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“Year-to-date, revenues are 3.6% higher than last year and are \$32.3 million above the budget forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on January 18, 2013.

Summary



December General Fund revenue collections totaled \$883.2 million. Base revenues, which exclude one-time adjustments, were 2.0% above the prior year.

The lower growth in December revenues was the result of 2 contrasting factors. First, Individual Income withholding showed a large gain, however this was due mostly to technical timing issues.

In contrast, Corporate Income Tax refunds were significantly larger than the prior year, and receipts paid by corporations declined in December.

Overall December sales tax collections, which reflect November sales, increased by 5.1% compared to the prior year. The bulk of holiday sales will be reflected in January collections, which should provide further information on revenue performance during this significant period of tax collections.

Total December General Fund collections were \$13.2 million above the enacted May budget forecast. Year-to-date, revenues are 3.6% higher than last year and are \$32.3 million above the budget forecast.

In comparison to revenue of \$883.2 million, December 2012 General Fund spending was \$561.6 million, or \$(8.4) million below last year. December expenditures were lower than last year primarily due to decreased enrollment in the Medicaid program.

Fiscal year-to-date, General Fund revenues of \$4.5 billion have been offset by \$5.4 billion in spending.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. As of mid-January 2013, the operating balance is \$1.8 billion.

In addition, the state has \$451.8 million in Budget Stabilization Fund reserves, which represents an original \$450 million deposited as part of the FY 2013 budget plus \$1.8 million of interest earned.

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December Revenues

	<u>FY 2013 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2012</u>
December	\$ 883.2	\$ 13.2	\$ (20.6)
Year-to-Date	\$ 4,493.5	\$ 32.3	\$ (34.9)

Sales Tax collections of \$386.7 million were 5.1% above December 2011 and \$8.8 million above the budget forecast for the month.

Year-to-date, sales tax collections are 4.7% above the prior year and are \$28.4 million above forecast.

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

	<u>December</u>	<u>YTD</u>
Retail	6.8%	5.7%
Contracting	7.0%	3.2%
Utilities	(3.5)%	3.7%
Use	(2.5)%	(0.4)%
Restaurant & Bar	4.2%	6.7%

Retail and contracting together account for almost 60% of all sales tax revenues. December retail, which reflects November sales, increased by 6.8%. The December increase brings retail collections for the first half of FY 2013 up to 5.7%, compared to a 6.8% growth rate for the first half of FY 2012.

Overall, the retail category grew by 5.0% in FY 2012 compared to the prior year. With the December growth rate of 6.8%, the year-to-date growth rate of 5.7% continues to exceed last year's retail growth rate.

Contracting collections have been much more volatile than retail, but also increased by 7.0% this month. Four of the first six months of FY 2013 have shown positive growth in the contracting category. The December increase brings the year-to-date increase in contracting to 3.2%.

Individual Income Tax net revenues were \$410.2 million in December, or 16.4% more than the prior year. Collections were \$29.6 million, or 7.8% above the budget forecast. Year-to-date,

revenues have grown 7.6% and are \$60.5 million above forecast.

The large December increase relative to the forecast was primarily the result of greater than anticipated withholding tax collections. The increase in withholding may be the result of one more collection day in December compared to last year. Collections will likely smooth out by the end of January, which has one less collection day compared to January of the prior year.

As indicated in Table 3, withholding was up 13.6% in December. The December increase brings withholding tax collections for the first half of the fiscal year to 5.4%. This amount is \$18.1 million above the budget forecast.

Total estimated and final payments of \$72.6 million were 30.2% above last year, and were \$3.2 million, or 4.6% above forecast. For the first half of the fiscal year, payments are \$(3.8) million below the forecast.

Refunds of \$(2.2) million were \$1.4 million less than last year's amount. Year-to-date, refunds are \$46.1 million below forecast.

	<u>December</u>	<u>YTD</u>
Withholding	13.6%	5.4%
Estimated + Final Payments	30.2%	13.7%
Refunds	(9.0)%	(8.1)%

Corporate Income Tax net collections were \$95.0 million in December, which is \$(34.8) million less than the prior year's net collections of \$129.8 million. December corporate income tax collections are typically one of the larger collection months. Collections for the month were \$(22.4) million below the forecast. Year-to-date, collections are down (8.3)% and are \$(24.8) million below forecast.

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December Revenues (Continued)

The **Lottery Commission** reports that December ticket sales were \$52.9 million, which is \$(1.7) million, or (3.2)%, less than sales in the prior year. Year-to-date ticket sales are \$324.3 million, which is 10.7% above last year's sales. While sales increased, net General Fund revenues actually declined due to an increase in the payment of debt service for the Lottery Revenue Bonds issued in FY 2010.

Non-General Fund

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 \$101.8 million in December were up \$253,400, or 0.2%, compared to December of last year. Year-to-date revenues are approximately equal to collections in the prior year.

Table 4

General Fund Revenue: Change from Previous Year and Enacted May Budget Forecast December 2012

	Current Month					FY 2013 YTD (Six Months)				
	Actual December 2012	Change From December 2011		Budget Forecast		Actual December 2012	Change from December 2011		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$308,624,715	\$14,344,748	4.9 %	\$4,606,392	1.5 %	\$1,861,103,164	\$77,417,048	4.3 %	\$5,265,901	0.3 %
- 1¢ Increase*	78,080,670	4,430,828	6.0	4,205,591	5.7	467,347,668	26,355,270	6.0	23,161,442	5.2
Income - Individual	410,181,568	57,832,784	16.4	29,586,904	7.8	1,857,129,476	131,199,271	7.6	60,462,897	3.4
- Corporate	95,002,909	(34,823,191)	(26.8)	(22,392,920)	(19.1)	295,309,749	(26,766,000)	(8.3)	(24,809,145)	(7.7)
Property	2,582,891	(664,129)	(20.5)	(917,109)	(26.2)	7,610,282	(1,490,016)	(16.4)	(2,264,718)	(22.9)
Luxury - Tobacco	2,200,295	649,273	41.9	0	0.0	11,809,255	(2,011,406)	(14.6)	(1,656,300)	(12.3)
- Liquor	2,489,900	(301,532)	(10.8)	0	0.0	14,614,500	885,815	6.5	484,008	3.4
Insurance Premium	15,984,361	(20,166,293)	(55.8)	(15,639)	(0.1)	131,485,514	(28,216,546)	(17.7)	(7,514,486)	(5.4)
Estate	0	0	--	0	--	0	(200,825)	(100.0)	0	--
Other Taxes	30,732	(4,492)	(12.8)	(29,268)	(48.8)	240,447	(22,081)	(8.4)	(119,553)	(33.2)
Sub-Total Taxes	\$915,178,041	\$21,297,996	2.4 %	\$15,043,951	1.7 %	\$4,646,650,055	\$177,150,530	4.0 %	\$53,010,046	1.2 %
Other Revenue										
Lottery	5,624,540	(102,300)	(1.8)	624,540	12.5	17,048,200	(7,378,800)	(30.2)	(5,951,800)	(25.9)
License, Fees and Permits	2,698,835	(553,566)	(17.0)	198,835	8.0	15,356,063	1,004,748	7.0	(143,937)	(0.9)
Interest	1,468	(2,061,396)	(99.9)	(8,532)	(85.3)	12,645	(2,081,970)	(99.4)	(47,355)	(78.9)
Sales and Services	1,328,242	99,701	8.1	(1,171,758)	(46.9)	8,171,492	336,394	4.3	(6,328,508)	(43.6)
Other Miscellaneous	2,391,724	1,433,248	149.5	891,724	59.4	14,061,158	(2,022,790)	(12.6)	(2,938,842)	(17.3)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(1,839,211)	(1,902,715)	--	(2,339,211)	--	7,157,211	(4,352,081)	(37.8)	(5,342,789)	(42.7)
Sub-Total Other Revenue	\$10,205,598	(\$3,087,028)	(23.2) %	(\$1,804,402)	(15.0) %	\$61,806,769	(\$14,494,499)	(19.0) %	(\$20,753,231)	(25.1) %
TOTAL BASE REVENUE	\$925,383,639	\$18,210,968	2.0 %	\$13,239,549	1.5 %	\$4,708,456,823	\$162,656,030	3.6 %	\$32,256,814	0.7 %
Other Adjustments										
Urban Revenue Sharing	(42,798,670)	(7,430,050)	21.0	0	0.0	(256,792,020)	(44,580,300)	21.0	0	0.0
Budget Plan Transfers	589,363	(31,333,493)	(98.2)	0	0.0	41,796,914	(140,065,163)	(77.0)	0	0.0
Sub-Total Other Adjustments	(42,209,307)	(38,763,543)	-- %	0	0.0 %	(214,995,106)	(197,512,891)	-- %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$883,174,332	(\$20,552,575)	(2.3) %	\$13,239,549	1.5 %	\$4,493,461,718	(\$34,856,860)	(0.8) %	\$32,256,815	0.7 %
Non-General Funds										
Highway User Revenue Fund	\$101,775,581	\$253,372	0.2 %	(\$355,761)	(0.3) %	\$591,795,271	\$259,633	0.0 %	(\$6,229,662)	(1.0) %

* Total December collections including the temporary 1¢ increase approved by the voters in May 2010 were \$386.7 million. This amount is \$18.8 million, or 5.1%, above December 2011 and \$8.8 million, or 2.3%, above forecast.

Recent Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** fell (9.0)% in December, bringing the indicator's year-over-year growth down to 0.5%. The index's drop was largely due to consumer fears about future impacts of going over the "fiscal cliff". In December, the measure's sub-index for confidence in economic conditions 6 months into the future dropped (17.8)%. Congress' recent action to avert the most austere changes of the cliff may help restore some of the lost confidence in coming months.

The Conference Board's **U.S. Leading Economic Index** decreased by (0.2)% in November to a reading of 95.8. The latest reading is 1.8% above that in November 2011. November decreases in stock prices and new manufacturing orders more than offset improvements in credit conditions and building permits.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the Americas increased 5.1% in November to \$5.03 billion. This amount is 9.7% above billings in November 2011 and represents the highest reading since January 2001. Semiconductors are Arizona's largest international export industry.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, were unchanged in December and grew by 1.7 % above the prior year. During December, a 0.1% increase in core inflation (all prices except for food and energy) was offset by a (1.2)% decrease in energy prices.

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.

In November, 45 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.3% compared to the prior month. Year-over-year, the Arizona index is 2.8% above last year, which is the 19th highest growth rate in the country. While this is a significant improvement, Arizona's index is still (10.9)% below its peak, which occurred in August 2007.

See *Appendix A – 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 manufacturing delivery times, 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 lower than the revised 3.3% growth projection in October but higher than the 3.0% projection in November 2011.

Housing

The number of Maricopa County **pending foreclosures** decreased from 11,973 in November to 10,466 in December. This represents the seventh consecutive monthly decrease in this measure. The December total is significantly below the peak in December 2009 (51,466). See *Appendix A – Tracking Arizona's Recovery*.

The total housing inventory in the Greater Phoenix area decreased from 24,712 in December 2011 to 21,095 in December 2012, a (14.6)% decrease. This continues the decline in inventory that started in January 2011.

As the supply of housing has declined, the price has increased. In the Metropolitan Phoenix area, the **median price of a single family home** was \$162,500 in November. This represents a 3.5% increase from October, and a 29.0% increase from November of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through November, a total of 1,263 **single-family building permits** had been issued statewide, a 50.8% increase from last year. This level of activity is comparable to the amount of permits seen in September 2008, a month which marked the beginning of the rapid decline in the state's housing market. Still, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. See *Appendix A – Tracking Arizona's Recovery*.

"The Conference Board's U.S. Consumer Confidence Index fell (9.0)% in December... largely due to consumer fears about future impacts of going over the 'fiscal cliff.'"

Recent Economic Indicators (Continued)

“Compared to the same month last year, food stamp participation was down by (0.7)%.”

The performance of the multi-family housing sector is similar to that of single-family housing. For the 3-month period ending in November, a total of 358 **multi-family building permits** had been issued in the state. This figure represents a level similar to October 2008. Multi-family permitting activity remains (66.2)% below the peak of activity in April 2007.

State Agency Data

At the beginning of January, total **AHCCCS** caseloads equaled 1.27 million members, a 0.2% increase from the prior month. Overall, AHCCCS caseloads are currently (4.2)% below January 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, increased 0.1% from last month and decreased (1.3)% from a year ago. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011. This population has declined (137,773) since then to 86,719. Of the decline, (11,938) is attributed to members who were transferred to the SSI program. As a whole, the Proposition 204 program has declined (1.3)% compared to the prior month, and (21.8)% from the prior year.

KidsCare provides coverage for children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (1.2)% compared to the prior month and (35.5)% from the prior year. Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II, which provides coverage for children up to 175% of the Federal Poverty Level. The state match is provided by voluntary payments from political subdivisions. As of the beginning of January, 25,844 children were enrolled in KidsCare II.

There were 40,930 **TANF recipients** in the state in November, a monthly caseload decrease of (2.6)%. Year-over-year, the number of TANF recipients has increased by 6.8%. This marks the third month of year-over-year growth in the TANF program since November 2009. Since that time, the State reduced the lifetime limit a person may receive cash assistance, first to 36 months and then further to 24 months. Previously, the maximum had been 60 months. The appropriation for TANF cash assistance in the FY 2013 budget funds a caseload of approximately 36,200 recipients in FY 2013.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In November, there were a total 1.1 million food stamp recipients in the state, a (0.8)% decrease over the prior month. Compared to the same month last year, food stamp participation was down by (0.7)%. The number of SNAP 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 Corrections (ADC) inmate population increased to 40,085 inmates in December 2012. Relative to the prior 3-month period, the population has increased by 46 inmates. Compared to a year ago, the population has increased by 54 inmates.

Employment

The state gained a total of 3,200 **nonfarm jobs** between November and December. The private sector added a net of 4,900 jobs in December whereas the government sector shed (1,700) jobs. The nonfarm job net gain of 0.1% was comparable to the 10-year average increase of 0.2% for December. The largest contributions to December's month-over-month net job gain came from the following sectors: leisure and hospitality (+1,400), information (+1,100), financial activities (+1,100), and education and health services (+1,100).

Compared to December 2011, nonfarm employment was up by 2.6%, or 63,900 jobs. The last time employment grew at a faster year-over-year rate was in January 2007. The largest year-over-year net job gains came from the following industries: professional and business services (+13,300), trade, transportation, and utilities (+12,200) and education and health services (+10,200).

For the calendar year as a whole, Arizona's economy added an average of 50,500 jobs (+2.1%), the best performance since 2006.

As of December, total nonfarm employment remained (7.5)%, or (204,800) jobs, below peak employment in December 2007. *See Appendix A – Tracking Arizona's Recovery.*

Recent Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate (SA)	December	7.9%	0.1 %	(1.1)%
- Initial Unemployment Insurance Claims	December	19,147	(4.3)%	(14.2)%
- Unemployment Insurance Recipients	December	38,101	(3.8)%	(30.9)%
- Non-Farm Employment - Total	December	2.51 million	0.1%	2.6%
Manufacturing	December	153,100	0.5%	2.4%
Construction	October	119,400	(0.3)%	6.5%
- Average Weekly Hours, Manufacturing	November	40.6	0.2%	0.5%
- Contracting Tax Receipts (3-month average)	Oct-Dec	\$36.1 million	(1.0)%	3.6%*
- Retail Sales Tax Receipts (3-month average)	Oct-Dec	\$149.8 million	3.6%	6.2%*
- Residential Building Permits (3-month moving average)				
Single-family	Sep-Nov	1,263	(6.6)%	50.8%
Multi-unit	Sep-Nov	358	(29.7)%	36.2%
- Greater Phoenix Home Sales				
Single-Family	November	8,007	(8.5)%	12.7%
Townhouse/Condominium	November	1,181	(6.3)%	9.9%
- Greater Phoenix Median Home Price				
Single-Family	November	\$162,500	3.5%	29.0%
Townhouse/Condominium	November	\$100,000	6.4%	23.7%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	October	122.39	1.4%	21.7%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	December	10,466	(12.6)%	(47.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	December	21,095	(9.2)%	(14.6)%
- Phoenix Sky Harbor Air Passengers	November	3.31 million	(1.1)%	0.2%
- Revenue Per Available Hotel Room	November	\$51.25	(14.1)%	(2.5)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	November	\$4.47	10.6%	(11.1)%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2012	68.6	(1.3)%	32.2%
- Arizona Coincident Index (July 1992 = 100)	November	181.26	0.3%	2.8%
- Arizona Leading Index -- 6 month projected growth rate	Sep-Nov	3.2%	(0.1)%	0.2%
- Arizona Personal Income	3rd Quarter 2012	\$236.8 billion	0.6%	4.2%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	January	1,268,918	0.2%	(4.2)%
Acute Care Traditional		883,617	0.1%	(1.3)%
Spend Down		-	-	(100.0)%
Prop 204 Childless Adults		86,719	(3.2)%	(43.5)%
Other Prop 204		148,114	(0.1)%	(4.8)%
Kids Care		8,281	(1.2)%	(35.5)%
Kids Care II		25,844	17.4%	-
Long-Term Care – Elderly & DD		53,346	0.3%	2.8%
Emergency Services		62,997	1.2%	12.8%
- TANF Recipients	November	40,930	(2.6)%	6.8%
- SNAP (Food Stamps) Recipients	November	1,128,883	(0.8)%	(0.7)%
- ADC Inmate Growth (3-month average)	Oct-Dec	40,085	46 inmates	54 inmates
- Probation Caseload				
Non-Maricopa	November	17,911	(222)	(698)
Maricopa County	November	25,295	(168)	(255)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	3rd Quarter 2012 (3 rd Estimate)	\$13.7 trillion	3.1%	2.6%
- Consumer Confidence Index (1985 = 100)	December	65.1	(9.0)%	0.5%
- Leading Indicators Index (2004 = 100)	November	95.8	(0.2)%	1.8%
- U.S. Semiconductor Billings (3-month moving average)	Sep-Nov	\$5.03 billion	5.1%	9.7%
- Consumer Price Index, SA (1982-84 = 100)	December	231.0	0.0%	1.7%

*Adjusted for 1¢ sales tax

Summary of Recent Agency Reports

AHCCCS and the Department of Health Services - Report on Reconciliation Payments - Pursuant to Laws 2012, Chapter 294, Section 126, the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) submitted their semi-annual report on reconciliation payments and penalties received from July 1, 2012 through December 31, 2012. AHCCCS reports that during that 6-month period they deposited \$310,700 into the General Fund and used \$639,400 to offset Federal Medicaid Authority expenditures, all from penalties and sanctions. DHS reports no reconciliation payments and penalties during that period.

AHCCCS limits financial risks and profits for health plans for most AHCCCS populations (the maximum percentage of loss and profit varies by AHCCCS population). Reconciliation payments are made to health plans or AHCCCS if a health plan's losses or profits exceed the set level. A penalty, or sanction, may be assessed against health plans for the failure to demonstrate compliance with their contractual responsibilities.

Previously, AHCCCS retained monies from reconciliation payments and penalties. Laws 2012, Chapter 299, Section 1 required that AHCCCS deposit monies received for reconciliation payments and penalties into the General Fund or the fund from which the appropriation was originally made. (Amy Upston)

Arizona Community Colleges – Annual Report – Pursuant to A.R.S. § 15-1427, the Arizona Community Colleges are required to report on their progress during the previous year. The FY 2012 report includes the following summary information on the state system:

- 357,895 students (headcount) were enrolled for credit, resulting in a Full-Time Student Equivalent count of 140,954.
- 90% of enrolled students resided within the district, while 10% did not reside within the district.
- Total number of instructors employed was 11,201, of which 2,539 (23%) were full-time and 8,662 (77%) were part-time.
- Total operating revenues were \$1.6 billion (this amount excludes bond proceeds and fund balance which total \$182.1 million).
- Total expenditures were \$1.8 billion.

(Tom Ritland)

Arizona Community Colleges – Report on Workforce Development Expenditures – The Arizona Community Colleges are reporting on their previous year's workforce development plan activities and expenditures. A.R.S. § 15-1472 requires each community college district to establish a workforce

development account. Monies in the account are derived from Proposition 301 Sales Tax revenues and shall be used for workforce development and job training. Total revenues in FY 2012 were \$940,600 and total expenditures in the same year were \$821,400. (Tom Ritland)

Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) has provided its annual report 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 2012, CJEF revenues totaled \$43.1 million and the total funds available for the fiscal year, including the beginning balance and adjustments, was \$65.3 million. In FY 2012, CJEF revenues decreased by (1.4)% from FY 2011; CJEF expenditures totaled \$38.9 million, and fund transfers totaled \$5.9 million. (Krista MacGahan)

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 \$23.6 million was used by 6 state entities for domestic violence services in FY 2012, a (1.8)% decline in spending from FY 2011, reflecting reduced federal funding. (Ben Beutler)

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 2014 and FY 2015 for the New School Facilities, Building Renewal, and Emergency Deficiencies Correction Programs.

In FY 2014, SFB estimates a total funding requirement of \$369.8 million, including \$109.8 million for the New School Facilities Program, and \$260.0 million for the Building Renewal Program. The new construction estimate assumes the current construction limitation is lifted in FY 2014. The FY 2014 new construction cost would be reduced through the use of lease-purchase authority or by cash flowing the construction cost across several years. The Building Renewal amount is based on the current statutory formula, which was suspended in FY 2013 in favor of a \$2.7 million discretionary grant program.

For FY 2015, the board estimates it will need funding in the amount of \$320.0 million. Of this total, \$42.0 million is for additional awards made for the New School Facilities Program and \$278.2 million 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 2014 or FY 2015, due to insufficient monies in the New School Facilities Fund. (Andrew Hartsig)

Arizona Board of Regents – Report on University System's Financial Aid – Pursuant to A.R.S. § 15-1650, the Arizona Board of Regents is required to submit an annual report on financial aid. Highlights from the FY 2012 report include:

- Approximately \$1.9 billion in total financial aid was provided to students.
- Of this amount, \$912.3 million (49.3%) came from federal sources, \$601.2 million (32.5%) came from state institutional sources, \$335.0 million (18.1%) came from private sources, and \$1.8 million (0.1%) came from state scholarships, grants and loans. (The private sources amount includes \$13.5 million Arizona Financial Aid Trust, which is a combination of both state and institutional sources of aid.)
- A total of 120,015 students received aid, including 96,320 undergraduate students and 23,696 graduate students.
- Of the undergraduate students receiving aid, 21,408 received non-need-based gift aid, 54,998 received need-based gift aid, and 48,811 were awarded miscellaneous types of non-gift aid (i.e. work study). Some students received multiple types of aid.
- The average aid package was \$10,851, which includes both need and non-need-based aid.
- 56.7% of undergraduate students and 59.0% of graduate students have debt.
- Upon graduation, the average undergraduate student debt was \$22,178, while the average graduate student debt was \$47,803.

(Marge Zylla)

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, 139,357 students registered for the fall 2012 semester. Of the total students registered, the universities were able to verify the legal immigration status of 130,791 students. Additionally, the universities reported that 11,542 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 7 students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security - The department reported that 6,168 applications were received for child care assistance during the reporting period of June 1, 2012 to November 30, 2012. Of this number, 6 were denied because criteria for citizenship or legal residency were not met.

Community Colleges - The Community Colleges reported a total of 254,298 students statewide classified as in-state for the fall 2012 semester. They reported 1,086 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 112,669 students applied for financial aid. Of those who applied, the community colleges reported that 89 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education - The department reported that 15,752 people applied for instruction in Arizona Adult Education during the reporting period of June 1, 2012 to December 1, 2012. Of this amount, 623 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. The Arizona Adult Education program is currently funded with Federal Funds and had been funded by a combination of federal and state funds previously. (Krista MacGahan)

Public Safety Personnel Retirement System – Report on Shared Cost Structure, Funding Status and Rate of Return – Pursuant to A.R.S. § 38-848.02, the Public Safety Personnel Retirement System (PSPRS) is required to report annually on the shared cost structure of the employees and employers, the funding status and the rate of return for the system. Besides administering its own system, PSPRS is also responsible for the Correctional Officers Retirement Plan (CORP) as well as the Elected Officials Retirement Plan (EORP). *Table 6* shows the contribution rates, funded status and rate of return for FY 2014, based on valuation data from June 30, 2012.

In PSPRS and CORP, there is significant variation in the actuarial status of individual employer groups, therefore the employer contribution rates and funded statuses have been shown in the aggregate. Individual employer contribution rates and funded ratios are available on the PSPRS website.

A 7-year smoothing period is used to calculate the investment rate of return. This smoothing technique is a tool used to reduce short-term volatility of assets by deferring a portion of gains and losses over time. This smoothing process is used under the condition that the maximum deferred gain or loss remains within 20% of market value. *Table 1* shows 1-year market-based returns, in addition to the 7-year smoothing technique. (Ben Henderson)

Summary of Recent Agency Reports (Continued)

	<u>PSPRS</u>	<u>CORP</u>	<u>EORP</u>
FY 14 Contribution Rates ^{1/}			
Employer ^{2/}	30.44%	13.68%	25.94% ^{3/}
Employee	10.35%	8.40%	13.00%
Funded Status ^{1/ 2/}	58.6%	67.8%	58.4%
Rate of Return			
1-year market value basis	(0.8%)	(0.8%)	(0.9%)
7-year smoothing basis	3.2%	3.6%	1.5%

^{1/} Based on June 30, 2012 valuation.
^{2/} Employer contribution rates and funded statuses for PSPRS and CORP are shown in the aggregate, as there is significant variation in the actuarial status between individual employer groups.
^{3/} Represents the state employer rate, which is lowered by court fees as required by statute.

December Spending

December 2012 General Fund spending of \$561.6 million was \$(8.4) million lower than December 2011. (See *Tables 7 & 8*). AHCCCS spent \$(11.7) million less than December 2011, due to lower enrollment in both the Traditional and Proposition 204 Medicaid programs.

Year-to-date, spending is \$5.4 billion, or \$113.7 million above last year.

	<u>Dec 12</u>	<u>Change from Dec 11</u>	<u>Year to Date</u>	<u>YTD Change from FY 12</u>
Agency				
AHCCCS	125.8	(11.7)	683.9	(143.5)
Corrections	72.5	3.2	456.0	(13.0)
Economic Security	3.1	(3.7)	439.7	5.4
Education	281.3	(1.0)	2,203.1	(16.9)
Health Services	13.8	3.8	496.2	64.5
Public Safety	1.6	(0.4)	16.3	(18.3)
School Facilities Board	0.1	0.0	142.7	9.7
Universities	38.9	(3.8)	455.0	(10.3)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	<u>24.5</u>	<u>5.2</u>	<u>263.7</u>	<u>1.0</u>
Total	561.6	(8.4)	5,240.7	(86.3)
Budget Stabilization Fund Deposit	0.0	0.0	200.0	200.0
Grand Total	561.6	(8.4)	5,440.7	113.7

General Fund Spending				
(\$ in Thousands)				
Agency	December 12	Change from December 11	Year-to-Date	YTD Change from FY 12
Department of Administration	558.7	(19.4)	14,577.8	4,559.4
Department of Admin Sale/Leaseback D/S	-	-	84,119.8	35,069.1
Office of Administrative Hearings	2.9	(60.1)	430.5	(0.3)
Department of Agriculture	230.2	(58.2)	3,859.8	(319.6)
AHCCCS	125,829.9	(11,661.3)	683,891.1	(143,466.1)
Arts, AZ Commission on the	-	-	-	(10.4)
Attorney General	1,713.7	312.3	11,024.9	1,948.9
AZ Capital Post Conviction Public Defender	-	(58.5)	4.1	(295.7)
State Board of Charter Schools	50.2	(2.0)	395.3	1.4
AZ Commerce Authority	2,625.0	-	15,750.0	-
Community Colleges	-	-	32,096.3	(2.5)
Corporation Commission	45.9	3.2	285.6	7.9
Department of Corrections	72,531.3	3,218.3	456,028.3	(13,016.2)
AZ State Schools for the Deaf & Blind	1,930.2	861.7	12,150.8	1,028.4
Department of Economic Security	3,148.3	(3,663.4)	439,660.6	5,441.2
Department of Education	281,343.9	(1,039.9)	2,203,059.8	(16,865.0)
DEMA	573.2	762.9	4,034.0	642.7
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	0.0	(12.0)	55.0	(38.4)
State Board of Equalization	22.3	(10.6)	339.1	(28.1)
Board of Executive Clemency	49.2	(2.8)	375.9	(62.0)
Department of Financial Institutions	200.3	17.9	1,402.4	(50.2)
Department of Fire, Life, Bldg Safety	12.9	13.6	896.4	(9.5)
Office of the State Forester	185.9	(31.9)	2,143.2	(836.6)
Arizona Geological Survey	9.8	(26.5)	465.1	5.8
Government Information Tech.	-	-	-	3.1
Governor/OSPB	604.2	1,702.9	4,040.7	1,052.7
Department of Health Services	13,800.0	3,799.0	496,222.0	64,481.9
Arizona Historical Society	176.9	(16.6)	1,737.4	(97.4)
Prescott Historical Society of AZ	47.2	(0.1)	346.9	14.7
Independent Redistricting Comm.	108.0	(228.2)	735.4	(1,218.4)
Commission on Indian Affairs	2.4	2.2	27.4	(0.4)
Department of Insurance	332.9	(13.1)	2,502.5	(261.4)
Judiciary				
Supreme Court	999.3	(113.1)	8,270.9	1,334.4
Superior Court	486.3	222.5	36,863.1	34.7
Court of Appeals	997.4	137.4	6,839.3	(276.2)
Department of Juvenile Corrections	3,003.9	779.4	21,243.0	(3,184.8)

Agency	December 12	Change from December 11	Year-to-Date	YTD Change from FY 12
State Land Department	29.7	27.4	548.3	(34.2)
Law Enforcement Merit System	5.4	0.8	33.1	4.9
Legislature				
Auditor General	1,323.4	42.5	8,603.2	(438.4)
House of Representatives	872.6	(22.4)	5,380.3	(707.7)
Joint Legislative Budget Comm.	144.8	8.6	910.9	(105.3)
Legislative Council	361.6	58.4	4,104.0	1,107.2
Senate	713.9	88.5	3,722.6	(383.7)
Mine Inspector	95.0	35.7	612.1	22.8
Nav. Streams & Adjudication	8.5	(6.3)	62.8	(27.3)
Pioneers' Home	51.0	(226.1)	589.2	(519.1)
Comm. for Postsecondary Ed.	-	-	698.4	-
Department of Public Safety	1,571.2	(382.1)	16,302.2	(18,322.6)
Arizona Department of Racing	-	(45.2)	1,790.5	(879.9)
Radiation Regulatory Agency	60.3	50.6	729.0	(20.9)
Real Estate Department	149.8	13.9	1,217.3	(99.8)
Department of Revenue	2,727.8	678.9	21,482.8	(7,251.8)
School Facilities Board	107.8	37.9	142,694.0	9,739.5
Secretary of State	1,300.8	763.9	10,820.2	5,786.4
Tax Appeals Board	17.2	11.7	141.0	5.1
Office of Tourism	431.6	431.6	2,662.1	2,662.1
Department of Transportation	-	(3.0)	18.9	1.7
Universities				
Board of Regents	(288.7)	(490.3)	19,968.3	9,452.7
Arizona State University	17,381.2	(1,788.2)	194,862.7	(10,728.9)
Northern Arizona University	5,916.0	(515.6)	66,040.0	(3,044.6)
University of Arizona	15,870.7	(1,001.8)	174,154.3	(6,011.0)
Department of Veteran Services	219.8	242.6	2,637.9	(1,257.7)
Department of Water Resources	739.6	234.1	4,502.3	1,402.6
Department of Weights & Measures	132.1	49.3	690.5	147.0
Other	13.1	(1,517.2)	1,876.2	(2,409.1)
Total	561,578.8	(8,406.0)	5,240,728.9	(86,343.3)
Budget Stabilization Fund Deposit	-	-	200,000.0	200,000.0
Grand Total	561,578.8	(8,406.0)	5,440,728.9	113,656.7

Tracking Arizona's Recovery

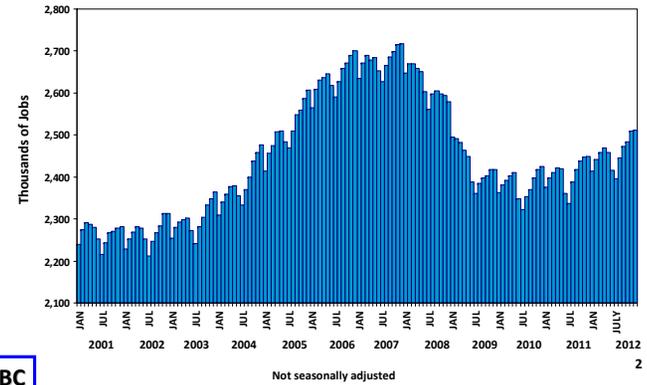
Appendix A

Slide:

- 2.....Total Non-Farm Employment
- 3.....Initial Claims for Unemployment Insurance
- 4.....State Sales Tax Collections – Retail Category
- 5.....State Sales Tax Collections – Contracting Category
- 6.....Single Family Building Permits
- 7.....Maricopa County Pending Foreclosures
- 8.....Coincident Index

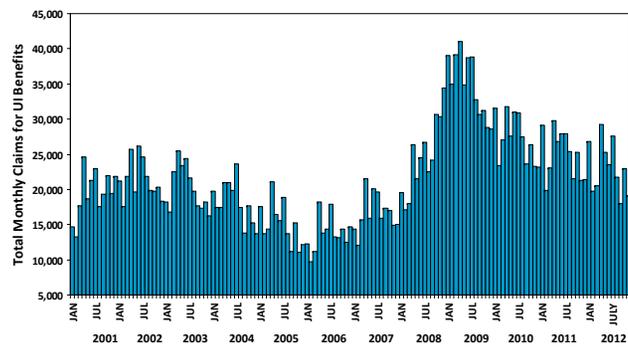
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Total Non-Farm Employment



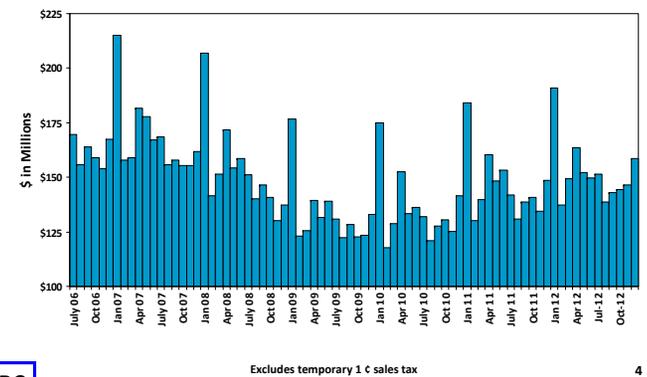
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Initial Claims for Unemployment Insurance



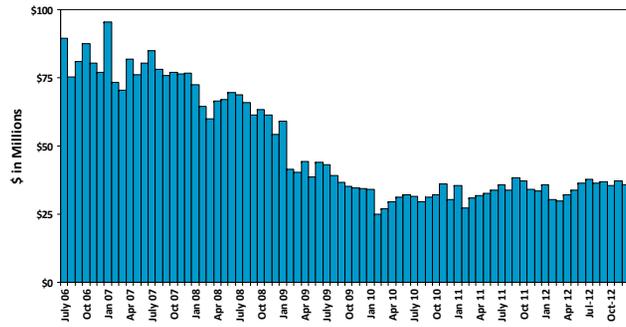
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State Sales Tax Collections – Retail Category



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State Sales Tax Collections – Contracting Category

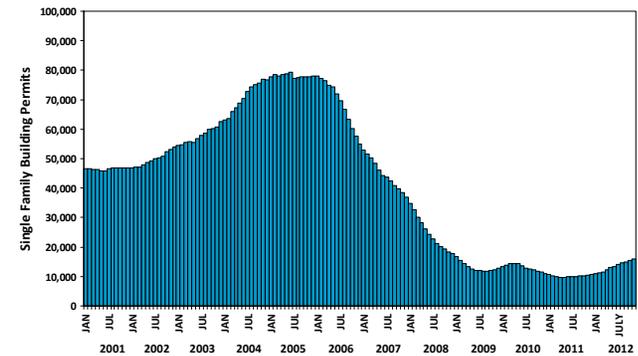


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Excludes temporary 1 ¢ sales tax

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Single Family Building Permits

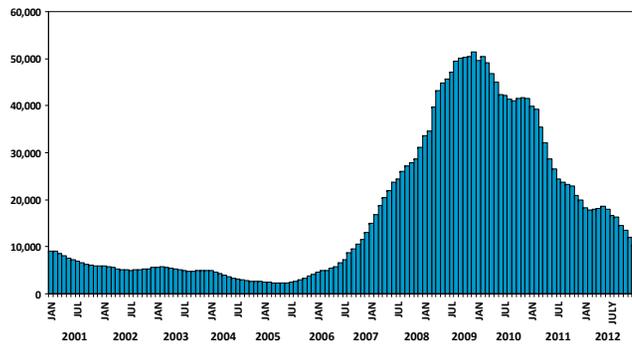


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12-Month Moving Sum

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Maricopa County Pending Foreclosures

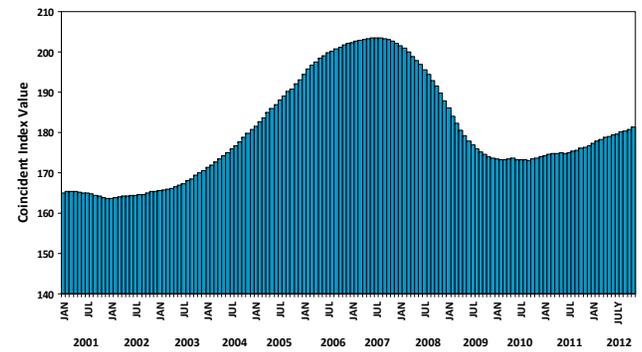


JLBC

An initial notice of trustee sale has been recorded but final sale has not yet occurred

7

Economic Activity Index



JLBC

Source: Coincident Index – Federal Reserve Bank of Philadelphia. Combines four state-level indicators (employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements) to summarize current economic conditions.

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