

**ARIZONA**  
**MONTHLY FISCAL HIGHLIGHTS**  
**August 2004**

General Fund revenue collections were \$546.7 million in August. This amount is \$44.4 million over the forecast for the month and 10.6% over August of last year. Collections for the first 2 months of the fiscal year total \$52.9 million over the budgeted forecast. The General Appropriation Act included a provision that any revenue exceeding the budgeted forecast for FY 2004 and the first six months of FY 2005 will be dedicated for specific purposes. Since all other “triggers” have already been enacted in FY 2004, any “excess” FY 2005 revenue will be divided evenly between the General Fund and the Budget Stabilization Fund.

Collections for the two largest revenue categories continued the strong growth rates exhibited during the last several months. August sales tax collections were up 9.3% (based on preliminary numbers) and withholding tax collections were up 14.7%. In addition, corporate income tax collections and estate tax collections were both well above the forecast.

This report also includes summaries of the September 21<sup>st</sup> JLBC and JCCR meetings, and an overview of FY 2004 Lottery Fund distributions.

<b>General Fund Revenues</b>			
<b>Compared to Adopted Forecast and FY 2004 Collections</b>			
(\$ in Millions)			
	<u>FY 2005</u>	<u>Difference</u>	<u>Difference</u>
	<u>Collections</u>	<u>From Forecast</u> <sup>1/</sup>	<u>From FY 2004</u>
August	\$ 546.7	\$ 44.4	\$ 52.4
Year-to Date	\$ 1,071.9	\$ 52.9	\$ 115.4

<sup>1/</sup> Enacted FY 2005 budget (May)

**Sales Tax** revenue increased by 9.3% on a year-over-year basis in August and was \$9.2 million above the forecast for the month based on preliminary collection numbers, which is the latest available data. Year-to-date, collections are \$10.4 over the forecast.

**Individual Income Tax** collections for August were 14.4% above last year. Withholding tax collections increased by \$26.5 million or 14.7%. Estimated and final payments were up \$4.1 million. Refunds were up \$4.5 million compared to last August. Year-to-date total collections are \$20.5 million or 5.6% above the forecast.

**Ladewig Settlement** – the Department of Revenue (DOR) has mailed warrants totaling \$124.7 million for the first year of settlements related to the Ladewig v. State of Arizona case. DOR has expended an additional \$6.4 million in administrative costs and attorney fees, for a total year-to-date expenditure of \$130.7 million. These expenditures have been made from the income tax refund account. Legislation allocating funds to the account for payment of the Ladewig settlement was passed and

signed by the Governor this past session (Laws 2004, Chapter 285). These payments are not reflected in the individual income tax discussion above, and do not impact individual income tax revenues.

**Corporate Income Tax** revenue was \$21.3 million as compared to \$7.3 million in August of last year. While August is not a large collection month for corporate income taxes, the increase brings total corporate collections to \$16.8 million over the forecast for the year.

**Recent Economic Indicators:** Revised estimates showed that real **U.S. Gross Domestic Product (GDP)** advanced 0.7% in 2004’s second quarter, an annual growth rate of 2.8%. Major contributors to GDP growth included personal consumption expenditures, residential fixed investment, and equipment and software purchases. Meanwhile, **U.S. semiconductor billings** (three-month moving average) edged 0.2% higher in July and stood 29.0% above the level from a year ago.



After four months of increases, the **U.S. Consumer Confidence Index** took a dive in August, dropping by (7.1)%. Even so, it remained 20.2% above the August 2003 level. Inflation posted a modest increase in August, with the **U.S. Consumer Price Index (CPI)** rising by 0.1% from July. Excluding the effects of food and fuel prices, the core index also rose 0.1% in August and was just 1.7% higher than a year ago. Overall, the CPI has increased 3.0% in the last 12 months.

The Arizona economy continued to move forward. Total **non-farm employment** rebounded in August with a gain of 54,400 positions from a year ago, a 2.4% increase. Construction jobs continued to lead the way, while the health care sector also provided a significant boost. The **unemployment rate** inched up to 4.4% in August but remained well below the 5.7% jobless rate reported in August 2003.

The **Arizona Consumer Confidence Index**, as reported by the Behavior Research Center, climbed 12.2% in the current quarter, buoyed by a strong rise in favorable expectations for the next six months. However, the business community was more restrained. The University of Arizona's **Business Leaders Confidence Index** climbed 0.9% in the current

quarter, with reduced expectations for sales and profits muting the advance.

Looking ahead, the **Arizona Index of Leading Economic Indicators** increased by a modest 0.1% in July and stood 2.9% higher than a year ago. Residential building permits, production, new orders, and employment all made positive contributions, while hours worked in manufacturing, materials inventories, and delivery times were negative factors.

The **AHCCCS acute care caseload** continued its recent upward trend in August, with the three-month average increasing 2.3% from the prior period. The **number of Proposition 204 clients** climbed by 1.7% in the latest three-month period and was 2.2% higher than a year ago.

From June through August, the **Department of Corrections' inmate population** experienced no net growth. The flat growth rate was mostly due to a reduction in population of 73 inmates during the month of August and is below the budgeted rate of 115 net new inmates per month.

The number of **TANF recipients** (three-month average) declined to 115,026 in July, a (3.7)% drop from the previous three months. The caseload was (10.2)% below last year's level.

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>
<b>Arizona</b>				
-Unemployment Rate	August	4.4%	0.1%	(1.3)%
-Jobs	August	2.32 million	1.5%	2.4%
-Contracting Tax Receipts (3-month average)	May-July	\$52.2 million	14.4%	15.7%
-Retail Sales Tax Receipts (3-month average)	May-July	\$134.2 million	3.3%	6.7%
-Residential Building Permits (3-month moving average)				
Single-unit	July	7,585	8.4%	32.1%
Multi-unit	July	647	(24.1)%	(16.0)%
-Arizona Tourism Barometer	May	97.0	5.8%	19.0%
-Phoenix Sky Harbor Air Passengers	June	3.43 million	5.3%	4.0%
-Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$5.39	4.5%	12.8%
-Leading Indicators Index	July	124.9	0.1%	2.9%
-Business Conditions Index (>50 signifies expansion)	August	67.2	(7.8)%	5.2%
-Consumer Confidence Index	3 <sup>rd</sup> Quarter 2004	101.1	12.2%	20.2%
-Business Leaders Confidence Index	3 <sup>rd</sup> Quarter 2004	68.3	0.9%	14.2%
-Arizona Personal Income	1 <sup>st</sup> Quarter 2004	\$156.8 billion	1.8%	7.2%
-Arizona Population	1 <sup>st</sup> Quarter 2004	5.76 million	0.9%	3.2%
-AHCCCS Recipients (3-month average)				
Regular	June-August	575,534	2.3%	0.8%
Proposition 204		170,856	1.7%	2.2%
-TANF Recipients (3-month average)	May-July	115,026	(3.7)%	(10.2)%
-DOC Inmate Growth (3-month average)	June-August	31,969	0 inmates	952 inmates
<b>United States</b>				
-Gross Domestic Product	2 <sup>nd</sup> Quarter 2004	\$10.8 trillion	0.7%	4.7%
-Consumer Confidence Index	August	98.2	(7.1)%	20.2%
-Leading Indicators Index	July	116.0	(0.3)%	2.8%
-U.S. Semiconductor Billings (3-month moving average)	May-July	\$3.3 billion	0.2%	29.0%
-Consumer Price Index (3-month moving average)	June-August	189.5	0.1%	3.0%

# State of Arizona

## General Fund Revenue: Change from Previous Year and January Revised Forecast

### August 2004

	Current Month					FY 2005 YTD (Two Months)				
	Actual	Change From				Actual	Change from			
		August 2004	August 2003	Percent	Revised Forecast		Percent	August 2003	Percent	Revised Forecast
<b><u>Taxes</u></b>										
Sales and Use	\$285,867,100	\$24,227,811	9.3 %	\$9,225,219	3.3 %	\$581,364,100	\$48,626,916	9.1 %	\$10,376,238	1.8 %
Income - Individual	208,018,781	26,131,253	14.4	13,128,277	6.7	388,277,267	40,519,720	11.7	20,508,131	5.6
- Corporate	21,253,979	13,997,967	192.9	13,995,248	192.8	42,246,352	18,021,919	74.4	16,808,824	66.1
Property	(38,155)	(6,330,766)	--	(116,754)	(148.5)	572,510	(5,726,474)	(90.9)	(24,025)	(4.0)
Luxury	5,237,300	34,811	0.7	322,300	6.6	10,251,496	636,839	6.6	421,496	4.3
Insurance Premium	39,163,504	(3,687,406)	(8.6)	3,384,096	9.5	74,021,708	5,862,123	8.6	447,475	0.6
Estate	4,313,866	(578,520)	(11.8)	2,638,866	157.5	8,225,929	651,383	8.6	4,875,929	145.6
Other Taxes	38,918	(87,662)	(69.3)	(831,082)	(95.5)	108,657	(75,797)	(41.1)	(1,631,343)	(93.8)
<b>Sub-Total Taxes</b>	<b>\$563,855,293</b>	<b>\$53,707,488</b>	<b>10.5 %</b>	<b>\$41,746,170</b>	<b>8.0 %</b>	<b>\$1,105,068,019</b>	<b>\$108,516,629</b>	<b>10.9 %</b>	<b>\$51,782,725</b>	<b>4.9 %</b>
<b><u>Other Revenue</u></b>										
Lottery	2,083,800	(3,900,200)	(65.2)	0	0.0	3,261,200	(2,722,800)	(45.5)	0	0.0
License, Fees and Permits	2,681,378	386,168	16.8	703,953	35.6	4,870,869	349,480	7.7	1,073,670	28.3
Interest	2,837,644	1,619,868	133.0	1,887,483	198.6	2,616,337	1,665,086	175.0	1,710,966	189.0
Sales and Services	2,989,479	10,243	0.3	(7,882)	(0.3)	4,972,577	(1,002,801)	(16.8)	(824,858)	(14.2)
Other Miscellaneous	658,878	(1,337,224)	(67.0)	(1,495,669)	(69.4)	1,385,212	(1,621,070)	(53.9)	(1,598,223)	(53.6)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,327,195	2,240,828	--	1,507,495	183.9	9,753,991	9,439,132	--	597,791	--
BSF Transfer for Alt. Fuels	42,320	31,605	295.0	42,320	--	188,186	174,381	--	188,186	--
<b>Sub-Total Other Revenue</b>	<b>13,620,694</b>	<b>(948,712)</b>	<b>(6.5) %</b>	<b>2,637,700</b>	<b>24.0 %</b>	<b>27,048,372</b>	<b>6,281,408</b>	<b>30.2 %</b>	<b>1,147,532</b>	<b>4.4 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$577,475,987</b>	<b>\$52,758,776</b>	<b>10.1 %</b>	<b>\$44,383,870</b>	<b>8.3 %</b>	<b>\$1,132,116,391</b>	<b>\$114,798,037</b>	<b>11.3 %</b>	<b>\$52,930,257</b>	<b>4.9 %</b>
<b><u>One-Time Revenue</u></b>										
Urban Revenue Sharing	(31,089,381)	(667,284)	2.2	136	(0.0)	(62,178,762)	(1,334,568)	2.2	272	(0.0)
Tax Amnesty	0	0	--	0	--	0	0	--	0	--
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
Federal Cash Assistance	0	0	--	0	--	0	0	--	0	--
Judicial Enhancement	343,000	343,000	--	0	--	1,933,000	1,933,000	--	0	--
<b>Sub-Total Transfers In</b>	<b>(30,746,381)</b>	<b>(324,284)</b>	<b>1.1 %</b>	<b>136</b>	<b>(0.0) %</b>	<b>(60,245,762)</b>	<b>598,432</b>	<b>(1.0) %</b>	<b>272</b>	<b>(0.0) %</b>
<b>TOTAL REVENUE</b>	<b>\$546,729,606</b>	<b>\$52,434,492</b>	<b>10.6 %</b>	<b>\$44,384,006</b>	<b>8.8 %</b>	<b>\$1,071,870,629</b>	<b>\$115,396,469</b>	<b>12.1 %</b>	<b>\$52,930,529</b>	<b>5.2 %</b>

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

<b>JLBC MEETING</b>
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At its September 21 meeting, the Joint Legislative Budget Committee considered the following issues:

**Arizona Health Care Cost Containment System – Review of Capitation Rate Increases** – The Committee gave a favorable review to the Arizona Health Care Cost Containment System’s (AHCCCS) proposed capitation rates. The Committee advised that AHCCCS should seek approval of 3 policy changes, with a General Fund cost of \$1.2 million, through the regular FY 2006 budget process rather than incorporating them into the FY 2005 capitation rate. Based on appropriated caseload estimates, these rates would have no General Fund impact in FY 2005.

The three policy changes include: 1) a Childhood Obesity Chronic Care Model pilot program in Pima County, 2) a provider and member survey, and 3) new contract incentives for AHCCCS health plans.

JLBC Staff also advised the Committee of the recent surge in AHCCCS caseloads. If these trends continue, AHCCCS could have at least a \$10 to \$30 million FY 2005 shortfall.

**JLBC Staff - Consider Approval of Index for Construction Costs** – The Committee approved an increase in the cost-per-square-foot factors used in the School Facilities Board (SFB) building renewal and new school construction financing. The cost-per-square-foot factor is based on the U.S. Department of Commerce Bureau of Economic Analysis (BEA) index for “State and Local Government Investment – Structures.” Approving the adjustment may cost an estimated \$400,000 for new construction in FY 2005 and an additional \$3.8 million once fully implemented over the next four years. This adjustment would increase the building renewal formula by \$2.0 million. The adjustment, however, is not expected to require a FY 2005 supplemental.

**Arizona Commission on the Arts – Review of the Arts Endowment Fund and Private Contributions** – The Committee gave a favorable review to the Arizona Commission on the Art’s records regarding private monies that are donated for use in conjunction with public monies for the Arizona Arts Endowment Fund. The Committee requested that the Commission report on its efforts to increase future private donations. In CY 2003, private donations totaled approximately \$2 million, down from \$2.7 million in CY 2002.

**Department of Economic Security – Report on Workforce Investment Activities** – The Committee heard testimony on performance measures for new and expanded programs funded with Workforce Investment Act (WIA) monies. According to testimony, the measures submitted were a good starting point of evaluating program success.

The Committee also discussed whether or not the use of WIA monies to train child care workers was a proper use of funding,

given the availability of federal Child Care monies for this purpose. DES will submit more information on this issue.

JLBC Staff also noted that workforce development may be an option for a Strategic Program Area Review (SPAR). SPARs are evaluations of programs by JLBC and OSPB Staff following an agency self-assessment. SPAR topics will be selected by the Committee later on in the year.

**Department of Public Safety – Report on DPS Plan for Sworn Officer Salary Increases** – The Committee heard testimony on the distribution of salary increases for DPS sworn officers. Laws 2004, Chapter 275 appropriated \$4.3 million to DPS for salary increases and left the distribution of these monies to be determined by the department. Under the department’s plan, all sworn officers will receive at least a \$1,000 increase.

The Committee also heard discussion on the method used by DPS to conduct its market comparison for officer salary. The DPS overall market study compared the average of the top 5 salaries paid to sworn officers by other law enforcement agencies in Arizona. Under this method, the average DPS sworn officer pay would be 9.8% behind the market after this latest pay adjustment.

An alternative market comparison uses the average salaries of law enforcement agencies with 100 or more sworn officers. Under this method, the average DPS sworn officer pay would fall to 3.4% below market value.

**Arizona State Parks Board – Report on Parks Fee** – The Committee heard testimony on several changes to park entrance and camping fees that will take place October 1, 2004. Based on FY 2003 attendance figures, the Department estimates that the adopted fee changes would have a revenue impact of approximately \$100,000 in FY 2005. The Committee also discussed creating an ongoing reporting requirement for Parks fee changes. The approved changes include:

- Increases and decreases of \$1-2 in the per-vehicle fees at several recreational parks and an increase from \$1 to \$2 in the fee for an individual admission to recreational parks;
- Adult entrance fee reductions of \$1 at many historical state parks and the elimination of admission fees for children between 7-13 (admission is currently free for children under 7);
- Restructuring the fee schedule at Tonto Natural Bridge State Park to replace the \$6 per-vehicle admission fee with a \$3 per-adult fee (children under 13 will be admitted free);
- The establishment of off-peak camping rates at several parks and increasing the price range for electrified campsites from \$19-22 to \$19-25 at most parks;
- Increasing the price of the unlimited annual pass from \$75 to \$100.

<b>JCCR MEETING</b>
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At its September 21 meeting, the Joint Committee on Capital Review considered the following issues:

**ASH Construction Fund Transfer** – The JCCR approved the transfer of the remaining \$3.5 million from the Arizona State Hospital (ASH) Construction Fund appropriation for ASH renovations and expansions to ASH related building renewal projects. The Department of Health Services also stated it would like to take a year to analyze forensic population changes before proposing a plan for forensic related renovations at the ASH campus.

**ADOA Building Renewal** – The JCCR favorably reviewed a revised allocation plan for an additional \$1.3 million of the \$3.5 million FY 2005 building renewal appropriation from the Capital Outlay Stabilization Fund. Combined with \$1 million that was favorably reviewed at its August meeting, the Committee has favorably reviewed \$2.3 million. The Committee review included a provision that ADOA submit an allocation plan for the remaining \$1.2 million of the \$3.5 million appropriation.

**Lottery Building Renewal** – The JCCR favorably reviewed the FY 2005 building renewal allocation plan of \$41,200 for 4 projects. The plan includes parking lot resurfacing, fixture replacements and drainage corrections. The \$41,200 includes \$4,700 for contingencies.

**Treasurer Rent Exemption** – The JCCR recommended that ADOA authorize a FY 2005 rent exemption of \$40,000 for the Treasurer’s Office. The Treasurer’s Office would use the \$40,000 to pay for temporary space while its permanent space is renovated. A total of \$320,000 was allocated in the FY 2005 budget for tenant improvements to the Treasurer’s Office.

**ADOT 5-Year Transportation Plan** – The JCCR received a report on the FY2005-FY2009 Transportation Construction Program. The 5-year plan allocates \$3.8 billion. The Committee requested additional information related to “over capacity” road segments and future changes to the 5-year plan.

**ADOT East Valley Maintenance Yard** – The JCCR favorably reviewed the scope, purpose and estimated cost of the project and requested that ADOT provide the Committee with corrective measures to ensure that future capital projects do not move forward prior to Committee review.

**ASU Scottsdale Center for New Technology and Innovation (Los Arcos)** – The JCCR received a report on the proposed development of the new center by the ASU Foundation. ASU Foundation representatives were unavailable and the Committee decided to pursue future follow-up on the item as well as the role and commitment ASU would have in the development.

**ASU Laboratory Renovations** – The JCCR favorably reviewed \$11.4 million of a \$20 million bond issuance for

Phase II of the Instructional/Research Laboratory Renovations project. The \$11.4 million would fund 14 projects in various labs throughout the university. Committee review of the remaining \$8.6 million will be required. The bonds will be repaid over a 20 year period from tuition collections (\$0.4 million annually) and other non-appropriated funds (\$1.2 million annually).

The review included provisions noting that a favorable review did not constitute endorsement of General Fund appropriations for operational costs when the project was complete and requiring reporting on the use of project contingency allocations.

The Committee also received a report on the allocation of the remaining \$1.7 million from the \$10 million bond issuance for Phase I of the Instructional/Research Laboratory Renovations project. The Committee favorably reviewed the project in December 2003. The \$1.7 million will be allocated among 6 renovation projects.

**U of A Capital Project Contingency Allocations** – The JCCR received reports on the reallocation of contingency monies to cover higher than expected construction material costs and to upgrade laboratory and security equipment for the Medical Research Building, the Thomas W. Keating Bioresearch Buildings, and the Roy P. Drachman Hall. The individual total budgets for the three projects remain unchanged from the original amounts.

<b>FY 2004 LOTTERY FUND DISTRIBUTIONS</b>
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The Arizona State Lottery Commission reported sales revenue of \$366.6 million in FY 2004, the highest annual total since its inception. After deducting the prizes paid, sales commissions and administrative expenses, \$107.8 million was distributed from the Lottery Fund to other state funds. The Heritage Fund reached its full \$20 million annual limit for the first time since FY 1998 and the Healthy Arizona Funds received Lottery monies for the first time.

A.R.S. § 5-522 directs the use of monies in the State Lottery Fund, including the distributions to the funds listed in the table below. The table shows the FY 2004 distributions for each fund and compares them to the averages for the prior three years.

The following is a brief description of each fund and purposes for which the funds are used.

*General Fund*

The General Fund derives most of its Lottery proceeds from the sale of multi-state (Powerball) tickets. It also receives additional funds that are remaining after the statutory funding obligations have been met. In FY 2004, there was also a special one-time transfer of \$2.5 million from the Lottery Fund to the General Fund as part of overall legislation to balance the budget.

*Commerce and Economic Development Commission (CEDC) Fund*

Administered by the Arizona Department of Commerce, the CEDC receives its funds from the sales of two Arizona Lottery Scratchers games. The funds are used to support the state’s community and economic development goals, initiatives, and strategic plans as defined and developed by the CEDC.

County Assistance Fund (CAF)

Shares of the proceeds from three games – The Pick, Fantasy 5, and Instant Tickets – are directed to the CAF, which receives a maximum of \$7.6 million each fiscal year. The monies are distributed to the General Funds of each of the counties to be used at their discretion.

*Court Appointed Special Advocate (CASA) Fund*

CASA receives its sole funding from 30% of the Lottery’s unclaimed prizes. CASA, which is dedicated to assisting abused, neglected and abandoned children, consists of approximately 1,100 trained volunteers who represent the children’s interests in the courtroom.

*Healthy Arizona Funds*

The Healthy Arizona Funds received Lottery monies for the first time in FY 2004. The \$3.7 million received was pro-rated and distributed among the following agencies:

- \$1.1 million to the Department of Economic Security for the Healthy Families program.
- \$862,614 to the Board of Regents for the Arizona Health Education Center.

- \$646,043 to the Department of Health Services (DHS) for teenage pregnancy prevention.
- \$433,143 to DHS for the Disease Control Research Center.
- \$433,143 to DHS for the Health Start program.
- \$216,571 to DHS for the Women, Infants and Children food program.

*Heritage Fund*

The Heritage Fund receives a portion of the proceeds from the Pick, Fantasy 5 and Scratch Bingo games. The \$20 million maximum was reached in FY 2004 and divided equally between the Game and Fish Commission Heritage Fund and the State Parks Board Heritage Fund. The funds are used to promote wildlife habitat and education programs, rehabilitate historic buildings, acquire and develop parkland, and renovate trail systems, among other purposes.

*Local Transportation Assistance Fund (LTAF)*

The LTAF receives shares of the proceeds from the Pick, Fantasy 5 and Instant Tickets games. The funds are distributed to the counties, cities, and towns, and the uses include road building, traffic signals, sidewalk and alley repair, general maintenance and Dial-a-Ride operating expenses.

*Mass Transit Fund*

The Mass Transit Fund receives its monies from Powerball tickets sales after obligations to the General Fund are met. The funds are used by the counties to enhance existing public transportation system.

<u>DISTRIBUTION OF STATE LOTTERY PROFITS</u>		
	<u>FY 2004</u>	<u>3-Year Average FY 2001-2003</u>
General Fund	\$35,337,700	\$30,412,133
Commerce and Economic Development Commission Fund	2,674,500	2,709,167
County Assistance Fund	7,650,000	7,650,000
Court Appointed Special Advocate Fund	1,896,710	2,226,307
Healthy Arizona Funds	3,670,700	0
Heritage Fund	20,000,000	17,706,800
Local Transportation Assistance Fund	23,000,000	23,329,833
Mass Transit Fund	<u>13,528,100</u>	<u>3,232,333</u>
<b>TOTAL DISTRIBUTIONS</b>	<b>\$107,757,710</b>	<b>\$87,266,573</b>