

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
February 2006

Summary

General Fund revenue collections were \$921.7 million in January, which was 21.9% above the same month last year. January collections are \$154.6 million over the original enacted FY 2006 forecast for the month, and are \$91.1 million higher than the revised January JLBC Baseline FY 2006 forecast for the month.

The FY 2006 General Appropriation Act requires any revenues above the enacted forecast to be deposited into the Budget Stabilization Fund (BSF), with the first deposit made following a report on revenue collections for the first 6 months of the fiscal year by JLBC Staff and the Governor’s Office of Strategic Planning and Budgeting (OSPB) (*see page 5*). Based on collections in the first 6 months of FY 2006, both offices have reported that the deposit will be \$333.0 million. Combined with existing monies in the BSF, there is currently a total of \$495.5 million in the fund.

Any excess revenues in the second half of the fiscal year are also to be deposited into the BSF. However, BSF balances are capped at 7% of General Fund revenue. After the February deposit, the cap would be reached with an additional \$107 million deposit. The excess January revenues of \$154.6 million would be sufficient to reach that level. The second deposit will not be made until JLBC Staff and OSPB report in July 2006 on total FY 2006 revenue collections.

January revenue collections for the 3 largest revenue categories grew at a considerable rate. Sales tax collections were 17.8% above last year, individual income tax increased 29.2%, and corporate income tax collections were 53.1% higher than last year.

In other fiscal news this month, the JLBC Staff released its latest calculation of the state’s appropriation limit. The Arizona Constitution limits the appropriations of certain state revenues to no more than 7.41% of personal income. Under the JLBC Baseline, appropriations would be 6.57% of personal income in FY 2006 and 6.09% in FY 2007.

In addition, the federal government recently approved the federal fiscal year (FFY) 2006 budget and the President released a proposal for FFY 2007. Excluding increases for Medicaid spending, federal funding to Arizona is flat in FFY 2006 and would decrease by (2.8)% in FFY 2007 (*see page 9*).

The February Monthly Fiscal Highlights also includes a summary of the February 23rd JCCR meeting (*see page 5*) and a summary of recent statutory reports submitted to JLBC (*see page 6*).

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State of Arizona

General Fund Revenue: Change from Previous Year and January Forecast

January 2006

	Current Month					FY 2006 YTD (Seven Months)				
	Actual	Change From			Actual	Change from				
		January 2006	January 2005	Revised Forecast		January 2006	January 2005	Revised Forecast		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent		
<u>Taxes</u>										
Sales and Use	\$420,282,327	\$63,463,688	17.8 %	\$17,094,718	4.2 %	\$2,466,341,516	\$361,942,079	17.2 %	\$17,094,718	0.7 %
Income - Individual	461,569,948	104,360,909	29.2	63,384,868	15.9	2,129,525,786	406,809,078	23.6	63,384,868	3.1
- Corporate	34,006,284	11,796,513	53.1	7,622,153	28.9	432,775,025	67,824,541	18.6	7,622,153	1.8
Property	605,175	189,348	45.5	405,175	202.6	14,390,203	(60,709)	(0.4)	405,175	2.9
Luxury	6,053,762	(477,325)	(7.3)	380,762	6.7	37,859,686	745,525	2.0	380,762	1.0
Insurance Premium	113,695	(3,533,717)	(96.9)	113,695	--	137,348,755	10,340,155	8.1	113,695	0.1
Estate	514,090	(1,127,795)	(68.7)	(260,910)	(33.7)	10,890,674	(11,496,813)	(51.4)	(260,910)	(2.3)
Other Taxes	78,077	5,669	7.8	11,077	16.5	397,780	(1,280,542)	(76.3)	11,077	2.9
Sub-Total Taxes	\$923,223,358	\$174,677,290	23.3 %	\$88,751,538	10.6 %	\$5,229,529,425	\$834,823,314	19.0 %	\$88,751,538	1.7 %
<u>Other Revenue</u>										
Lottery	3,158,200	31,400	1.0	(2,741,800)	(46.5)	24,401,000	5,942,000	32.2	(2,741,800)	(10.1)
License, Fees and Permits	2,849,513	510,646	21.8	260,213	10.0	18,364,060	3,108,432	20.4	260,213	1.4
Interest	6,318,958	3,925,048	164.0	1,512,958	31.5	28,037,188	16,509,579	143.2	1,512,958	5.7
Sales and Services	7,500,288	975,997	15.0	508,588	7.3	31,781,590	7,271,406	29.7	508,588	1.6
Other Miscellaneous	1,702,440	(452,964)	(21.0)	(382,762)	(18.4)	13,932,237	2,697,737	24.0	(382,762)	(2.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	12,359,986	3,046,256	32.7	3,199,986	34.9	16,706,093	(9,177,740)	(35.5)	3,199,986	23.7
Sub-Total Other Revenue	33,889,385	8,036,383	31.1 %	2,357,183	7.5 %	133,222,168	26,351,414	24.7 %	2,357,183	1.8 %
TOTAL BASE REVENUE	\$957,112,743	\$182,713,673	23.6 %	\$91,108,721	10.5 %	\$5,362,751,593	\$861,174,728	19.1 %	\$91,108,721	1.7 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	0	0.0	(248,050,207)	(30,424,537)	14.0	0	0.0
VLT Transfer	0	(12,544,933)	(100.0)	0	--	0	(66,689,076)	(100.0)	0	--
Judicial Enhancement	0	(5,235)	(100.0)	0	--	0	(2,120,489)	(100.0)	0	--
Sub-Total Transfers In	(35,435,744)	(16,896,530)	91.1 %	0	0.0 %	(248,050,207)	(99,234,102)	66.7 %	0	0.0 %
TOTAL REVENUE	\$921,676,999	\$165,817,143	21.9 %	\$91,108,721	11.0 %	\$5,114,701,386	\$761,940,626	17.5 %	\$91,108,721	1.8 %

JANUARY REVENUES

Sales Tax revenue increased by 17.8% on a year-over-year basis in January and was \$17.1 million above the revised forecast for the month. Based on collections through January:

- **Retail** receipts have increased by 15.5%.
- **Contracting** continues to generate strong returns, with year-to-date growth of 26.6%.
- **Utilities** collections are up 12.2%.
- **Use tax** receipts (all of which are retained by the state) have grown by 22.1%.
- **Restaurant and bar** collections are up 13.3%.

Individual Income Tax collections were \$461.6 million in January, a 29.2% increase above last January and \$63.4 million above the revised forecast for the month. Withholding collections grew by 15.8%, while estimated payments increased 52.5% over January 2005.

Corporate Income Tax collections were \$34.0 million in January, a 53.1% increase from a year ago. For the fiscal year to date through January, corporate income tax revenues have increased 18.6% from last year.

The General Fund portion of January **Luxury Tax** collections was \$6.1 million, or (7.3)% below January 2005.

Table 2
General Fund Revenues
Compared to Revised Forecast and FY 2005 Collections
 (\$ in Millions)

	FY 2006 Collections	Difference From Forecast ^{1/}	Difference From FY 2005
January	\$ 921.7	\$ 91.1	\$ 165.8
Year-to-Date	\$ 5,114.7	\$ 91.1	\$ 761.9

^{1/} JLBC Baseline Budget (January)

RECENT ECONOMIC INDICATORS

U.S. Gross Domestic Product (GDP) growth eased to a 1.1% annual pace in 2005's fourth quarter, the slowest reported since the final quarter of 2002. Personal consumption, government spending, motor vehicle output, and imports were among the factors curbing the economy's performance late last year.

The Conference Board's **U.S. Consumer Confidence Index** climbed 2.4% in January, reaching its highest level since June 2002. Consumers' assessment of current economic conditions and the job market improved, but their outlook for the next 6 months was less sanguine in January than in December.

The **U.S. Index of Leading Economic Indicators** jumped 1.1% in January, following revised increases of 0.3% and 0.9% in the prior 2 months. Building permits, vendor

performance, and declining unemployment insurance claims were among the factors contributing to the increase.

The high-technology sector finished 2005 on a solid note. Although the 3-month moving average of **U.S. semiconductor billings** edged down (0.5)% in December, it stood 14.6% higher than a year ago. Sales by American manufacturers topped \$40 billion in 2005, up 2.8% from 2004. Worldwide semiconductor sales reached a record \$227.5 billion in 2005, a 6.8% increase from the prior year. The Semiconductor Industry Association forecasts global sales to increase by 7.9% to \$245 billion in 2006.

Although the **U.S. Consumer Price Index (CPI)** climbed 0.7% in January due to rising energy prices, the 3-month moving average dipped (0.2)% from December. Excluding food and fuel costs, the core CPI increased 2.1% during the last 12 months.

The **Arizona Business Conditions Index**, which is derived from a monthly survey of purchasing managers, fell (10.1)% to 62.6 in January but remained well above the reading of 50 associated with an expanding economy. The production component endured a steep drop while the employment measure was unchanged.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** dropped to \$257,000 in January from the \$260,000 reported for December. The single-family median price increased 32.5% in the last 12 months. The number of single family homes sold declined to 5,260, which was (18.8)% below December and (43.8)% below the level from a year ago.

Phoenix Sky Harbor air passenger traffic increased 2.6% on a year-over-year basis in December. A total of 41.4 million passengers used the airport in 2005, a 4.3% increase from 2004.

The **Department of Corrections' inmate population** increased by an average of 90 inmates per month from November through January. The total population increased by 933 inmates from a year ago.

The number of **TANF recipients** increased 0.2% to 97,559 in December but was (9.9)% below the level from December 2004. The **AHCCCS caseload** dropped (1.3)% in January from the prior month but remained 0.3% above the level from a year ago.

Table 3**RECENT ECONOMIC INDICATORS**

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	December	4.6%	(0.2)%	0.1%
- Jobs	December	2.56 million	0.7%	4.5%
- Contracting Tax Receipts (3-month average)	Nov-Jan	\$74.2 million	7.6%	27.7%
- Retail Sales Tax Receipts (3-month average)	Nov-Jan	\$173.6 million	13.6%	14.1%
- Residential Building Permits - (3-month moving average)				
Single-unit	Oct-Dec	5,751	(5.0)%	1.2%
Multi-unit	Oct-Dec	937	(8.3)%	10.4%
- Greater Phoenix Existing Home Sales				
Single-Family	January	5,260	(18.8)%	(43.8)%
Townhouse/Condominium	January	1,225	(12.5)%	(26.9)%
- Greater Phoenix Median Home Sales Price				
Single-Family	January	\$257,000	(1.2)%	32.5%
Townhouse/Condominium	January	\$165,000	0.6%	32.0%
- Arizona Tourism Barometer	December	108.1	3.2%	9.4%
- Phoenix Sky Harbor Air Passengers	December	3.43 million	0.8%	2.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	November	\$8.88	0.3%	36.6%
- Leading Indicators Index	November	121.6	0.7%	1.4%
- Business Conditions Index (>50 signifies expansion)	January	62.6	(10.1)%	(2.2)%
- Consumer Confidence Index	1 st Quarter 2006	114.6	14.6%	9.9%
- Business Leaders Confidence Index	1 st Quarter 2006	59.9	9.5%	(3.9)%
- Arizona Personal Income	3 rd Quarter 2005	\$179.6 billion	1.7%	8.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	January	804,326	(1.3)%	0.3%
- TANF Recipients	December	97,559	0.2%	(9.9)%
- DOC Inmate Growth (3-month average)	Nov-Jan	33,435	90 inmates	933 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	4 th Quarter 2005	\$11.2 trillion	1.1%	3.1%
- Consumer Confidence Index	January	106.3	2.4%	1.1%
- Leading Indicators Index	January	140.1	1.1%	2.4%
- U.S. Semiconductor Billings (3-month moving average)	Oct-Dec	\$3.71 billion	(0.5)%	14.6%
- Consumer Price Index (3-month moving average)	Nov-Jan	197.6	(0.2)%	3.6%

UPDATES ON BUDGET ISSUES

Budget Stabilization Fund Deposit – The FY 2006 General Appropriation Act (GAA) requires any revenues above the enacted forecast to be deposited into the Budget Stabilization Fund (BSF). The GAA also requires JLBC Staff and the Governor’s Office of Strategic Planning and Budgeting (OSPB) to report by February 10, 2006 on revenue collections in the first 6 months of FY 2006. The JLBC Staff and OSPB reported that total revenues in the first 6 months were \$4,193,032,600. The enacted forecast for this time period was \$3,860,075,000. Actual revenues exceeded the forecast, therefore, by \$332,957,600. This amount will be deposited into the BSF. After the new deposit, total monies in the BSF will be \$495,514,200. The JLBC Staff and OSPB will report again by July 31, 2006, on whether total FY 2006 revenues exceed the enacted forecast. The total FY 2006 General Fund forecast was \$7,904,179,800.

State Appropriations Limit – A.R.S. § 41-1273 requires JLBC Staff to annually report on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Under the revised FY 2006 JLBC budget, total state spending (both General and Other Funds) would be \$11.83 billion, or 6.57% of personal income. The FY 2007 JLBC Baseline includes spending of \$12.13 billion, which is 6.09% of personal income.

Revenues subject to the limit include: 1) taxes, 2) university collections, and 3) licenses, fees, and permits. These revenues may either be deposited in the General Fund or used for a dedicated purpose. The following appropriated revenues are not subject to the limit: 1) interest and dividends earnings, 2) sales, rentals, and service receipts, 3) federal grants, 4) gifts and donations, and 5) monies received by the state as a trustee, custodian, or agent.

Truth in Taxation K-12 Property Tax Rates – A.R.S. § 41-1276 requires the JLBC Staff to annually calculate and report the Truth in Taxation (TNT) adjustments to the K-12 property tax rates. The K-12 property tax rates consist of the Qualifying Tax Rate (QTR) and the County Equalization Tax Rate. Each year these rates are adjusted to offset increases in the valuation of existing property, with the intended result of producing no change in statewide property tax liability. The following table displays the current rates, as well as the new rates after making the adjustment.

	<u>FY 2006</u>	<u>FY 2007</u>
Unified QTR	\$3.6180	\$3.5034
Non-Unified QTR	\$1.8090	\$1.7517
County Equalization	\$0.4358	\$0.4220

Based on the most recent information submitted by county assessors, statewide assessed values are expected to increase by 10% in FY 2007, of which 6.7% would be due to new construction, and 3.3% would be due to the higher value of existing properties. The TNT adjustment is made to only offset growth in the assessed valuation of existing property.

Since the state share of K-12 education costs depends on the amount of revenues generated from the QTR and the County Equalization Tax Rate, any reduction in these rates requires the state to provide the Arizona Department of Education (ADE) with additional funding for Basic State Aid. Based on the forecasted rates, the FY 2007 JLBC Baseline already included additional funding to ADE for Basic State Aid. Since the difference between the forecasted and actual rates was small, the JLBC Baseline would only need to be adjusted upward by \$2.1 million to fund the revised rates.

JCCR MEETING

At its February 23 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

State Parks Lake Improvement Grants – The Committee favorably reviewed 11 State Lake Improvement Fund (SLIF) grants and projects totaling \$2,581,500. The favorable review included the provision that the department submit additional information regarding the appropriate level of administration expenses paid with SLIF monies, the proposed use of the \$150,000 state parks project money, and the use of pricing guidelines to ensure that local governments receive comparable grants for comparable equipment.

Monies are available to state agencies, counties, and local governments for capital improvement projects and acquisitions of real property on waters where boats are permitted.

School Facilities Board Building Renewal Allocation – The Committee favorably reviewed the proposed distribution of the \$70 million FY 2006 Building Renewal Allocation. A.R.S. § 15-2031 provides a formula to determine the amount of building renewal monies to be distributed to each school building.

State Fair Building Renewal Allocation – The Committee favorably reviewed the 4 projects in the Arizona Exposition and State Fair (AESF) FY 2006 Building Renewal Plan totaling \$859,000. The plan includes a new evaporative cooling system for the Exhibit Building, replacement evaporative coolers for the Agriculture Building, a replacement cooling tower for the administrative offices, and a master plan study for the Avenue of Flags.

ADOT De-Icer Buildings – The Committee favorably reviewed the de-icer project with the provision that the department report back to JLBC Staff the cost estimate after the contract is awarded. The project is scheduled to go to bid on February 23. The de-icer project has an appropriated

budget of \$1,089,000 to build 4 new buildings to house de-icer chemicals, bulk sand, and cinders.

Game and Fish Department Headquarters Relocation – The Committee heard information regarding the relocation of agency headquarters. The current headquarters, located at 2221 Greenway Road, consists of approximately 71,000 square feet of office space and 17,000 square feet of storage space. The new headquarters, which will be located near I-17 and the Carefree Highway (the Ben Avery Shooting Range), will consist of 80,000 square feet of office space and 24,000 square feet of storage space. The building is estimated to cost between \$15-\$16.5 million. The project would be financed through a Privatized Lease-to-Own agreement, and annual payments of \$1.5 million would equate to \$37.5 million over the 25-year repayment period. The Committee requested the department submit the scope, purpose and estimated cost of the project prior to the department executing a financing agreement.

FY 2007 Capital Outlay Budget – The Committee adopted a \$337.6 million Capital Outlay Budget for FY 2007. This amount consists of \$44.1 million from the General Fund (GF), \$261.4 million from the State Highway Fund, and \$32.1 million from Other Funds (OF). The adoption provides 100% funding of the building renewal formula for the Department of Transportation (FY 2006 formula), the Exposition and State Fair Board, the Game and Fish Department, and the Lottery Commission. The adoption also provides 29% funding of the building renewal formula for the Department of Administration and the University Building Systems.

Major components of the capital budget as adopted include:

- \$20 million GF for university building renewal
- \$3.8 million GF and \$3.4 million OF for ADOA building renewal
- \$15 million GF for State Archives and History Building (already enacted)
- \$5.2 million GF to replace cell locks and cell doors at state prisons
- \$2.2 million OF to upgrade a water treatment plant at the Arizona State Prison complex in Yuma
- \$1.1 million OF for 11 Game and Fish projects
- \$252 million OF for highway construction (unadjusted for changes in DPS and ADOT operating budgets)
- \$5.8 million OF for 3 ADOT facilities projects
- \$200,000 OF for civil air patrol infrastructure improvements at the Glendale Airport
- Require building renewal appropriation revert after 18 months, instead of 27 months
- Require building renewal expenditure plans to JCCR identify energy efficient project components
- Revised FY 2006 session law to allow the Department of Economic Security to convey, instead of exchange, property with the City of Prescott, and to retain any proceeds from the conveyance for moving costs and for costs to acquire office space.

SUMMARY OF RECENT AGENCY REPORTS

City of Phoenix – Semi-Annual Report on Civic Plaza Expansion Project – The City has issued its fourth progress report on the Civic Plaza expansion project (copies available upon request).

- Construction to date continues to be on schedule, with an anticipated Certification of Completion date of 2008.
- The total authorization of \$600 million in bonds for the project were sold in September and October 2005.
- Construction of a new downtown hotel is anticipated to begin in March 2006, with completion in the Fall of 2008.

The state’s obligation for the Civic Plaza expansion project (excluding the hotel) is to pay the debt service and related costs on \$300 million of construction bonds. The City will provide an analysis of total debt service and related costs in their next report to JLBC Staff, based on the September and October 2005 sale of the bonds.

AHCCCS – Report on Redetermination Policy – Pursuant to Laws 2005, Chapter 328, AHCCCS has submitted a report to the Joint Legislative Budget Committee on the effects of shortening the redetermination period to 6 months for Temporary Assistance for Needy Families (TANF) Cash Benefit clients age 21 or older.

According to AHCCCS’ report, a total of 68,575 letters were sent during a seven month period (June 2005 through December 2005) to redetermine eligibility. Of that total, their current status is as follows:

• Cont’d without interruption	49,757	72.6%
• Cont’d, but service interrupted – Did not initially go to a redetermination interview	7,897	11.5%
• Status uncertain – Interview scheduled	1,095	1.6%
• Discont’d benefits	9,826	14.3%

Arizona Department of Corrections – Report on Monthly Bed Plan Update – The Department of Corrections (ADC) has been providing monthly reports to JLBC Staff updating the status of several topics:

Bed Update

- Arizona inmates currently occupy all of the 2,064 available provisional beds located at out-of-state facilities in Oklahoma and Texas.
- The department on February 10, 2006 issued a notice to proceed with a 1,000-bed private prison facility to Correctional Services Corporation. The prison, located in Florence, will house level-3 sex offenders, and the department projects that inmates will be transferred there in December 2006.

Inmate Stores

- ADC employees previously assigned to inmate commissary stores have been reassigned following improved operations at the stores, the department reported. In June 2005, the

department awarded a contract to privatize inmate stores, but delays prevented full implementation within 90 days as originally intended and prevented the department from reassigning staff from store assignments to other security posts. Other outstanding deficiencies still exist, including inmate credits and product substitutions, which remain high, the department reported.

Community Accountability Program

- The Community Accountability Pilot Program contract was awarded on January 18, 2006. The program is expected to begin within 30 days of the contract award.

Maricopa Health Care Contract

- ADC reported that it expects to receive best and final offers on the Maricopa Health Care Contract during the week of February 13 and award the contract the following week, 2 weeks later than the previous award date estimate.

Department of Economic Security – Report on JOBS Expenditure Detail and Placement Data

– Pursuant to a General Appropriation Act footnote, the Department of Economic Security (DES) is reporting on its education and training activities in the Job Opportunities and Basic Skills (JOBS) program for FY 2005. The footnote stated it was the intent of the Legislature that DES use \$4.5 million of its \$22.6 million JOBS appropriation to contract with education and training entities to assist JOBS clients in obtaining jobs paying at least \$10 per hour. DES reports that while it did not expend the full \$4.5 million it spent \$3.2 million, an increase of \$1.1 million over FY 2004. DES reports the following difficulties in meeting the legislative intent:

- Demand by JOBS clients for services leading to higher paying placements is low. DES reports that 45% of clients do not have a high school diploma or G.E.D. Most prefer immediate employment to long-term education or training goals.
- Many clients interested in vocational and post-secondary education are eligible for financial aid, eliminating the need to spend JOBS funding on these individuals.
- Expending \$4.5 million for the purpose intended by the Legislature would reduce the amount available for case management activities and resources needed to meet federal work participation requirements.

The department did provide information on placements and expenditures for FY 2005. It is unclear, however, if any of these monies were specifically intended for training entities to help clients get \$10-per-hour jobs. According to the agency:

- \$1.8 million was expended for education services.
- \$1.3 million was expended for training related expenses.
- \$91,400 was expended for assessment services to clients.
- 20,940 clients gained employment at an average hourly wage of \$8.01.

Governor's Office of Strategic Planning and Budgeting – Report on Federal Revenue Maximization Initiative

– Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has

submitted its quarterly report on the status of a Federal Revenue Maximization Initiative.

The one newly-completed project is an Arizona Health Care Cost Containment System (AHCCCS)/Department of Economic Security (DES) Eligibility Error Rate Training and Improvement project to provide technical assistance, training, and monitoring to 5 eligibility offices experiencing recurring problems with high error rates. The OSPB report does not indicate the size of potential savings or cost avoidance associated with the pilot or whether the agencies will expand the project to other eligibility offices.

In addition to these projects, the summary lists 10 ongoing projects. Among the more notable items OSPB reports that 5 projects with budget implications had new developments from the prior report:

- *Juvenile Justice and Title XIX Reimbursement:* AHCCCS, Department of Juvenile Corrections (DJC), Department of Health Services (DHS), and DES have submitted a FY 2004 retroactive claim for \$9.1 million in federal funds. The report notes that the federal government has indicated a potential problem with the claim.
- *Program for Children With Special Needs Ages 0-5:* AHCCCS and DES have completed initial analysis. If the project is determined feasible, the report says the project would be submitted as a waiver proposal to the federal government with implementation in October 2006 at the earliest.
- *Title IV-E Funding for Out-of-Home Placement:* DES received 2 grant awards of \$2.1 million and \$44,000 for 2 retroactive claims. It submitted another claim September 30, 2005 and expects to submit its final retroactive claim January 30, 2006.

Department of Health Services – Report on Federal 317 Vaccines Program

– Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) is reporting to the Committee on the amount of federal monies received in FY 2006 for the Federal 317 Vaccines program. The Federal 317 Vaccines program provides immunizations to children in public settings such as malls and clinics. The department reports that as of January 30, it has received \$694,600 in Federal 317 monies.

In FY 2005, the department received \$3,076,700 in Federal 317 Vaccines funding.

Department of Juvenile Corrections – Report on Expenditure of Excess Education Monies

– Pursuant to a footnote in the General Appropriation Act, the Department of Juvenile Corrections (DJC) is required to report to the Director of the Joint Legislative Budget Committee any receipts in excess of \$2,224,100 in the State Education Fund for Committed Youth and the intended use for these excess monies. The department currently anticipates receipt of an additional \$222,210 in revenue above the FY 2006 appropriation. The Arizona Department of Education (ADE) provides educational funding to schools, including DJC, based on the number of enrolled

pupils. In FY 2006, DJC experienced a higher-than-anticipated student population and as a result received additional education funding. According to the Department of Juvenile Corrections, the State Education Fund for Committed Youth is used to fund teacher salaries and benefits and, based on current expenditure levels, \$217,730 of the additional revenue will be used to fund 4 new teacher positions.

Arizona Board of Regents – Report on Tuition Increase Cap for Continuing Students – Laws 2005, Chapter 330 requires the Arizona Board of Regents (ABOR) to report on the advisability and options for implementing a tuition structure that limits tuition increases for continuing students to no more than inflation. ABOR determined that 5 states currently cap tuition in some fashion.

Resident undergraduate tuition rates in the Arizona University System have averaged 11.1% annual increases since FY 2001. ABOR Policy 4-104 A.2, amended in FY 2004, states the board’s intention to reach the top of the lowest 1/3 of rates set by all other states for undergraduate resident tuition at senior public universities. In its report, ABOR explained that declining General Fund appropriations per full-time equivalent student are a major variable leading to decisions to raise tuition.

ABOR concludes that a cap on tuition increases for continuing students is not advisable. ABOR believes that such a cap could not be implemented without large tuition increases for new students, substantial new General Fund support, and/or cuts to existing educational programs. The report seems to indicate that if the Legislature continues to contemplate a tuition increase cap, ABOR would prefer to apply a percentage greater than the inflation rate to all students, not just new students. Furthermore, ABOR urges greater General Fund support for need-based financial assistance, which aids students facing larger tuition bills.

Arizona Board of Regents/Arizona Community Colleges – Report on Articulation and Transfer for Arizona Public Postsecondary Education – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents and the community colleges are required to submit an annual report of their progress on both articulation and meeting statewide postsecondary education needs by December 15.

In response to this mandate, both the universities and the community colleges continue to move toward the goal of seamless course transfer and statewide access to higher education.

This year’s progress in implementing the transfer model and support systems include:

- Approximately 4,000 community college students completed the Arizona General Education Curriculum, which satisfies lower division general education requirements at the universities. This is a 100% increase over 2002.

- The Course Applicability System (CAS) Web site currently experiences 175,000 average “hits” per week, compared to 140,000 “hits” per week at this time last year.

Department of Revenue (DOR) – Report on Ladewig Expenditures – DOR reports monthly on the status of the Ladewig litigation. DOR’s monthly status report shows expenditures of \$11,100 for Ladewig administrative costs in January 2006. On January 9, 2006, DOR revised their cost estimate from \$99.2 million to \$92.6 million in FY 2007 for the third and final year of payments required by the court settlement. DOR expects to update their cost estimate again by the end of February 2006.

Department of Revenue – Report on Revenue Generating Program – A footnote in the General Appropriation Act requires the Department of Revenue (DOR) to report quarterly to the Committee on the effectiveness of the revenue generating program and the department’s overall enforcement and collections program, including a comparison of projected and actual revenue enforcement collections for FY 2006. The revenue generating program was expected to produce \$75.1 million of gross additional enforcement revenue, including a net increase of \$53.2 million to the State General Fund.

DOR has reported their General Fund enforcement revenue, which includes both their baseline and revenue generating program monies. They did not separate out the enforcement monies attributed to the revenue generating program. DOR had General Fund enforcement revenues of \$179.9 million in the first half of FY 2006, which was \$18.9 million above their goal of \$161 million.

School Facilities Board - Report on Funding Estimates - Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to report the estimated amounts necessary in FY 2007 for the New School Facilities, Building Renewal, Emergency Deficiencies Correction, and Deficiencies Correction Funds. The board is also reporting the estimated amounts necessary for these funds for FY 2008. *Table 5* lists the estimated amounts for each of the funds. The Deficiencies Correction Fund expires on June 30, 2006 and, therefore, no appropriations will be necessary for FY 2007 or FY 2008.

Fund Name	FY 2007	FY 2008
New School Facilities ^{1/}	263.3	353.6
Building Renewal ^{2/}	161.5	182.1
Emergency Deficiencies	1.0	0.5
Total	\$425.8	\$536.2

^{1/} SFB assumes all kindergarten students are counted as full ADM, which would cost \$9.1 million in FY 2007 and \$51.1 million in FY 2008.
^{2/} Based on the current statutory funding formula.

In FY 2007, SFB estimates a total funding requirement of \$425.8 million, including \$263.3 million for the New School

Facilities Fund, \$161.5 for the Building Renewal Fund, and \$1 million for the Emergency Deficiencies Correction Fund. Regarding the Emergency Deficiencies Correction Fund, SFB projects spending \$287,700 to replace Tuba City Unified’s high school and \$712,300 on Stanfield Elementary’s septic system. For FY 2008, the board estimates it will need \$536.2 million in appropriated monies. Of this total, \$353.6 million is for the New School Facilities Fund, \$182.1 million is for the Building Renewal Fund, and \$0.5 million is intended for the Emergency Deficiencies Correction Fund. Excluding full-day kindergarten costs, this represents a \$48.3 million increase to the New School Facilities Fund from FY 2007 to FY 2008.

Department of Transportation – Report on Local Transportation Assistance Fund II (Mass Transit) – A.R.S. § 28-8103 requires the Arizona Department of Transportation (ADOT) to submit an annual report on the allocation of Local Transportation Assistance Fund II (LTAF II) monies by January 1 of each year. The statutory maximum annual allocation is \$18,000,000. ADOT reports that they allocated \$5,300,000 from LTAF II in FY 2005 to counties and local governments, including 99.9% for transit capital and operating projects and 0.1% for other transportation purposes. The following table shows the allocations beginning in FY 1999.

Fiscal Year	Monies	Distribution	
		Transit Capital & Operating Projects	Other Transportation
FY 1999 ^{1/}	\$ 6,700,000	76.0%	24.0%
FY 2000	18,000,000	83.0%	17.0%
FY 2001	15,400,000	99.9%	0.1%
FY 2002	6,500,000	99.9%	0.1%
FY 2003	7,200,000	99.9%	0.1%
FY 2004	13,500,000	99.9%	0.1%
FY 2005	5,300,000	99.9%	0.1%

^{1/} LTAF II was in effect for 10 months in FY 1999.

programs in Arizona would increase from \$6.6 billion to \$7.0 billion, or 4.7% from FFY 2006 to FFY 2007. (*Please see attached table and program descriptions.*) The proposed \$314 million increase in FFY 2007 follows a \$467 million increase in FFY 2006 where federal grant programs in Arizona increased from \$6.2 billion to \$6.6 billion, or 7.6% from FFY 2005 to FFY 2006. Over the two year period from FFY 2005 to FFY 2007, total funding in Arizona is proposed to increase from \$6.2 billion to \$7.0 billion, or 12.7%. Arizona’s increase in federal funds has been due to increases in total federal spending and because Arizona’s proportional share of the federal budget has continued to grow. Arizona’s share of the federal budget would increase from 2.0% in FFY 2005 to 2.2% in FFY 2007.

<u>FFY 2002</u>	<u>FFY 2003</u>	<u>FFY 2004</u>	<u>FFY 2005</u>	<u>FFY 2006</u>	<u>FFY 2007</u>
1.6%	1.7%	1.9%	2.0%	2.1%	2.2%

The information is compiled from Federal Funds Information for States (FFIS) data. FFIS is a joint effort of the National Governors Association and the National Conference of State Legislatures. They report on the largest federal grant-in-aid programs, which reflect the overwhelming share of total federal assistance to state governments. However, the amounts do not include discretionary grants, competitive grants or direct cash assistance to individuals (such as Medicare and Social Security). These grants reflect appropriations rather than actual expenditures. In some cases, state agency estimates for these grants may not match the amounts shown in the table. For an overview of all federal government expenditures in Arizona, including expenditures from the grants discussed here, please see the Consolidated Federal Funds Report found at <http://www.census.gov/prod/2005pubs/cffr-04.pdf>. The most recent data shows that total federal expenditures in Arizona were \$42 billion in FFY 2004.

Education

Under the President’s budget, major grant programs administered through the Department of Education would decrease overall by \$(18.6) million, or (3.4)%, from FFY 2006 to FFY 2007. This would offset an increase of \$13 million, or 2.4%, in Department of Education programs from FFY 2005 to FFY 2006.

- As he did previously, the President proposes to eliminate Vocational Education grants while increasing other education programs. Thus, the \$(24.1) million decrease from FFY 2006 to FFY 2007 shown in the table is somewhat offset by increases elsewhere.

Health and Human Services

Funding across all Health and Human Services programs would increase by \$364 million, or 6.6%, from FFY 2006 to FFY 2007. These programs increased by \$473 million, or 9.4%, from FFY 2005 to FFY 2006. As in previous years, Arizona would show significant gains in Medicaid Vendor Payments. Arizona would receive an increase of \$368 million,

FEDERAL FUNDS

On February 1, 2006, the U.S. House approved a spending reconciliation bill that completed the last piece of the federal budget for federal fiscal year (FFY) 2006. Five days later on February 6, the President released his budget proposal for federal FFY 2007. The FFY 2006 budget increased funding for major federal grant-in-aid programs in Arizona by \$467 million, or 7.6%. The President’s proposed budget would further increase spending by \$314 million, or 4.7%. In both years, however, Medicaid spending is the primary reason for the higher funding. Without the Medicaid adjustment, total federal funding would have been virtually flat in FFY 2006 and would have declined by (2.8%) in FFY 2007.

The President’s budget for FFY 2007 proposes increases for defense and homeland security while reducing non-defense and non-security discretionary programs. Under the President’s budget, total funding for major federal grant

or 7.8%, from FFY 2006 to FFY 2007. This follows an increase of \$456 million, or 10.7%, in total Medicaid funding from FFY 2005 to FFY 2006. If Medicaid is excluded, funding for major federal programs in Arizona would decrease by \$(53.6) million, or (2.8%), from FFY 2006 to FFY 2007. Total funding excluding Medicaid increased by only \$11.1 million, or 0.6%, from FFY 2005 to FFY 2006. Without Medicaid dollars, Arizona's share of all major federal programs would remain constant at 1.60% in FFY 2005, FFY 2006 and FFY 2007.

- The budget eliminates the Community Services Block Grant (CSBG), a reduction of \$(5.1) million from FFY 2006 to FFY 2007. Instead of CSBG, the Administration proposes to provide for the needs of the poor through other federal programs specifically targeting employment, housing, nutrition, and health care.
- The budget reduces Social Services Block Grant (SSBG) funding by \$(9.5) million, or (29.4%), from FFY 2006 to FFY 2007.
- Arizona would receive \$2.8 million, or 7.6%, more for the Vaccines for Children program in FFY 2006 than in FFY 2007.
- Arizona would receive \$3.1 million, or 10.2%, more for Consolidated Health Centers in FFY 2006 than in FFY 2007.

Department of Justice

As in prior years, the President's FFY 2007 budget eliminates funding for the State Criminal Alien Assistance Program and the Byrne Justice Assistance Grants. This would decrease Justice Department funds by \$(26.2) million from FFY 2006 to FFY 2007. The Administration proposes to reallocate funding to other higher priority needs such as Federal counterterrorism, immigration enforcement, and other law enforcement programs. Although the President proposed these programs for elimination in FFY 2006, the final budget included an increase of \$2.3 million, or 9.7%, from FFY 2005 to FFY 2006.

Department of Labor

Also following the pattern of previous years, the President's FFY 2007 budget would merge the Department of Labor's Adult Training, Dislocated Workers, Employment Services, and Youth Activities into a single grant program called Career Advancement Accounts. Under the consolidated program, funding would decrease by \$(5.2) million, or (8.7%), for unemployment services from FFY 2006 to FFY 2007. These proposals were not enacted in the FFY 2006 budget, but funding for employment programs still decreased by \$(6.3) million, or (9.5%), from FFY 2005 to FFY 2006.

Other Programs

Base funding for the State Homeland Security Grant Program would decrease by \$(2.5) million, or (61.3%), from FFY 2006 to FFY 2007. This follows a previous decrease of \$(15.9) million, or (79.6%), from FFY 2005 to FFY 2006. The Administration has cited the need to target resources towards

threat-based homeland security priorities as the main reason for the proposed reduction.

Arizona funds from Community Development Block Grant (CDBG) programs would decrease by \$(10.9) million, or (20%), from FFY 2006 to FFY 2007. This follows a decrease of \$(5.6) million, or (9.2%), from FFY 2005 to FFY 2006. The Administration has proposed to reduce CDBG base funding in order to more effectively direct funds to higher need communities.

Funding for the Clean Water State Revolving Fund (SRF) would decrease by \$(1.4) million, or (22.8%), from FFY 2006 to FFY 2007. These funds were also decreased by \$(1.3) million, or (18.3%), from FFY 2005 to FFY 2006. The Administration contends that previous Congressional appropriations in excess of the amounts requested by the President have over-funded the program and that a reduction can be made without affecting the long range goals of the program.

Department of Transportation programs would increase by \$13.9 million, or 4.2%, from FFY 2006 to FFY 2007 under the President's proposal. These programs increased by \$1.4 million, or 0.4%, from FFY 2005 to FFY 2006.

Amount of Federal Grant-in-aid Money Distributed to Arizona for Major Programs

(Dollars in thousands)

Federal Agency	FY 2005	FY 2006	FY 2007	FY07 \$ above FY06	FY07 % above FY06
Department of Agriculture					
Women, Infants & Children (WIC) Suppl. Feeding Program	100,062	103,736	103,382	(354)	(0.3%)
Department of Education					
Title I – Grants to Local Education Agencies	248,947	260,093	259,834	(259)	(0.1%)
Vocational Rehabilitation – State Grants	50,162	52,642	56,407	3,765	7.2%
Special Education – Basic State Grant	162,563	162,328	164,291	1,963	1.2%
State Grants for Improving Teacher Quality	48,327	48,188	48,188	0	0.0%
Vocational Education – State Grants <u>1/</u>	24,337	24,087	0	(24,087)	(100.0%)
Department of Health and Human Services					
Adoption Assistance	25,983	28,576	31,065	2,489	8.7%
CDC: State and Local Capacity	15,538	13,932	13,932	0	0.0%
Child Care and Development Block Grant	49,265	49,980	49,980	0	0.0%
Child Care Entitlement – Mandatory and Matching	50,705	56,006	56,006	0	0.0%
Child Support Enforcement Administration	46,439	46,228	46,099	(129)	(0.3%)
Community Services Block Grant <u>1/</u>	5,177	5,128	0	(5,128)	(100.0%)
Consolidated Health Centers	29,633	30,453	33,546	3,093	10.2%
Foster Care	79,927	84,717	87,080	2,363	2.8%
Head Start	103,225	102,352	102,352	0	0.0%
Low-Income Home Energy Assistance Program (LIHEAP)	7,084	7,448	7,882	434	5.8%
Medicaid – Administration	99,604	102,136	109,224	7,088	6.9%
Medicaid – Vendor Payments	3,981,058	4,433,572	4,845,177	411,605	9.3%
Promoting Safe and Stable Families	6,107	6,856	6,856	0	0.0%
Social Services Block Grant (SSBG)	32,442	32,442	22,900	(9,542)	(29.4%)
State Children’s Health Insurance Program (SCHIP)	182,833	183,725	132,554	(51,171)	(27.9%)
Substance Abuse and Prevention Block Grant	31,857	31,553	31,553	0	0.0%
Temporary Assistance for Needy Families (TANF)	226,417	226,131	226,131	0	0.0%
Vaccines for Children	32,284	37,154	39,969	2,815	7.6%
Department of Homeland Security					
Homeland Security Formula Grants	20,022	4,088	1,583	(2,505)	(61.3%)

Amount of Federal Grant-in-aid Money Distributed to Arizona for Major Programs

(Dollars in thousands)

<u>Federal Agency</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY07 \$ above FY06</u>	<u>FY07 % above FY06</u>
HUD and Independent Agencies					
Community Development Block Grant (CDBG) – Entitlement	46,589	42,505	34,037	(8,468)	(19.9%)
CDBG – Non-entitlement	13,624	12,144	9,687	(2,457)	(20.2%)
EPA – Clean Water SRF	7,350	6,003	4,633	(1,370)	(22.8%)
Department of Justice					
State Criminal Alien Assistance Program <u>2/</u>	14,370	20,083	0	(20,083)	(100.0%)
Justice Assistance Grants <u>2/</u>	9,505	6,100	0	(6,100)	(100.0%)
Department of Labor					
Workforce Investment Act – Adult Employment and Training Activities <u>3/</u>	16,057	15,358	0	(15,358)	(100.0%)
Dislocated Workers <u>3/</u>	19,814	15,951	0	(15,951)	(100.0%)
Employment Service State Grants <u>3/</u>	13,115	12,141	0	(12,141)	(100.0%)
Unemployment – State Administration	25,952	28,968	30,311	1,343	4.6%
Workforce Investment Act – Youth Activities <u>3/</u>	17,469	16,671	0	(16,671)	(100.0%)
Career Advancement Accounts <u>3/</u>	0	0	54,894	54,894	0.0%
Department of Transportation					
Federal Aid Highways – Bridge R & R	11,766	13,844	14,586	742	5.4%
Federal Aid Highways – Interstate Maintenance	95,408	99,063	104,024	4,961	5.0%
Federal Aid Highways – National Highway System	105,645	108,541	113,183	4,642	4.3%
Federal Aid Highways – Surface Transportation Program	117,086	109,857	113,400	3,543	3.2%
Total Arizona Funding	6,173,747	6,640,777	6,954,744	313,967	4.7%
Total US Funding	308,865,522	316,951,629	322,627,295	5,675,666	1.8%
Arizona % Share of US Total	2.00%	2.10%	2.16%		
Arizona % Share of US Total (without Medicaid)	1.60%	1.60%	1.60%		

1/ The President's budget for FY 2007 proposes to eliminate this program.

2/ The President proposes to replace the State Criminal Alien Assistance Program and Justice Assistance Grants with a new justice assistance program that does not include significant formula grants for states.

3/ The President's budget consolidates Dislocated Workers, Adult Training, Youth Services and Employment Services into a new program called Career Advancement Accounts.

Program Descriptions for Major Federal Grants

Department of Agriculture

Women, Infants & Children (WIC) Supplemental Feeding Program

To provide, low-income pregnant, breastfeeding and postpartum women, infants, and children to age five determined to be at nutritional risk, at no cost, supplemental nutritious foods, nutrition education, and referrals to health care providers.

Department of Education

Title I – Grants to Local Education Agencies

To help local education agencies (LEAs) and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic standards.

Vocational Rehabilitation – State Grants

To assist States in operating programs of vocational rehabilitation; to provide vocational rehabilitation services for individuals with disabilities so they may prepare for and engage in competitive employment.

Special Education – Basic State Grant

To provide grants to States to assist them in providing a free appropriate public education to all children with disabilities.

State Grants for Improving Teacher Quality

To provide grants to State Education Agencies (SEAs) on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

Vocational Education – State Grants

Basic grants assist States and outlying areas to expand and improve their programs of vocational education and provide equal access in vocational education to special needs populations. The populations assisted by Basic Grants range from secondary students in pre-vocational courses through adults who need retraining to adapt to changing technological and labor market conditions.

Department of Health and Human Services

Adoption Assistance

To provide Federal Financial Participation to States in adoption subsidy costs for the adoption of children with special needs and who meet certain eligibility tests.

Centers for Disease Control and Prevention: State and Local Capacity

To ensure that state and local health departments, hospitals, and other health care entities are able to mount a collective response featuring seamless interaction of their event-specific capabilities in areas related to bioterrorism.

Child Care and Development Block Grant (includes Entitlement – Mandatory and Matching program)

To make grants to States and Tribes to assist low-income families with child care and to: (1) Allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within State; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage States to provide consumer education information to help parents make informed choices about child care; (4) assist States to provide child care to parents trying to achieve independence from public assistance; and (5) assist States in implementing the health, safety, licensing, and registration standards established in State regulations.

Child Support Enforcement Administration

To enforce the support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child, spousal and medical support.

Community Services Block Grant

To provide assistance to States and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

Consolidated Health Centers

To support the development and operation of health centers which provide preventive and primary health care services, supplemental health and support services and environmental health services to medically underserved areas/populations.

Foster Care

To help States provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering State agency and need temporary placement and care outside their homes; and to provide Federal Financial Participation in costs related to the program.

Head Start

To promote school readiness by enhancing the social and cognitive development of low-income children, including children on federally recognized reservations and children of migratory farm workers, through the provision of comprehensive health, educational, nutritional, social and other services; and to involve parents in their children's learning and to help parents make progress toward their educational, literacy and employment goals.

Low-Income Home Energy Assistance Program (LIHEAP)

To make Low Income Home Energy Assistance Program (LIHEAP) grants available to States and other jurisdictions to assist eligible households to meet the costs of home energy.

Medicaid; Title XIX – Administration

Medicaid; Title XIX – Vendor Payments

To provide financial assistance to States for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and other categorically-eligible groups. Financial assistance is provided to States to pay for Medicare premiums, copayments and deductibles of qualified Medicare beneficiaries meeting certain income requirements. More limited financial assistance is available for certain Medicare beneficiaries with higher incomes.

Promoting Safe and Stable Families

To fund community-based family support services that promote the safety and well-being of children and families by enhancing family functioning and child development; to fund family preservation services that serve families at risk or in crisis, including the following services: reunification and adoption services, preplacement/preventive services, follow-up services after return of a child from foster care, respite care, services designed to improve parenting skills; and infant safe haven programs; to fund time-limited family reunification services to facilitate the reunification of the child safety and appropriately within a timely fashion; and to fund adoption promotion and support services designed to encourage more adoptions out of the foster care system, when adoptions promote the best interests of children.

Social Services Block Grant (SSBG)

To enable each State to furnish social services best suited to the needs of the individuals residing in the State. Federal block grant funds may be used to provide services directed toward one of the following five goals specified in the law: (1) To prevent, reduce, or eliminate dependency; (2) to achieve or maintain self-sufficiency; (3) to prevent neglect, abuse, or exploitation of children and adults; (4) to prevent or reduce inappropriate institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate.

State Children's Health Insurance Program (SCHIP)

To provide funds to States to enable them to initiate and expand child health assistance to uninsured, low-income children. Assistance should be provided primarily by two methods: (1) Obtain health insurance coverage that meets the requirements relating to the amount, duration, and scope of benefits; or (2) expand eligibility for children under the State's Medicaid program.

Substance Abuse and Prevention Block Grant

To provide financial assistance to States and Territories to support projects for the development and implementation of prevention, treatment and rehabilitation activities directed to the diseases of alcohol and drug abuse.

Temporary Assistance for Needy Families (TANF)

To provide grants to States, Territories, or Tribes to assist needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.

Vaccines for Children

To assist States and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases (including measles, rubella, poliomyelitis, diphtheria, pertussis, tetanus, hepatitis B, hepatitis A, varicella, mumps, haemophilus influenza type b, influenza, and pneumococcal pneumonia).

Department of Homeland Security

Homeland Security Formula Grants

SHSP: The State Homeland Security Program (SHSP) enables states to prepare for and mitigate the effects of attacks from chemical, biological, radiological, nuclear and explosive terrorist attacks. **LETPP:** The Law Enforcement Terrorism Prevention Program (LETPP) may be used for law enforcement planning, organizational activities and equipment to enable information sharing, reducing vulnerability of potential targets, threat recognition, intervention activities and interoperable communications. The LETPP is similar in structure to the prior Critical Infrastructure Grants.

HUD and Independent Agencies

Community Development Block Grant (CDBG) – Entitlement

To develop viable urban communities, by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for persons of low and moderate income.

Community Development Block Grant (CDBG) – Non-entitlement

This grant has the same basic objective as the previous CDBG. However grant recipients also must demonstrate that each activity funded meets one of the program's National Objectives by either: benefiting low and moderate income families; aiding in the prevention or elimination of slums or blight; or meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available.

EPA – Clean Water SRF

To create State Revolving Funds (SRFs) through a program of capitalization grants to States which will provide a long term source of State financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

Department of JusticeState Criminal Alien Assistance Program

The State Criminal Alien Assistance Program (SCAAP) provides Federal assistance to states and units of local government incurring costs of incarcerating illegal aliens convicted of one felony or two misdemeanor offenses and to expedite the transfer of custody for certain deportable aliens.

Justice Assistance Grants

The Byrne Justice Assistance Grant (JAG) Program is a formula grant program created from the merger of the Byrne Formula Grant and the Local Law Enforcement Block Grant. The JAG program is intended to help State and local law enforcement control violent and drug-related crime, as well as improve operations and coordination.

Department of LaborWorkforce Investment Act – Adult Employment and Training Activities

To provide workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by the participants. This program is designed to increase employment, as measured by entry into unsubsidized employment, retention in unsubsidized employment six months after entry into employment, and wage gain.

Workforce Investment Act – Dislocated Workers

This grant has the same basic objective as the prior program with an emphasis on employing dislocated workers.

Employment Service State Grants

To place persons in employment by providing a variety of placement-related services without charge to job seekers and to employers seeking qualified individuals to fill job openings.

Unemployment – State Administration

To administer this program of unemployment insurance for eligible workers through Federal and State cooperation; to administer payment of trade adjustment assistance; disaster unemployment assistance; unemployment compensation for Federal employees and ex-service members.

Workforce Investment Act – Youth Activities

To design, with States and local communities, a revitalized, workforce investment system that will help low income youth between the ages of 14 and 21 acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers.

Career Advancement Accounts

The program is proposed by the President as a consolidation of Adult Employment and Training Activities, Dislocated Worker Employment and Training Activities, Youth Activities and Employment Services into a single grant program. Career Advancement Accounts (CAAs) would be self-directed accounts that workers could use to purchase education and training.

Department of TransportationFederal Aid Highways – Bridge R & RFederal Aid Highways – Interstate MaintenanceFederal Aid Highways – National Highway SystemFederal Aid Highways – Surface Transportation Program

To assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System, including the Interstate System; and for transportation improvements to all public roads except those functionally classified as local; to provide aid for the repair of Federal-aid roads following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes. The Federal Lands Highway Program provides assistance to the Federal Land Management Agencies for Federally-owned roads.