



This Month

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"For the first 7 months of FY 2008, General Fund collections are down (3.5)% when compared to last year, and are \$(619.2) million less than the forecast".

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on February 29, 2008.

Total January General Fund revenue collections were \$849.3 million, or (16.1)% below January of last year. This amount was \$(226.2) million below the forecast based on the June enacted state budget

For the first 7 months of FY 2008, General Fund collections are down (3.5)% when compared to last year, and are \$(619.2) million less than the enacted forecast. When factoring in Urban Revenue Sharing, year-to-date collections are (5.1)% below last year. (See page 13 for detail information).

The January decrease represents the largest percentage year over year decline since April 2002. The dramatic drop in January revenues was across the board in all 3 main revenue categories:

- Sales tax collections were down (7.5)% compared to January 2007, and were \$(74.0) million short of the monthly forecast. This is the largest percentage year over year decrease since at least FY 1991.
- Individual income tax collections were down (11.9)%, which was \$(98.7) million below forecast.

- Corporate income tax collections were (138.9)% below last year, and \$(50.2) million below the forecast.

The FY 2008 General Fund revenue forecast released last month as part of the JLBC Baseline was based on the 4-sector consensus, including input from the Finance Advisory Committee (FAC), two University of Arizona econometric models, and the JLBC Staff forecast. The Baseline projected revenues were \$9.38 billion (excluding the balance forward), which was \$(697.9) million less than the enacted budget forecast. As noted above, the significant January downturn now results in year-to-date collections already being down \$(619.2) million compared to the budget forecast.

Based on the January data, the FY 2008 Baseline revenue projection appears substantially overstated. The JLBC Staff now estimates that General Fund revenues will only reach \$9.15 billion, which is \$226.5 million less than the January Baseline. This revenue level would translate into a (0.7)% decline compared to FY 2007 revenues prior to tax law changes, and (3.2)% after tax law changes.

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This Month (continued)



“While previously estimated at \$(970) million in January, the revision increases the size of the shortfall to \$(1.2) billion”.

Given the current volatility of the economy, these latest revenue estimates could change again. Any large adjustments, however, would not likely occur until May, when the level of 2007 individual and corporate income tax filings becomes clearer.

The FAC will add their perspective on the state of Arizona’s economy at the next of its three meetings throughout the year. The FAC is scheduled to meet on March 6th at 11:30 a.m. in Senate Hearing Room 1.

The revision in the General Fund forecast also affects the projected FY 2008 General Fund budget shortfall. While previously estimated at \$(970) million in January, the revision increases the size of the shortfall to \$(1.2) billion. The Executive has recently re-estimated their FY 2008 shortfall estimate from \$(870) million to \$(1.15) billion. The Executive’s revenue estimates are actually \$110.0 million higher than the revised JLBC estimate, which is somewhat offset by \$56 million in higher spending.

JLBC/JCCR Meetings – The Monthly Fiscal Highlights include a summary of the February JLBC meeting (*page 6*). There was no JCCR meeting in February.

Other Issues – the Highlights also include an update on two statutorily required reports by JLBC Staff (*page 12*):

- The Arizona Constitution limits certain state spending to no more than 7.41% of personal income. The JLBC Staff has calculated that spending would be 6.59% of personal Arizona income in FY 2008 and 6.79% in FY 2009 under the JLBC Baseline. The Baseline represents the current spending level plus funding formula growth for FY 2009. Since spending is likely to be adjusted downward to resolve the budget shortfalls in both years, these appropriation limit percentages are likely overstated.
- The JLBC Staff released its calculation of the Truth in Taxation (TNT) adjustments to property tax rates. Each year the K-12 Qualifying Tax Rate (QTR) is adjusted downward to offset increases in the value of existing property. Based on January 1, 2007 property valuations, existing property values grew by 9.5%. As a result, the K-12

QTR will decline from \$1.60 in FY 2008 to \$1.46 in FY 2009 for non-unified school districts. The unified rate will decline from \$3.20 to \$2.92. Based on updated information, these adjustments will cost \$16.1million less than expected in the FY 2009 JLBC Baseline.

“In the first 7 months of FY 2008, sales tax revenues are down (1.2)% compared to last year”.



“Year to date, income tax collections are (3.4)% below last year”.

January Revenues

Sales Tax collections were \$406.9 million in January. This amount was down (7.5)% compared to last January, and \$(74.0) million below the enacted budget forecast. In the first 7 months of FY 2008, sales tax revenues are down (1.2)% compared to last year. *Table 1* displays the January and year-to-date growth rates for the major categories.

	<u>January</u>	<u>Year-to-Date</u>
Retail	(3.8)%	(2.0)%
Contracting	(24.1)%	(7.6)%
Utilities	(0.3)%	6.7%
Use	5.7%	8.3%
Restaurant & Bar	(11.3)%	0.3%

There were significant variations in January collections by sector. Retail and contracting collections together account for two-thirds of all sales tax revenues. The retail sector declined by (3.8)% and contracting by (24.1)%. The restaurant and bar category also decreased by (11.3)%. The only positive growth in the major categories was in use tax, which increased 5.7%.

Individual Income Tax collections were \$479.6 million, or (11.9)% below last year. Year-to-date, income tax collections are (3.4)% below last year. January collections were \$(98.7) million less than the enacted budget forecast. *Table 2* displays individual category growth rates.

	<u>January</u>	<u>Year-to-Date</u>
Withholding	(4.9)%	2.5%
Estimated + Final Payments	(18.3)%	(13.9)%
Refunds	12.2%	20.2%

January withholding was (4.9)% below last

year. The January decrease brings year-to-date collections down to 2.5% over the prior year.

Estimated and final payments decreased from the previous year for the third month in a row. Payments declined (18)% compared to last January. December and January are substantial collection months as tax filers make their quarterly estimated payments in advance of the January 15th due date. December and January payments combined were almost (22)% below the same period last year, and are down (13.9)% year-to-date.

January refunds were approximately \$4 million over the prior year. After 7 months, refunds are 20.2% over the first 7 months of last fiscal year.

Corporate Income Tax collections were a negative \$(14.5) million as refunds exceeded collections. This amount was (138.9)% below January of last year, and \$(50.2) million below the forecast for the month. Gross corporate collections were over (25.1)% below the prior year. Refunds were \$(44.9) million for the month compared to only \$(3.3) million last January. Although January is not a large collection month for corporate, January’s decrease brings the category to \$(125.9) million or (24.3)% below the enacted budget forecast.

	<u>FY 2008</u> <u>Collections</u>	<u>Difference From</u> <u>Forecast</u> ^{1/}	<u>Difference</u> <u>From FY 2007</u>
January	\$ 849.3	\$ (226.2)	\$ (162.8)
Year-to-Date	\$ 5,277.1	\$ (619.2)	\$ (281.2)

^{1/} Enacted FY 2008 budget (June 2007).

Recent Economic Indicators

NATIONAL

According to the Bureau of Economic Analysis' advance 2007 4th quarter estimate of **U.S. Real Gross Domestic Product (GDP)**, the economy grew by 0.2% over the 3rd quarter. This quarterly growth is the lowest since 2002. The common definition of a recession is two consecutive quarters of negative change in the GDP.

Positive contributions from personal consumption expenditures, nonresidential structures, state and local government spending, exports, and equipment and software were largely offset by negative contributions from private inventory investment and residential fixed investment.

In January, the Conference Board's **U.S. Consumer Confidence Index** totaled 87.9, (0.8)% below December 2008 levels and (20.3)% below levels a year ago. The decrease is attributed to consumers' negative view of current and future business conditions as well as the expectation that employment will further deteriorate.

The **U.S. Index of Leading Economic Indicators** decreased again in January by (0.1)% and is down (1.9)% year over year. Six of the 10 components that make up the composite index decreased in January. Stock prices made the largest negative contribution to the index, followed by housing permits.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) increased by 0.3% in January. The year over year increase was 4.2%. All CPI sub-indices increased in January. The energy, housing, and food sub-indices reported the largest increases.

ARIZONA

The Department of Commerce (DOC) released revised employment data in February and the report indicates a substantial downward revision. Previously, DOC reported that nonfarm employment grew by 1.3% in December 2007. The revised figure shows a decline of (0.2)%.

January total statewide **non-farm employment** increased, year over year, by 0.6%. Arizona's **unemployment rate** increased from 4.2% in December to 4.3% in January.

Ten of the 11 major industries reported job losses in January. The professional and business

services industry reported the largest number of job losses of all industries at (10,000) fewer jobs in January. **Construction employment** decreased by (9.0)% over the previous year. The average year-over-year growth rate for January in the past 10 years was 5.6%.

Statewide, the number of **single-family residential building permits** (3-month moving average) fell (46.6)% from the prior year to 1,586 permits- a level not seen since 1991. Comparably, the number of **multi-family building permits** authorized increased by 72.9% on a year-over-year basis to 829. Permitting activity in the multi-family segment however, continues to have significant volatility.

The most recent press release by the Real Estate Center at Arizona State University indicates that year-over-year, the **townhouse-condominium median price** held up relatively well, totaling \$174,500, or (0.3)% below January 2007 levels. This slight decrease was despite a (24.7)% year-over-year decrease in the number of townhouse-condominium units sold.

In addition, the **single-family median resale home price** declined for the sixth straight time in January, totaling \$230,000. At this level, the single-family median resale home price has declined by (0.9)% from last month and (11.5)% from levels a year ago. Month-over-month, the number of **single-family homes sold** in January increased by 1.8% to 3,350 homes. Year-over-year however, the number of single family homes sold fell (25.9)%. A bright spot for those purchasing homes however, is that the median square footage for a single-family home increased on a year-over-year basis by 100 square feet to 1,800. As a result, home buyers in January purchased larger homes at lower prices.

The **months supply of housing** indicator measures the supply and demand of homes in the Phoenix real estate market. The measure is the ratio between the number of homes listed for sale on the Phoenix multiple listing service (MLS) and the number of homes sold in a given month. Based on December MLS data, it would take 14.9 months to sell the current inventory of homes, 1 month less than November levels. In December 2006 the measure stood at 7.1 months.



"The single-family median resale home price declined for the sixth straight time in January, totaling \$230,000."

Recent Economic Indicators (continued)

The **Arizona Business Conditions Index (BCI)** increased 4.0% in January to 49.6 but is still (8.7)% below last year. A reading below 50 suggests a slowdown in the overall level of economic activity in the near term. The month over month increase is attributable to positive gains in the production and new orders sub-indices.

The Behavior Research Center's **Arizona Consumer Confidence Index** began the year with a reading of 79.8, a (21.7)% decrease from July 2007 levels. The index in Pima and Maricopa Counties were at their lowest levels since July 2002 and 2003, respectively. The decrease is attributed to a deteriorating view current economic conditions as well as expectations which were driven by the belief that employment opportunities, business conditions and job availability will worsen.

In February, **AHCCCS caseload's** totaled 1,083,830 members, or (2,643) members less than January 2008 totals. At current levels

however, the AHCCCS caseload has increased by 5.7%, or 58,915 members from prior year totals.

The number of **TANF** recipients decreased again in December by (2.0)% to 81,760 recipients and is (2.9)% below the December 2006 count. The state budget projects 84,700 recipients in FY 2008.

From November 2007 to January 2008, the **Department of Corrections' (ADC) inmate population** increased by 67 inmates per month to an average population of 37,667 inmates. Fiscal year-to-date, ADC's inmate population growth totals 107 inmates, significantly less than the budgeted increase of 160 inmates per month.

Table 5

RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	January	4.3%	2.4%	10.3%
- Non-Farm Employment – Total	January	2.65 million	(1.7)%	0.6%
Manufacturing	January	180,000	(0.3)%	(0.9)%
Construction	January	206,300	(2.5)%	(9.0)%
- Contracting Tax Receipts (3-month average)	Nov-Jan	\$75.2 million	(2.0)%	(10.7)%
- Retail Sales Tax Receipts (3-month average)	Nov-Jan	\$174.7 million	10.9%	(2.3)%
- Residential Building Permits (3-month moving average)				
Single-unit	Oct-Dec	1,586	(10.2)%	(46.6)%
Multi-unit	Oct-Dec	829	(30.3)%	72.9%
- Greater Phoenix Existing Home Sales				
Single-Family	January	3,350	1.8%	(25.9)%
Townhouse/Condominium	January	640	(0.8)%	(24.7)%
- Greater Phoenix Median Home Sales Price				
Single-Family	January	\$230,000	(0.9)%	(11.5)%
Townhouse/Condominium	January	\$174,500	4.5%	(0.3)%
- S&P/Case-Shiller Home Price Index (Phoenix)	November	194.45	(3.1)%	(12.9)%
- Months Supply of Housing (Phoenix)	December	14.9 months	(1) month	7.8 months
- Phoenix Sky Harbor Air Passengers	December	3.2 million	(4.5)%	(4.7)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	November	\$10.13	44.3%	11.9%
- Leading Indicators Index	September	120.4	(0.9)%	0.8%
- Business Conditions Index (>50 signifies expansion)	January	49.6	4.0%	(8.7)%
- Consumer Confidence Index	4 th Quarter 2007	79.8	(21.7)%	(24.2)%
- Business Leaders Confidence Index	1 st Quarter 2008	40.4	(4.9)%	(22.2)%
- Arizona Personal Income	3 rd Quarter 2007	\$210.9 billion	1.4%	5.9%
- Arizona Population	July 1, 2007	6.34 million	173,066	2.8%
- AHCCCS Recipients	February	1,083,830	0.2%	5.7%
- TANF Recipients	December	81,760	(2.0)%	(2.9)%
- DOC Inmate Growth (3-month average)	Nov-Jan	37,734	67 inmates	1,914 inmates
United States				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	4 th Quarter 2007	\$11.7 trillion	0.2%	2.5%
- Consumer Confidence Index	January	87.9	(0.8)%	(20.3)%
- Leading Indicators Index	January	135.8	(0.1)%	(1.9)%
- U.S. Semiconductor Billings (3-month moving average)	Oct-Dec	\$3.65 billion	(4.5)%	(3.9)%
- Consumer Price Index (3-month moving average)	Nov-Jan	210.4	0.3%	4.2%

JLBC Meeting



Department of Administration – Review of HSA/HRA – The Committee decided not to take action at this time regarding the department's report on health reimbursement accounts (HRAs) and health savings accounts (HSAs) for state employee health benefits. The Chairman appointed a subcommittee to follow up on the report from the HRAs and HSAs for state employee health benefits. HRAs and HSAs are employee accounts maintained by employers or a third party used to pay health-related costs.

In their proposal, the Department of Administration (ADOA) outlined 4 options that would, on average, lower employer costs by 3% from current levels excluding implementation costs. ADOA anticipated that 2% of state employees would use these new plans. ADOA has not decided whether to offer these options in the future.

Auditor General – Review of ELL Modifications – The Committee gave a favorable review to the Auditor General's modifications to the public school accounting system due to Laws 2006, Chapter 4 (the English Learner bill from the 2006 Legislative Session).

Community Colleges – Review of Dual Enrollment IGA Template – The Committee gave a favorable review to the Community Colleges uniform intergovernmental agreement template for dual enrollment.

Department of Environmental Quality – Review of Intended Use of Monies in the Indirect Cost Recovery Fund – The Committee gave a favorable review to the DEQ's intended uses of Indirect Cost Recovery Funds in excess of \$10.8 million. DEQ anticipates spending a total of \$12.5 million for the entire fiscal year. The Indirect Cost Recovery Fund is used to pay administrative and overhead expenses for DEQ programs.

Department of Environmental Quality – Review of Water Quality Processing Times – The Committee gave a favorable review to the Department of Environmental Quality (DEQ) report documenting water quality permit processing times for FY 2007 and FY 2008. The department is projecting average time for all types of permits will be within the specified permit processing timeframe for FY 2008.

Department of Public Safety – Quarterly Review of the Interoperability Project – The Committee gave a favorable review to the Department of Public Safety's (DPS) FY 2008 first quarter expenditures and progress report for the statewide interoperability design project. The statewide interoperability design project is an effort to develop a statewide standard-based interoperability system that allows public safety personnel from one agency to communicate with personnel from other agencies.

Department of Transportation – Review of Third Party Progress Report – The Committee gave a favorable review of the Department of Transportation's (DOT) semiannual progress report regarding increasing third party transactions. Motor Vehicle Division (MVD) third parties allow the public to conduct certain transactions through the private sector. With the exception of traffic survival schools, DOT continues to increase its number of third parties.

Summary of Recent Agency Reports

ADOA/GITA – Quarterly Report on AZNet Implementation – In December 2004, the Joint Committee on Capital Review requested the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report quarterly on the Arizona Network (AZNet), as created by the Statewide Telecommunications Management Contract. The report has now been reformatted and includes an executive summary of the status of the program.

AZNet has moved staff to newly renovated office space and completed large projects with the Arizona Game and Fish Department, the Registrar of Contractors, and the Department of Revenue.

End-of-life equipment replacement continues to be an issue of concern to ADOA as AZNet seeks to upgrade the state's older telephone and data infrastructure. ADOA reports that current funding levels are not sufficient to replace this equipment in a timely manner.

AHCCCS – Report on Appropriateness of Payment Methodology – Pursuant to Laws 2007, Chapter 263, the Arizona Health Care Cost Containment System (AHCCCS) is providing a report on whether certain types of procedures or services should be excluded from outlier payment or paid under a different methodology. Laws 2007, Chapter 263 requires that the report include a fiscal impact analysis and a review of statutory changes required to implement any proposed recommendations.

AHCCCS believes that it may be appropriate for implantable devices, including those used for orthopedic services and cardiologic services, and high-cost pharmaceuticals to be paid under a separate methodology.

The report does not include a fiscal impact analysis as required by Laws 2007, Chapter 263. However,

AHCCCS has commissioned a full study on the adequacy of the current overall reimbursement system. The report is expected to be completed during the 2008 session.

AHCCCS believes it would be premature to amend the current methodology until the report has been released. The report does state that any revisions to the methodology would require a statutory change.

Arizona State Retirement System – Semi-Annual Report on the ASRS Information Technology Plan – Pursuant to a footnote in the General Appropriation Act, the Arizona State Retirement System (ASRS) is submitting its semi-annual report on the ASRS Information Technology (IT) project.

ASRS received appropriations from FY 2002 to FY 2008 totaling \$48.4 million; and through December 31, 2007, ASRS spent a total of \$43.5 million. The remaining amount will be spent by FY 2009.

In FY 2005, there were some concerns as to the progress of the IT plan. These concerns caused the Government Information Technology Agency to change the project status from "green," indicating the project is expected to be completed as planned, to "red," indicating a serious risk to project phase completion by the planned date. The status was subsequently upgraded to "yellow."

The Joint Legislative Budget Committee asked ASRS to provide a semi-annual report on progress in returning to "green" status.

The Independent Advisory Consultant (IAC) reports that overall, the ASRS IT Plan remains on budget and on schedule for completion by June 30, 2008. The project status was stated to be 91% complete as of September 30, 2007.

Attorney General - Report on Incarceration Costs Offset by Monetary Judgments – Pursuant to A.R.S. § 31-238, the Office of the Attorney General is required to report semi-annually on the use of monetary judgments awarded to inmates to offset the costs of incarceration.

According to the statute, if an inmate obtains a monetary judgment against the state, and the state offsets the cost of incarceration from the total amount of the judgment, 70% of the monies set off are transferred to the General Fund and 30% are transferred to the Attorney General's office to cover the cost of litigation.

From July 1, 2007 to December 31, 2007, the state did not exercise its right to offset the costs of incarcerating inmates under this statute, since no monetary judgments were awarded during this time period. The agency does, however, indicate that it believes the existing statute results in reduced negotiated settlement amounts, which also discourages the filing of frivolous lawsuits.

DOC – Report on Monthly Bed Plan Update - The Department of Corrections (ADC) has provided a report to JLBC Staff with updated information related to their bed plan. The highlight of the report includes the award of a contract to build and operate the 2,000 new private prison beds authorized by Laws 2007, Chapter 261. On February 15, 2008, the Arizona Department of Administration (ADOA) awarded the contract to Management & Training Corporation (MTC).

In addition to the private beds, Chapter 261 also authorized the construction of 4,000 new public beds which are to be funded via a 20-year, \$200 million lease-purchase agreement. Currently, ADOA is finalizing its awards to design and build these beds.

Summary of Recent Agency Reports (Continued)

Arizona Criminal Justice Commission–Report on Criminal Justice Information System Project – Pursuant to Laws 2007, Chapter 255, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditure of monies and the progress of the Criminal Justice Information System project.

In FY 2008 and 2009, ACJC was appropriated a total of \$1.7 million to fund an upgrade to the Criminal Justice Information System, also known as the Arizona Disposition Reporting System (ADRS). ADRS facilitates the movement of criminal justice data from law enforcement through the court system. Funding was appropriated to allow more automation of data entry as defendants proceed through the state's judicial system. The automation is intended to increase the completeness of criminal background data, which is stored centrally at the Department of Public Safety (DPS).

As of December 2007, phase I of the project was completed using federal grants. Phase I established a web interface to justice agencies, thereby eliminating the need for submittal of the paper disposition forms to DPS for data entry. Due to the project's status as a potential budget reduction option, ACJC has placed a hold on the monies appropriated for the project. To date, none of the FY 2008 and FY 2009 appropriation has been expended.

Arizona Criminal Justice Commission – Report on State Aid – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditures of monies in the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8, 2007.

In FY 2007, the State Aid to County Attorneys Fund was allocated \$1.0 million. The State Aid for Indigent

Defense Fund was allocated \$983,300.

ACJC reports that counties used the monies in three main areas: additional staffing to process more cases, technological purchases to improve case management, and specialized courts such as DUI/drug courts and early disposition courts. The specialty courts were funded to increase the speed in handling cases that warranted treatment or plea bargains.

The legislation establishing the funds and the reporting requirement included a legislative intent section that set timelines for criminal case processing. The ACJC report states that although Fill the Gap funding increased, case processing times have not met the Supreme Court guidelines. Counties cite lack of qualified attorneys, high staff turnover, increased case requirements, and growth in criminal case filings as reasons for not meeting timelines.

Department of Economic Security – Quarterly Report on Federal Work Participation Requirements – A footnote in the FY 2008 General Appropriation Act requires the Department of Economic Security (DES) to report quarterly on progress made in meeting federal Temporary Assistance for Needy Families (TANF) work participation requirements.

The federal Deficit Reduction Act (DRA) of 2005 changed the calculation that determines a state's required work participation rate for clients receiving TANF cash assistance. Prior to Federal Fiscal Year (FFY) 2007, the required work rate was reduced based on caseload decline since 1995. With the implementation of the DRA, the reduction is based on caseload decline since 2005. For FFY 2006, DES had a work participation rate of 29.1% and a minimum required rate of 20%. For FFY 2007, which ended September 30, 2007, the minimum

required rate for all families has not been finalized yet, but is estimated to be 25%. In its previous quarterly report, DES estimated this rate at 41%. DES reports that the lower than previously estimated rate is a result of the department using a federal provision that allows the state to use excess TANF maintenance-of-effort expenditures above the grant's minimum requirement toward increasing the caseload reduction credit.

DES had a work participation rate of 26.1% in FFY 2007, and as a result, appears to have met the requirements of the DHHS. Failure to meet the required rate would result in a federal corrective action plan and potentially fines up to 5% of the Federal TANF Block Grant, about \$10 million. DES does not discuss the estimated rates for FFY 2008.

Arizona Department of Education – Report on AIMS Contract Changes – A General Appropriation Act footnote states that "Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the JLBC." In this regard, the Arizona Department of Education (ADE) recently reported that overall (5-year) AIMS contract costs are now estimated at \$54.7 million through FY 2009, which would be \$4.8 million higher than ADE estimated in January 2007.

The projected \$4.8 million change includes an increase of \$3.2 million for FY 2008 and a further increase of \$1.6 million for FY 2009. Approximately half of the FY 2008 increase is due to higher caseloads, with most of the remainder being attributable to design changes for the new AIMS science test required by No Child Left Behind. The projected FY 2009 change would be due to higher caseloads only.

Summary of Recent Agency Reports (Continued)

The original 5-year AIMS contract signed in March 2004 was for \$44.7 million, or \$10.0 million less than the currently projected amount. ADE indicates that the \$10 million cumulative 5-year increase is attributable mainly to the following factors: 1) increased caseload, 2) “live equating” of test scores (to make scoring comparable among years), 3) increased page counts due to integration of “dual purpose testing,” 4) change in test format for greater security, and 5) development of a new science test (funded with federal monies).

It is unclear whether additional General Fund funding would be needed for AIMS in FY 2008 under the revised ADE estimates, as federal and Proposition 301 funds may be able to cover at least part of the additional costs. Any potential transfer of monies from Basic State Aid or other formula programs to Achievement Testing to cover a potential shortfall would require JLBC review pursuant to A.R.S. § 15-901.03.

State Land Department – Report on Fire Suppression Activities – A.R.S. § 37-623.02(E) requires the State Land Commissioner to submit a report by December 31 of each year on the uses of monies authorized to be expended from the Fire Suppression Revolving Fund. In FY 2007, there was a total of \$7.9 million in liability incurred by the fund. Of the liability,

the department made payments of \$7.1 million in FY 2007.

In terms of fire fighting activity, Fire Suppression Revolving Fund monies were used to fight a total of 857 fires, resulting in a total liability of \$6.4 million. *Table 1* displays the FY 2007 fire suppression activities by category.

State Land Department – Report on Mineral Leasing – Laws 2007, Chapter 255 requires the State Land Department to report on the activity of 2 additional FTE Positions appropriated for mineral leasing. The department filled the positions in July and October of 2007.

As of December 31, 2007, the department had received 409 lease applications; the average processing time was 93 days; and there were 264 outstanding lease applications. The average processing time of 93 days is up from 62 days in FY 2007. The department reports that the increase was due to the completion of several very old lease applications, which would not otherwise be included in that average.

There are some outstanding mineral lease applications that are as many as 20 years old. According to the department, applications may go unprocessed for so long because the department has determined that it is not in the best interest of the State Land Trust to process the application.

There may also be related legal and environmental reasons. The 2 new employees are still in the process of being trained, so they have not yet made a noticeable impact on the lease processing time.

Arizona Department of Public Safety – Quarterly Report on GIITEM – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on the expenditures and progress of 2 appropriations for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM), including FY 2008 funding for DPS personnel and local law enforcement grants.

DPS Personnel

In the first quarter of FY 2008, DPS spent or encumbered \$1.7 million of the \$10 million appropriation for the 100 DPS immigration staff. Of the 100 DPS personnel, at least 50 sworn DPS positions are to be used for immigration and border security and up to 50 DPS positions are to expand GIITEM’s public awareness, investigation and intelligence efforts. As of September 30, 2007, 55 of the 100 DPS positions were filled, of which 26 were assigned to immigration enforcement, 27 work with gang enforcement, and 2 are civilians. During the first quarter, DPS hired 11 new DPS sworn officers and 2 civilians for GIITEM efforts.

<u>Location of Fire</u>	<u>Number</u>	<u>Total Liability</u>
State & Private Land	403	\$1,007,300
Federal Land - In State	280	4,021,200
Federal Land - Out of State	174	1,400,400
Pre-positioning of Resources	1	1,300,000
False Alarms	741	183,200
Other	1	1,600
Total	1,600	\$7,913,700

Summary of Recent Agency Reports (Continued)

Local Law Enforcement Efforts

In the first quarter of FY 2008, DPS spent or encumbered \$846,400 of the \$10 million for local law enforcement grants. As of September 30, 2007, 14 agencies statewide contributed one detention officer to the Detention Liaison (DLO) Program that assists with collection of gang and human smuggling intelligence information at various correctional facilities. In addition, 18 local and county law enforcement agencies provided 26 officers to GITEM efforts, another 6 have agreements but are unable to provide GITEM staff, and agreements with Immigration and Customs Enforcement (ICE) and the Phoenix Police Department are pending.

Arizona Department of Public Safety – Report on Sworn Personnel Staffing – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on sworn personnel staffing levels. DPS currently has 1,355 authorized sworn full-time positions, including 100 authorized sworn positions for the Gang and Immigration Intelligence Team Enforcement Mission (GITEM). Of the 1,355 authorized sworn positions, 1,176 (or 86.8%) are currently filled, representing a net increase of 24 positions in the 1st quarter.

Supreme Court – Report on Case and Cash Management System – Pursuant to a footnote in the FY 2008 General Appropriation Act (Laws 2007, Chapter 255), the Administrative Office of the Courts (AOC) is required to report to the JLBC on the monies expended from the Case and Cash Management System (CMS) line item and progress related to the development and deployment of the system. Monies are to be used for the replacement of the aging case management systems in the larger-volume Superior and limited jurisdiction courts within Maricopa and Pima Counties, as well as in 145 of the 180 state, county and

municipal courts throughout the state.

Funding and Expenditure Plan

AOC has estimated that the upgrade of these systems will continue through FY 2012. As of December 31, 2007, the report listed current expenditures of \$1.6 million and planned expenditures of \$23.5 million through FY 2012.

Progress

AOC reports that the Pima County general jurisdiction (Superior Courts) CMS, called AGAVE, is no longer a viable statewide option and has been terminated from further statewide consideration. AOC along with several Superior Courts participated in the RFP review process of the new software package. A vendor was selected from a field of 10 possible vendors and ITAC approved the Project Investment Justification (PIJ) in September 2007. AOC is evaluating whether to use this same system to address the needs of the Limited Jurisdiction Courts. A decision will be made in the first quarter of FY 2009.

Supreme Court – Report on Criminal Case Processing and the State Aid to the Courts Fund – The Supreme Court is required to report on the Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund annually by January 8, pursuant to A.R.S. § 12-102.01 and 12-102.02. The report includes an evaluation of statewide court collection efforts and the progress of criminal case processing projects in each Arizona County.

Court Collections

In FY 2006, statewide court revenue collections increased by \$35.3 million, or 10.9%, to \$358.5 million. Total case filings increased by 4.5%.

The Fines/Fees and Restitution Enforcement (FARE) program contributed 8.4% of the overall collections amounts. Focusing on backlog cases, FARE recovered \$30.2

million, with an average payment of \$198, with many cases dating to the mid-1980s.

Case Processing

In FY 2007, a total of 61,715 criminal cases were filed in Superior Courts throughout the state, which represents an increase of 2.96% over FY 2006.

The report provides an overview of case processing performance in the 14 counties that received monies from the State Aid to the Courts Fund in FY 2007. In the FY 2003 report, the Supreme Court established performance goals for criminal case dispositions of 90% of cases within 100 days and 99% within 180 days. In FY 2007, no county met either performance measure. However, no statistics relating to this measure was provided for Maricopa County despite having received State Aid to the Courts Fund monies.

Arizona Department of Transportation – Quarterly Report on Motor Vehicle Division Wait Times – A FY 2008

General Appropriation Act footnote requires the Arizona Department of Transportation (ADOT) to report to the Legislature quarterly on customer wait times in Motor Vehicle Division (MVD) field offices and vehicle registration renewal by mail turnaround times. Customer wait time from receiving a ticket until arriving at the counter decreased from 14 minutes in the 1st quarter of FY 2008 to 11.3 minutes in the 2nd quarter of FY 2008. Customer wait times in metropolitan areas ranged from just over 5 minutes in the Mesa East office to more than 21 minutes in the Glendale office.

For FY 2008, the footnote also required ADOT to report the amount of time it takes to receive a numbered ticket. ADOT reports that they have been unable to reliably document the wait time to get a numbered ticket from an MVD employee, despite trying several different methods.

Summary of Recent Agency Reports (Continued)

In the metropolitan areas, including all of Maricopa County, Apache Junction, Tucson and Flagstaff, MVD field offices handled 1.08 million transactions, or 59.4%, of the total 1.8 million transactions in the 2nd quarter of FY 2008, and third parties handled 738,100 transactions, or 40.6%. Total transactions include both primary transactions (driver licenses, titles, and vehicle registrations) and secondary transactions (all others). In the nonmetropolitan areas, MVD field offices handled 534,600 transactions, or 95.5%, of the total 559,900 transactions in the 2nd quarter of FY 2008, and third parties handled 25,300 transactions, or 4.5%.

Arizona Board of Regents/University of Arizona College of Medicine – Report on Phoenix Update – Pursuant to a General Appropriation Act footnote, the Arizona Board of Regents (ABOR) is required to provide an update on the University of Arizona Phoenix Medical Campus (PMC) and general efforts to curb the statewide physician shortage.

The Legislature first provided funding for the operation of the PMC in FY 2006. In early August 2007, the Phoenix Medical Campus welcomed its first class of 24 students and is preparing to accept a second class of 48 students in the fall 2008. The campus is comprised of the Translational Genomics Research Institute (TGen) research building, the three former Phoenix Union High School buildings in which medical students take classes, and the Arizona Biomedical Collaborative research building (ABC 1). ABC 1, which opened in July 2007, houses researchers from the ASU Department of Biomedical Informatics on the first 2 floors and UA researchers and lab space on the top 2 floors. The report submitted by ABOR on February 15, 2007 includes updated information on the following topics:

Formal Relationships with Area Hospitals – In December 2006, the College of Medicine entered into a

memorandum of understanding (MOU) with Banner Health to construct a comprehensive cancer center, a teaching hospital, and an outpatient facility. Ultimately, both parties were unable to reach an agreement. The College of Medicine has issued a Request for Information (RFI) from area hospitals and health systems and national academic medical centers. The College's immediate plan is to focus on clinical faculty development and building a patient base, rather than a major hospital construction project.

The Expansion of Medical Services in Arizona's Rural Areas – The Rural Health Professions Program, which allows current medical students to work with rural physician preceptors for a 4 to 6 week period, received additional funds from the Arizona Area Health Education Centers (Arizona AHEC) to expand by 7 additional slots. More than 60 UA medical students participate in this program at any one time.

The additional General Fund appropriation of \$1 million in FY 2008 for the telemedicine programs is currently being used to further develop telemedicine initiatives statewide. Funding has been used specifically to deliver clinical services to rural areas from the Phoenix T-Health facility.

Additional Reporting Requirements – ABOR's report does not include further updates from the February 15th report on partnerships with private medical schools, the availability of clinical rotations for medical students, the creation of new residency positions, and the attraction of out-of-state medical students to practice in Arizona. The UA College of Medicine believes that by establishing additional residency positions, more out-of-state medical students will be able to choose Arizona to complete their residencies, after which UA estimates one-half would be expected to practice in Arizona.

Other Issues

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 January JLBC Baseline budget, total FY 2008 state appropriations (both General and Other Funds) would be \$14.32 billion, or 6.59% of personal income. The FY 2009 JLBC Baseline includes spending of \$15.57 billion, which is 6.79% 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; however, the County Equalization Tax Rate was suspended from FY 2007 through FY 2009.

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.

Table 7

K-12 Education Tax Rates

	<u>FY 2008</u>	<u>FY 2009</u>
Unified QTR	\$3.2040	\$2.9244
Non-Unified QTR	\$1.6020	\$1.4622

Based on the most recent information submitted by county assessors, statewide assessed values are expected to increase by 15.7% in FY 2009, of which 6.2% would be due to new construction, and 9.5% 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, any reduction in this rate 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 2009 JLBC Baseline already included additional funding to ADE for Basic State Aid. Due to the difference between the forecasted and actual rates, the JLBC Baseline would need to be adjusted downward by \$16.1 million to reflect the revised rates.

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast January 2008

	Current Month					FY 2008 YTD (Seven Months)				
	Actual January 2008	Change From January 2007		Forecast		Actual January 2008	Change from January 2007		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	406,881,740	(\$33,114,671)	(7.5) %	(\$74,034,360)	(15.4) %	\$2,635,262,680	(\$33,049,291)	(1.2) %	(\$258,769,320)	(8.9) %
Income - Individual	479,613,994	(64,654,653)	(11.9)	(98,687,006)	(17.1)	2,252,484,333	(78,858,394)	(3.4)	(262,893,967)	(10.5)
- Corporate	(14,503,302)	(51,770,213)	--	(50,160,502)	--	399,568,076	(128,606,202)	(24.3)	(125,900,724)	(24.0)
Property	591,262	697,537	--	591,262	--	11,184,474	(2,198,612)	(16.4)	(6,315,526)	(36.1)
Luxury	6,696,048	2,376,054	55.0	781,048	13.2	37,025,858	(5,055,039)	(12.0)	(4,379,142)	(10.6)
Insurance Premium	187,293	(340,444)	(64.5)	(3,812,707)	(95.3)	152,432,163	8,139,557	5.6	7,332,163	5.1
Estate	7,344	4,628	170.4	7,344	--	268,122	1,218,079	--	268,122	--
Other Taxes	63,532	(9,909)	(13.5)	(1,593)	(2.4)	350,723	(36,988)	(9.5)	(105,152)	(23.1)
Sub-Total Taxes	\$879,537,911	(\$146,811,671)	(14.3) %	(\$225,316,514)	(20.4) %	\$5,488,576,429	(\$238,446,890)	(4.2) %	(\$650,763,546)	(10.6) %
Other Revenue										
Lottery	2,328,900	(562,200)	(19.4)	(1,371,900)	(37.1)	19,343,619	427,219	2.3	(548,781)	(2.8)
License, Fees and Permits	2,325,785	(567,693)	(19.6)	(930,315)	(28.6)	20,809,546	(4,483,638)	(17.7)	(3,561,354)	(14.6)
Interest	7,431,495	(2,652,343)	(26.3)	(2,028,205)	(21.4)	64,308,776	10,612,679	19.8	14,051,176	28.0
Sales and Services	7,859,458	19,786	0.3	(560,142)	(6.7)	30,479,414	2,031,027	7.1	(3,256,386)	(9.7)
Other Miscellaneous	4,503,206	1,402,240	45.2	2,355,606	109.7	17,573,694	(1,135,511)	(6.1)	4,460,294	34.0
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,332,228	(2,564,468)	(52.4)	1,622,228	228.5	35,345,673	27,516,080	351.4	20,375,673	136.1
Sub-Total Other Revenue	26,781,072	(4,924,678)	(15.5) %	(912,728)	(3.3) %	187,860,722	34,967,856	22.9 %	31,520,622	20.2 %
TOTAL BASE REVENUE	\$906,318,983	(\$151,736,349)	(14.3) %	(\$226,229,242)	(20.0) %	\$5,676,437,151	(\$203,479,034)	(3.5) %	(\$619,242,924)	(9.8) %
One-Time Revenue										
Urban Revenue Sharing	(57,044,911)	(11,109,023)	24.2	0	0.0	(399,314,374)	(77,763,155)	24.2	0	0.0
Sub-Total One-Time Revenue	(57,044,911)	(11,109,023)	24.2 %	0	0.0 %	(399,314,374)	(77,763,155)	24.2 %	0	0.0 %
TOTAL REVENUE	\$849,274,072	(\$162,845,372)	(16.1) %	(\$226,229,242)	(21.0) %	\$5,277,122,777	(\$281,242,189)	(5.1) %	(\$619,242,924)	(10.5) %