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*“November was the fourth consecutive month of year-over-year growth in General Fund revenue collections.”*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on December 22, 2010.

## Summary



November was the fourth consecutive month of year-over-year growth in General Fund revenue collections. General Fund revenues totaled \$577.0 million. Excluding the temporary 1-cent sales tax, these collections were 17.9% above last year.

While the November results were clearly positive, 17.9% growth overestimates real economic activity for several reasons. First, the state incurred extraordinarily large Corporate Income Tax refunds in November 2009. While refunds remained higher than normal in November 2010, the revenue loss was significantly less than the historic low of November 2009. Second, individual income tax withholding grew by 8.4% in November, which is not supported by Arizona’s current level of job and wage growth. As we have reported in earlier months, taxpayers appear to be overwithholding since the withholding tables changed in July.

Relative to the budget forecast, some of these gains – like the recovery in Corporate collections – were expected. As a result, collections were only above the forecast by \$7.2 million in November. For the 5 months year-to-date, revenues are \$(34.0) million below forecast.

In comparison, November 2010 General Fund spending was \$551.8 million, or \$(134.1) million below last year. November expenditures were lower than the prior year primarily due to the timing of Department of Education spending reductions compared to last year.

Fiscal year-to-date, General Fund revenues of \$3.3 billion have been offset by \$4.5 billion in spending. Due to a relatively even cash flow in November, the state’s operating fund balance stayed almost unchanged at \$488.1 million at the end of November. In comparison, the state was borrowing over \$500 million last November. The state pays its bills out of the operating fund balance, which consists of General Fund monies and certain dedicated funds.

### Final FY 2010 Ending Balance

The General Accounting Office released its Annual Financial Report for FY 2010 on December 7th. The report showed that the General Fund ending balance for FY 2010 was \$(5.7) million. FY 2010 is the second consecutive year of a negative ending balance, although the FY 2009 shortfall of \$(481.7) million was much more substantial.

While the state is generally thought to have a balanced budget requirement, the Arizona Constitution does permit the state to address any year-end shortfall in the next fiscal year. As a result, the FY 2010 shortfall will need to be resolved during FY 2011.

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## November Revenues

Table 1

	General Fund Revenues (\$ in Millions)		
	FY 2011 <u>Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2010</u>
November	\$ 577.0	\$ 7.2	\$ 159.3
Year-to-Date	\$ 3,251.2	\$ (34.0)	\$ 574.9

**Sales Tax** collections were \$353.1 million in November. Excluding the \$66.7 million from the temporary 1-cent increase, collections were \$286.5 million, or 3.8% above November 2009. November is the second consecutive month to show positive year-over-year growth, which has not happened since August 2007.

While positive, collections lagged projections. Including the 1-cent increase, collections were \$(5.9) million below the forecast. The year-to-date loss is \$(94.7) million.

Table 2 displays the November growth rates for the largest categories

Table 2 Sales Tax Growth Rates Compared to Prior Year		
	<u>November</u>	<u>YTD</u>
Retail	(0.1)%	(0.2)%
Contracting	3.8%	(15.0)%
Utilities	6.4%	1.3%
Use	21.2%	1.5%
Restaurant & Bar	5.0%	2.7%

Retail and contracting together account for about 60% of all sales tax revenues. Retail collections were nearly flat compared to November of last year. Contracting was positive compared to November of last year. This is the first positive month for contracting since August 2007.

**Individual Income Tax** net revenues were \$266.2 million in November, or 14.9% above the prior year. Collections were \$26.4 million above the forecast. Year-to-date, revenues have grown 10.3% and are \$58.2 million above forecast through November.

As indicated in Table 3 below, withholding tax payments increased by 8.4% in November, making 8 of the past 9 months positive. This increase continues to be difficult to interpret due to changes in the state withholding system. (See the August MFH for additional information.)

Given the relatively flat growth in wages and salaries, however, it is increasingly likely that

taxpayers are over-withholding and some of those gains will result in higher refunds in April. As a result, the Department of Revenue has further revised the withholding schedule by adding additional lower withholding options. These options will be available beginning January 1, 2011.

Table 3

Table 3 Individual Income Tax Growth Rates Compared to Prior Year		
	<u>November</u>	<u>YTD</u>
Withholding	8.4%	5.1%
Estimated + Final Payments	(17.7)%	(2.0)%
Refunds	(51.9)%	(24.3)%

**Corporate Income Tax** net collections were \$(37.2) million in November, or \$39.9 million more than the prior year. Collections were \$(16.9) million below the forecast. Most of the growth over the prior November is due to lower refunds, which totaled \$(45.6) million. In November of the prior year, refunds totaled \$(93.9) million, which was the largest refund month on record (since 1994).

Year-to-date through November, revenues are up 189.1% and are \$10.0 million above forecast.

The **Lottery Commission** reports that November ticket sales were \$46.0 million, which is \$3.3 million, or 7.7%, above sales in the prior year. Year-to-date, ticket sales are \$215.5 million, which is 2.6% above last year's sales. The General Fund share of sales has increased significantly more than sales, however, due to changes in the distribution formula.

### Non-General Fund

**Tobacco Tax** revenues were \$28.9 million in November. Collections were up 1.1% compared to the prior year, and were \$0.8 million above the budget estimate for the month. Year-to-date collections are down (1.2)% and are \$1.3 million above the budget estimate.

*“Given the relatively flat growth in wages and salaries, however, it is increasingly likely that taxpayers are over-withholding and some of [the growth in Individual Income Tax collections] will result in higher refunds in April.”*

## November Revenues (Continued)

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 \$96.1 million in November were up \$0.9 million or 0.9% compared to November of last year. Year-to-date, revenues have grown 1.2%.

Table 4

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

	Current Month					FY 2011 YTD (Five Months)					
	Actual November 2010	Change From November 2009		Forecast		Actual November 2010	Change from November 2009		Forecast		
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent	
<b>Taxes</b>											
Sales and Use w/o 1¢ *	\$286,485,609	\$10,491,181	3.8 %	\$691,617	0.2 %	\$1,410,306,045	(\$9,659,966)	(0.7) %	(\$57,799,696)	(3.9) %	
Income - Individual	266,193,368	34,587,420	14.9	26,391,723	11.0	1,251,937,167	116,901,449	10.3	58,187,354	4.9	
- Corporate	(37,178,120)	39,874,746	--	(16,913,020)	83.5	142,222,040	93,019,501	189.1	9,960,540	7.5	
Property	3,750,758	(653,069)	(14.8)	550,758	17.2	5,890,616	(337,728)	(5.4)	1,240,616	26.7	
Luxury - Tobacco	2,540,489	578,921	29.5	(141,511)	(5.3)	10,581,779	(555,952)	(5.0)	(2,728,221)	(20.5)	
- Liquor	2,315,733	(60,837)	(2.6)	(346,267)	(13.0)	10,552,193	(100,218)	(0.9)	(1,000,807)	(8.7)	
Insurance Premium	(628,059)	(780,668)	--	(628,059)	--	136,034,663	3,166,144	2.4	7,934,663	6.2	
Estate	0	(39,278)	(100.0)	0	--	437,372	103,988	31.2	437,372	--	
Other Taxes	23,982	(15,380)	(39.1)	(28,518)	(54.3)	243,548	(16,726)	(6.4)	(18,952)	(7.2)	
<b>Sub-Total Taxes</b>	<b>\$523,503,760</b>	<b>\$83,983,036</b>	<b>19.1 %</b>	<b>\$9,576,723</b>	<b>1.9 %</b>	<b>\$2,968,205,423</b>	<b>\$202,520,492</b>	<b>7.3 %</b>	<b>\$16,212,869</b>	<b>0.5 %</b>	
<b>Other Revenue</b>											
Lottery	4,566,155	1,506,755	49.3	(633,845)	(12.2)	17,522,419	5,216,119	42.4	(3,277,581)	(15.8)	
License, Fees and Permits	1,897,646	(132,566)	(6.5)	(102,354)	(5.1)	11,244,892	386,434	3.6	744,892	7.1	
Interest	279,253	247,685	784.6	279,253	--	1,956,254	815,537	71.5	1,956,254	--	
Sales and Services	2,550,658	1,613,266	172.1	550,658	27.5	8,718,468	(2,064,241)	(19.1)	(2,781,533)	(24.2)	
Other Miscellaneous	2,352,494	(1,468,225)	(38.4)	(2,847,506)	(54.8)	12,743,995	(8,055,952)	(38.7)	(11,356,005)	(47.1)	
Disproportionate Share	0	0	--	0	--	0	0	--	0	--	
Transfers and Reimbursements	9,325,852	(3,168,505)	(25.4)	6,925,852	288.6	13,367,053	(14,768,118)	(52.5)	1,367,053	11.4	
<b>Sub-Total Other Revenue</b>	<b>20,972,058</b>	<b>(1,401,590)</b>	<b>(6.3) %</b>	<b>4,172,058</b>	<b>24.8 %</b>	<b>65,553,081</b>	<b>(18,470,220)</b>	<b>(22.0) %</b>	<b>(13,346,919)</b>	<b>(16.9) %</b>	
<b>TOTAL BASE REVENUE</b>	<b>\$544,475,818</b>	<b>\$82,581,446</b>	<b>17.9 %</b>	<b>\$13,748,781</b>	<b>2.6 %</b>	<b>\$3,033,758,504</b>	<b>\$184,050,272</b>	<b>6.5 %</b>	<b>\$2,865,950</b>	<b>0.1 %</b>	
<b>Other Adjustments</b>											
Urban Revenue Sharing	(39,500,543)	12,886,509	--	0	0.0	(197,502,716)	64,432,545	--	0	0.0	
1¢ TPT Increase*	66,653,153	66,653,153	--	(6,579,053)	(9.0)	327,907,726	327,907,726	--	(36,887,212)	(10.1)	
Budget Plan Transfers	5,405,208	(2,805,453)	(34.2)	0	0.0	87,073,008	(1,479,096)	(1.7)	0	0.0	
<b>Sub-Total Other Adjustments</b>	<b>32,557,817</b>	<b>76,734,208</b>	<b>-- %</b>	<b>(6,579,053)</b>	<b>(16.8) %</b>	<b>217,478,017</b>	<b>390,861,174</b>	<b>-- %</b>	<b>(36,887,212)</b>	<b>(14.5) %</b>	
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$577,033,636</b>	<b>\$159,315,655</b>	<b>38.1 %</b>	<b>\$7,169,728</b>	<b>1.3 %</b>	<b>\$3,251,236,521</b>	<b>\$574,911,446</b>	<b>21.5 %</b>	<b>(\$34,021,262)</b>	<b>(1.0) %</b>	
<b>Non-General Funds</b>											
Highway User Revenue Fund	\$96,148,000	\$881,000	0.9 %	(\$548,000)	(0.6) %	\$490,446,000	\$5,943,000	1.2 %	(\$1,325,000)	(0.3) %	
Tobacco Tax (All Funds Total)	\$28,945,611	\$316,330	1.1 %	\$774,377	2.7 %	\$137,215,534	(\$1,675,584)	(1.2) %	\$1,339,337	1.0 %	

\* 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 November collections including the 1¢ increase were \$353.1 million. This amount is \$77.1 million, or 28.0%, above November 2009 and \$(5.9) million, or (1.6)%, below forecast. Year to date, total collections including the 1¢ increase were \$1.74 billion. This amount is \$318.2 million, or 22.4%, above November 2009 and \$(94.7) million, or (5.2)%, below forecast.

## Economic Indicators

### NATIONAL

The Conference Board's **U.S. Index of Leading Economic Indicators** rose 1.1% in November, the largest gain in 8 months, signaling the economy might be strengthening early next year. A decrease in unemployment claims, improvements in vendor performance, and favorable interest rate spread, along with positive contributions from all but one indicator pushed the index to its highest point in a year.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.1% in November. Excluding food and energy, core consumer prices rose by 0.1% after being flat for 3 consecutive months. While November producer prices exerted upward pressure on input costs due to rising commodity prices, the continued restraint in consumer prices suggests that there is still considerable slack in the economy.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. were \$4.81 billion in October, or essentially at the same level as in the prior month. Year over year, chip sales have grown by 30.7%. The trade association expects sales growth to moderate in 2011 and 2012.

### ARIZONA

#### Employment

According to the Arizona Department of Commerce, the state had a net gain of 12,800 **nonfarm jobs** in November. This represented a 0.5% increase over the prior month. November marked the fourth straight month with a year-over-year growth in nonfarm employment. Compared to the same month in the prior year, the state has now added 24,900 jobs (a net gain of 1%). Since the beginning of the recession in December 2007, the state has shed (265,600) jobs, or (9.8)% of its workforce. See [Tracking Arizona's Recovery](#), for additional historical information.

Most of November's job gain was attributable to the retail sector (8,700), followed by employment services (1,800) and health care services (1,300).

The state's year-over-year growth rate of 1.0% in November exceeded the national average of 0.6%, suggesting that the recovery in Arizona is strengthening.

While 6 sectors of the economy have yet to experience year-over-year job gains (manufacturing, financial activities, information, leisure and hospitality, other services, and government), there are still many positive signs, such as the expansion of the retail sector and increased use of temporary employees, which suggest that Arizona's overall employment situation will continue to improve in the coming months.

The state's **unemployment rate** fell from 9.5% to 9.4% in November. This marked the second consecutive decline of Arizona's jobless rate. By way of comparison, the national unemployment rate increased from 9.6% to 9.8% during the same month.

The state's unemployed filed a total of 23,332 **initial claims for unemployment insurance** in November, a (11.6)% decline over the prior month. Initial claims typically decrease in November due to the seasonal hiring of retail workers. November also marked the lowest level of initial claims since August 2008. Compared to the same month in the prior year, first-time claims in November were down by (18.9)%, the 13<sup>th</sup> consecutive month with year-over-year declines.

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.

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 November was 40.6 hours, a 1.0% increase over the prior month, and a 3.6% improvement since last year. November typically sees a sharp increase in the average work week due to seasonal hiring. Prior to the recession, the average work week for the month of November was 40.8 hours.

*"November marked the fourth straight month with a year-over-year growth in nonfarm employment. Compared to the same month in the prior year, the state has now added 24,900 jobs (a net gain of 1%)."*

## Economic Indicators (Continued)

### Housing

In November, the number of new Maricopa County **foreclosure notices** declined (16.8)% from October levels to 5,891. The total is the lowest for a single month since 5,339 new notices were recorded in March 2008.

The number of Maricopa County **pending foreclosures** increased slightly in November. The November total of 41,771 is (18.8)% 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 November, there were a total of 6,845 **existing single-family home sales** that resulted in a **median resale home price** of \$135,000. Relative to the prior year, the number of sales and prices are down (17.9)% and (5.9)% respectively. Of the existing sales, 30.6%, or 2,095 were foreclosures.

### State Agency Data

In December **AHCCCS caseloads** equaled 1.35 million members, a (0.7)% decrease over the prior month. AHCCCS caseloads are currently (1.4)% below December 2009 levels. The FY 2011 budget funded a projected December 2010 caseload of 1.41 million members.

There were 44,949 **TANF recipients** in the state in November, a monthly caseload decrease of (0.2)%. Year-over-year, the number of TANF recipients has declined by (48.7)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. Beginning in July, recipients can only receive benefits for a maximum of 36 months in a lifetime. Previously, the maximum had been 60 months. This change resulted in a caseload decline of approximately (16,000) recipients. The FY 2011 budget assumed caseloads of approximately 70,000 in FY 2011.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In November, there were a total 1.08 million food stamp recipients in the state, a (0.5)% decrease over the prior month. Compared to the same

month last year, food stamp participation was up by 6.1%. 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** rose to 40,307 inmates between September and November 2010. Relative to the prior month the population has increased by 25, and compared to a year ago the population has declined by (380) inmates.

*"In November, the number of new Maricopa County foreclosure notices declined (16.8)% from October levels to 5,891. The total is the lowest for a single month since 5,339 new notices were recorded in March 2008."*

## 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	November	9.4%	(0.1)%	0.1%
- Initial Unemployment Insurance Claims	November	23,332	(11.6)%	(18.9)%
- Unemployment Insurance Claimants	October	73,259	(2.7)%	(30.1)%
- Non-Farm Employment - Total	November	2.45 million	0.5%	1.0%
Manufacturing	November	148,700	0.4%	(0.3)%
Construction	November	117,300	(2.5)%	0.5%
- Average Weekly Hours, Manufacturing	November	40.6	1.0%	3.6%
- Contracting Tax Receipts (3-month average)	Sept-Nov	\$33.2 million	7.0%	(6.6)%
- Retail Sales Tax Receipts (3-month average)	Sept-Nov	\$127.8 million	(1.2)%	0.8%
- Residential Building Permits (3-month moving average)				
Single-unit	Aug-Oct	792	(6.0)%	(29.3)%
Multi-unit	Aug-Oct	164	15.3%	255.8%
- Greater Phoenix Existing Home Sales				
Single-Family	November	6,845	(15.2)%	(17.9)%
Townhouse/Condominium	November	1,025	(15.6)%	(12.4)%
- Greater Phoenix Median Home Sales Price				
Single-Family	November	\$135,000	(2.6)%	(5.9)%
Townhouse/Condominium	November	\$81,000	(4.7)%	(23.5)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	November	5,891	(16.8)%	(17.6)%
Pending Foreclosures (Active Notices)	November	41,771	0.5%	(17.3)%
Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	September	107.16	(1.5)%	(1.9)%
- Arizona Months Supply of Housing, (ARMLS)	November	6.7 months	(0.2) months	1.3 months
- Phoenix Sky Harbor Air Passengers	October	3.26 million	11.7%	2.1%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	September	\$5.69	(7.3)%	(3.6)%
- Arizona Consumer Confidence Index (1985 = 100)	4 <sup>th</sup> Quarter 2010	56.3	14.7%	N/A
- Arizona Coincident Index (July 1992 = 100)	October	179.83	0.3%	1.0%
- Arizona Personal Income	3 <sup>rd</sup> Quarter 2010	\$225.4 billion	0.7%	3.4%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	December	1,347,631	(0.7)%	(1.4)%
- TANF Recipients	November	44,949	(0.2)%	(48.7)%
- SNAP (Food Stamps) Recipients	November	1,081,346	(0.5)%	6.1%
- ADC Inmate Growth (3-month average)	Sept-Nov	40,307	25 inmates	(380) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	October	19,530	(98)	(195)
Maricopa County	October	26,447	(227)	(2,658)
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	3rd Quarter 2010 (Second Estimate)	\$13.3 trillion	2.5%	3.2%
- Consumer Confidence Index (1985 = 100)	November	54.1	8.4%	6.9%
- Leading Indicators Index (2004 = 100)	November	112.4	1.1%	6.2%
- U.S. Semiconductor Billings (3-month moving average)	Aug-Oct	\$4.81 billion	0.0%	30.7%
- Consumer Price Index, SA (1982-84 = 100)	November	219.1	0.1%	1.1%

## JLBC Meeting

At its December 14, 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 a total of \$1,431,400 from 2 settlements: 1) a \$250,000 settlement resulting from mediation as part of ongoing Average Wholesale Price litigation with pharmaceutical companies, of which \$227,500 will be deposited into the Consumer

Protection-Consumer Fraud Revolving Fund and \$22,500 will go toward outside counsel compensation; and 2) a \$1,181,400 settlement from a consent judgment with Pulte Homes, of which \$281,400 is designated to compensate Arizona consumers, \$500,000 will be deposited into the Consumer Protection-Consumer Fraud Revolving Fund, \$100,000 will fund the publication of new educational materials, and \$300,000 will go toward Attorney General costs and investigative expenses.



## JCCR Meeting

At its December 14, 2010 meeting, the Joint Committee on Capital Review considered the following issues:

**School Facilities Board** – Review of Laveen Elementary School District Enrollment Counts – The Committee gave a favorable review of the Laveen Elementary School District project. The Committee favorably reviewed the lease-purchase issuance that will finance this project at its June 2010 meeting.

**Arizona State University** – Review of Student Health Services Center and Other Projects – The Committee favorably reviewed the university's request to issue a \$14.8 million revenue bond to fund new construction and building renewal projects. Of this amount, \$10 million will be for the Student Health Services Center new construction and renovation at the Tempe campus, \$1.5 million for walkway renovations and lighting improvements at the Tempe campus, and \$3.3 million for research and office space renovations at the Downtown campus.

**Arizona Game and Fish Department** – Review of FY 2011 Building Renewal and Ben Avery Shooting Facility Projects – The Committee gave a favorable review of the department's proposed FY 2011 Building Renewal Allocation Plan totaling \$506,800 and their request to expend \$800,000 for improvements to the Ben Avery Shooting Facility.

**Arizona Department of Transportation** – Review of FY 2011 Building Renewal Allocation Plan – The Committee gave a favorable review to the department's \$1,050,000 FY 2011 Building Renewal Allocation Plan, including \$1,000,000 from the State Highway Fund and \$50,000 from the State Aviation Fund.

**Arizona Department of Administration** – FY 2011 – FY 2013 Rent Exemptions – The Committee recommended the proposed FY 2011, FY 2012, and FY 2013 semi-annual payment plan for the Office of Pest Management and the quarterly payment plan for the Board of Respiratory Care Examiners.

## Summary of Recent Agency Reports

### **Department of Economic Security – Report on Available State and Federal Domestic Violence Funding**

- Pursuant to a General Appropriation Act Footnote, the Department of Economic Security (DES) is submitting its annual report on state and federal domestic violence funds. There is a total of \$24.0 million currently used by 6 state entities for domestic violence services, an increase of \$0.1 million, or 0.4%, from FY 2009. (Aaron Galeener)

**Governor’s Council on Workforce Policy – Report on FY 2010 Annual Report** – Pursuant to A.R.S. § 41-1542, the Governor’s Council on Workforce Policy (GCWP) submitted its annual report on workforce development. The total workforce spending from state, federal, and local sources for FY 2009 was \$250 million. Of this total, the Department of Economic Security accounted for \$193.5 million, Department of Education for \$17.5 million, and Department of Commerce for \$39.0 million. Additionally, the Community Colleges are estimating FY 2010 expenditures of \$180.7 million.

Excluding the community colleges, the largest programs in FY 2009 include the JOBS program, which provides employment and training services to Temporary Assistance to Needy Families (TANF) recipients (\$27.5 million), Vocational Rehabilitation (\$69.5 million), the Workforce Investment Act program (\$37.6 million), and the Department of Commerce Job Training program (\$38.3 million), which provides incentives to companies to provide training programs. (Eric Billings)

**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

the first quarter of FY 2011, DPS spent or encumbered \$2.3 million of the \$9.2 million appropriation for the direct DPS immigration staff. In terms of local law enforcement grants, DPS spent \$1.3 million of the non-lapsing FY 2010 \$2.6 million appropriation. The \$2.6 million in new FY 2011 local law enforcement grants will be available for use through FY 2012. (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 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 452,147, or 26.7%, have been paid.

The NOVs and citations issued by the Photo Enforcement Program generated \$6.4 million in revenue for the first quarter of FY 2011 and \$74.4 million since the program’s inception. The General Fund received no monies in the first quarter, although future transfers are planned, and \$39.9 million since the program’s start.

During the first quarter of FY 2011, the Photo Enforcement Program issued 30,621 citations that occurred prior to July 15. A total of 912 NOVs were paid during the quarter. DPS ended the photo radar program effective July 15. (Eric Billings)

**Department of Revenue – Annual Enforcement Goals Report** – Pursuant to a General Appropriation Act footnote, the Department of Revenue (DOR) is required to report on their FY 2011 revenue enforcement goals, and to provide an annual progress report to the Committee as to the effectiveness of the department’s

overall enforcement and collections program for FY 2010.

DOR’s General Fund FY 2011 revenue enforcement goal is \$360.9 million, which is \$25.6 million, or 7.6%, above FY 2010 actual collections. This figure includes a \$49.8 million increase due to a FY 2011 appropriation of \$7.5 million to hire approximately 70 temporary collectors and 70 auditors. According to DOR, these targets were based on the assumption that they would not experience further budget reductions.

Compared to actual FY 2010 General Fund enforcement revenue, DOR’s FY 2011 goals consist of:

- An increase in audit revenue of \$1.8 million, or 1.6%.
- An increase in collections revenue of \$30.9 million, or 20.9%.
- A decrease in accounts receivables revenues of \$(7.1) million, or (9.7)%.

Table 6 compares DOR’s General Fund revenue enforcement goals for FY 2011 to their goals and results for FY 2010.

The 3 main categories of enforcement revenue are audit, collections, and accounts receivable. Audit enforcement revenue includes revenue due to DOR’s auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR’s collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from accounts receivable to DOR’s Collections Section. (Eric Billings)

## Summary of Recent Agency Reports (Continued)

Table 6

### DOR's General Fund Enforcement Revenue Goals in FY 2011 Compared to FY 2010 (Net of Duplications)

	FY 2010 <u>Goals</u>	FY 2010 <u>Actual</u>	FY 2011 <u>Goals</u>
Audit Division			
Corporate Tax	\$ 14,937,100	\$ 35,984,800	\$ 35,864,700
Nexus/Discovery <sup>1/2/</sup>	25,099,200	21,608,200	25,899,500
Individual Tax	4,379,400	7,156,700	8,121,900
Transaction Privilege Tax	7,496,100	30,338,400	18,327,000
Luxury Tax	318,200	1,865,100	1,008,500
License Compliance	<u>12,114,200</u>	<u>17,228,700</u>	<u>26,811,300</u>
Subtotal	64,344,200	114,181,900	116,032,900
Collections	122,208,700	147,341,700	178,180,900
Accounts Receivable <sup>3/</sup>	<u>65,724,800</u>	<u>73,804,000</u>	<u>66,688,000</u>
<b>Total:</b>	<b>\$252,277,700</b>	<b>\$335,327,600</b>	<b>\$360,901,800</b>

<sup>1/</sup> The Nexus program is part of corporate audit, which locates out-of-state businesses with an Arizona business presence that are not paying Arizona corporate income tax.

<sup>2/</sup> Discovery revenue is DOR's term for additional revenue attributed to BRITS, which can be traced to specific taxpayers. Beginning in FY 2010, these monies are no longer separated from the Nexus category due to the shift of the administration of BRITS to DOR.

<sup>3/</sup> Taxpayer accounts paid before they would have been moved to collections, which allows collectors to work on other accounts.

## November Spending

### FY 2011 Spending

November 2010 spending of \$551.8 million was \$(134.1) million lower than November 2009 (See Table 7).

- In November, the Arizona Department of Education spending was \$(144.2) million lower than the prior year. November expenditures were lower due to ADE soft capital reductions being made earlier in the year compared to last year.
- University spending was \$56.5 million in November, or \$(21.8) million lower than the prior year. The decreased expenditure amount reflects a rollover of the monthly payment, which is spread out over the course of the fiscal year.
- Department of Health Services (DHS) spending was \$47.3 million in November or \$36.2 more than the prior year. The

higher expenditure amount reflects a transfer to AHCCCS for DHS Medicaid expenditures occurring in a different month last year compared to this year.

- Department of Economic Security (DES) spending was \$8.2 million in November, or \$(26.7) less than the prior year. This low expenditure amount reflects technical transfers of agency funds and does not reflect actual expenditures.

**Table 7**

Agency	General Fund Spending (\$ in Millions)			
	<u>Nov 11</u>	<u>Change from Nov 10</u>	<u>Year to Date</u>	<u>YTD Change from FY 10</u>
AHCCCS	121.4	22.8	643.3	27.4
Corrections	66.9	8.5	367.5	26.0
Economic Security	8.2	(26.7)	431.9	(11.9)
Education	229.1	(144.2)	1,923.7	(42.2)
Health Services	47.3	36.2	223.2	(61.4)
Public Safety	1.4	(0.4)	27.8	(12.3)
School Facilities Board	0.2	0.1	33.2	(48.9)
Universities	56.5	(21.8)	491.0	13.1
Leaseback Debt Service	-	-	52.1	52.1
Other	<u>20.8</u>	<u>(8.6)</u>	<u>309.4</u>	<u>(37.0)</u>
<b>Total</b>	<b>551.8</b>	<b>(134.1)</b>	<b>4,503.1</b>	<b>(95.1)</b>

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 10
	November 11	Change from November 10	Year-to-Date	
Department of Administration	1,173.2	(491.9)	11,516.3	2,272.8
Department of Admin Sale/Leaseback D/S	-	-	52,066.9	52,066.9
Office of Administrative Hearings	41.7	(6.6)	459.7	(54.0)
Department of Agriculture	446.0	(76.5)	4,658.7	(229.7)
AHCCCS	121,351.6	22,762.2	643,296.1	27,435.2
Arizona Commission on the Arts	47.8	(14.7)	325.5	(6.8)
Attorney General	1,133.5	206.1	9,233.2	(697.9)
AZ Capital Post Conviction Public Defender	46.9	(28.7)	266.3	(35.5)
State Board of Charter Schools	36.2	0.9	395.7	18.1
Board of Chiropractic Examiners	-	-	-	(148.0)
Department of Commerce	226.2	(864.3)	2,637.9	1,012.4
Community Colleges	-	-	66,213.2	-
Corporation Commission	36.5	4.2	256.1	33.3
Department of Corrections	66,916.8	8,463.5	367,543.5	26,041.0
Board of Cosmetology	-	(252.0)	-	(252.0)
AZ Criminal Justice Commission	-	-	-	4.6
AZ State Schools for the Deaf & Blind	1,033.0	675.3	10,079.4	462.2
Department of Economic Security	8,231.0	(26,674.9)	431,896.0	(11,978.7)
Department of Education	229,064.6	(144,182.6)	1,923,706.1	(42,202.4)
DEMA	659.4	(98.4)	4,668.0	600.1
Department. of Environmental Quality	-	(349.4)	0.6	(2,557.8)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	9.0	(18.3)	98.9	(11.6)
State Board of Equalization	29.1	(17.4)	240.7	(96.0)
Board of Executive Clemency	41.4	(6.3)	469.6	(80.9)
Department of Financial Institutions	144.2	(39.2)	1,427.5	(323.6)
Department of Fire, Life, Bldg Safety	123.5	102.9	1,339.1	123.1
Office of the State Forrester	161.2	161.2	1,362.9	1,362.9
Board of Funeral Directors	-	-	-	(100.0)
Arizona Geological Survey	33.3	(9.4)	264.0	(132.5)
Government Information Tech.	25.6	(6.8)	231.7	11.9
Governor	398.1	(763.5)	3,794.6	(279.2)
Gov. - OSPB	130.2	(30.9)	969.9	308.5
Department of Health Services	47,305.7	36,165.3	223,232.0	(61,444.6)
Arizona Historical Society	165.9	26.2	4,029.0	1,663.3
Prescott Historical Society of AZ	68.0	35.6	284.8	20.4
Independent Redistricting Comm.	-	(0.7)	-	(25.5)
Commission on Indian Affairs	10.1	(36.5)	24.3	33.8
Department of Insurance	300.5	(13.1)	2,976.7	(79.6)
Judiciary				
Supreme Court	481.7	(168.7)	12,975.2	3,124.5
Superior Court	1,287.5	(907.2)	36,003.3	(4,558.4)
Court of Appeals	902.9	(932.5)	7,628.3	755.6
Department of Juvenile Corrections	3,212.5	(1,298.6)	27,750.6	(6,514.5)
State Land Department	416.8	(576.9)	1,541.1	(5,890.9)
Law Enforcement Merit System	5.1	(0.4)	35.1	(2.1)

<b>Agency</b>	<b>November 10</b>	<b>Change from November 09</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 10</b>
Legislature				
Auditor General	1,107.7	(2.7)	8,368.9	1,039.7
House of Representatives	711.9	(5.1)	5,768.2	(38.6)
Joint Legislative Budget Comm.	125.5	(27.0)	1,048.2	(78.7)
Legislative Council	259.7	(12.6)	2,380.3	(287.1)
Senate	487.1	(30.8)	4,078.7	(46.5)
Department of Liquor Licenses	3.3	(72.8)	3.3	(732.7)
Board of Medical Student Loans	-	(49.1)	744.1	(223.4)
Mine Inspector	73.1	1.3	555.2	(78.3)
Department of Mines & Mineral Resources	18.4	(18.7)	744.1	371.2
Nav. Streams & Adjudication	4.9	(0.2)	83.6	3.9
OSHA	-	-	-	(4.0)
Board of Osteopathic Examiners	-	-	-	(100.0)
Arizona State Parks Board	-	-	20,000.0	(1,900.3)
Pioneers' Home	171.1	171.1	529.0	529.0
Board of Psychologist Examiners	25.0	25.0	25.0	(275.0)
Comm. for Postsecondary Ed.	-	(81.8)	157.7	(730.2)
Department of Public Safety	1,434.7	(370.9)	27,792.9	(12,327.4)
Arizona Department of Racing	269.4	145.4	3,041.1	(216.7)
Radiation Regulatory Agency	70.4	97.8	696.7	(74.6)
Arizona Rangers Pension	1.2	0.1	5.9	0.8
Real Estate Department	135.9	(64.6)	1,615.2	(256.4)
Department of Revenue	(434.3)	(1,437.9)	17,978.5	(82.7)
School Facilities Board	199.9	122.7	33,150.4	(48,945.7)
Secretary of State	1,052.1	(53.9)	9,434.5	5,189.2
Tax Appeals Board	16.5	0.2	129.8	(2.3)
Office of Tourism	-	-	-	(200.0)
Department of Transportation	1.4	1.3	17.3	(15.5)
State Treasurer	0	(117.8)	0	(1,296.0)
Universities				
Board of Regents	419.3	(3,412.9)	10,567.7	(3,687.6)
Arizona State University	25,400.9	(8,295.5)	217,582.0	5,652.3
Northern Arizona University	8,551.9	(2,823.8)	73,253.1	1,911.2
University of Arizona	22,135.0	(7,268.9)	189,604.2	4,936.5
Veterinary Medical Examiners Board	-	-	-	(250.0)
Department of Veteran Services	3,253.8	2,054.3	7,999.4	4,389.9
Department of Water Resources	560.6	(520.7)	2,512.0	(5,344.7)
Department of Weights & Measures	63.8	(16.0)	537.2	(85.0)
Other	42.3	(2,723.7)	(185.1)	(21,542.2)
<b>Grand Total</b>	<b>551,829.2</b>	<b>(134,051.2)</b>	<b>4,503,117.6</b>	<b>(95,149.5)</b>