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*“General Fund revenue collections... were (2)% less than last January...the first single digit year-over-year loss since September 2008.”*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on February 26, 2010.

## Summary



The January revenue results broke several long term trends. General Fund revenue collections were \$1.44 billion. Excluding one-time proceeds, collections were (2)% less than last January. This was the first single digit year-over-year loss since September 2008.

In addition, January General Fund revenues were \$14.2 million above the forecast, which marks the first time since March 2007 that revenue collections exceeded the projection.

Beginning with this February report, we are comparing actual revenue collections to the Baseline consensus forecast published last month. The Baseline forecasts a revenue decline of (10.8)%, compared to 0.9% growth in the original FY 2010 budget. Since the revised forecast is \$(880) million less than the original budget for the year, it will be easier to meet or exceed the forecast going forward.

January 2010 General Fund spending was \$972.7 million. January expenditures were higher than the prior year due to the late payment of the Universities December allocation. Year-to-date spending is (\$176) million less than the prior year.

In January, state revenues outpaced the rate of spending due primarily to one-time transfers and sale/lease-back proceeds. General Fund revenues exceeded expenditures by \$468

million for the month. Fiscal year-to-date, however, General Fund revenues are \$4.80 billion compared to spending of \$6.21 billion, for a 6-month deficit of \$(1.41) billion.

Daily borrowing has increased since the end of January when a one-time influx from the sale of state buildings temporarily eliminated the need for borrowing. Part of the increase in borrowing is due to maintaining a \$300 million balance with the servicing bank.

The state pays its bills out of the operating fund balance, which consists of General Fund and certain dedicated funds. To cover last year's \$(480) million shortfall and this year's \$(1.4) billion shortfall in the General Fund, the state has already effectively borrowed all of the state's approximately \$1.6 billion in dedicated funds in the operating balance. Having exhausted that source, the state literally borrowed as much as \$572 million in February by issuing Treasurer Warrant Notes (TWNs). The average daily borrowing was \$377 million. Year to date, the highest daily borrowing was \$905 million.

### FY 2010 Revenues

While revenues only declined (2.2)% in January, the results varied widely among the main tax categories.

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## Summary (continued)

Table 1

	General Fund Revenues Compared to Forecast and FY 2009 Collections (\$ in Millions)			
	<u>FY 2010 Collections</u>	<u>Difference From Sept '09 Forecast</u> <sup>1/</sup>	<u>Difference From Jan '10 Forecast</u> <sup>2/</sup>	<u>Difference From FY 2009</u>
January	\$ 1,441.2	\$ (31.8)	\$ 14.2	\$ 779.1
Year-to-Date	\$ 4,798.4	\$ (586.3)	\$ 14.2	\$ 6.0

<sup>1/</sup> Enacted FY 2010 budget (September 2009).

<sup>2/</sup> JLBC January Baseline

*“January retail collections were down (1.0)% compared to the prior year, while contracting was down (42.4)%.”*

- January sales tax collections were down (10.7)% compared to January 2009. Continuing the recent trend, however, the retail and contracting results diverged substantially. January retail collections were down (1.0)% compared to the prior year, while contracting was down (42.2)%. The retail numbers are particularly important as they reflect December holiday sales.
- January individual income tax collections were (1.6)% below January 2009. Withholding tax collections were (3.6)% below last year. Estimated and final payments were down (19.0)% below last year. These decreases were partially offset by refunds, which were (46.3)% less than last year.
- January corporate income tax collections were \$36.0 million compared to January 2009's net \$(3.5) million loss. The corporate results were \$23.8 million above the

forecast, and were the primary reason that total General Fund revenues exceeded the forecast for the month.

### FY 2010 Spending

January 2010 spending of \$972.7 million was \$111 million above January 2009. For the year-to-date, spending of \$6.2 billion is (\$176) million below 2009 (See Table 2).

- University spending was \$61.3 million higher than in January 2009. This increase was due to the December payment being deferred to January, in order to assist with cash flow. Year-to-date University spending is \$634.9 million, or \$0.5 million above FY 2009.
- The Arizona Department of Education (ADE) has spent \$2.72 billion year-to-date in 2010, or \$375 million more than 2009. In January, ADE spending was (\$31.5) million lower than the prior year.

Table 2

	General Fund Spending (\$ in Millions)			
<u>Agency</u>	<u>Jan 10</u>	<u>Change from Jan 09</u>	<u>Year to Date</u>	<u>YTD Change from FY 09</u>
AHCCCS	99.3	(27.9)	844.6	(110.9)
Corrections	88.2	12.0	508.1	(20.8)
Economic Security	76.8	(21.4)	524.4	(125.7)
Education	367.8	(31.5)	2,717.3	375.0
Health Services	91.5	70.2	393.4	(125.1)
Public Safety	3.6	(6.0)	38.5	3.7
School Facilities Board	19.4	56.4	101.6	(61.7)
Universities	152.7	61.3	634.9	0.5
Other	73.4	(2.1)	446.7	(111.0)
<b>Total</b>	<b>972.7</b>	<b>111.0</b>	<b>6,209.5</b>	<b>(176.0)</b>

## Summary (continued)

*“The FY 2011 Baseline includes spending of \$13.19 billion, which is 5.95% of personal income.”*

- Spending in AHCCCS and DES is a combined (\$49.3) million less in January than in 2009. This is generally consistent with the FY 2010 budget assumption that caseload growth in Medicaid spending in those agencies would be offset by varying degrees by enhanced federal match in the federal stimulus legislation.
- Department of Health Services (DHS) spending was \$70.2 million higher in January compared to 2009. This increase was due to the quarterly payment for Title XIX expenditures being made in January this year compared to October in 2009. Year to date spending is (\$125.1) million below 2009 due to enhanced federal match in the federal stimulus legislation.

### 6<sup>th</sup> Special Session FY 2010 Budget Revisions

At the time the 6<sup>th</sup> Special Session began in February, the FY 2010 shortfall was estimated to be about \$(1.45) billion. This shortfall was reduced to \$(700) million by approval of 2 provisions:

- Lottery Bonding (\$450 million): The state would issue bonds and use the General Fund share of future lottery proceeds for the debt service.
- Asset Sale/Leaseback (\$300 million): The state would sell several state properties and lease them back over a 20-year period. This sale is above and beyond the sale and leaseback of \$735 million completed in January.

### February Reports

The JLBC Staff released the following 2 reports in February:

- **State Appropriations Limit** – JLBC Staff is required to annually report by February 15 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. Including 5<sup>th</sup> Special Session adjustments, total FY 2010 state appropriations (both General and Other Funds) would be \$12.97 billion, or 5.59% of personal income. The FY 2011 Baseline includes spending of \$13.19 billion, which is 5.95% of personal income. These calculations did not include any 6<sup>th</sup> Special Session action.

The limit calculation includes one-time General Fund savings of \$1.25 billion in FY 2010 and \$478 million in FY 2011 for temporary federal assistance. Without these savings, spending would be 6.17% of personal income in FY 2010 and 6.16% in FY 2011.

- **TNT Revisions** – 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 to offset changes in the value of existing property. Typically the QTR is decreased in order to offset increases in statewide property values for a fiscal year. For FY 2011, however, statewide property values are expected to decrease, which would require an increase in the QTR under TNT.

The net estimated decrease in statewide property values for FY 2011 under most recent data is (4.6)%. This includes an estimated (7.3)% decrease for existing properties and 2.7% increase for new construction.

## January Revenues

*“The January decline [in sales tax] marked the 24<sup>th</sup> consecutive month of year-over-year reductions, and the 15<sup>th</sup> consecutive month of double digit declines...”*

**Sales Tax** collections were \$319.3 million in January. These revenues were down (10.7)% compared to last January, and were \$(9.5) million below the forecast. The January decline marked the 24<sup>th</sup> consecutive month of year-over-year reductions, and the 15<sup>th</sup> consecutive month of double digit declines compared to the previous year.

Table 3 displays the January growth rates for the largest categories.

	<u>Jan</u>	<u>YTD</u>
Retail	(1.0)%	(8.2)%
Contracting	(42.2)%	(40.7)%
Utilities	2.6%	0.5%
Use	(25.3)%	(23.4)%
Restaurant & Bar	(1.5)%	(4.0)%

As noted in previous months, retail and contracting together account for about 30% of all sales tax revenues. The retail sector decreased by only (1.0)% in December. However, contracting continued its poor performance, with a (42.2)% decrease for the month.

Within the retail category, General Merchandise and Miscellaneous Retail was down (4.6)% in December (latest available data). The Motor Vehicles category was down (10.6)% compared to December 2008. The Motor Vehicle category continues to improve each month from the (32.9)% decline for all of FY 2009.

**Individual Income Tax** net revenues were \$326.6 million in January. Collections were down (1.6)% compared to the prior year, but were \$3.9 million above the forecast. Year-to-date collections are down by (10.4)%.

As indicated in Table 5 below, withholding tax payments declined by (3.6)% in January, the 16<sup>th</sup> consecutive month of year-over-year declines. The state has not suffered that many months of year-over-year declines since at least 1960.

	<u>January</u>	<u>YTD</u>
Withholding	(3.6)%	(5.8)%
Estimated + Final Payments	(19.0)%	(27.6)%
Refunds	(46.3)%	(4.4)%

January estimated and final payments were (19.0)% below last year, and \$(8.3) million below the forecast for the month. Year-to-date, payments are (27.6)% below last year. As we noted last month, while payments are down significantly for the first portion of the fiscal year, April final payments are key to individual income tax collections for the year. Approximately 80% of final individual income tax payments are collected after April 15<sup>th</sup>.

January refunds totaled \$(30.1) million, which was (46.3)% below the prior year, and \$12.5 million below the forecast. Year-to-date, refunds are (4.4)% below the prior year.

	<u>% of Total Sales</u>	<u>% Change Over FY 2009</u>
General/Misc. Merchandise	30.9%	(4.6)%
Motor Vehicles/Misc. Auto.	20.2%	(10.6)%
Bldg Materials and Supplies	7.5%	(10.2)%
Food and Liquor Stores	7.5%	(6.3)%
Furniture, Home Furnishings	6.8%	(19.4)%
Clothing and Accessories	5.8%	(7.3)%
Manufacturing	5.5%	(21.0)%
Other Subcategories	15.8%	(12.9)%
<b>Total</b>	<b>100.0%</b>	<b>(9.7)%</b>

## January Revenues (Continued)

*“Year-to-date, total HURF collections of \$684.3 million are down... (6.3)% compared to the prior year.”*

**Corporate Income Tax** net collections were \$36.0 million in January, which was \$23.8 million above the January consensus forecast for the month. January is a relatively small collection month for the corporate income tax category, however gross payments were up 67.8% compared to the prior year, while refunds were down significantly. Year-to-date, corporate collections are (50.9)% below last year.

It is possible that some of the increase in January collections was the result of timing. Combining January collections with the December decline in collections results in a December/January decline of (8.5)% compared to the prior year. Gross collections for the combined period are down (16.3)% , while refunds decreased by (30.7)%.

The **Lottery Commission** reports that ticket sales for the month of January were \$47.4 million, which is \$287,400 above sales in January 2009, an increase of 0.6%. Year-to-date, ticket sales of \$304.0 million are \$41.2 million or 15.7% above last year.

While ticket sales have increased \$41.2 million above last year at this time, distributions to state beneficiaries are down \$(4.2) million. As we have noted in previous months, it appears that sales have increased as prize payouts have increased. Statute requires the Lottery Commission to deposit at least 50% of ticket sales into the fund used for prize payouts. Prior to FY 2009, the percentage used for payouts was about 56%. Currently, prize payouts represent about 61% of ticket sales.

Higher prize payouts, however, result in reduced distributions to state beneficiaries. The percentage of ticket sales distributed to beneficiaries has dropped from 30% prior to FY 2009 to approximately 21.8% so far in FY 2010. The Lottery Commission notes that by the end of the fiscal year, the percentage of ticket sales distributed to beneficiaries will equal 26%.

**Tobacco Tax** revenues were \$27.4 million in January. Collections were down (24.2)% compared to the prior year, and were \$(4.1) million below the Baseline estimate for the month. Year-to-date collections are down by (16.3)%.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder

primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those programs.

### Non-General Funds

**Highway User Revenue Fund (HURF)** revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees.

HURF collections of \$105.0 million in January were up \$0.4 million or 0.4% compared to January of last year, breaking a string of 15 negative collection months compared to the prior year. Year-to-date, total HURF collections of \$684.3 million are down \$(46.1) million or (6.3)% compared to the prior year.

# State of Arizona

## General Fund Revenue:

### Change from Previous Year and January Baseline Forecast January 2010

	Current Month					FY 2010 YTD (Seven Months)				
	Actual January 2010	Change From January 2009		Forecast		Actual January 2010	Change from January 2009		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$319,313,439	(\$38,447,295)	(10.7) %	(\$9,505,950)	(2.9) %	\$2,011,942,568	(\$347,134,586)	(14.7) %	(\$9,505,950)	(0.5) %
Income - Individual	326,599,117	(5,353,178)	(1.6)	3,926,985	1.2	1,779,405,045	(207,238,706)	(10.4)	3,926,985	0.2
- Corporate	36,016,342	39,481,057	--	23,792,894	194.6	147,848,501	(153,350,409)	(50.9)	23,792,894	19.2
Property	601,553	(67,198)	(10.0)	197,553	48.9	12,072,780	1,383,643	12.9	197,553	1.7
Luxury - Tobacco	2,127,285	(738,541)	(25.8)	(847,715)	(28.5)	15,136,568	(3,218,888)	(17.5)	(847,714)	(5.3)
- Liquor	2,231,354	(719,400)	(24.4)	(638,646)	(22.3)	16,149,315	(913,749)	(5.4)	(638,647)	(3.8)
Insurance Premium	51,877	(257,786)	(83.2)	(698,123)	(93.1)	173,758,170	10,032,842	6.1	(698,123)	(0.4)
Estate	51,444	30,424	144.7	51,444	--	384,828	259,495	207.0	51,444	15.4
Other Taxes	59,906	(28,960)	(32.6)	30,906	106.6	516,816	160,841	45.2	30,907	6.4
<b>Sub-Total Taxes</b>	<b>\$687,052,317</b>	<b>(\$6,100,877)</b>	<b>(0.9) %</b>	<b>\$16,309,348</b>	<b>2.4 %</b>	<b>\$4,157,214,591</b>	<b>(\$700,019,517)</b>	<b>(14.4) %</b>	<b>\$16,309,349</b>	<b>0.4 %</b>
<b>Other Revenue</b>										
Lottery	3,547,100	2,063,500	139.1	447,100	14.4	19,084,700	(6,125,300)	(24.3)	447,100	2.4
License, Fees and Permits	2,198,378	(541,567)	(19.8)	738,378	50.6	15,511,706	(4,154,740)	(21.1)	738,378	5.0
Interest	(63,336)	(520,370)	--	(63,336)	--	1,111,201	(8,434,518)	(88.4)	(63,336)	(5.4)
Sales and Services	1,340,864	(7,042,319)	(84.0)	(899,136)	(40.1)	13,033,754	(14,350,904)	(52.4)	(899,136)	(6.5)
Other Miscellaneous	1,528,532	(1,288,642)	(45.7)	(1,471,468)	(49.0)	22,203,197	(2,762,838)	(11.1)	(1,471,468)	(6.2)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	880,798	(2,423,678)	(73.3)	(819,202)	(48.2)	33,472,436	6,501,432	24.1	(819,202)	(2.4)
<b>Sub-Total Other Revenue</b>	<b>9,432,336</b>	<b>(9,753,076)</b>	<b>(50.8) %</b>	<b>(2,067,664)</b>	<b>(18.0) %</b>	<b>104,416,994</b>	<b>(29,326,868)</b>	<b>(21.9) %</b>	<b>(2,067,664)</b>	<b>(1.9) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$696,484,653</b>	<b>(\$15,853,953)</b>	<b>(2.2) %</b>	<b>\$14,241,684</b>	<b>2.1 %</b>	<b>\$4,261,631,585</b>	<b>(\$729,346,385)</b>	<b>(14.6) %</b>	<b>\$14,241,685</b>	<b>0.3 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(52,387,052)	8,252,731	--	0	0.0	(366,709,367)	57,769,116	--	0	0.0
Budget Plan Transfers	61,634,612	51,259,612	494.1	0	0.0	168,098,381	(57,823,411)	(25.6)	0	0.0
Other Revenue	735,419,300	735,419,300	--	0	0.0	735,419,300	735,419,300	--	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>744,666,860</b>	<b>794,931,643</b>	<b>-- %</b>	<b>0</b>	<b>0.0 %</b>	<b>536,808,314</b>	<b>735,365,005</b>	<b>-- %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,441,151,513</b>	<b>\$779,077,690</b>	<b>117.7 %</b>	<b>\$14,241,684</b>	<b>1.0 %</b>	<b>\$4,798,439,899</b>	<b>\$6,018,620</b>	<b>0.1 %</b>	<b>\$14,241,685</b>	<b>0.3 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$105,033,000	\$412,000	0.4 %	\$4,617,000	4.6 %	\$684,256,000	(\$46,057,000)	(6.3) %	(\$24,268,000)	(3.4) %
Tobacco Tax (All Funds Total)	\$27,448,636	(\$8,784,817)	(24.2) %	(\$4,090,323)	(13.0) %	\$193,453,305	(\$37,735,204)	(16.3) %	(\$1,848,985)	(0.9) %

## Economic Indicators

### NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis (BEA), the second estimate of the **U.S. Real Gross Domestic Product (GDP)** for the 4<sup>th</sup> quarter of 2009 suggests that the economy grew at an annual rate of 5.7%. For the entire year, however, GDP fell by (2.4)%. Despite increased government spending, the BEA attributed the contracting economy to decreased nonresidential and residential fixed investment, exports, private inventory investment, and personal consumption.

In February, the Conference Board's **U.S. Consumer Confidence Index** plunged to 46.0, down 10.5 points from a revised January level of 56.5. Based on the report, the plunge was due to a steep decline in current and short-term business conditions and the job market. Despite the significant drop, the index is 81.8% (or 20.7 points) above its level a year ago. Since January the index in February 2008, however, reached a 30-year low of 25.3.

In January, the Conference Board's **U.S. Index of Leading Economic Indicators** increased to 107.4, which is 0.3% above the revised December level, and 8.7% above the index a year ago. The index, designed to anticipate economic activity 3 to 6 months in advance, has now increased for 10 consecutive months. In January, 5 of the 10 components that make up the composite index advanced, relative to December, with interest rate spreads and vendor performance having the greatest increase.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased for the 10<sup>th</sup> consecutive month. The January increase was 0.2% over December. Compared to the same month in the prior year, the CPI was up by 2.7%. The core CPI, which excludes food and energy prices, fell by (0.1)% in January, the first such decline in 27 years. The drop in the core CPI was primarily due to falling costs for housing, new vehicles, and airline tickets. Despite this decline, core inflation was still up by 1.5% compared to the same month in the prior year.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. were \$3.83 billion

in December, a (1.4)% decrease from the prior month but a 42.2% improvement over December 2008 levels. According to SIA, the semiconductor industry performed better than expected in 2009 primarily due to a strong focus on inventory and supply chain management. As a result, the industry is well positioned to continue its expansion in 2010.

### ARIZONA

Due to the Arizona Department of Commerce's annual revision of employment data (also known as "benchmarking"), January's employment and unemployment figures will not be released until the first week of March. For this reason, this month's issue of *Monthly Fiscal Highlights* does not include any employment statistics.

The Department of Commerce reported that 31,536 **initial claims for unemployment insurance** were filed in January, a 10.4% increase over the prior month. Much of this increase, however, can be attributed to seasonal factors. January marked the third straight month with a year-over-year decline in claims. Initial jobless claims peaked in April when more than 41,000 individuals filed for benefits. For the week ending February 6, a total of 91,896 Arizona residents filed for continued claims for jobless benefits. This was more than (21.0)% below the record-high level reported for the first week of August 2009.

According to data released by the U.S. Census Bureau, an average of 1,224 building permits were issued each month for the period between November 2008 and January 2010. This amount includes an average of 1,029 **single-family residential building permits** and 195 **multi-family permits**. Compared to the prior 3-month period, the number of single-family permits issued decreased (3.4)% while the number of multi-family permits increased 77.5%. Compared to the same period in the prior year, activity in the single family segment increased 65.1%, while permits in the multi-family segment was down by (10.0)%.

ASU's January real estate report suggests that the **single-family median resale home** price was \$143,000 based on a total of 7,725 **single-family existing home sales**. Relative to

*"...the second estimate of the U.S. Real Gross Domestic Product (GDP) for the 4<sup>th</sup> quarter of 2009 suggests that the economy grew at an annual rate of 5.7%.."*

## Economic Indicators (Continued)

*“AHCCCS caseloads are currently 17.0% above February 2008 levels.”*

December, the median resale price fell (1.4)% while the total number of units bought and sold were down (21.2)%. On a year-over-year basis, however, the measures were up by 11.0% and 5.7%, respectively. Sales activity reached a high of 11,820 in June 2009 and the median resale price peaked in June 2006 at \$267,000,

In the multi-family segment, ASU’s report indicates there were 1,150 **townhouse-condominium transactions** with a **median resale price** of \$99,535. On a year-over-year basis the number of transactions increased 87.0% while the median resale price fell (13.4)%. Despite a (23.8)% decrease in the number of transaction from December levels, the median resale price was down just (0.5)%. The median resale price reached a high of \$189,990 in May 2007.

The **S&P/Case-Shiller Home Price Index** measures housing prices based on repeat sales. In December, the index for the Phoenix metropolitan continued to reflect month-over-month increases. Most recently, the index totaled 112.53, up 0.5% relative to the prior month but down (9.2)% on a year-over-year basis. The Phoenix index peaked in June 2006 at 227.42. The S&P/Case-Shiller composite index which measures housing prices in 20 metropolitan areas, is down (0.2)% and (3.1)% on a month-over-month and year-over-year basis, respectively.

The seasonally adjusted MLS data suggests the **month’s supply of housing** indicator increased by 0.9 months between December 2009 and January 2010 to 6.1 months. At this level, the supply of housing is (2.5) months less than it was a year ago and (10.6) months below the September 2007 high of 16.6 months.

According to the Behavior Research Center’s January **Arizona Consumer Confidence Index** report, consumer confidence decreased 10.0 points (relative to the September 2009 report) to a level of 50.2. While this was a significant decline in consumer confidence, the index was still above its record low reading of 44.2 reported in January 2009. The decline was largely due to a negative assessment of future job opportunities.

A total of 37.8 million passengers entered and exited aircraft at the **Phoenix Sky Harbor International Airport** in 2009, the lowest reported level since 2003. This was also the second consecutive year with declines in air passenger traffic at the airport. Monthly data reveals that on a year-over-year basis air passenger traffic has been growing by 2.1% over the last 3 months. This is the first such increase since the third quarter of 2007.

In February, **AHCCCS caseloads** equaled 1,362,572 members, essentially the same number of recipients as in the previous month. AHCCCS caseloads are currently 17.0% above February 2008 levels. The FY 2010 budget funded a projected June caseload growth of 10.7%, for a total of 1,388,147 members.

There were a reported 85,757 **TANF recipients** in the state in December, which represented a monthly caseload decrease of (1.5)%. Year-over-year, the number of TANF recipients has declined by (1.4)%. The FY 2010 budget assumed that the June 2010 TANF caseload would be 84,287.

The **Department of Correction’s (ADC) inmate population** 3-month average count totaled 40,579 inmates between November 2009 and January 2010. This equates to an average monthly decrease of (88) inmates and a year over year increase of 1,007 inmates. The department was funded for growth of 151 inmates per month in FY 2010. Fiscal year-to-date, however, population growth has increased by an average of 13 inmates per month.

With the exception of Maricopa County (who funds all of their probation programs), the state and counties share the costs of **adult and juvenile probation programs**. Based on adult and juvenile probation data from October and December, respectively, the non-Maricopa probation caseload was 19,721 individuals - 93 fewer probationers than the prior month and 420 probationers less than a year ago. In Maricopa County, there were 29,064 probationers during the period, 190 fewer than the prior month and 727 less than a year ago.

## Economic Indicators (Continued)

Table 7

<b>ECONOMIC INDICATORS</b>				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	December	9.1%	0.2%	2.5%
- Initial Unemployment Insurance Claims	December	28,567	(0.7)%	(17.0)%
- Non-Farm Employment – Total	December	2.44 million	(0.1)%	(4.8)%
Manufacturing	December	159,600	(0.4)%	(6.6)%
Construction	December	131,800	(1.7)%	(19.1)%
- Average Weekly Hours, Manufacturing	December	39.0	(0.5)%	(3.7)%
- Contracting Tax Receipts (3-month average)	Nov-Jan	\$34.4 million	(1.3)%	(40.9)%
- Retail Sales Tax Receipts (3-month average)	Nov-Jan	\$145.7 million	13.6%	(2.8)%
- Residential Building Permits (3-month moving average)				
Single-unit	Nov-Jan	1,029	(3.4)%	65.1%
Multi-unit	Nov-Jan	195	77.5%	(10.0)%
- Greater Phoenix Existing Home Sales				
Single-Family	January	7,725	(21.2)%	11.0%
Townhouse/Condominium	January	1,150	(23.8)%	87.0%
- Greater Phoenix Median Home Sales Price				
Single-Family	January	\$143,000	(1.4)%	5.7%
Townhouse/Condominium	January	\$99,535	(0.5)%	(13.4)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	December	112.53	0.5%	(9.2)%
- Months Supply of Housing, (ARMLS)	January	6.1 months	0.9 months	(2.5) months
- Phoenix Sky Harbor Air Passengers	December	3.24 million	4.4%	2.1%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	November	\$7.44	(11.1)%	(6.4)%
- Arizona Consumer Confidence Index (1985 = 100)	4 <sup>th</sup> Quarter 2009	50.2	(16.6)%	NA
- Arizona Coincident Index (July 1992 = 100)	December	198.71	(0.1)%	(5.7)%
- Arizona Personal Income	3 <sup>rd</sup> Quarter 2009	\$217.7 billion	0.0%	(2.6)%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	February	1,362,572	0.0%	17.0%
- TANF Recipients	December	87,757	(0.5)%	(1.4)%
- SNAP (Food Stamps) Recipients	November	1,013,422	2.7%	35.3%
- ADC Inmate Growth (3-month average)	Nov-Jan	40,579	(88) inmates	1,007 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	Oct/Dec	19,721	(93)	(420)
Maricopa County	Oct/Dec	29,064	(190)	(727)
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	4 <sup>th</sup> Quarter 2009 (2 <sup>nd</sup> Estimate)	\$13.2 trillion	5.7%	0.1%
- Consumer Confidence Index (1985 = 100)	February	46.0	(18.6)%	81.8%
- Leading Indicators Index (2004 = 100)	January	107.4	0.3%	8.7%
- U.S. Semiconductor Billings (3-month moving average)	Oct-Dec	\$3.83 billion	(1.4)%	42.2%
- Consumer Price Index, SA (1982-84 = 100)	January	217.59	0.2%	2.7%

## JLBC Meeting

At its February 2, 2010 meeting, the Joint Legislative Budget Committee considered the following issues:

**Arizona Department of Administration, and Judiciary – Review of Requested Exchange of Fund Transfers** – The Committee gave favorable reviews of the requests to exchange fund transfers for the Arizona Department of Administration and Judiciary. The Arizona Department of Administration requested that \$738,700 be transferred from the Motor Vehicle Pool Revolving Fund rather than the Special Services Revolving Fund and the State Surplus Materials Revolving Fund. The Judiciary requested that \$110,300 be transferred from the Criminal Justice Enhancement Fund rather than the Grants and Special Revenues Fund.

**Arizona Department of Administration (ADOA) – Review of Emergency Telecommunication Services** – The Committee gave a favorable review of the expenditure plan for the Emergency Telecommunications Services Revolving Fund (ETSF). ADOA expects to distribute \$9.2 million as the wireless portion of the ETFS in FY 2010.

**Arizona Health Care Cost Containment System (AHCCCS) – Review of Proposed Acute Care and Long Term Care (ALTCS) Capitation Rate Changes** – The Committee gave a favorable review of the capitation and fee-for-service inflationary rate changes. The proposed rates would cost \$(16.6) million less from the General Fund than budgeted in FY 2010, assuming budgeted caseloads.

**Attorney General – Review of Allocation of Settlement Monies** – The Committee gave favorable reviews of the AG's allocation plans for the \$1,650,000 that the AG will receive from 4 settlements related to enforcement of consumer protection and consumer fraud statutes, and as a result of antitrust enforcement. The amounts to be deposited into the Consumer Protection-Consumer Fraud Revolving Fund are: \$810,000 from several pharmaceutical companies, \$300,000 from Merck & Co. Inc, and \$140,000 from Amir and Sanchez Nutraceuticals, LLC. The amount of \$84,000 will be deposited into the Antitrust Enforcement Revolving Fund from Abbott Laboratories. The amount of \$20,000 will be for consumer restitution from Amir and Sanchez Nutraceuticals, LLC.

**Department of Economic Security – Review of Long Term Care Capitation Rate Changes** – The Committee gave a favorable review of the DES expenditure plan for proposed capitation rate adjustments in the federal Title XIX Developmental Disabilities Long Term Care program. The proposed capitation adjustments reflect decreases for most components, including a 10% reduction to Home and Community Based Services provider rates for an estimated General Fund savings of \$6,615,100 in FY 2010.

**Department of Environmental Quality – Review of Water Quality Permit Processing Times** – The Committee gave a favorable review of DEQ's report on water quality permit processing times for FY 2009 and projected totals for FY 2010. Although the average processing time for all permit categories met the licensing deadlines, DEQ exceeded the deadline for at least 1 permit in 2 categories in FY 2009. In FY 2010, DEQ projects that the average time for all types of permits will be within the specified permit processing timeframe.

**Government Information Technology Agency – Quarterly Review of the Arizona Public Safety Communication Advisory Commission** – The Committee gave a favorable review of GITA's report of FY 2010 first quarter expenditures and progress report for the statewide interoperability design project. First quarter expenditures totaled \$177,400 of \$3,018,700 in FY 2010 appropriated funding. Activities in the first quarter of FY 2010 included implementation of the Arizona Interagency Radio System in 14 of 15 counties and revision of the Statewide Communications Interoperability Plan.

**Department of Health Services – Review of Requested Transfer of Appropriations** – The Committee gave a favorable review of DHS's request for multiple fund transfers in order to receive federal matching monies and to efficiently use its resources. DHS would transfer \$332,800 in General Fund monies from programmatic SLIs to the Breast and Cervical Cancer and Bone Density Screening SLI in order to receive enhanced federal matching monies. DHS would also transfer \$900,000 in Tobacco Tax and Health Care Fund Medically Needy Account monies from the Community Health Centers SLI to the Seriously Mentally Ill Non-Title XIX SLI. In addition to the proposed General Fund shift to agency operations, this

## JLBC Meeting (Continued)

would eliminate the \$1,881,400 total fund appropriation for Community Health Centers; however, the program would still receive \$11,600,000 in Fiscal Stabilization Fund monies provided under ARRA for FY 2010.

**JLBC Staff – Consider Approval of Index for School Facilities Board Construction Costs** – The Committee approved a 0% adjustment in the cost per square foot factors, based on an average of the changes in 2 measures of general inflation, the Consumer Price Index (CPI) and the Gross Domestic Product implicit price deflator (GDP deflator), in the last fiscal year. This adjustment would generate no change in new construction costs or the building renewal formula.

**Arizona Board of Regents – Review of FY 2010 Tuition Revenues** – The Committee gave a favorable review of the Arizona Board of Regents (ABOR) expenditure plan for \$56.4 million in tuition revenue above the FY 2010 appropriated amount and expenditure of the estimated \$429.3 million in retained tuition and fee revenue for the current fiscal year.

**Department of Revenue – Review of Business Reengineering/Integrated Tax System Expenditure Plan** – The Committee gave a favorable review of DOR's expenditure plan for internal operational support of implemented Business Reengineering/Integrated Tax System (BRITS) through June 2010. The expenditure plan would allow DOR to hire up to 22 FTE Positions at an estimated total cost of \$2.3 million in FY 2010. Of this amount, \$2 million is from General Fund revenues and the remainder would be absorbed by DOR's operating budget.

## Summary of Recent Agency Reports

**ADOA/Treasurer – Report on Reconciliation of General Fund Balance for FY 2009** – Pursuant to A.R.S. § 41-172A and A.R.S. § 35-131F the Office of the State Treasurer and the Arizona Department of Administration (ADOA) are required to submit reports reconciling any difference between agencies in the year-end General Fund balance. ADOA and the Treasurer currently report FY 2009 year-end General Fund balances of \$(745.2) million and \$(733.4) million, respectively. The difference leaves an unreconciled General Fund balance of \$11.8 million. ADOA and the Treasurer report that they will continue to try to isolate the source of the \$11.8 million difference. (Eric Billings)

**AHCCCS – Report on Healthcare Group** – AHCCCS reports that, as of September 2009, total statewide Healthcare Group (HCG) medical plan enrollment was 13,192, with participating members from 4,815 employers. This is a decline of (5,717) participating members and (2,141) employers from a year earlier. AHCCCS acknowledges that the worsening economy has contributed to the declining enrollment.

It its annual audit, AHCCCS reported that HCG had \$10.8 million in unpaid prior year obligations and other liabilities at the end of FY 2009. This is a \$(5.0) million decrease from FY 2008. The decrease is partly attributable to a \$2.8 million subsidy which was used to pay down prior year liabilities. (Amy Upston)

**AHCCCS – Report on Interstate Agreement with Hawaii** – Pursuant to A.R.S. § 36-2925H, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the status of an Interstate Agreement with the State of Hawaii. This report summarizes the continued activities associated with the agreement between

AHCCCS and Hawaii for data processing. The proceeds for this agreement are deposited into a special fund. This fund had an ending FY 2009 balance of \$1,639,420. A.R.S. § 36-2926 limits these funds to technology projects and Information Technology (IT) staff recruitment. (Aaron Galeener)

**Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund** – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) is required to provide an annual report by December 1 on Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. In FY 2009, CJEF revenues totaled \$47.7 million and the total funds available (including the beginning balance and adjustments) for the fiscal year was \$60.3 million. In FY 2009, CJEF revenues decreased by (0.7)%. (Jon McAvoy)

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

In FY 2009, the State Aid to County Attorneys Fund received revenues totaling \$1.1 million. The State Aid to Indigent Defense Fund received revenues totaling \$1.1 million.

ACJC reports that counties used the monies in 3 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 ACJC report states that case processing times have not met the Supreme Court guidelines. (Jon McAvoy)

**Commission for Postsecondary Education – Report on Postsecondary Education Grant Program** – A.R.S. § 15-1855 requires the Commission for Postsecondary Education to report annually on its Postsecondary Education Grant (PEG) program. The PEG program provides grants to students attending private postsecondary institutions. The program was launched in March 2007. In FY 2009, a total of \$2.4 million was disbursed to 1,434 grantees representing 21 private postsecondary schools. The PEG application process was temporarily suspended by the Executive for several months in FY 2009. According to the commission, there was a waiting list of unfunded PEG students at the end of FY 2009 due to budget reductions. (Marge Zylla)

**Department of Public Safety – Quarterly Report on GIITEM** – Pursuant to Laws 2009, 1<sup>st</sup> Regular Session, Chapter 12 (General Appropriation Act), the Department of Public Safety (DPS) is required to report quarterly on the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). As of the second quarter of FY 2010, DPS had spent or encumbered \$4.3 million of the \$9.4 million appropriation for the direct DPS immigration staff. In terms of local law enforcement grants, DPS has not spent any of the FY 2010 \$2.6 million appropriation but has spent \$2.7 million of an available \$3.5 million in non-lapsing FY 2009 monies. (Eric Billings)

**Department of Public Safety – Quarterly Report on Photo Enforcement** – Pursuant to a footnote in Laws 2009, 1<sup>st</sup> Regular

## Summary of Recent Agency Reports (Continued)

	<u>1<sup>st</sup> Quarter FY 2010</u>	<u>Program-to-Date</u>
General Fund	\$6,666,500	\$29,675,500
Administrative Office of Courts	1,186,700	4,559,100
Vendor Payments	2,305,400	6,670,600
Clean Elections Commission	386,700	2,432,400
DPS	200,600	3,546,600
Photo Enforcement Fund Balance	<u>250,000</u>	<u>250,000</u>
<b>Total</b>	<b>\$10,995,900</b>	<b>\$47,134,200</b>

Session, Chapter 12 (General Appropriation Act), the Department of Public Safety (DPS) is required to report quarterly on the Photo Enforcement program in FY 2010. During the second quarter of FY 2010, the Photo Enforcement Program issued 82,723 Notices of Violation (NOVs) and 22,716 citations from 40 mobile units and 36 stationary units. Of these NOVs, 42,187 became either civil or criminal citations. A total of 22,579 NOVs were paid within 40 days of issuance with an additional 6,430 citations also receiving payment.

Since the inception of the program in September 2008, a total of 773,360 NOVs and citations have been issued and 310,421, or 40%, have been paid.

The NOVs and citations issued by the Photo Enforcement Program generated \$11 million in revenue for the second quarter of FY 2010 and have generated \$47.1 million since the program's inception. At the end of each quarter, the department is statutorily required to revert all unused monies in excess of \$250,000 to the General Fund. These monies were distributed to recipients as shown in *Table 8*. (Eric Billings)

**Supreme Court – Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund** – Pursuant to A.R.S § 12-102.01D and A.R.S § 12-102.02D, 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.

In FY 2009, statewide court revenue collections increased by \$27.3 million, or 7.2%, to \$409.3 million. Total case filings increased by 7.8%. In FY 2009, a total of 57,475 criminal cases were filed in Superior Courts throughout the state, which represents a decrease of (9.4)% over FY 2008. (Jon McAvoy)

<b>Table 9</b>				
<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>Jan 10</b>	<b>Change from Jan 09</b>	<b>Year-to-Date</b>	<b>YTD Change from FY '09</b>
Department of Administration	1,332.4	(76.0)	11,793.4	(10,569.5)
Office of Administrative Hearings	133.4	32.9	658.6	(172.0)
Department of Agriculture	504.2	181.2	6,036.7	(1,221.3)
AHCCCS	99,317.6	(27,944.8)	844,632.7	(110,855.7)
Arizona Commission on the Arts	94.6	(166.8)	451.7	(435.0)
Arizona Exposition and State Fair Board	400.0	400.0	400.0	400.0
Attorney General	1,211.7	(197.5)	12,550.1	(2,048.6)
AZ Capital Post Conviction Public Defender	49.6	(36.5)	415.3	(98.5)
State Board of Charter Schools	42.4	(35.4)	475.0	(141.2)
State Bd. of Chiropractic Exam.	-	-	148.0	148.0
Department of Commerce	593.3	331.5	2,351.0	(22,949.2)
Community Colleges	33,106.6	(2,952.4)	99,319.8	(9,357.2)
Corporation Commission	22.6	(477.9)	331.4	(2,872.3)
Department of Corrections	88,172.3	11,964.3	508,148.8	(20,829.4)
AZ Criminal Justice Commission	-	(151.1)	(4.6)	(937.4)
AZ State Board of Cosmetology	-	-	252.0	252.0
AZ St. Schools for the Deaf & Blind	4,102.1	926.6	13,903.0	(2,950.9)
Dept. of Economic Security	76,847.4	(21,375.7)	524,463.9	(125,732.3)
Department of Education	367,797.1	(31,496.9)	2,717,316.7	375,037.5
DEMA	1,352.5	523.0	5,699.5	(1,320.0)
Dept. of Environmental Quality	371.5	(867.0)	3,455.3	(1,145.7)
DEQ-WQARF	-	-	7,000.0	(6,000.0)
Office of Equal Opportunity	30.8	19.6	140.5	(0.3)
State Board of Equalization	41.1	1.6	429.8	(73.8)
Board of Executive Clemency	55.0	(8.6)	676.0	(59.4)
Dept. of Financial Institutions	182.2	(195.5)	2,219.3	(330.0)
Department of Fire, Life, Bldg Safety	121.8	(39.4)	1,662.8	(409.7)
State Board of Funeral Directors	-	-	100.0	100.0
Arizona Geological Survey	73.1	23.4	521.7	13.5
Government Information Tech.	28.2	(174.7)	290.2	(662.7)
Governor	439.8	(93.2)	5,345.7	465.4
Gov. - OSPB	189.2	-	1,295.7	-
Department of Health Services	91,456.2	70,234.8	393,358.3	(125,132.3)
Arizona Historical Society	369.9	110.9	2,953.0	(342.0)
Prescott Historical Society of AZ	160.6	113.6	474.5	(7.3)
Independent Redistricting Comm.	.6	(28.4)	26.1	(139.6)
AZ Commission of Indian Affairs	7.5	(15.0)	71.1	(65.2)
Department of Insurance	365.0	(176.4)	3,879.4	(1,067.8)
Judiciary				
Supreme Court	1,000.5	267.5	11,898.1	(95.8)
Superior Court	10,517.3	1,435.8	52,254.5	(4,354.3)
Court of Appeals	1,564.3	634.9	9,257.5	488.5
Dept. of Juvenile Corrections	6,032.4	(560.7)	44,556.7	(3,141.0)
State Land Department	1,464.8	(174.9)	11,947.9	(57.4)
Law Enforcement Merit System	11.2	4.1	50.8	(1.1)

<b>Legislature</b>				
Auditor General	1,196.8	(1.8)	10,192.0	(1,290.4)
House of Representatives	844.1	(111.5)	7,852.1	103.7
Joint Legislative Budget Comm.	144.2	(8.8)	1,488.3	(85.9)
Legislative Council	415.7	(578.9)	3,385.6	(7,239.8)
AZ Library and Archives	531.7	16.6	4,449.8	(505.9)
Senate	613.8	(196.3)	5,585.0	75.0
Dpt. of Liquor Licenses	-	(254.1)	739.9	(2,084.7)
Board of Medical Student Loans	21.2	(94.9)	767.2	(233.8)
Mine Inspector	104.8	(0.8)	848.6	(148.6)
Dpt. of Mines & Mineral Resources	22.5	(255.2)	429.5	(154.7)
Nav. Streams & Adjudication	6.8	(16.8)	94.3	(67.8)
State Board of Nursing	-	(10.5)	-	(84.0)
OSHA	-	-	7.8	7.8
Board of Osteopathic Examiners	(100.0)	(100.0)	-	-
Arizona State Parks Board	-	(632.9)	21,900.3	(3,501.3)
Personnel Board	-	(29.2)	-	(236.5)
Arizona Pioneers Home	-	(1.2)	-	(5.2)
Comm. for Postsecondary Ed.	-	2,085.6	1,372.1	(202.7)
State Board of Psychologist Exam.	-	-	300.0	300.0
Department of Public Safety	3,567.1	(5,986.5)	38,470.3	3,728.0
Arizona Department of Racing	603.8	366.5	3,902.8	2,229.3
Radiation Regulatory Agency	295.5	(101.8)	1,066.8	(300.8)
Arizona Rangers Pension	1.2	-	8.2	0.2
Real Estate Department	160.0	(407.5)	2,278.1	(511.2)
Department of Revenue	8,308.1	2,257.9	23,527.5	(22,825.4)
School Facilities Board	19,443.1	56,442.0	101,642.5	(61,719.6)
Secretary of State	185.6	(1,381.5)	1,858.2	(2,577.5)
Tax Appeals Board	26.2	8.7	171.9	(8.6)
Office of Tourism	-	(311.5)	200.0	(112.2)
Department of Transportation	4.5	1.5	37.2	(3.3)
State Treasurer	1,729.7	60.2	3,292.7	(178.1)
<b>Universities</b>				
Board of Regents	5,484.4	2,512.1	19,787.8	3,743.8
Arizona State University	66,652.5	26,636.0	278,582.2	(1,533.1)
Northern Arizona University	22,440.5	8,977.1	93,782.4	(461.0)
University of Arizona	58,082.8	23,223.4	242,750.6	(1,265.5)
Department of Veteran Services	841.9	199.4	4,894.5	85.8
AZ State Veterinary Medical Examining Board	-	-	250.0	250.0
Department of Water Resources	1,356.5	253.2	10,770.9	2,633.6
Dept. of Weights & Measures	104.9	3.4	792.8	(161.3)
Other	56,742.2	(1,531.4)	18,795.1	(3,032.2)
<b>Grand Total</b>	<b>972,742.6</b>	<b>110,991.9</b>	<b>6,209,482.7</b>	<b>(176,042.3)</b>