

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
February 2005

February General Fund revenue collections were \$398.3 million, which was an increase of 24.9% above the same month a year ago. The February collections are \$9.7 million over the original May FY 2005 forecast for the month and are \$1.0 million higher than the revised January JLBC Baseline FY 2005 forecast for the month. Year-to-date, collections are \$60.6 million over the January JLBC Baseline forecast.

The March 18th Legislative budget proposal increased the January JLBC Baseline revenue forecast by \$100 million. The next Monthly Fiscal Highlights will compare collections against that revised forecast.

Sales tax collections were once again strong, with February collections up 9.7% compared to last year. Individual income tax withholding collections were up 10.3% after adjusting for the revised withholding rates. However, this increase was partially offset by greater than anticipated refund activity due to the increased utilization of early electronic income tax filing.

This report includes a summary of the February 22nd JCCR meeting and the March 4th JLBC meeting.

General Fund Revenues				
Compared to Adopted Forecast and FY 2004 Collections				
(\$ in Millions)				
	<u>FY 2005</u> <u>Collections</u>	<u>Difference From</u> <u>May 2004 Forecast</u> ^{1/}	<u>Difference From</u> <u>Jan 2005 Forecast</u> ^{2/}	<u>Difference</u> <u>From FY 2004</u>
February	\$ 398.3	\$ 9.7	\$ 1.0	\$ 79.5
Year-to Date	\$ 4,751.0	\$ 360.6	\$ 60.6	\$ 614.9 ^{3/}

^{1/} Originally enacted FY 2005 budget (May 2004)
^{2/} JLBC January Baseline Budget
^{3/} Including the receipt of \$87.2 million federal cash assistance grant in October, 2003.

Sales Tax revenue increased by 9.7% on a year-over-year basis in February and was \$4.4 million above the forecast for the month. Year-to-date, collections are 10.2% over the first 8 months of last fiscal year. The following is based on collections through February:

- Retail sales tax receipts have increased by 8.4%
- Contracting continues to exhibit the large increases begun last year, with a year-to-date increase of 18.5%.
- Restaurants and bars collections are up 9.3%.
- Use tax receipts (all of which is retained by the state) are up 14.5%.

Individual Income Tax collections for February were 26.7% above last year. Withholding tax collections increased by 16.4% compared to last year. This increase includes the increase in withholding rates which went into effect on January 1st. Adjusting for the rate increase, withholding tax collections were an estimated 10.3% greater than last February.

Estimated and final payments were about equal to last year's payments. Refunds were almost 3% greater than last year due to the increased usage of electronic state tax filing, which speeds up the refund process.

February individual income tax collections were down \$(5.4) million below the forecast for the month due to the increased refunds noted above. Year-to-date, however, individual income tax collections are up 18.1% over the first 8 months of last fiscal year.



Corporate Income Tax revenue of \$9.1 million was \$4.0 million over February collections last year. Year-to-date corporate collections are 54.3% over the previous year.

Luxury Tax collections for February were (11.9)% less than last February, reducing the year-to-date total to 2.9% over the first 8 months of last year. The decrease was in the liquor categories of the luxury tax. The Tobacco Tax component of this category was up almost 18% compared to February of last year. Year-to-date, tobacco tax collections are up 4.1% over the prior year.

Recent Economic Indicators: The latest report on consumer prices continued to raise concern about inflation and rising interest rates. The **U.S. Consumer Price Index (CPI)** jumped 0.4% in February, while the three-month moving average edged up 0.1% and stood 3.1% above its level from a year ago. Excluding food and fuel costs, the core CPI increased 2.4% from February 2004.

U.S. semiconductor billings (three-month moving average) decreased (1.2)% in January, but the Semiconductor Industry Association attributed this to an expected seasonal reduction in demand. Sales increased 8.4% from a year ago.

The **U.S. Index of Leading Economic Indicators** climbed 0.1% in February after decreasing the prior month. Vendor performance, declining unemployment insurance claims, and increased manufacturers' new orders were among the positive contributors to the modest improvement.

Revised data for 2004 showed that **Arizona non-farm employment** grew at a 3.4% annual rate in 2004, much stronger than the 2.4% advance originally reported. The job market continued to improve in January 2005, when year-over-year growth reached 4.3%. **Arizona's unemployment rate** dipped to 4.1% in January, well below the 5.2% U.S. average.

Arizona's **Leading Economic Indicators Index** gained ground with a solid 0.8% increase in December. Manufacturing hours worked, production and employment were among the factors making positive contributions.

The **Arizona Business Conditions Index (BCI)**, which is derived from a survey of supply chain managers, rose 4.1% in February. The improvement was reported across the full range of categories included in the BCI, with the production component making the strongest showing.

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RECENT ECONOMIC INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	January	4.1%	(0.4)%	(1.2)%
- Jobs	January	2.41 million	(1.8)%	4.3%
- Contracting Tax Receipts (3-month average)	Dec-Feb	\$56.2 million	0.3%	22.3%
- Retail Sales Tax Receipts (3-month average)	Dec-Feb	\$151.8 million	15.3%	9.0%
- Residential Building Permits - (3-month moving average)				
Single-unit	January	5,470	(3.8)%	13.5%
Multi-unit	January	765	(9.9)%	(10.1)%
- Arizona Tourism Barometer	January	100.7	1.4%	6.4%
- Phoenix Sky Harbor Air Passengers	January	3.15 million	(5.8)%	7.4%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	December	\$6.17	(5.1)%	16.0%
- Leading Indicators Index	December	120.1	0.8%	0.8%
- Business Conditions Index (>50 signifies expansion)	February	66.6	4.1%	0.0%
- Consumer Confidence Index	1 st Quarter 2005	104.3	3.2%	13.1%
- Business Leaders Confidence Index	1 st Quarter 2005	62.3	(4.9)%	(10.9)%
- Arizona Personal Income	3 rd Quarter 2004	\$161.7 billion	1.1%	7.0%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients	February	800,690	(0.1)%	9.0%
- TANF Recipients	January	104,000	(4.0)%	(14.8)%
- DOC Inmate Growth (3-month average)	Dec-Feb	32,397	(30) inmates	1,144 inmates
United States				
Gross Domestic Product (seasonally adjusted annual growth rate)	4 th Quarter 2004	\$11.0 trillion	3.8%	3.9%
- Consumer Confidence Index	February	104.0	(1.1)%	17.5%
- Leading Indicators Index	February	115.6	0.1%	0.7%
- U.S. Semiconductor Billings -(3-month moving average)	Nov-Jan	\$3.2 billion	(1.2)%	8.4%
- Consumer Price Index - (3-month moving average)	Dec-Feb	190.9	0.1%	3.1%

State of Arizona

General Fund Revenue: Change from Previous Year and January JLBC Budget February 2005

	Current Month					FY 2005 YTD (Eight Months)				
	Actual February 2005	Change From				Actual February 2005	Change from			
		February 2004		Budgeted Forecast			February 2004		Budgeted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$282,930,176	\$25,121,312	9.7 %	\$4,447,910	1.6 %	\$2,387,329,550	\$221,090,238	10.2 %	\$18,742,540	0.8 %
Income - Individual	95,639,793	30,151,815	46.0	(5,398,890)	(5.3)	1,818,356,501	278,778,747	18.1	42,699,487	2.4
- Corporate	6,524,188	9,111,287	--	4,015,595	160.1	371,474,671	130,799,947	54.3	1,518,128	0.4
Property	244,556	(14,625)	(5.6)	3,535	1.5	14,695,468	(6,610,253)	(31.0)	3,536	0.0
Luxury	4,165,509	(564,422)	(11.9)	(980,912)	(19.1)	41,279,669	1,175,559	2.9	403,753	1.0
Insurance Premium	2,377,235	(1,013,289)	(29.9)	(1,783,964)	(42.9)	129,385,834	34,363,163	36.2	(1,783,964)	(1.4)
Estate	2,423,895	(2,361,213)	(49.3)	748,895	44.7	24,811,382	(3,133,444)	(11.2)	(988,618)	(3.8)
Other Taxes	63,223	18,661	41.9	(136,777)	(68.4)	1,741,545	(90,279)	(4.9)	(264,370)	(13.2)
Sub-Total Taxes	\$394,368,575	\$60,449,526	18.1 %	\$915,392	0.2 %	\$4,789,074,620	\$656,373,678	15.9 %	\$60,330,492	1.3 %
Other Revenue										
Lottery	2,007,000	(705,200)	(26.0)	(1,093,000)	(35.3)	20,466,000	(6,538,500)	(24.2)	(1,066,200)	(5.0)
License, Fees and Permits	1,829,975	349,288	23.6	(281,303)	(13.3)	17,085,603	1,591,627	10.3	(441,279)	(2.5)
Interest	2,682,851	1,819,647	210.8	1,776,946	196.2	14,210,460	(5,433,167)	(27.7)	3,028,274	27.1
Sales and Services	2,721,225	(313,965)	(10.3)	(1,679,673)	(38.2)	27,231,409	(5,678,581)	(17.3)	(2,067,028)	(7.1)
Other Miscellaneous	1,920,368	(3,589,994)	(65.1)	(1,184,782)	(38.2)	13,033,757	(12,256,527)	(48.5)	(1,431,010)	(9.9)
Disproportionate Share	0	0	--	0	--	0	(5,625,187)	(100.0)	0	--
Transfers and Reimbursements	3,962,180	2,301,757	138.6	2,499,680	170.9	22,286,544	(78,918,758)	(78.0)	2,222,844	11.1
Sub-Total Other Revenue	15,123,599	(138,467)	(0.9) %	37,868	0.3 %	114,313,773	(112,859,093)	(49.7) %	245,601	0.2 %
TOTAL BASE REVENUE	\$409,492,174	\$60,311,059	17.3 %	\$953,260	0.2 %	\$4,903,388,393	\$543,514,585	12.5 %	\$60,576,093	1.3 %
One-Time Revenue										
Urban Revenue Sharing	(31,089,382)	(667,285)	2.2	135	(0.0)	(248,715,052)	(5,338,276)	2.2	271	(0.0)
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
VLT Transfer	19,809,951	19,809,951	--	0	0.0	94,058,494	94,058,494	--	0	0.0
Tax Amnesty	0	0	--	0	--	0	(15,080,406)	(100.0)	0	--
Judicial Enhancement	45,000	45,000	--	0	0.0	2,286,600	(2,298,125)	(50.1)	0	0.0
Sub-Total Transfers In	(11,234,431)	19,187,666	(63.1) %	135	(0.0) %	(152,369,958)	71,341,687	(31.9) %	271	(0.0) %
TOTAL REVENUE	\$398,257,743	\$79,498,725	24.9 %	\$953,395	0.2 %	\$4,751,018,435	\$614,856,272	14.9 %	\$60,576,364	1.3 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

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

The **number of TANF recipients** declined to 104,000 in January, a (4.0)% decline from December and a (14.8)% drop from January 2004. The **AHCCCS caseload** posted a small decrease in February. Enrollment was (0.1)% less than January but remained 9.0% above the level from one year ago.

The **Department of Corrections' inmate population** decreased by an average of 30 inmates per month from December through February. The department is currently budgeted for a growth rate of 115 net new inmates per month.

JCCR MEETING

FY 2006 Capital Outlay Budget – At its February 22, 2005 meeting, the Joint Committee on Capital Review adopted the JLBC Capital Outlay budget recommendations for FY 2006, which total \$435.4 million. The Committee also added provisions to allow DES to transact a property exchange with the City of Prescott and pursue a long term lease for the acquisition of a new building in the Prescott area.

The adoption provides 100% funding of the building renewal formula for ADOT, Exposition and State Fair Board, Game and Fish Department, and Lottery Commission. ADOA building renewal is funded at 15% of the formula.

The adoption also includes funding for 1 Lottery project, 3 Game and Fish projects and 9 ADOT projects, including highway construction.

Subsequent to the adoption, the recently approved (but vetoed) Legislative capital outlay budget included the above items with adjustments to reflect available funding for highway construction, as well as a \$600,000 other funds appropriation to the Office of Homeland Security related to improving traffic safety, and \$30 million from the General Fund (\$15 million in FY 2006 and \$15 million in FY 2007) to ADOA for construction of a new archives building.

JLBC MEETING

At its March 4th meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Health Care Cost Containment System (AHCCCS) – Review of Comprehensive Medical and Dental Program (CMDP) Capitation Rate Changes – The Committee favorably reviewed AHCCCS' CMDP capitation rate adjustment of 16%, adding approximately \$600,000 to the cost of AHCCCS in FY 2005 and \$1.2 million in FY 2006. The FY 2005 budget assumed a capitation rate increase of 6%. These amounts are included in the JLBC Baseline estimates for AHCCCS for both FY 2005 and FY 2006.

Department of Health Services – Review of Developmentally Disabled Capitation Rate Changes – The Committee favorably reviewed DHS' capitation rate adjustment of 43.3% for the developmentally disabled Title XIX population. The Committee stipulated that the favorable review did not constitute an endorsement of a supplemental

request. The new rate represents a \$753,100 increase in FY 2005 and \$1.6 million in FY 2006 over JLBC Baseline estimates.

Department of Economic Security (DES) – Review of Long Term Care Capitation Rate Changes – The Committee gave a favorable review to DES' capitation rate increase to the LTC population of 3.18% over last year's capitation rate. The increased rate can be funded from the existing DES budget.

Department of Economic Security (DES) – Review of Expenditure Plan for Discretionary Workforce Investment Act (WIA) Monies – The Committee favorably reviewed a \$2.4 million expenditure plan in discretionary WIA monies received by the state for FY 2005. The favorable review contained the condition that DES provide performance measures for approximately \$1.2 million in new programs funded with WIA monies.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave a favorable review of the allocation plan of settlement monies received by the state involving violations of antitrust laws by El Paso Natural Gas Company. The AG alleged that the El Paso Natural Gas Company manipulated the supply of natural gas resulting in increased cost to Arizona consumers. Under the settlement, the company agreed to pay \$78.4 million for a variety of purposes, including:

- \$40 million to enhance the company's Phoenix area pipeline
- \$30 million in capital improvements for the company's Arizona Pipeline Integrity Program
- \$3 million to upgrade the company's Tucson station
- \$250,000 for emergency preparedness and response training
- \$125,000 to fund a study to determine how to best diversify the state's supply of natural gas
- \$2 million in attorneys' fees and investigative costs

Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission – DPS submitted to the Committee for review FY 2005 second quarter expenditures by the Public Safety Advisory Commission as well a report on the state's progress towards a statewide interoperability project. Laws 2004, Chapter 275 appropriated \$5 million to DPS for the design costs of a statewide radio interoperability communications system and the use of Homeland Security monies. Second quarter expenses totaled approximately \$47,800. The Committee discussed the appropriateness of the purchase of automobiles with these funds and also discussed overall radio compatibility issues. The Committee favorably reviewed the agency report with the exception of the purchase of 2 automobiles.

Arizona Office of Homeland Security (OHS) – Report on Homeland Security Funding – OHS submitted a report on the allocation and expenditure plans for homeland security grant monies in FY 2004 and FY 2005. The report was for information and no Committee action was required. Since the October report, the percent of expenditures from the FFY 2003 State Homeland Security Grant Program grants have increased from 16.5% to 39.6%. FFY 2004 monies have been allocated now that the Regional Advisory Councils have been established.

The Committee requested that OHS 1) provide a monthly report on FY 2003 funds until all monies are expended; and 2) provide a quarterly report on FFY 2004 and FFY 2005 allocations and expenditures for local and state agency awards. The Committee also discussed the speed at which homeland security monies are spent as well as ways to coordinate agency requests for telecommunication monies from Homeland Security and the state General Fund.

Arizona Community Colleges – Report of Chairmen of Subcommittee on Dual Enrollment – The Chairmen of the Subcommittee on Dual Enrollment updated the members of the Committee on the manner in which high school-community college dual enrollment courses are offered. The Chairmen suggested that the following items receive further examination during the legislative process:

- Admissions Guidelines: Too many students are being admitted to dual enrollment courses on an individual basis and that those students are not adequately prepared to be enrolled in a community college course
- Intergovernmental Agreements: The financing and operations of dual enrollment programs are not implemented in a comparable manner statewide
- Faculty Advisory committees: It appears that the colleges do not have a consistent process for establishing and operating Faculty Advisory Committees

The update was for information only and no Committee action was required.

Governor's Office of Strategic Planning and Budgeting (OSPB) – Report on Federal Revenue Maximization Initiative – OSPB submitted a quarterly report on the status of a Federal Maximization Initiative. There have been 6 initiatives to date resulting in a savings of \$4 million plus unknown savings for an additional 2 projects. The 6 projects completed are all designed to increase federal Title XIX Medicaid reimbursement. The report was for information only and no Committee action was required.