

ARIZONA  
**MONTHLY FISCAL HIGHLIGHTS**  
 July 2004

General Fund revenue collections were \$526.2 million in July. This amount is \$10.8 million over the forecast for the month and 13.9% over July of last year. The forecast comparison is based on projected FY 2005 revenues included in the enacted budget. The General Appropriation Act included a provision that any revenue exceeding the budgeted forecast for FY 2004 and the first six months of FY 2005 will be dedicated for specific purposes. Since all other “triggers” have already been enacted in FY 2004, any “excess” FY 2005 revenue will be divided evenly between the General Fund and the Budget Stabilization Fund.

Collections for the two largest revenue categories continued the strong growth rates exhibited in the last few months of FY 2004. July sales tax collections were up 9.8% and withholding tax collections were up 10.2%.

This report also includes a summary of the August 17<sup>th</sup> JLBC and JCCR meetings.

<b>General Fund Revenues</b>			
<b>Compared to Adopted Forecast and FY 2004 Collections</b>			
(\$ in Millions)			
	<u>FY 2005</u>	<u>Difference</u>	<u>Difference</u>
	<u>Collections</u>	<u>From Forecast</u> <sup>1/</sup>	<u>From FY 2004</u>
July	\$ 526.2	\$ 10.8	\$ 64.0
1/ Enacted FY 2005 budget (May)			

**Sales Tax** revenue increased by 9.8% on a year-over-year basis in July and was \$3.4 million above the forecast for the month.

- **Retail** sales tax receipts increased by 6.3%.
- **Contracting** continued to generate large increases, rising by 17.6% from a year ago.
- **Use tax** revenue (all of which is retained by the state) was up sharply, posting a 26.2% gain from July 2003.
- **Restaurants and bars** also had a strong month, with tax collections rising 9.2% above last year’s results.

**Individual Income Tax** July collections were 8.7% above last year. Withholding tax collections increased by \$17.2 million or 10.2%. Note that July 2004 was the first month for which year-over-year withholding growth reflected real growth in wage and salary disbursements. In prior months (between July 2003 and June 2004), year-over-year withholding growth was based on collections under insufficiently adjusted withholding rates (enacted in Laws 2003, Chapter 263), which thus prevented a real “apples to apples” comparison. In January 2005, withholding rates will increase again to correct

the under-withholding. Estimated and final payments were down \$(1.8) million. Refunds were up slightly from last July. Total collections were \$7.4 million or 4.3% above the forecast for the month.

**Corporate Income Tax** revenue increased by 23.7% compared to July of last year. However, July is a slow month for corporate tax collections, usually accounting for less than 4% of the annual total. Corporate revenue was \$2.8 million over the forecast for the month.

**Recent Economic Indicators:** The **U.S. Index of Leading Economic Indicators** fell (0.3)% in July, the second consecutive decline. The weakness was widespread, with negative contributions from vendor performance, the interest rate spread, stock prices, unemployment insurance claims, money supply, and manufacturers’ new orders.

The **U.S. Consumer Price Index (CPI)** edged downward in July, trimming the increase in the three-month moving average to 0.2%. Energy costs – which rose sharply in the first half of the year – dropped last month, while food prices continued to climb. Overall, consumer prices now stand 3.1% above the level from a year ago.



RECENT ECONOMIC INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
-Unemployment Rate	July	4.4%	(0.3)%	(1.4)%
-Jobs	July	2.285 million	(1.2)%	2.3%
-Contracting Tax Receipts (3 month average)	May-July	\$52.2 million	14.4%	15.7%
-Retail Sales Tax Receipts (3 month average)	May-July	\$134.2 million	3.3%	6.7%
-Arizona Tourism Barometer	May	97.0	5.8%	19.0%
-Leading Indicators Index	June	124.8	0.2%	3.4%
-Business Conditions Index (>50 signifies expansion)	July	67.2	2.0%	16.7%
-AHCCCS Recipients (3 month average)				
Regular	May-July	567,813	0.8%	0.0%
Proposition 204		168,703	(0.6)%	2.6%
-TANF Recipients (3 month average)	April-June	115,848	(4.4)%	(8.3)%
-DOC Inmate Growth (3 month average)	May-July	31,970	71 inmates	1,036 inmates
U.S.				
-Consumer Confidence Index	July	106.1	3.2%	37.8%
-Leading Indicators Index	July	116.0	(0.3)%	2.8%
-U.S. Semiconductor Billings (3 month moving average)	April-June	\$3.288 billion	2.8%	29.7%
-Consumer Price Index (3 month moving average)	May-July	189.4	0.2%	3.1%

Meanwhile, Arizona’s economy was producing mixed results. The **unemployment rate** dipped to 4.4% in July, well below the 5.5% rate reported for the nation. Although the manufacturing sector shrank by 700 jobs during the month, total **non-farm employment** was 2.3% above its level from a year ago.

The **Arizona Index of Leading Economic Indicators** struck a more optimistic note in June, climbing by 0.2%. Residential building permits, materials inventories, new orders and production were among the positive contributors, while employment and manufacturing hours worked were among the negative factors.

The **AHCCCS acute care caseload** continued its recent upward trend in July, with the three-month average rising 0.8% from the prior period. In the last 2 months, acute care caseloads have risen significantly. These gains have restored the caseload back to the December 2003 level. December had been the “high water” mark for caseload prior to 5 months of caseload reductions. The **number of Proposition 204 clients** declined by (0.6)% in the latest three-month period but was still 2.6% higher than a year ago.

The number of **TANF recipients** (three-month average) declined to 115,848 in June, a (4.4)% drop from the previous three months. The caseload was (8.3)% below last year’s level. The June monthly total increased 0.6% from May.

**JLBC MEETING**

At its August 17 meeting, the Joint Legislative Budget Committee considered the following issues:

**Department of Administration – Review of Risk Management Deductible** – The Committee gave a favorable review to deductible amounts the Arizona Department of Administration (ADOA) charges agencies for risk management losses. The approved deductible amount is \$10,000, which represents no change from the previous year.

**Department of Administration – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan** – The Committee gave a favorable review to the \$16.4 million wireless portion of the Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan. The favorable review contained two Committee requests: 1) The Government Information Technology Agency (GITA) examine ADOA’s long-term revenue forecasts and expenditure plans and provide its perspective on the state’s overall 911 needs. 2) ADOA report to the Committee its recommendations for preventing a future ETSF shortfall.

**Attorney General – Review of Allocation of Settlement Monies** – The Committee gave a favorable review to the Arizona Office of the Attorney General’s (AG) allocation of monies received from a settlement with Ford Motor Company and 27 Arizona Ford and Lincoln Mercury dealers, due to violations of Arizona consumer fraud laws. Under the settlement, Arizona will receive \$12,800 from Ford Motor Credit Company and \$121,500 from the 27 auto dealers, which will be deposited in the Consumer Fraud Revolving Fund. Additionally, approximately 2,400 consumers in Arizona will receive \$100 as a result of the settlement.

At the June 29<sup>th</sup> JLBC meeting, the Committee requested that the AG report back once it had finalized an expenditure plan from the \$604,800 Medco Health Solutions settlement. The

# State of Arizona

## General Fund Revenue: Change from Previous Year and January Revised Forecast July 2004

	Current Month					FY 2005 YTD (One Month)				
	Actual July 2004	Change From July 2003		Revised Forecast		Actual July 2004	Change from July 2003		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$297,753,472	\$26,655,577	9.8 %	\$3,407,491	1.2 %	\$297,753,472	\$26,655,577	9.8 %	\$3,407,491	1.2 %
Income - Individual	180,258,486	14,388,467	8.7	7,379,854	4.3	180,258,486	14,388,467	8.7	7,379,854	4.3
- Corporate	20,992,373	4,023,952	23.7	2,813,576	15.5	20,992,373	4,023,952	23.7	2,813,576	15.5
Property	610,665	604,292	--	92,729	--	610,665	604,292	--	92,729	--
Luxury	5,014,196	602,028	13.6	99,196	2.0	5,014,196	602,028	13.6	99,196	2.0
Insurance Premium	34,858,203	9,549,528	37.7	(2,936,622)	(7.8)	34,858,203	9,549,528	37.7	(2,936,622)	(7.8)
Estate	3,912,063	1,229,903	45.9	2,237,063	133.6	3,912,063	1,229,903	45.9	2,237,063	133.6
Other Taxes	69,739	11,865	20.5	(800,261)	--	69,739	11,865	20.5	(800,261)	--
<b>Sub-Total Taxes</b>	<b>\$543,469,197</b>	<b>\$57,065,612</b>	<b>11.7 %</b>	<b>\$12,293,026</b>	<b>2.3 %</b>	<b>\$543,469,197</b>	<b>\$57,065,612</b>	<b>11.7 %</b>	<b>\$12,293,026</b>	<b>2.3 %</b>
<b><u>Other Revenue</u></b>										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	2,189,491	(36,688)	(1.6)	369,717	20.3	2,189,491	(36,688)	(1.6)	369,717	20.3
Interest	(221,307)	45,218	(17.0)	(176,517)	394.1	(221,307)	45,218	(17.0)	(176,517)	394.1
Sales and Services	1,982,098	(1,014,044)	(33.8)	(817,976)	(29.2)	1,982,098	(1,014,044)	(33.8)	(817,976)	(29.2)
Other Miscellaneous	726,333	(283,847)	(28.1)	(102,555)	(12.4)	726,333	(283,847)	(28.1)	(102,555)	(12.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	7,572,661	7,344,169	--	(763,839)	--	7,572,661	7,344,169	--	(763,839)	--
BSF Transfer for Alt. Fuels	0	(3,090)	(100.0)	0	--	0	(3,090)	(100.0)	0	--
<b>Sub-Total Other Revenue</b>	<b>12,249,276</b>	<b>6,051,718</b>	<b>97.6 %</b>	<b>(1,491,170)</b>	<b>(10.9) %</b>	<b>12,249,276</b>	<b>6,051,718</b>	<b>97.6 %</b>	<b>(1,491,170)</b>	<b>(10.9) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$555,718,473</b>	<b>\$63,117,330</b>	<b>12.8 %</b>	<b>\$10,801,856</b>	<b>2.0 %</b>	<b>\$555,718,473</b>	<b>\$63,117,330</b>	<b>12.8 %</b>	<b>\$10,801,856</b>	<b>2.0 %</b>
<b><u>One-Time Revenue</u></b>										
Urban Revenue Sharing	(31,089,517)	(667,420)	2.2	0	0.0	(31,089,517)	(667,420)	2.2	0	0.0
Tax Amnesty	0	0	--	0	--	0	0	--	0	--
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
Federal Cash Assistance	0	0	--	0	--	0	0	--	0	--
Judicial Enhancement	1,590,000	1,590,000	--	0	--	1,590,000	1,590,000	--	0	--
<b>Sub-Total Transfers In</b>	<b>(29,499,517)</b>	<b>922,580</b>	<b>(3.0) %</b>	<b>0</b>	<b>0.0 %</b>	<b>(29,499,517)</b>	<b>922,580</b>	<b>(3.0) %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL REVENUE</b>	<b>\$526,218,956</b>	<b>\$64,039,910</b>	<b>13.9 %</b>	<b>\$10,801,856</b>	<b>2.1 %</b>	<b>\$526,218,956</b>	<b>\$64,039,910</b>	<b>13.9 %</b>	<b>\$10,801,856</b>	<b>2.1 %</b>

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

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

AG will distribute \$345,000 to hospitals, school based clinics and community health centers to provide medications to elderly, school-aged children and low-income residents. The remaining \$259,800 will provide funding for programs designed to educate Arizona consumers on the cost differences between prescription medications, as well as programs to benefit Arizona citizens using prescription drugs.

**Attorney General – Review of Uncollectible Debts** – The Committee gave a favorable review of the AG's FY 2003 report on uncollectible debt totaling \$16.4 million. Upon Committee review, the Department of Administration is able to remove this debt from the state's accounting system. The debt is listed as uncollectible due to debtors being deceased, insufficient debtor resources, defunct corporations, settlement agreements, inability to locate the debtor or because the cost of collection exceeds the amount of the debt owed. The reviewed amount exclude 2 items on the original report totaling \$8.1 million since the AG still plans on pursuing co-defendants in each of these cases.

**Arizona Community Colleges – Review of Workforce Development Plan Activities and Expenditures** – The Committee gave a favorable review to the Arizona Community Colleges report on \$8.5 million in FY 2003 workforce development plan activities and expenditures. Monies for workforce development activities are derived from Proposition 301 sales tax revenues. Total revenues in FY 2003 were \$10.5 million.

**JLBC Staff – Review of Calculation of Inflation for Transaction Privilege Tax County Withholding** – The Committee gave a favorable review to the \$5.6 million county contribution for Proposition 204 administrative costs for FY 2005. This amount reflects a 5.4% increase above the FY 2004 contribution level and is consistent with the FY 2005 budget.

**Arizona State Retirement System – Review of FY 2005 Information Technology Expenditure Plan** – The Committee gave a favorable review to the Arizona State Retirement System's (ASRS) FY 2005 Information Technology expenditure plan. ASRS was appropriated \$9.1 million in FY 2005 to upgrade their current information technology system.

**Department of Economic Security – Review of Proposed Implementation of Developmental Disabilities Provider Rate Increase** – The Committee gave a favorable review to the Department of Economic Security's (DES) implementation plan for distributing a developmental disabilities (DD) provider rate increase totaling \$6.4 million General Fund and \$18.9 million Total Funds. The largest increase is for the Habilitation-Group Home category, which will receive half of the increase. The rest of the increase will go to home-based providers of services such as attendant care, housekeeping and respite. The Committee also requested that DES report the results of the actuarial study of day treatment rates to the Committee by December 31<sup>st</sup>.

**Department of Health Services – Report on Health Crisis Fund Expenditures and Arizona State Hospital** – The Committee heard testimony on a report from the Department of Health Services on the expenditures from the Health Crisis Fund. The report indicated that \$795,000 was authorized from the account in FY 2004 for the following issues:

- \$230,000 to the Arizona Health Care Cost Containment System (AHCCCS) for Health Care Group outreach, including postage costs.
- \$200,000 to AHCCCS for Medicare Drug Card outreach.
- \$146,000 to DHS for West Nile Virus eradication measures
- \$219,000 to DHS for automated drug dispensing machines at the Arizona State Hospital.

Several members voiced concern over the \$430,000 in expenditures authorized to AHCCCS for public information regarding health care options for the uninsured, questioning whether the purpose of the authorized expenditures constituted a crisis.

**Arizona Department of Education – Report on Estimated Fiscal Impact of Changes to Achievement Testing Program** – The Committee heard testimony on updated information regarding increases in achievement testing costs. At the March 2004 JLBC meeting, the Arizona Department of Education (ADE) projected an additional \$4.2 million achievement testing contract in FY 2005 above FY 2004. The current estimate is \$5.5 million. The revised estimate would imply a \$1.3 million shortfall for achievement testing in FY 2005 as the General Appropriation Act provides the program with \$4.2 million rather than the revised \$5.5 million increase.

Chairman Burns asked if ADE could reduce its costs by requiring school districts and charter schools to pay for test retakes when a student has already passed the AIMS test. ADE is not in favor of this proposal.

**Governor's Office of Strategic Planning and Budgeting – Report on Federal Revenue Maximization Initiative** – The Governor's Office of Strategic Planning and Budgeting (OSPB) submitted the first in a series of reports on the status of a Federal Revenue Maximization Initiative, intended to ensure that Arizona receives the maximum amount of federal revenues legally available to the state. The FY 2005 budget incorporated \$25 million of savings as a result of this initiative.

The Governor has created the RevMax Governance Board to select projects. The Board has awarded contracts to 6 consulting firms, who can be utilized as needed to analyze projects designed to increase federal revenues to the state. While no action was required, the Committee did request that OSPB provide a list of projects that have either been initiated or referred to agencies for final cost-benefit analysis in future reports.

<b>JCCR MEETING</b>
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At its August 17 meeting, the Joint Committee on Capital Review considered the following issues:

**ADOA Building Renewal** – The JCCR favorably reviewed an allocation plan for \$1 million of the \$3.5 million FY 2005 building renewal appropriation from the Capital Outlay Stabilization Fund. The Committee review included a provision that ADOA submit an allocation plan for the remaining \$2.5 million.

**ASU-East Research Infrastructure Project** – The JCCR favorably reviewed the issuance of \$12 million in Certificates of Participation (COPs) for the construction of the 39,400 square foot Interdisciplinary Science and Technology Building III on the ASU-East Campus. The COPs will be repaid over a 25 year period using some of the COP proceeds to make interest only payments on the debt service through FY 2007. Beginning in FY 2008, \$783,000 from General Fund appropriations from Laws 2003, Chapter 267 and \$156,000 from savings from a refinanced COP issuance will be used to make the \$939,000 annual debt service payments.

The review included provisions noting that a favorable review did not constitute endorsement of General Fund appropriations for operational costs when the project was complete and requiring reporting on the use of project contingency allocations.

**Yuma/La Paz Community College District Bond Projects** – The JCCR favorably reviewed the \$73.9 million General Obligation bond proposal projects. The district plans to hold the bond election in November 2004. An additional \$10 million from other sources will also fund the projects. The bonds will be repaid over a 27 year period. The secondary property tax is estimated to increase by \$48 on average for every \$100,000 of house value.

The district would allocate \$57.9 million to construct 194,501 square feet of new space at various campuses, and \$25.9 million to renovate 101,511 square feet of existing space.

The review included the provision that the district return to the Committee for review prior to each actual bond issuance to provide greater detail on the projects to be funded with each individual issuance.

**DEQ Rent Payments** – The JCCR recommended that ADOA authorize a permanent exemption for DEQ from the payment of the rental lease fee in one lump sum payment and instead allow DEQ to make the payments on a quarterly basis.

**Mines and Mineral Resources Rent Exemption** – The JCCR recommended that ADOA authorize a partial FY 2005 General Fund rent exemption of \$136,400 for the Arizona Department of Mines and Mineral Resources.

**Phoenix Civic Plaza Expansion Project** – The JCCR received a semi-annual project progress report. Construction has begun on the expansion, which will increase the rentable space at the facility to over 900,000 square feet. The project is on schedule and expected to be completed in 2009. In addition, the city is undertaking a hotel project to add 1,000 hotel rooms in the area. The hotel is expected to be completed in 2008.

The \$600 million financing plan for the Civic Plaza Expansion provides that the state will pay the debt service on \$300 million and the City of Phoenix will pay the debt service on the remaining \$300 million. Bond financing for the \$280 million hotel project will be secured by hotel revenues and city non-General Fund excise taxes.

The Committee requested updated information comparing the \$210,000 per room costs of the hotel project with other publicly financed hotels. The JLBC Staff also recommended that the city's next report provide a discussion of updated financing cost estimates for both the expansion project and the hotel, as well as any revisions to the construction timelines for both projects.

**NAU Green Building Savings** – The JCCR received the report on costs of meeting “green building” standards as compared to savings generated through energy and other operating efficiencies. The payback period from savings to recoup additional design and construction costs is estimated to be 50 years. The JLBC Staff recommended that the Arizona Board of Regents establish standard rates of return to evaluate energy efficient construction designs in the future.

**UofA Capital Project Contingency Allocations** – The JCCR received reports on the reallocation of contingency monies to cover higher than expected construction material costs for the Medical Research Building, Residence Life Building Renewal Phase I, and Highland Avenue Parking Structure projects. The individual total budgets for the three projects remain unchanged from the original amounts.