012
- School Facilities Board spent \$132.6 million in July, or \$131.7 million more than the prior year, due to the timing of debt service payments.
- Leaseback Debt Service totaled \$49.1 million this year in July, which was \$49.1 million greater than last year due to the timing of debt service payments.

Table 6

General Fund Spending (\$ in Millions)

Agency	<u>July 11</u>	<u>Change from July 10</u>	<u>Year to Date</u>	<u>YTD Change from FY 11</u>
AHCCCS	160.9	(41.8)	160.9	(41.8)
Corrections	75.6	19.2	75.6	19.2
Economic Security	352.5	26.5	352.5	26.5
Education	662.1	39.7	662.1	39.7
Health Services	100.7	(1.2)	100.7	(1.2)
Public Safety	20.6	0.1	20.6	0.1
School Facilities Board	132.5	131.7	132.5	131.7
Universities	38.6	(16.5)	38.6	(16.5)
Leaseback Debt Service	49.1	49.1	49.1	49.1
Other	<u>77.4</u>	<u>(41.8)</u>	<u>77.4</u>	<u>(41.8)</u>
Total	1,670.0	165.0	1,670.0	165.0

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 11
	July 11	Change from July 10	Year-to-Date	
Department of Administration	3,129.2	1,242.8	3,129.2	1,242.8
Department of Admin Sale/Leaseback D/S	49,050.7	49,050.7	49,050.7	49,050.7
Office of Administrative Hearings	73.4	(158.3)	73.4	(158.3)
Department of Agriculture	884.7	(1,880.7)	884.7	(1,880.7)
AHCCCS	160,878.7	(41,842.7)	160,878.7	(41,842.7)
Arizona Commission on the Arts	-	(51.4)	-	(51.4)
Attorney General	2,616.1	1,318.1	2,616.1	1,318.1
AZ Capital Post Conviction Public Defender	60.9	(11.7)	60.9	(11.7)
State Board of Charter Schools	125.8	(4.0)	125.8	(4.0)
Dept. of Comm./AZ Commerce Authority	2,625.0	2,443.4	2,625.0	2,443.4
Community Colleges	17,144.3	(15,962.3)	17,144.3	(15,962.3)
Corporation Commission	53.0	6.9	53.0	6.9
Department of Corrections	75,606.9	19,155.2	75,606.9	19,155.2
AZ State Schools for the Deaf & Blind	2,523.6	467.2	2,523.6	467.2
Department of Economic Security	352,539.3	26,454.8	352,539.3	26,454.8
Department of Education	662,112.5	39,674.1	662,112.5	39,674.1
DEMA	1,068.7	50.3	1,068.7	50.3
Department. of Environmental Quality	-	(0.1)	-	(0.1)
DEQ – WQARF	-	-	-	-
Office of Equal Opportunity	17.4	0.7	17.4	0.7
State Board of Equalization	120.0	70.8	120.0	70.8
Board of Executive Clemency	70.6	17.5	70.6	17.5
Department of Financial Institutions	446.4	(7.5)	446.4	(7.5)
Department of Fire, Life, Bldg Safety	393.7	266.7	393.7	266.7
Office of the State Forester	284.7	(38.3)	284.7	(38.3)
Arizona Geological Survey	55.6	6.8	55.6	6.8
Government Information Tech.	-	(74.6)	-	(74.6)
Governor	681.8	0.6	681.8	0.6
Gov. - OSPB	205.5	133.8	205.5	133.8
Department of Health Services	100,679.7	(1,157.8)	100,679.7	(1,157.8)
Arizona Historical Society	352.5	65.9	352.5	65.9
Prescott Historical Society of AZ	66.0	14.2	66.0	14.2
Independent Redistricting Comm.	230.7	230.7	230.7	230.7
Commission on Indian Affairs	4.1	4.1	4.1	4.1
Department of Insurance	834.9	(852.2)	834.9	(852.2)
Judiciary				
Supreme Court	2,915.4	1,480.9	2,915.4	1,480.9
Superior Court	15,991.3	1,087.7	15,991.3	1,087.7
Court of Appeals	1,971.0	(862.8)	1,971.0	(862.8)
Department of Juvenile Corrections	5,884.6	(8,880.3)	5,884.6	(8,880.3)
State Land Department	131.7	(494.5)	131.7	(494.5)
Law Enforcement Merit System	3.2	(11.6)	3.2	(11.6)
Legislature				
Auditor General	2,152.9	(1,673.6)	2,152.9	(1,673.6)
House of Representatives	1,292.8	185.9	1,292.8	185.9

Agency	July 11	Change from July 10	Year-to-Date	YTD Change from FY 11
Joint Legislative Budget Comm.	209.7	11.4	209.7	11.4
Legislative Council	785.6	(305.6)	785.6	(305.6)
Senate	876.2	(1,080.5)	876.2	(1,080.5)
Board of Medical Student Loans	-	-	-	-
Mine Inspector	207.8	27.5	207.8	27.5
Department of Mines & Mineral Resources	-	(37.4)	-	(37.4)
Nav. Streams & Adjudication	21.4	13.3	21.4	13.3
OSHA	-	-	-	-
Arizona State Parks Board	-	(20,000.0)	-	(20,000.0)
Pioneers' Home	546.2	415.6	546.2	415.6
Comm. for Postsecondary Ed.	-	-	-	-
Department of Public Safety	20,552.6	86.5	20,552.6	86.5
Arizona Department of Racing	156.9	(290.5)	156.9	(290.5)
Radiation Regulatory Agency	307.9	(81.5)	307.9	(81.5)
Arizona Rangers Pension	-	(1.2)	-	(1.2)
Real Estate Department	205.3	(299.0)	205.3	(299.0)
Department of Revenue	6,804.2	2,063.4	6,804.2	2,063.4
School Facilities Board	132,475.0	131,708.8	132,475.0	131,708.8
Secretary of State	1,316.7	427.1	1,316.7	427.1
Tax Appeals Board	56.0	(11.0)	56.0	(11.0)
Department of Transportation	3.0	(5.8)	3.0	(5.8)
State Treasurer	-	(132.8)	-	(132.8)
Universities				
Board of Regents	305.5	129.6	305.5	129.6
Arizona State University	16,698.6	(7,496.2)	16,698.6	(7,496.2)
Northern Arizona University	5,947.2	(2,604.7)	5,947.2	(2,604.7)
University of Arizona	15,634.9	(6,500.1)	15,634.9	(6,500.1)
Department of Veteran Services	702.7	(520.9)	702.7	(520.9)
Department of Water Resources	652.3	(137.4)	652.3	(137.4)
Department of Weights & Measures	94.2	14.0	94.2	14.0
Other	116.5	116.5	116.5	116.5
Grand Total	1,669,955.7	164,974.5	1,669,955.7	164,974.5