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*“Year-to-date for the first half of FY 2012, revenues are \$204 million above forecast.”*

## Summary

Collections in FY 2012 continued to be above the prior year, as December General Fund revenues totaled \$903.7 million. Excluding one-time adjustments, these collections were 5.3% above last year. Year-to-date, General Fund revenues have grown by 7.6% compared to the prior year.

December revenue growth was driven by gains in all 3 major revenues categories. In particular, Corporate income tax collections posted a significant gain of 31.5%.

General Fund collections exceeded the forecast by \$26.3 million in December. Year-to-date for the first half of FY 2012, revenues are \$204 million above forecast.

In comparison, December 2010 General Fund spending was \$570 million, or \$(22.5) million below last year. December expenditures were lower than the prior year in part due to decreased spending by the Universities and the Department of Corrections.

Fiscal year-to-date, General Fund revenues of \$4.6 billion have been offset by \$5.3 billion in spending.

Baseline and Executive Budget Summary  
In mid-January the JLBC released its [FY 2013 Baseline budget](#). The Baseline reflects a consensus economic forecast and statutory funding formula requirements. The Baseline does not represent a budget proposal. In summary:

- The General Fund budget is projected to have a balance of \$583 million in FY 2012 and \$431 million in FY 2013. These estimates exclude any prior year carry-forward balance.

- FY 2013 General Fund revenues are forecasted to grow by 5.1% and revenues would equal \$8.8 billion.
- Overall, FY 2013 General Fund spending would grow by \$30 million, or 0.4%. This includes a \$99 million increase for Medicaid caseload growth and one-time savings related to an extra pay period in FY 2012. FY 2013 spending would equal \$8.4 billion.

In addition, the Executive budget was released. The Executive revenue estimates are \$375 million higher than the JLBC Baseline between FY 2012 and FY 2013. Unlike the JLBC Baseline, the Executive budget includes discretionary spending adjustments. Between the 2 years, Executive spending is approximately \$800 million higher than the JLBC Baseline. Please see the [JLBC Comparison of the Baseline and Executive Budget](#) for further information.

### Finance Advisory Committee Summary

At its January 19, 2012 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. The JLBC Staff provided members with the FY 2012 - FY 2015 Baseline estimates along with a brief summary of the Executive budget proposal.

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Elliott Pollack and the State Treasurer Doug Ducey. The presenters and FAC panelists generally believed that the current economic recovery could be slower than typically seen in prior business cycles.

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## December Revenues

Table 1

| General Fund Revenues (\$ in Millions) |                               |                                    |                                   |
|--|-------------------------------|------------------------------------|-----------------------------------|
|  | FY 2012<br><u>Collections</u> | Difference From<br><u>Forecast</u> | Difference<br><u>From FY 2011</u> |
| December                               | \$ 903.7                      | \$ 26.3                            | \$ 47.3                           |
| Year-to-Date                           | \$ 4,552.3                    | \$ 203.7                           | \$ 453.6                          |

**Sales Tax** collections were \$367.9 million, or 7.8% above December 2010 and \$20.5 million above forecast. Excluding the \$73.6 million from the temporary 1-cent sales tax increase, collections were \$294.3 million, or 7.2% above December 2010. The temporary 1-cent continues to grow more than the base tax because of certain exemptions.

Year-to-date, base sales tax collections are 5.9% above the prior year and are \$58.3 million above forecast.

Table 2 displays the December growth rates for the largest categories.

Table 2

| Sales Tax Growth Rates<br>Compared to Prior Year |                 |            |
|--|-----------------|------------|
|  | <u>December</u> | <u>YTD</u> |
| Retail   | 4.9%            | 7.4%       |
| Contracting                                      | 10.4%           | 11.4%      |
| Utilities  | 6.2%            | 0.6%       |
| Use  | 58.8%           | 7.0%       |
| Restaurant & Bar                                 | 9.9%            | 7.9%       |

Retail and contracting together account for about 60% of all sales tax revenues. Retail continues to post significant gains over the previous year. Contracting posted significant gains again this month after November's loss, which was the only negative month in 2011. Use Tax continues to be volatile, with this month growing 58.8% compared to an unusually low month last year.

**Individual Income Tax** net revenues were \$352.3 million in December, or 2.9% above the prior year. Collections were \$(1.4) million below forecast. Year-to-date, revenues have grown 8.2% and are \$84.2 million above forecast through December.

As indicated in Table 3, withholding increased by 0.6% in December for a year-to-date increase of 3.4%. This month's decrease may be due to a timing issue. December had 2 fewer processing days than the previous year. While the table shows a large decrease in

refunds, collections for December are small on a total dollar basis.

Table 3

### Individual Income Tax Growth Rates Compared to Prior Year

|                               | <u>December</u> | <u>YTD</u> |
|-------------------------------|-----------------|------------|
| Withholding                   | 0.6%            | 3.4%       |
| Estimated +<br>Final Payments | 12.3%           | 15.6%      |
| Refunds                       | (44.7)%         | (25.3)%    |

**Corporate Income Tax** net collections were \$129.8 million in December, which is \$31.1 million above the prior year. Collections were \$10.7 million above the forecast. Year-to-date, collections have grown 33.7% and are \$64.0 million above forecast.

The **Lottery Commission** reports that December ticket sales were \$54.7 million, which is \$1.0 million, or 1.9%, above sales in the prior year. Year-to-date ticket sales are \$292.8 million, which is 8.8% above last year's sales.

### Non-General Fund

**Tobacco Tax** revenues were \$29.5 million in December. Collections were up 15.6% compared to the prior year. Year-to-date collections are up 1.4%, and are \$1.3 million above forecast.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those programs, along with funding the Early Childhood Development and Health Board.

**Highway User Revenue Fund (HURF)** revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$101.5 million in December were down \$(0.3) million, or (0.3)%, compared to December of last year. Year-to-date revenues are down (0.1)%.

"[December  
base sales tax]  
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2010."

Table 4

## General Fund Revenue: Change from Previous Year and Enacted April Budget Forecast December 2011

|                                    | Current Month           |                              |                 |                     |               | FY 2012 YTD (Six Months) |                              |                 |                      |                 |
|------------------------------------|-------------------------|------------------------------|-----------------|---------------------|---------------|--------------------------|------------------------------|-----------------|----------------------|-----------------|
|                                    | Actual<br>December 2011 | Change From<br>December 2010 |                 | Forecast            |               | Actual<br>December 2011  | Change from<br>December 2010 |                 | Forecast             |                 |
|                                    |                         | Amount                       | Percent         | Amount              | Percent       |                          | Amount                       | Percent         | Amount               | Percent         |
| <b>Taxes</b>                       |                         |                              |                 |                     |               |                          |                              |                 |                      |                 |
| Sales and Use - Base*              | \$294,279,967           | \$19,823,120                 | 7.2 %           | \$16,183,538        | 5.8 %         | \$1,783,686,118          | \$98,923,227                 | 5.9 %           | \$58,305,862         | 3.4 %           |
| - 1¢ Increase*                     | \$73,649,842            | 6,671,907                    | 10.0            | 4,347,153           | 6.3           | 440,992,397              | 46,106,736                   | 11.7            | 24,801,105           | 6.0             |
| Income - Individual                | 352,348,784             | 9,846,129                    | 2.9             | (1,380,804)         | (0.4)         | 1,725,930,205            | 131,490,361                  | 8.2             | 84,207,892           | 5.1             |
| - Corporate                        | 129,826,100             | 31,089,267                   | 31.5            | 10,668,533          | 9.0           | 322,075,750              | 81,116,832                   | 33.7            | 63,978,705           | 24.8            |
| Property                           | 3,247,020               | (1,846,431)                  | (36.3)          | (1,486,802)         | (31.4)        | 9,100,298                | (1,883,769)                  | (17.2)          | (1,818,571)          | (16.7)          |
| Luxury - Tobacco                   | 1,500,000               | 202,234                      | 19.5            | 195,347             | 18.9          | 6,006,883                | (2,034,406)                  | (25.3)          | (2,077,077)          | (25.7)          |
| - Liquor                           | 2,791,432               | 17,203                       | 0.6             | (46,509)            | (1.6)         | 10,530,787               | 2,294,326                    | 27.9            | 2,105,169            | 25.0            |
| Insurance Premium                  | 36,150,654              | (5,146,538)                  | (12.5)          | (5,977,534)         | (14.2)        | 159,702,060              | (17,629,796)                 | (9.9)           | (20,650,384)         | (11.5)          |
| Estate                             | 0                       | 0                            | --              | 0                   | --            | 220,825                  | (216,547)                    | (49.5)          | 220,825              | --              |
| Other Taxes                        | 35,224                  | (486,200)                    | (93.2)          | (265,313)           | (88.3)        | 262,528                  | (502,445)                    | (65.7)          | (248,879)            | (48.7)          |
| <b>Sub-Total Taxes</b>             | <b>\$893,829,023</b>    | <b>\$60,170,692</b>          | <b>7.2 %</b>    | <b>\$22,237,609</b> | <b>2.6 %</b>  | <b>\$4,458,507,852</b>   | <b>\$337,664,520</b>         | <b>8.2 %</b>    | <b>\$208,824,648</b> | <b>4.9 %</b>    |
| <b>Other Revenue</b>               |                         |                              |                 |                     |               |                          |                              |                 |                      |                 |
| Lottery                            | 5,726,840               | 6,417,630                    | --              | 5,726,840           | --            | 24,427,000               | 7,595,370                    | 45.1            | 4,335,935            | 21.6            |
| License, Fees and Permits          | 3,252,401               | 1,238,150                    | 61.5            | 1,288,721           | 65.6          | 14,351,315               | 1,092,171                    | 8.2             | 1,684,000            | 13.3            |
| Interest                           | 2,062,864               | 1,759,557                    | 580.1           | 1,562,864           | 312.6         | 2,091,850                | (167,711)                    | (7.4)           | (908,150)            | (30.3)          |
| Sales and Services                 | 1,228,541               | (72,658)                     | (5.6)           | (696,412)           | (36.2)        | 7,835,098                | (2,184,569)                  | (21.8)          | (2,450,984)          | (23.8)          |
| Other Miscellaneous                | 958,476                 | 3,860,308                    | --              | 751,892             | 364.0         | 16,083,948               | 6,241,785                    | 63.4            | 7,962,097            | 98.0            |
| Disproportionate Share             | 0                       | (27,146,306)                 | (100.0)         | 0                   | --            | 0                        | (27,146,306)                 | (100.0)         | 0                    | --              |
| Transfers and Reimbursements       | 63,504                  | (549,516)                    | (89.6)          | (4,551,555)         | (98.6)        | 11,509,292               | (2,470,781)                  | (17.7)          | (6,635,041)          | (36.6)          |
| <b>Sub-Total Other Revenue</b>     | <b>13,292,626</b>       | <b>(14,492,835)</b>          | <b>(52.2) %</b> | <b>4,082,350</b>    | <b>44.3 %</b> | <b>76,298,504</b>        | <b>(17,040,040)</b>          | <b>(18.3) %</b> | <b>3,987,858</b>     | <b>5.5 %</b>    |
| <b>TOTAL BASE REVENUE</b>          | <b>\$907,121,649</b>    | <b>\$45,677,857</b>          | <b>5.3 %</b>    | <b>\$26,319,959</b> | <b>3.0 %</b>  | <b>\$4,534,806,355</b>   | <b>\$320,624,479</b>         | <b>7.6 %</b>    | <b>\$212,812,505</b> | <b>4.9 %</b>    |
| <b>Other Adjustments</b>           |                         |                              |                 |                     |               |                          |                              |                 |                      |                 |
| Urban Revenue Sharing              | (35,368,620)            | 4,131,923                    | --              | 0                   | 0.0           | (212,211,720)            | 24,791,538                   | --              | 0                    | 0.0             |
| Budget Plan Transfers              | 31,922,856              | (2,531,695)                  | (7.3)           | 0                   | 0.0           | 216,862,077              | 95,334,519                   | 78.4            | 0                    | 0.0             |
| Tax Recovery Program               | 0                       | 0                            | --              | 0                   | --            | 12,867,428               | 12,867,428                   | --              | (9,132,572)          | (41.5)          |
| <b>Sub-Total Other Adjustments</b> | <b>(3,445,764)</b>      | <b>1,600,228</b>             | <b>-- %</b>     | <b>0</b>            | <b>0.0 %</b>  | <b>17,517,786</b>        | <b>132,993,486</b>           | <b>-- %</b>     | <b>(9,132,572)</b>   | <b>(34.3) %</b> |
| <b>TOTAL GENERAL FUND REVENUE</b>  | <b>\$903,675,886</b>    | <b>\$47,278,085</b>          | <b>5.5 %</b>    | <b>\$26,319,959</b> | <b>3.0 %</b>  | <b>\$4,552,324,141</b>   | <b>\$453,617,965</b>         | <b>11.1 %</b>   | <b>\$203,679,934</b> | <b>4.7 %</b>    |
| <b>Non-General Funds</b>           |                         |                              |                 |                     |               |                          |                              |                 |                      |                 |
| Highway User Revenue Fund          | \$101,522,209           | (\$263,706)                  | (0.3) %         | (\$1,179,779)       | (1.1) %       | \$591,535,638            | (\$696,565)                  | (0.1) %         | (\$8,969,332)        | (1.5) %         |
| Tobacco Tax (All Funds Total)      | \$29,526,286            | \$3,989,345                  | 15.6 %          | \$1,639,152         | 5.9 %         | \$165,030,598            | \$2,278,123                  | 1.4 %           | \$1,267,267          | 0.8 %           |

\* Total December collections including the temporary 1¢ increase approved by the voters in May 2010 were \$367.9 million. This amount is \$26.5 million, or 7.8%, above December 2010 and \$20.5 million, or 5.9%, above forecast. Year-to-date, total collections including the 1¢ increase were \$2,224.7 million. This amount is \$145.0 million, or 7.0%, above December 2010 and \$83.1 million above forecast.

## Economic Indicators

### NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** increased by 9.4 points in December to 64.5, the highest reading in 7 months. The December increase came on top of a 14.3 point surge in November. The improvement in the index over the last 2 months indicates that consumers have become increasingly more optimistic about the state of the economy. The improvement is reflected in consumers' assessment of current, as well as expected, business and labor market conditions. Improved consumer sentiments help to explain the relatively strong growth in 2011 holiday retail sales. Although consumer confidence is growing stronger, Americans are still facing considerable

obstacles, especially related to housing and a potential fallout from the ongoing Euro-zone sovereign debt problem.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, remained unchanged in December for a second consecutive month. Inflation pressures have abated over the last 3 months largely due to declines in energy (especially gasoline) prices. With the price of gasoline now rising, however, the overall CPI is expected to increase in the coming months. Year-over-year, the CPI was up by 3.0% in December. Core inflation, which excludes energy and food prices, increased by 0.1% in December. Year-over-year, core inflation was 2.2% in December. Due to large industrial excess capacity and a slack labor market, inflation is expected to remain muted in the near term.

## Economic Indicators (Continued)

### ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Almost all states nationwide saw an increase in their coincident index in November, with Arizona posting moderate growth compared to other states. In November, Arizona's coincident index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 1.9% above last year, the largest gain since June 2007. While this is a significant improvement, Arizona's index is still (12.8)% below its peak, which occurred in August 2007. See [Tracking Arizona's Recovery](#) for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona's leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national delivery times from a manufacturing survey, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona's leading index projects that state GDP will grow at an annualized rate of 3.2% over the next 6 months. This is unchanged from the 3.2% growth projection in October, but higher than the 0.9% projection in November 2010.

#### Housing

The number of Maricopa County **pending foreclosures** decreased from 20,962 in November to 19,979 in December. The December total is (61.2)% below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#) for additional historical information.

While the decline in the number of pending foreclosures is a positive development in the Maricopa County real estate market, home prices in the area continue to fall. In the Phoenix Metropolitan area in December, there were a total of 7,940 **existing single-family home sales** that resulted in a **median resale home price** of \$125,000. Compared to the prior year, the number of sales have

decreased (2.6)%, while prices are (3.8)% lower.

Of the existing sales in the area, a significant portion (28.6%) were foreclosures. This is an improvement from the worst of the recession, where over half of existing home sales were foreclosures. However, data suggests this decline is partially due to lenders agreeing to short sales rather than foreclosing properties. The exchanging of these 2 transaction types has a minimal impact on the real estate market, as a large volume of distressed sales weighs down housing prices.

Another measure of the health of the Arizona real estate market is permitting activity. It appears that single-family housing permits will decline for the sixth consecutive year in 2011. Through November, a total of 9,826 **single-family building permits** had been issued statewide, a (5.0)% decrease from last year.

While the single-family sector appears to still be struggling, the multi-family housing sector seems to be more healthy, in part due to declining apartment vacancy rates. As of November, **multi-family building permits** for a total of 2,535 units had been issued in the state, a 70% increase from the prior year. While this growth is significant, multi-family permitting activity still remains approximately (64)% below the peak of activity in June 2006.

#### Employment

The Employment and Population Statistics Unit (EPSU) of the Arizona Department of Administration reported that the state incurred a month-over-month net loss of (3,000) **nonfarm jobs** in December. This is an anomaly since the state typically adds jobs in December. To provide some perspective, nonfarm employment has declined only 4 times in the month of December over the last 50 years. The average December net increase in the prior 10 years was 6,400 jobs.

The unexpected job loss in December was due to a combination of factors: a historically small gain in private sector employment (less than half the average increase) and an unusually large loss of government jobs (more than twice the average decline) for the month of December. Perhaps most surprisingly, the retail sector did not add any jobs in December, which typically marks the height of the holiday shopping season. It remains to be seen whether these numbers

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## Economic Indicators (Continued)

will be revised as a result of the annual benchmarking process that will be released in March 2012. (Benchmarking refers to the annual process when historical employment estimates are revised to reflect actual unemployment insurance records.)

The latest employment report showed that the state had 37,800 more payroll employees in December 2011 than in the same month in the prior year. This net increase represented a percentage gain of 1.6%. All sectors but 1 (other services) expanded their payrolls, year-over-year, in December. It is noteworthy that year-over-year employment growth has declined in each consecutive month since September when job growth peaked at 2.3%. Average annual employment growth in 2011 was 1.0%, a net increase of 23,500 jobs over 2010. The 2011 job increase followed 3 consecutive years of job losses.

While the state has enjoyed year-over-year employment gains for 12 consecutive months, nonfarm employment in the state remained 10%, or (271,700) jobs, below peak employment levels reached in December 2007. This figure suggests that the state may still be years away from returning to pre-recession employment levels. See [Tracking Arizona's Recovery](#) for additional historical information.

The state's **unemployment rate** in December remained unchanged at 8.7%. By way of comparison, the U.S. jobless rate was 8.5%. Arizona unemployment rate was 9.6% in December 2010 and peaked at 10.4% in December 2009. While the jobless rate has declined over the last year, most analysts expect the decrease to be slow and gradual over the next 3 to 5 years.

### State Agency Data

In January, total AHCCCS caseloads equaled 1.33 million members, a (0.8)% decrease from the prior month. Overall AHCCCS caseloads are currently (1.3)% below January 2011 levels.

The traditional AHCCCS population, which consists primarily of lower-income children and their parents, saw virtually no growth from December, but was up 5.8% from a year ago. The total population in this program is almost 900,000.

This growth has been offset by declines in other populations. The Proposition 204 childless adult program has not allowed new participants since July and this population has declined (64,206) since July to 153,512. Of the decline, (10,443) is attributed to members who were transferred to the SSI program. The Proposition 204 program has declined (3.8)% compared to the prior month, and (16.9)% from the prior year.

There were 39,616 **TANF recipients** in the state in December, a monthly caseload increase of 3.4%. Year-over-year, the number of TANF recipients has declined by (12)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. The FY 2011 budget reduced the lifetime limit to 36 months. The FY 2012 budget further reduces this limit to 24 months. Previously, the maximum had been 60 months. The FY 2012 budget assumed caseloads of approximately 36,000 in FY 2012.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In December, there were a total 1.1 million food stamp recipients in the state, a 0.1% increase over the prior month. Compared to the same month last year, food stamp participation was up by 8.3%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Correction's (ADC) inmate population** decreased to 40,031 inmates between October and December 2011. Relative to the prior 3-month period, the population has decreased by (27) inmates. Compared to a year ago, the population has declined by (225) inmates.

## Economic Indicators (Continued)

Table 5

### ECONOMIC INDICATORS

| <u>Indicator</u>   | <u>Time Period</u>                 | <u>Current Value</u> | <u>Change From<br/>Prior Period</u> | <u>Change From<br/>Prior Year</u> |
|--|------------------------------------|----------------------|-------------------------------------|-----------------------------------|
| <b>Arizona</b>   |                                    |                      |                                     |                                   |
| - Unemployment Rate (SA)   | December                           | 8.7%                 | (0.0)%                              | (0.9)%                            |
| - Initial Unemployment Insurance Claims                                  | November                           | 21,348               | (15.5)%                             | (8.5)%                            |
| - Unemployment Insurance Claimants                                       | November                           | 58,496               | (8.5)%                              | (17.4)%                           |
| - Non-Farm Employment - Total  | December                           | 2.45 million         | (0.1)%                              | 1.6%                              |
| Manufacturing  | December                           | 152,000              | (0.3)%                              | 2.1%                              |
| Construction   | December                           | 112,500              | (1.9)%                              | 2.8%                              |
| - Average Weekly Hours, Manufacturing                                    | November                           | 40.3                 | 0.0%                                | (0.7)%                            |
| - Contracting Tax Receipts (3-month average)                             | Oct-Dec                            | \$34.9 million       | (4.4)%                              | 6.3%*                             |
| - Retail Sales Tax Receipts (3-month average)                            | Oct-Dec                            | \$141.2 million      | 2.3%                                | 6.6%*                             |
| - Residential Building Permits (3-month moving average)                  |                                    |                      |                                     |                                   |
| Single-family  | Sep-Nov                            | 838                  | (10.7)%                             | 21.6%                             |
| Multi-unit   | Sep-Nov                            | 263                  | 2.6%                                | 31.8%                             |
| - Greater Phoenix Existing Home Sales                                    |                                    |                      |                                     |                                   |
| Single-Family  | December                           | 7,940                | 11.8%                               | (2.6)%                            |
| Townhouse/Condominium  | December                           | 1,190                | 10.7%                               | (10.2)%                           |
| - Greater Phoenix Median Resale Home Price                               |                                    |                      |                                     |                                   |
| Single-Family  | December                           | \$125,000            | (0.8)%                              | (3.8)%                            |
| Townhouse/Condominium  | December                           | \$78,265             | (3.2)%                              | (6.7)%                            |
| - Greater Phoenix S&P/Case-Shiller Home Price Index<br>(Jan. 2000 = 100) | October                            | 100.54               | 0.3%                                | (5.1)%                            |
| - Foreclosure Activity, Maricopa County                                  |                                    |                      |                                     |                                   |
| Pending Foreclosures (Active Notices)                                    | December                           | 19,979               | (4.7)%                              | (51.8)%                           |
| - Greater Phoenix Total Housing Inventory, (ARMLS)                       | December                           | 24,712               | (7.8)%                              | (41.8)%                           |
| - Phoenix Sky Harbor Air Passengers                                      | October                            | 3.33 million         | 8.5%                                | 2.3%                              |
| - Arizona Average Natural Gas Price<br>(\$ per thousand cubic feet)      | October                            | \$5.03               | (7.0)%                              | (8.7)%                            |
| - Arizona Consumer Confidence Index (1985 = 100)                         | 1 <sup>st</sup> Quarter 2012       | 69.5                 | 20.9%                               | 10.7%                             |
| - Arizona Coincident Index (July 1992 = 100)                             | November                           | 178.76               | 0.2%                                | 1.9%                              |
| - Arizona Leading Index -- 6 month projected growth rate                 | Sep-Nov                            | 3.2%                 | 0.0%                                | 2.3%                              |
| - Arizona Personal Income  | 3rd Quarter 2011                   | \$232.2 billion      | 0.2%                                | 4.3%                              |
| - Arizona Population   | July 1, 2011                       | 6.48 million         | N/A                                 | 1.1%                              |
| - AHCCCS Recipients  | December                           | 1,325,006            | (0.8)%                              | (1.3)%                            |
| Acute Care Traditional   |                                    | 895,389              | 0.0%                                | 5.8%                              |
| Spend Down   |                                    | -                    | (100.0)%                            | (100.0)%                          |
| Prop 204 Childless Adults  |                                    | 153,512              | (6.6)%                              | (30.6)%                           |
| Other Prop 204   |                                    | 155,570              | (0.8)%                              | 3.1%                              |
| Kids Care  |                                    | 12,839               | (5.1)%                              | (44.0)%                           |
| Long-Term Care – Elderly & DD  |                                    | 51,872               | 0.3%                                | 2.3%                              |
| Emergency Services   |                                    | 55,824               | 2.4%                                | 24.6%                             |
| - TANF Recipients  | December                           | 39,616               | 3.4%                                | (12.0)%                           |
| - SNAP (Food Stamps) Recipients  | December                           | 1,154,159            | 0.1%                                | 8.3%                              |
| - ADC Inmate Growth (3-month average)                                    | Oct-Dec                            | 40,031               | (27) inmates                        | (225) inmates                     |
| - Probation Caseload (Adult/Juvenile)                                    |                                    |                      |                                     |                                   |
| Non-Maricopa   | November                           | 18,609               | (138)                               | (986)                             |
| Maricopa County  | November                           | 25,550               | (189)                               | (691)                             |
| <b>United States</b>   |                                    |                      |                                     |                                   |
| - Gross Domestic Product<br>(Chained 2005 dollars, SAAR)                 | 3rd Quarter 2011<br>(3rd Estimate) | \$13.3 trillion      | 1.8%                                | 1.5%                              |
| - Consumer Confidence Index (1985 = 100)                                 | December                           | 64.5                 | 16.8%                               | 1.7%                              |
| - Leading Indicators Index (2004 = 100)                                  | November                           | 118.0                | 0.5%                                | 5.9%                              |
| - U.S. Semiconductor Billings (3-month moving average)                   | Sep-Nov                            | \$4.59 billion       | (1.8)%                              | (2.5)%                            |
| - Consumer Price Index, SA (1982-84 = 100)                               | December                           | 226.75               | 0.0%                                | 3.0%                              |

\*Adjusted for 1¢ sales tax

## Summary of Recent Agency Reports

**Arizona Department of Corrections - Report on Proposed Schedule of County Charges for “Less Than a Year” Incarceration Costs** - Pursuant to a provision in the FY 2012 Criminal Justice Budget Reconciliation Bill (Laws 2011, Chapter 33), the Arizona Department of Corrections (ADC) has submitted to the Committee its proposed schedule of charges to counties for incarceration costs in reimbursement agreements associated with the transfer of responsibility for inmates sentenced to ADC for less than a year. Chapter 33 requires sentencing counties to house these inmates or to pay ADC to house them for the counties. ADC proposes to charge those counties \$55.59 per inmate per day, based on ADC’s reported minimum custody operating cost. The Executive is proposing to repeal the transfer of responsibility for inmates to counties in its FY 2013 budget. (Stefan Shepherd)

**Department of Economic Security - Report on Available State and Federal Domestic Violence Funding** - Pursuant to a General Appropriation Act Footnote, the Department of Economic Security (DES) is submitting its annual report on state and federal domestic violence funds. A total of \$24.0 million was used by 6 state entities for domestic violence services in FY 2011, the same amount as FY 2010. (Ben Beutler)

**JLBC Staff - FY 2011 Reports on Credit Card Transactions** - A.R.S. § 35-142 requires agencies that accept credit cards to annually report the number and dollar amount of those transactions, compared to the number and dollar amount of all transactions. Statute also requires information on the total dollar amounts of any discount, processing, or convenience fees paid. Lastly, each agency must issue a cost benefit report when its percentage of electronic transactions exceeds 30%.

For FY 2011, 20 agencies reported accepting credit cards. Credit card transaction volumes vary widely among the various departments. The total number of transactions processed by these agencies was 380,436. The dollar amount for these transactions was \$40.5 million. The amount paid in transaction fees was \$770,000. During FY 2011, agency transaction fee percentages ranged from 0% to 3.06%, with an average of 1.90%. (Brett Searle)

**Public Programs Eligibility Report** - As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

**Universities** - At the 3 universities, 135,746 students registered for the fall 2011 semester. Of the total students

registered, the universities were able to verify the legal immigration status of 122,854 students. Additionally, the universities reported that 11,191 of these students did not require verification because they have either not requested, or received in-state tuition or state supported financial aid. The universities reported that a total of 25 students were unverifiable due to their inability to provide the requisite documentation.

**Department of Economic Security** - The department reported that 8,671 applications were received for child care assistance during the reporting period of June 1, 2011 to November 30, 2011. Of this number, 18 were denied because criteria for citizenship or legal residency were not met.

**Community Colleges** - Statewide, the Community Colleges reported a total of 273,004 students classified as in-state for the fall 2011 semester. They reported 1,329 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 117,788 students applied for financial aid. Of those who applied, the community colleges reported that 283 were not entitled to any aid because they were not lawfully present in the United States.

**Department of Education** - The department reported that 16,401 people applied for instruction in Arizona Adult Education during the reporting period of June 1, 2011 to December 1, 2011. Of this amount, 510 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. (James Alcantar)

**School Facilities Board - Report on Funding Estimates** - Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to report the estimated amounts necessary in FY 2013 and FY 2014 for the New School Facilities, Building Renewal, and Emergency Deficiencies Correction Programs.

In FY 2013, SFB estimates a total funding requirement of \$423,217,100, including \$174,319,800 of lease-purchase authority for the New School Facilities Program (or \$53,736,000 in FY 2013 to pay on a cash basis), and \$248,897,300 for the Building Renewal Program. The new construction estimate assumes the current construction limitation is lifted in FY 2013. The Building Renewal amount is based on the current statutory formula, which was suspended in FY 2012 in favor of a \$2,667,900 discretionary grant program.

For FY 2014, the board estimates it will need funding in the amount of \$341,320,100. Of this total, \$75,000,000 is for the New School Facilities Program and \$266,320,100 is for the Building Renewal Program.

## Summary of Recent Agency Reports (Continued)

SFB did not request to transfer any monies from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2013 or FY 2014, due to insufficient monies in the New School Facilities Fund.

The FY 2013 Executive Budget recommended no funding for SFB New Construction program. This funding level was based on changes that would: 1) expand the calculation of school district capacity to include areas

adjacent to the high growth section of a given district; 2) increase local school district Class B bonding limits.

In addition, the Executive requested \$100 million for the Building Renewal Grant program, and proposed eliminating the building renewal formula and replacing it with a grant system based on a newly developed building inventory system. This \$100 million is intended to fund all building repairs for the next 3 years. (Jack Brown)

## December Spending

December 2011 General Fund spending was \$570.0 million. December expenditures were less than the prior year primarily due to decreased spending by the Universities and the Department of Corrections.

- In December, Universities spending was \$(13.4) million less than the prior year. The Universities received a \$198 million lump sum reduction in FY 2012, which will be spread out throughout the fiscal year.

### FY 2012 Spending

December 2011 spending of \$570.0 million was \$(22.5) million less than December 2010 (*See Table 6*).

| <b>Agency</b>              | <b><u>December 11</u></b> | <b><u>Change from<br/>December 10</u></b> | <b><u>Year to<br/>Date</u></b> | <b><u>YTD<br/>Change<br/>from FY 11</u></b> |
|----------------------------|---------------------------|---|--------------------------------|---|
| AHCCCS                     | 137.5                     | 15.8                                      | 827.4                          | 62.4  |
| Corrections                | 69.3                      | (10.6)                                    | 469.0                          | 21.5  |
| Economic<br>Security       | 6.8                       | 5.1                                       | 434.2                          | 0.1   |
| Education                  | 282.4                     | (11.0)                                    | 2,219.9                        | 2.8   |
| Health Services            | 10.0                      | (3.3)                                     | 431.7                          | 195.2                                       |
| Public Safety              | 2.0                       | 0.1                                       | 34.6                           | 4.8   |
| School Facilities<br>Board | 0.1                       | (0.1)                                     | 133.0                          | 99.7  |
| Universities               | 42.7                      | (13.4)                                    | 465.4                          | (81.7)                                      |
| Leaseback                  | 0.0                       | 0.0                                       | 49.1                           | 3.0   |
| Debt<br>Service            |                           |   |                                |   |
| Other                      | <u>19.2</u>               | <u>(5.1)</u>                              | <u>262.8</u>                   | <u>(76.3)</u>                               |
| <b>Total</b>               | <b>570.0</b>              | <b>(22.5)</b>                             | <b>5,327.1</b>                 | <b>231.5</b>                                |

| Agency  | General Fund Spending<br>(\$ in Thousands) |                            |              | YTD Change from<br>FY 11 |
|---|--|----------------------------|--------------|--------------------------|
|   | December 11                                | Change from<br>December 10 | Year-to-Date |                          |
| Department of Administration                    | 578.1                                      | (629.7)                    | 10,018.3     | (2,705.7)                |
| Department of Admin Sale/Leaseback D/S          | -  | -                          | 49,050.7     | (3,016.2)                |
| Office of Administrative Hearings               | 62.9                                       | 62.9                       | 430.7        | (29.0)                   |
| Department of Agriculture                       | 288.4                                      | (351.9)                    | 4,179.5      | (1,119.5)                |
| AHCCCS  | 137,491.3                                  | 15,781.1                   | 827,357.1    | 62,350.9                 |
| Attorney General                                | 1,401.3                                    | 51.6                       | 9,076.0      | (1,507.0)                |
| AZ Capital Post Conviction Public<br>Defender   | 58.5                                       | (5.5)                      | 299.8        | (30.5)                   |
| State Board of Charter Schools                  | 52.2                                       | 2.3                        | 393.9        | (51.7)                   |
| Department of Commerce/AZ Commerce<br>Authority | 2,625.0                                    | 2,668.5                    | 15,750.0     | 13,155.6                 |
| Community Colleges                              | -  | -                          | 34,288.7     | (31,934.5)               |
| Corporation Commission                          | 42.7                                       | (4.6)                      | 277.7        | (25.8)                   |
| Department of Corrections                       | 69,313.1                                   | (10,638.8)                 | 469,044.5    | 21,549.1                 |
| AZ State Schools for the Deaf & Blind           | 1,068.5                                    | (1,440.2)                  | 11,122.4     | (1,465.7)                |
| Department of Economic Security                 | 6,811.7                                    | 5,109.2                    | 434,219.4    | 620.9                    |
| Department of Education                         | 282,383.8                                  | (11,039.8)                 | 2,219,924.8  | 2,795.1                  |
| DEMA  | (189.7)                                    | (971.6)                    | 3,391.2      | (2,058.6)                |
| Department. of Environmental Quality            | -  | -                          | -            | (0.6)                    |
| DEQ – WQARF                                     | -  | -                          | 7,000.0      | -                        |
| Office of Equal Opportunity                     | 12.0                                       | 14.3                       | 93.5         | (3.1)                    |
| State Board of Equalization                     | 32.9                                       | (76.9)                     | 367.1        | 16.5                     |
| Board of Executive Clemency                     | 52.0                                       | (6.3)                      | 437.9        | (90.0)                   |
| Department of Financial Institutions            | 182.4                                      | (23.2)                     | 1,452.6      | (180.6)                  |
| Department of Fire, Life, Bldg Safety           | (0.7)                                      | (71.9)                     | 905.9        | (504.4)                  |
| Office of the State Forester                    | 217.8                                      | 171.2                      | 2,979.9      | 1,570.4                  |
| Arizona Geological Survey                       | 36.3                                       | (9.0)                      | 459.2        | 150.0                    |
| Government Information Tech.                    | -  | (38.9)                     | (3.1)        | (273.8)                  |
| Governor/OSPB                                   | (1098.8)                                   | (1,517.1)                  | 2,988.0      | (2,194.9)                |
| Department of Health Services                   | 10,001.1                                   | (3,331.6)                  | 431,740.1    | 195,175.4                |
| Arizona Historical Society                      | 193.5                                      | (8.8)                      | 1,834.8      | (2,396.5)                |
| Prescott Historical Society of AZ               | 47.4                                       | (6.7)                      | 332.2        | (6.7)                    |
| Independent Redistricting Comm.                 | 336.1                                      | 336.1                      | 1,953.8      | 1,953.8                  |
| Commission on Indian Affairs                    | 0.2  | (3.2)                      | 27.8         | (0.1)                    |
| Department of Insurance                         | 345.9                                      | (72.4)                     | 2,763.9      | (631.1)                  |
| Judiciary                                       | -  | -                          | -            | -                        |
| Supreme Court                                   | 599.4                                      | (167.7)                    | 6,936.5      | (120.9)                  |
| Superior Court                                  | 776.8                                      | (666.6)                    | 36,828.4     | (7,303.3)                |
| Court of Appeals                                | 860.0                                      | 99.4                       | 7,115.5      | (1,273.4)                |
| Department of Juvenile Corrections              | 2,224.5                                    | (1,650.4)                  | 24,427.8     | (7,197.8)                |
| State Land Department                           | 2.3  | (407.1)                    | 582.5        | (1,368.1)                |
| Law Enforcement Merit System                    | 4.6  | (1.7)                      | 28.2         | (13.1)                   |
| Legislature                                     |  |                            |              |                          |
| Auditor General                                 | 1,280.9                                    | (407.8)                    | 9,041.6      | (1,016.0)                |
| House of Representatives                        | 895.0                                      | (57.0)                     | 6,088.1      | (632.2)                  |
| Joint Legislative Budget Comm.                  | 136.2                                      | (44.0)                     | 1,016.2      | (212.2)                  |
| Legislative Council                             | 303.2                                      | (67.6)                     | 2,996.7      | 245.7                    |

| <b>Agency</b>                           | <b>December 11</b> | <b>Change from<br/>December 10</b> | <b>Year-to-Date</b> | <b>YTD Change from<br/>FY 11</b> |
|---|--------------------|------------------------------------|---------------------|----------------------------------|
| Senate                                  | 625.4              | (99.5)                             | 4,106.3             | (697.3)                          |
| Board of Medical Student Loans          | -                  | (135.1)                            | 20.5                | (323.3)                          |
| Mine Inspector                          | 59.3               | (52.2)                             | 589.4               | (77.3)                           |
| Department of Mines & Mineral Resources | -                  | (28.1)                             | -                   | (772.2)                          |
| Nav. Streams & Adjudication             | 14.8               | 7.8                                | 90.0                | (0.6)                            |
| OSHA                                    | -                  | -                                  | -                   | -                                |
| Arizona State Parks Board               | -                  | -                                  | -                   | (20,000.0)                       |
| Pioneers' Home                          | 277.1              | 130.2                              | 1,108.3             | 432.4                            |
| Comm. for Postsecondary Ed.             | -                  | (452.7)                            | 698.4               | 88.0                             |
| Department of Public Safety             | 1,953.3            | (62.6)                             | 34,624.8            | 4,816.0                          |
| Arizona Department of Racing            | 45.2               | (81.8)                             | 2,670.4             | (497.7)                          |
| Radiation Regulatory Agency             | 9.7                | 8.8                                | 750.0               | 52.4                             |
| Arizona Rangers Pension                 | -                  | (1.2)                              | -                   | (7.1)                            |
| Real Estate Department                  | 135.9              | (34.4)                             | 1,317.1             | (468.5)                          |
| Department of Revenue                   | 2,048.8            | (236.3)                            | 28,734.6            | 8,470.9                          |
| School Facilities Board                 | 69.9               | (33.4)                             | 132,954.5           | 99,700.8                         |
| Secretary of State                      | 536.9              | (145.6)                            | 5,033.8             | (5,083.3)                        |
| Tax Appeals Board                       | 5.5                | (17.4)                             | 135.8               | (16.8)                           |
| Department of Transportation            | 3.0                | 0.8                                | 17.2                | (2.3)                            |
| State Treasurer                         | 1,530.3            | 269.0                              | 1,862.5             | 251.2                            |
| Universities                            |                    |                                    |                     |                                  |
| Board of Regents                        | 201.6              | 195.9                              | 10,515.6            | (57.9)                           |
| Arizona State University                | 19,169.4           | (6,231.5)                          | 205,591.6           | (37,391.3)                       |
| Northern Arizona University             | 6,431.6            | (2,120.3)                          | 69,084.5            | (12,720.5)                       |
| University of Arizona                   | 16,872.6           | (5,262.5)                          | 180,165.2           | (31,574.0)                       |
| Department of Veteran Services          | (22.8)             | 1,414.7                            | 3,895.6             | (2,666.4)                        |
| Department of Water Resources           | 505.5              | (118.7)                            | 3,099.7             | (36.6)                           |
| Department of Weights & Measures        | 82.8               | 38.0                               | 543.5               | (38.6)                           |
| Other                                   | -                  | (49.9)                             | 243.4               | (150.3)                          |
| <b>Grand Total</b>                      | <b>569,984.8</b>   | <b>(22,519.4)</b>                  | <b>5,327,072.2</b>  | <b>231,450.4</b>                 |