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"For the fiscal year-to-date, collections are \$(139.2) million below the enacted forecast."

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on June 29, 2007.

What's Inside

May General Fund revenue collections were \$735.2 million, or (13.9)% below May 2006. This amount was \$(165.5) million below the monthly forecast based on the recently enacted state budget. For the fiscal year-to-date, collections are \$(139.2) million below the enacted forecast. (See Table 3 on page 3.)

Based on partial month data, we first reported last month that revenues would likely be below forecast in May. Now with full May data, the magnitude of the shortfall is clearer. The May results are primarily due to a decline in the level of individual income tax collections; however, sales and corporate income tax collections were also below forecast in May. For the major categories:

- Individual income tax collections were (27)% below May 2006 and \$(113.6) million below the recently enacted budget forecast.
- Sales tax revenue growth was at the lowest level in more than 4 years. May collections fell short of the forecast by \$(34.7) million.
- Corporate income tax collections also fared poorly in May, with revenues declining by (9.6)% from last year.

Overall, revenue collections have slowed for the following reasons:

- *One-time FY 2006 gains were not repeated.* General Fund revenues increased 20% in FY 2006, prior to tax law adjustments. During this same time period, Arizona personal income grew 9%. This suggests that a portion of FY 2006 state revenue collections were one-time, given that collections grew at a rate much faster than the underlying state economy.
- *The decline in construction activity.* The real estate market expanded considerably in FY 2005 and FY 2006 and produced some of these one-time gains. As this sector has receded, there has been a corresponding slowdown in revenue collections and construction employment. On a month-over-month basis, construction employment declined by 900 jobs in May. By way of comparison, the 10-year average growth in May construction employment is 2,200 jobs.
- *A slower national economy.* The national economy has also slowed in FY 2007. For example, the national Gross Domestic Product (GDP) grew 0.6% in the first quarter of 2007, the lowest level since 2002. The slowdown is being felt across the county. Nationally, state and local government tax collections in the first quarter of 2007 grew at their lowest level since 2003.

In general, the enacted budget forecast captured the "soft landing" of Arizona revenue

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"It is too early to predict the FY 2008 implications of falling below the forecast. In the short-term, the FY 2007 budget will remain balanced."



"The overall FY 2008 state budget picture may not come into better focus for at least a minimum of 3 or 4 months."

collections in FY 2007 compared to the extraordinary growth of the prior 2 years. The deceleration, however, is slightly faster than projected, which now leaves overall revenue growth about 1.4% lower than anticipated.

Preliminary figures from June suggest that the state is unlikely to improve on the year-to-date revenue shortfall of \$(140) million by the end of the fiscal year. June will probably cause the state to end up further below the forecast, but the magnitude of the monthly June decline is likely to be significantly less than May.

It is too early to predict the FY 2008 implications of falling below the forecast. In the short-term, the FY 2007 budget will remain balanced. The recently enacted budget includes a projected year end FY 2007 surplus of almost \$530 million. If FY 2007 year-end revenues were to end up \$(140) million below forecast, for example, the carry forward into FY 2008 would be reduced to \$390 million.

In FY 2008, the enacted budget has a year-end balance of less than \$1 million. Therefore, a \$(140) million shortfall in the FY 2007 carry forward would create a cash shortfall at the end of FY 2008 unless this was offset by better than expected performance in other budget assumptions.

For example, the enacted budget includes a forecasted growth rate in base revenue of 6.0% for FY 2008, prior to tax law adjustments. To generate an additional \$140 million in FY 2008 to offset the FY 2007 loss, base FY 2008 revenues would instead have to increase by 7.4%. The possibility of achieving this higher growth rate remains to be seen.

The FY 2008 cash balance will also depend on the actual level of state spending compared to projections. Recent news on that front has been mixed. For example, the Arizona Department of Education now estimates a FY 2007 surplus of \$40.4 million. Previously, the department had estimated a \$14.3 million surplus.

On the other hand, the School Facilities Board reported on June 20th a potential \$80 million FY 2008 shortfall. The SFB estimates a \$40 million shortfall in FY 2007 and FY 2008, or a total of \$80 million for both years. The shortfall is the result of expenditures for projects approved in prior years occurring more quickly than expected, a

higher level of FY 2007 approvals than originally anticipated (which impacts FY 2008 expenditures), and SFB providing additional inflationary funding for individual projects.

To address the FY 2007 shortfall, the Board plans to shift some FY 2007 expenditures into FY 2008 and temporarily transfer funds from other sources. For FY 2008, the Board has stated that it "would caution the committee (JCCR) against relying too heavily on these projections. The SFB has limited control over when and how quickly districts choose to build awarded schools."

In summary, the overall FY 2008 state budget picture may not come into better focus for at least a minimum of 3 or 4 months. By September, a preliminary estimate of the FY 2007 book-closing will be reported, which determines the carry-forward into FY 2008. In addition, that period of time will allow us to assess actual FY 2008 revenue trends.

The Monthly Fiscal Highlights also include a summary of the June JLBC and JCCR meetings (*pages 5-6*), and a summary of recent statutory reports submitted to JLBC (*pages 7-8*).

May Revenues

Sales Tax collections were \$357.6 million in May, or (1.3)% below last year. This amount, however, reflects an adjustment the Department of Revenue made to the retail and use categories to correct a prior month accounting error. Without the adjustment, May collections would have been about \$364 million, or 0.4% above last year. This is the lowest rate of monthly sales tax growth since February 2003. *Table 1* displays the May and year-to-date growth rates for the major categories.

	May	YTD
Retail	5.0%	4.1%
Contracting	(0.2)%	11.3%
Utilities	8.7%	12.8%
Use	(71.6)%	(4.9)%
Restaurant & Bar	6.3%	8.3%

Due to the adjustment, the May results for individual categories are somewhat misleading. Without the adjustment, retail would have actually decreased by (2.4)%, while use tax collections would have increased by 16.1%. Among the other categories, contracting collections continued to be lower than last year. Overall, collections for the month were \$(34.7) million below the forecast. Year-to-date, revenues are \$(93.1) million less than the forecast.

Individual Income Tax collections were \$310.3 million in May, or (26.8)% below last year. Prior to this month, yearly revenues were running above forecast. May collections, however, were \$(113.6) million less than expected, driving the year-to-date total to \$(61.6) million below the forecast. *Table 2* displays the May and year-to-date growth rates for individual categories.

	May	YTD
Withholding	4.5%	8.8%
Estimated +	(33.3)%	4.8%
Final Payments		
Refunds	35.4%	27.0%

While withholding was positive, the growth was less than prior months. The primary reason individual collections were below forecast, however, was the decline in final payments. Compared to last May, final payments decreased \$(86.3) million. This reduction likely reflects a significant decline in the level of payments made on capital gains. In FY 2005 and FY 2006, capital gains reported to the Internal Revenue Service from Arizona taxpayers increased 90.6% and 69.3%, respectively. These one-time gains in prior years have resulted in a substantial slowdown in the current year.

Corporate Income Tax collections were \$47.8 million in May, or (9.6)% below last year. Following several months of positive growth, May revenues decreased from last year. For the month, collections were \$(15.7) million below the enacted forecast. Even though corporate revenues were below expectations in May, for the year-to-date they are 17.7% above last year and \$7.5 million above the forecast.

"This is the lowest rate of monthly sales tax growth since February 2003."



"These one-time gains in prior years have resulted in a substantial slowdown in the current year."

	FY 2007 Collections	Difference From June 2007 Forecast ^{1/}	Difference From FY 2006
May	\$ 735.2	\$ (165.5)	\$ (118.4)
Year-to Date	\$ 8,579.7	\$ (139.2)	\$ 395.7

^{1/} Enacted FY 2008 budget (June 2007).

Recent Economic Indicators



“The manufacturing sector endured a loss of 300 jobs in May and was down (0.4)% from a year ago.”

“Final” **U.S. Gross Domestic Product (GDP)** estimates for 2007’s 1st quarter reflected a small revision, from 0.6% to 0.7%, in the economy’s annual growth pace. Although changes in the estimates for net exports and personal consumption expenditures boosted the growth estimate slightly, it was still the economy’s worst performance since 2002’s 4th quarter. Although corporate profits increased by 1.4% in the 1st quarter and by 6.5% on a year-over-year basis, this was well below the double-digit growth rates registered in recent years.

U.S. semiconductor billings dropped again in April (3-month moving average), this time by (3.0)%. Sales by American manufacturers continued to lag last year’s results by (10.0)%. The Semiconductor Industry Association (SIA) cited competitive market conditions and falling prices in major industry segments as the forces driving sales revenue lower. SIA reported that unit sales were up by almost 10% from a year ago.

The **U.S. Index of Leading Economic Indicators** advanced 0.3% in May, which followed a revised 0.3% decline in April. The index has remained in a holding pattern for several months and stands at the same level reported at the beginning of 2007. May’s improvement was led by rising stock prices and falling unemployment insurance claims, while interest rates and manufacturing hours worked made negative contributions.

The **U.S. Consumer Confidence Index** retreated (4.2)% in June and reached its lowest level since August 2006. The Conference Board reported that the decline in consumer sentiment was mostly due to a lower appraisal of current conditions and a dimmer view of job market prospects.

Soaring gasoline prices in most of the nation continued to fuel inflation in May. The **U.S. Consumer Price Index (CPI)** (3-month moving average) jumped 0.7% for the 3rd month in a row. Petroleum-based energy prices rose 9.8% in May, while food prices increased 0.3%, slightly less than the prior month. Excluding the impact of food and fuel, the core CPI rose 0.1% in May and was 2.2% higher than a year ago.

Arizona’s economy continued to show slower growth in May. Total **non-farm employment** edged down by (1,100) jobs, to 2.73 million, which was 3.3% higher than a year ago. **Construction** employment, which normally increases by 1,900 in May (based on its 10-year average), dropped by (900) in May 2007. The special trades segment that is most closely associated with the housing industry lost (800) jobs in May and now stands (4.2)% below its

October 2006 peak. The **manufacturing** sector endured a loss of 300 jobs in May and was down (0.4)% from a year ago. In spite of the losses in these key sectors, the state’s **unemployment rate** dipped to 3.6% in May, well below the 4.5% U.S. average.

The **Arizona Business Conditions Index (BCI)** also lost ground. May’s reading of 59.3 was (1.3)% below the previous month’s result but remained above the mark of 50 associated with an expanding economy. A large drop in the employment component was the main factor pushing the index lower, while improvements in production and new orders helped to cushion the blow and set the stage for better results in the months ahead.

The Realty Studies group at Arizona State University reported that the Greater Phoenix **single-family median sales price** decreased from \$265,000 to \$262,000 in May, a (1.1)% year-over-year decline. The number of existing **single-family homes sold** increased in May from April but was (24.0)% below last year’s total and was less than half the number of sales reported for May 2005.

The attached-home market continued to compare favorably. The **townhouse-condominium median sales price** reached a record \$184,990 in May and stood 5.7% higher than a year ago. The **number of units sold** dropped (4.6)% from the prior month and by (15.3)% on a year-over-year basis.

The state’s muted economic performance was evident in other statistics. **Arizona personal income** totaled \$202.3 billion (seasonally adjusted annual rate) in 2007’s 1st quarter, reflecting a year-over-year growth rate of 6.2%. The state’s personal income grew between 8.5% and 9.0% from 2004 through 2006.

The **Department of Corrections’ inmate population** increased by an average of 275 inmates per month from March through May, which was similar to the prior period’s results. The total population grew by 2,260 inmates from a year ago, a 6.6% increase. The budget for FY 2008 anticipates inmate population growth of 1,920, or a net increase of 160 inmates per month.

The **number of TANF** recipients decreased (1.4)% to 78,713 in April and was (10.3)% below the level reported in April 2006. The FY 2008 budget projects the TANF caseload will grow by 2.5%. The **AHCCCS caseload** climbed 0.3% in June and now stands 0.8% higher than the total from a year ago. The FY 2008 budget projects growth of 1.9% from June 2007 to June 2008.

Recent Economic Indicators (Continued)

Table 4

RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	May	3.6%	(0.4)%	(0.5)%
- Non-Farm Employment – Total	May	2.73 million	(0.0)%	3.3%
Manufacturing	May	186,400	(0.2)%	(0.4)%
Construction	May	246,000	(0.4)%	1.3%
- Contracting Tax Receipts (3-month average)	Mar-May	\$76.2 million	(7.0)%	(0.7)%
- Retail Sales Tax Receipts (3-month average)	Mar-May	\$172.7 million	(4.1)%	3.5%
- Residential Building Permits (3-month moving average)				
Single-unit	Feb-Apr	4,069	2.7%	(26.1)%
Multi-unit	Feb-Apr	1,452	7.7%	41.7%
- Greater Phoenix Existing Home Sales				
Single-Family	May	5,220	7.5%	(24.0)%
Townhouse/Condominium	May	1,245	(4.6)%	(15.3)%
- Greater Phoenix Median Home Sales Price				
Single-Family	May	\$262,000	(1.1)%	(1.1)%
Townhouse/Condominium	May	\$184,990	0.0%	5.7%
- Phoenix Sky Harbor Air Passengers	April	3.61 million	(7.4)%	1.3%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	March	\$9.53	5.5%	30.9%
- Leading Indicators Index	March	120.4	0.2%	0.2%
- Business Conditions Index (>50 signifies expansion)	May	59.3	(1.3)%	(0.9)%
- Consumer Confidence Index	1 st Quarter 2007	106.3	0.9%	(3.7)%
- Business Leaders Confidence Index	2 nd Quarter 2007	53.0	2.1%	(8.6)%
- Arizona Personal Income	1 st Quarter 2007	\$202.3 billion	2.1%	6.2%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	June	1,050,017	0.3%	0.8%
- TANF Recipients	April	78,713	(1.4)%	(10.3)%
- DOC Inmate Growth (3-month average)	Mar-May	36,553	275 inmates	2,260 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	1 st Quarter 2007	\$11.5 trillion	0.7%	1.9%
- Consumer Confidence Index	June	103.9	(4.2)%	(1.4)%
- Leading Indicators Index	May	138.0	0.3%	0.3%
- U.S. Semiconductor Billings (3-month moving average)	Feb-Apr	\$3.24 billion	(3.0)%	(10.0)%
- Consumer Price Index (3-month moving average)	Mar-May	206.7	0.7%	2.7%

JCCR Meeting

At its June 19, 2007 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

Arizona Department of Transportation – Review of Asphalt Storage Tanks Project – The Committee gave a favorable review to the proposal to expend \$1.1 million for the installation of 4 asphalt storage tanks, concrete containment basins, and the disposal of existing tanks.

Arizona Department of Transportation – Review of De-Icer Buildings Project – The Committee gave a favorable review to the proposal to expend \$1.5 million for the construction of 4 new buildings to house chemicals, bulk sand, and cinders used to de-ice

highways during winter months. The buildings will be located in Springerville, Indian Pine, Page, and Flagstaff.

Arizona State University – Review of Revised Scope of Academic Renovations – The Committee gave a favorable review to a scope revision in the Physics Chair Renovation project, which is increasing from \$1.1 million to \$1.9 million. ASU originally proposed to renovate 2,300 square feet of space. The university now plans to renovate 4,500 square feet, resulting in the cost increase. The additional square feet will allow ASU to house more research space.

Northern Arizona University – Review of Dining Expansion Bond Project – The

Committee gave a favorable review to the dining expansion project, to be financed with \$9.5 million in system revenue bonds. The debt service on the bonds will be paid with auxiliary funds, which includes dorm and dining fees. The project is a 26,000 square foot, two-story dining hall addition to the north side of the existing student union. The expansion would add a dining capacity of 450. While the Committee gave the proposal a favorable review, some members expressed concerns over the justification for additional space. As a result, JLBC Staff has requested further information from NAU.

JLBC Meeting

At its June 19, 2007 meeting, the Joint Legislative Budget Committee (JLBC) considered the following issues:

Attorney General – Review of Allocations of Settlement Monies – The Committee took no action regarding the Office of the Attorney General’s (AG) notification of the allocation of monies received from the Purdue Pharma L.P. consent judgment. In May 2007, the Attorney General and 25 other states entered into a consent judgment with Purdue as a result of allegations the company encouraged doctors to prescribe the pain drug, OxyContin, for uses not approved by the Federal Drug Administration (FDA). The Chairman requested that the AG provide further detail of the costs incurred during the litigation and how they plan to allocate the \$717,500 awarded them in this case.

Arizona Department of Corrections – Consider Approval and Review of Requested Transfer of Appropriations – The Committee gave a favorable review to nearly \$4.2 million in transfers within the department’s budget. The largest transfers include \$2.3 million to Overtime/Compensation Time and \$1.3 million to Correctional Officer Personal Services. The largest sources of surplus are \$2.1 million from the Out of State Rented Provisional Beds and \$1.5 million from Private Prisons. The \$2.1 million available from the Provisional Beds resulted from the department not filling all of the 1,260 Indiana beds as scheduled due to an April 24 disturbance at the facility. Only 630 Arizona inmates are currently housed in Indiana and the department does not anticipate transferring the other 630 inmates until the department has finished its investigation and is satisfied with the conditions at the facility. The Chairman requested that DOC continue to apprise the Committee of the status of filling the Indiana provisional beds.

Arizona Criminal Justice Commission – Review of Intended Use of Monies in the Victim Compensation and Assistance Fund – The Committee gave a favorable review to the planned expenditure of \$300,000 above the appropriated level for the Victim Compensation and Assistance Fund. A footnote in the General Appropriation Act allows additional monies in excess of the appropriated amount be spent by the Commission with JLBC review. The fund will receive an estimated \$2.9 million due to an Attorney General fraud prosecution.

The Commission plans to draw down \$300,000 annually to increase funding for the Victim Compensation Program through FY 2016. The transfer increases the projected FY 2008 Victim Compensation Program size from \$2.5 million to \$2.8 million.

Department of Education – Review of Xanterra Settlement – The Committee gave a favorable review to the ADE’s plan to provide school districts in Coconino County with \$1,002,600 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court. The funding plan conforms with statutory requirements regarding state aid corrections required as a result of Arizona Tax Court decisions.

Department of Public Safety – Quarterly Review of the Arizona Public Safety Communications Advisory Commission – The Committee gave a favorable review to the FY 2007 third quarter expenditures and progress for the statewide interoperability design project. Third quarter expenditures were about \$250,000, leaving approximately \$3.5 million for the remainder of FY 2007. Third quarter expenditures included \$122,200 for costs associated with 7 FTE Positions and \$125,100 to a consulting firm for the conceptual design of the long-term interoperability solution. The Commission expects that in July 2007, the U.S. Departments of Commerce and Homeland Security will announce awards to states for statewide interoperability communications systems, using proceeds from a commercial radio spectrum sale, anticipated at \$960 million. These federal dollars will help defray the state’s cost of the interoperability project and will be distributed based on a risk assessment formula.

Department of Economic Security – Review of Requested Transfer Appropriations – The Committee reviewed \$24.3 million of requested budget transfers that address most of DES’ projected \$28.5 million FY 2008 shortfall. The Committee gave an unfavorable review to the requested \$6 million transfer to the Division of Benefit and Medical Eligibility (DBME) operating budget due to concerns with using savings from declining entitlement benefits to fund administrative expansion. DES is expected to have a surplus of at least \$14 million due to declining welfare caseloads, which would fund the bulk of these transfers. The Committee has requested that DES report back on July 15, 2007 on how the department ultimately solved the entire shortfall.

Summary of Recent Agency Reports



AHCCCS – Semi-Annual Report on Healthcare Group – Pursuant to A.R.S. § 36-2912 AHCCCS submitted its semi-annual report to the Committee on the number and types of businesses participating in Healthcare Group (HCG). AHCCCS reports that, as of May 13, 2007, total statewide HCG medical plan enrollment was 26,914, with participating members from 9,316 private employers and 16 political subdivisions. AHCCCS reports that since May 2006, enrollment has increased by 6,116 people, or 29.4% in HCG medical plans.

HCG notes that member retention has remained at 98% from May 2006 to May 2007.

In addition to the aforementioned information, the report also included the following information:

- 19,949 individuals in Maricopa and Pima Counties were enrolled, which represents a 28.3% increase over May 2006 total of 15,543.
- 6,965 individuals were enrolled in all Arizona counties except Maricopa and Pima, which represents a 33% increase from May 2006.
- 73.4% of employer groups were one person businesses, as compared to 75.7% in May. One person businesses represented 45.3% of all HCG members in May 2007.
- HCG employers with 10 or more eligible employees represented 8% of total members

Arizona Criminal Justice Commission – Report on Statewide Methamphetamine Interdiction Efforts – Pursuant to Laws 2006, Chapter 337, the Arizona Criminal Justice Commission (ACJC) is required to report quarterly with a summary outlining the use and effectiveness of \$3 million appropriated in FY 2007 for increased methamphetamine interdiction efforts by the counties.

All monies have been allocated to counties based on the formula in Chapter 337. ACJC reported that as of March 31, 2007, \$28,300 had been spent by 4 counties. Of this amount, Navajo and Greenlee Counties had spent the most to date. Navajo County had expended \$12,700 on its Major Crimes Apprehension Team, which included purchasing a drug-detecting dog and training for the dog and its police handler. Greenlee County spent \$12,000 for a school resource officer who provided meth education in the Clifton Unified, Morenci Unified, Duncan Unified and Blue Elementary School Districts.

Maricopa County had spent \$2,300 on consulting and contractual expenses related to the Arizona Meth Project (AMP), a multimedia public service program targeting youth, young adults and their parents. Maricopa County has taken on the role of project coordinator for the statewide program, and ACJC reported Maricopa County had finalized intergovernmental agreements with 8 other counties to use Chapter 337 funding for AMP. Greenlee County is participating in AMP using funding from private sources.

Santa Cruz County also spent \$1,300 on a law enforcement and prevention project called Weed and Seed, which included drug activity surveillance and officer training.

Economic Estimates Commission – Report on the Budget Stabilization Fund – Pursuant to A.R.S. § 35-144(F), the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a formula that compares the growth rate of real adjusted Arizona personal income in the most recent calendar year to the average in the last 7 calendar years. Since the calendar year 2006 growth rate exceeded the 7-year average by 1.98%, EEC reported on May 25, 2007 that the formula calls for a BSF deposit of \$173.9 million in FY 2007. EEC calculations under the formula do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action.

Under statute, the total balance of the BSF is not allowed to exceed 7.0% of the current year's General Fund revenues, excluding the beginning balance. Since the BSF balance is essentially at its cap, the recommended EEC FY 2007 deposit could not occur unless the cap was statutorily lifted.

Department of Economic Security – Report on Use of State Share of Retained Earnings, Fees & Federal Incentives – A footnote in the FY 2007 General Appropriation Act allows the Department of Economic Security (DES) to expend retained earnings, fees and federal incentives in the Division of Child Support Enforcement above the appropriated amount. The footnote also requires DES to report the intended use to the President of the Senate, the Speaker of the House, the chairmen of the

Summary of Recent Agency Reports (Continued)

Senate and House Appropriations Committees, and the directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting. DES reports that it intends to use \$3,000,000 plus federal matching monies above the appropriated \$14,287,200 to continue initiatives begun earlier in the year in anticipation of these increased revenues. These initiatives include upgrades to the information technology systems and additional staffing. DES reports that these uses will assist the agency in meeting federal performance measures.

The department was appropriated an additional \$3,222,100 from the General Fund in FY 2008 to backfill reduced federal funding associated with the 2006 Federal Deficit Reduction Act. During the budget process, the use of higher than budgeted revenues was not presented as an alternative to the General Fund backfill.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2007 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2007. In that report, ADE estimates that it will experience a \$40.4 million net funding surplus for FY 2007. ADE had previously reported an estimated surplus of \$14.3 million.

Department of Health Services – Report on MethSMART Prevention Program – Pursuant to Laws 2006, Chapter 337, Section 5, the Department of Health Services has submitted a quarterly report on the effectiveness of the department's curriculum based methamphetamine prevention services. In FY 2007, \$500,000 was appropriated to the department for methamphetamine prevention programming for youth. Grants were provided to 15 Boys and Girls Clubs across the state to implement the MethSMART preven-

tion program. During the second quarter, the program expended \$120,000 on various programmatic activities.

The MethSMART program provides separate curriculum for children, youth, and teens and also includes a workshop for parents. The department reports that 2,383 youth and teens participated in the program during the 3rd quarter of FY 2007. Of that amount, 734 youths participated in single program events, such as a health fair or community event, and 1,649 youths participated in recurring programs. Approximately 1,544 children and youth completed the entire MethSMART curriculum for their age group. The department reports that there was a 16-18% increase in youth's knowledge about methamphetamine following participation in the program. In its last report, DHS reported a 13-21% increase in knowledge among participants during the first 3 months of the program.

Department of Revenue – Report on General Fund Enforcement Revenue – A footnote in the FY 2007 General Appropriation Act requires the Department of Revenue (DOR) to report quarterly to the Committee on the effectiveness of the department's overall enforcement and collections program, including a comparison of projected and actual General Fund revenue enforcement collections for FY 2007. DOR had General Fund enforcement revenues of \$302.6 million through the third quarter of FY 2007, which was \$52.5 million above their goal of \$250.1 million. In comparison, DOR collected \$265.5 million through 3 quarters of FY 2006.

School Facilities Board – FY 2008 New School Construction Report – Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is annually required to submit a new school construction report, including demographic assumptions, proposed construction schedule, and new school construction costs estimates

for the upcoming fiscal year. The board's report was received on June 20.

The board approved \$392.5 million worth of new construction projects (excluding land purchases) in FY 2007, which was a \$(46.2) million decrease below FY 2006 approvals. After a project is approved, though, it takes several years for the project to be completed and the full cost to be expended.

In terms of the agency's cash flow, SFB expects to expend \$373.6 million on new construction projects and land in FY 2007 and \$413.0 million in FY 2008. These expenditures mainly reflect projects approved in prior years.

According to SFB, this would leave them with about a \$(40) million shortfall in both FY 2007 and FY 2008, or a total of \$(80) million across both years. To address the FY 2007 cash shortfall, SFB plans to shift some FY 2007 expenditures into FY 2008 and temporarily transfer monies from the Building Renewal and Emergency Deficiencies Correction Funds. While SFB is also projecting a FY 2008 shortfall, SFB includes the following caveat in their cover letter: "SFB staff would strongly caution the committee against relying too heavily on these projections. The SFB has limited control over when and how quickly districts choose to build awarded schools."

Other Issues

DEMA Emergency Funding

The Governor is authorized by A.R.S. § 35-192 to declare emergencies in response to major disasters. This section also allocates \$4 million from the General Fund to the Governor’s Emergency Fund every fiscal year for liabilities, expenses, and reimbursements arising from these disasters. Through the end of April, \$3,143,000 had been allocated. In May and June, three additional allocations used most of the remaining funding.

On May 14, 2007, \$100,000 was allocated from the Governor’s Emergency Fund to search and rescue in order to reimburse the various state and local agencies that had incurred related costs. On June 25, 2007 an additional \$65,000 was allocated from the fund to search and rescue along with \$672,000 for the summer 2006 monsoon and flooding emergency. This brought the total allocated to search and rescue for FY 2007 to

\$265,000 and the total for the summer 2006 monsoon and flooding emergency to \$1,172,000.

<u>Date of Emergency Fund Allocation</u>	<u>Description of Emergency</u>	<u>Allocation</u>
08/01/2006	Glassy-Winged Sharpshooter Emergency	\$543,000
08/08/2006 12/11/2006 06/25/2007	Summer 2006 Monsoons & Flooding Emergency*	\$1,172,000
11/30/2006 05/14/2007 06/25/2007	Search & Rescue Contingency Fund	\$265,000
12/11/2006	Northern AZ Winter Storm Emergency	\$500,000
12/11/2006	February 2005 Winter Storms & Flooding Emergency	\$1,200,000
12/11/2006	La Paz County Summer Monsoon Emergency (SEC Allocation)	\$300,000

Department of Health Services

Report on Expenditures from the Health Crisis Fund – Pursuant to A.R.S. § 36-797, the Department of Health Services (DHS) is required to report expenditures from the Health Crisis Fund. The Health Crisis Fund receives \$1,000,000 annually from the Medically Needy Account of the Tobacco Tax and Health Care Fund. The Governor may declare a health crisis or a significant potential for a health crisis and authorize monies from the Health Crisis Fund for the emergency.

On June 1, 2007, the Executive authorized \$200,000 to mitigate the effects of out-of-hospital cardiac arrests. According to DHS, the average number of out-of-hospital cardiac arrests in Arizona is 5,000 per year, with a survival rate of 3%. Monies will be used for public education, CPR training, and Automated External Defibrillator (AED) training.

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast May 2007

	Current Month					FY 2007 YTD (Eleven Months)				
	Actual May 2007	Change From		Revised Forecast		Actual May 2007	Change from		Revised Forecast	
		May 2006 Amount	Percent	Amount	Percent		May 2006 Amount	Percent	Amount	Percent
Taxes										
Sales and Use	357,610,064	(\$4,887,298)	(1.3) %	(\$34,717,336)	(8.8) %	\$4,136,850,519	\$246,757,045	6.3 %	(\$93,093,841)	(2.2) %
Income - Individual	310,268,127	(113,550,354)	(26.8)	(112,446,477)	(26.6)	3,435,651,117	80,721,736	2.4	(61,617,058)	(1.8)
- Corporate	47,753,442	(5,090,249)	(9.6)	(15,658,866)	(24.7)	853,345,020	128,606,284	17.7	7,461,951	0.9
Property	2,835,652	(329,712)	(10.4)	(4,364,348)	(60.6)	17,830,071	(1,659,352)	(8.5)	(4,759,289)	(21.1)
Luxury	5,322,950	(707,961)	(11.7)	365,950	7.4	60,303,576	(866,918)	(1.4)	(2,242,327)	(3.6)
Insurance Premium	37,587,305	11,868,343	46.1	4,587,305	13.9	327,741,459	26,454,736	8.8	(2,079,410)	(0.6)
Estate	0	(81,923)	(100.0)	0	--	(571,457)	(12,216,290)	--	381,216	(40.0)
Other Taxes	52,752	2,768	5.5	(24,373)	(31.6)	1,290,241	101,674	8.6	590,346	84.3
Sub-Total Taxes	\$761,430,292	(\$112,776,386)	(12.9) %	(\$162,258,145)	(17.6) %	\$8,832,440,546	\$467,898,915	5.6 %	(\$155,358,412)	(1.7) %
Other Revenue										
Lottery	3,513,900	2,591,900	281.1	(683,100)	(16.3)	36,567,600	(1,743,500)	(4.6)	(2,691,500)	(6.9)
License, Fees and Permits	2,989,355	487,088	19.5	593,355	24.8	36,960,486	7,038,352	23.5	187,380	0.5
Interest	6,156,761	1,810,331	41.7	(943,239)	(13.3)	87,534,405	33,477,774	61.9	9,122,146	11.6
Sales and Services	6,782,381	2,122,649	45.6	1,694,881	33.3	50,178,827	3,377,050	7.2	2,029,412	4.2
Other Miscellaneous	(584,848)	(2,896,010)	--	(3,565,248)	--	28,686,175	7,368,631	34.6	4,112,436	16.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	802,523	758,600	--	(347,477)	(30.2)	12,660,599	(6,237,908)	(33.0)	3,427,702	37.1
Sub-Total Other Revenue	19,660,072	4,874,558	33.0 %	(3,250,828)	(14.2) %	252,588,092	43,280,399	20.7 %	16,187,576	6.8 %
TOTAL BASE REVENUE	\$781,090,364	(\$107,901,828)	(12.1) %	(\$165,508,973)	(17.5) %	\$9,085,028,638	\$511,179,314	6.0 %	(\$139,170,836)	(1.5) %
One-Time Revenue										
Urban Revenue Sharing	(45,935,888)	(10,500,144)	29.6	0	0.0	(505,294,772)	(115,501,589)	29.6	0	0.0
Sub-Total Transfers In	(45,935,888)	(10,500,144)	29.6 %	0	0.0 %	(505,294,772)	(115,501,589)	29.6 %	0	0.0 %
TOTAL REVENUE	\$735,154,476	(\$118,401,972)	(13.9) %	(\$165,508,973)	(18.4) %	\$8,579,733,866	\$395,677,725	4.8 %	(\$139,170,836)	(1.6) %