

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
March 2004

March General Fund revenues were \$434.1 million. Collections were \$71.0 million above the original FY 2004 forecast for the month, bringing the total forecast variance after 9 months to \$210.6 million. The 2 largest components of General Fund revenue both grew strongly in March. Sales tax revenues increased by 10.8% and withholding tax collections increased by 9.9% in comparison to March 2003.

Year-to-date collections of \$4.6 billion are a total of 11.6% above last year. As we have noted in past months, adjusting for tax amnesty revenues, the one-time federal cash assistance grant, judicial enhancement collections and Urban Revenue Sharing funds provides a more accurate picture of economic growth. After making these adjustments, year-to-date collections are up 7.2% for the first 9 months of the fiscal year compared to last year.

We will continue to measure individual revenue category collections against the original budget forecast until the Legislature enacts a new budget. The January JLBC FY 2005 Budget has already incorporated most of the year-to-date surplus in the revised FY 2004 estimates. The new March collections are approximately \$36.5 million above these revised estimates, bringing us to a year-to-date total of \$53.2 million above the January JLBC Budget Book forecast.

This report also includes a summary of the March JCCR meeting.

General Fund Revenues				
Compared to Original and Revised FY 2004 Forecasts and FY 2003 Collections				
(\$ in Millions)				
	<u>FY 2004 Collections</u>	<u>Difference From 6/03 Forecast</u> ^{1/}	<u>Difference From 1/04 Forecast</u> ^{2/}	<u>Difference from FY 2003</u> ^{3/}
March	\$ 434.1	\$ 71.0	\$ 36.5	\$ 66.8
Year-to-Date	\$4,565.4	\$210.6 ^{4/}	\$ 53.2	\$318.0

^{1/} Original FY 2004 budget forecast (June 2003).
^{2/} Revised FY 2004 forecast (January 2004).
^{3/} Excludes federal cash assistance grant, URS, judicial enhancement and amnesty deposit.
^{4/} By the end of the fiscal year, amnesty may generate an additional \$22 million above forecast.

Sales Tax revenue in March increased by 10.8% (based on preliminary numbers), bringing the year-to-date growth rate up to 7.7%. Assuming the final March numbers are equal to the preliminary numbers, sales tax collections are now \$110.8 million above the budgeted forecast for the year. As previously noted, the Department of Revenue implemented its new computer system in January. This transition has delayed final reconciliation of February and March receipts. The figures shown are based on the best data available at print time.

Individual Income Tax collections in March were up substantially compared to last year. Withholding tax collections were up almost \$20 million or 9.9%. The increase could have been due in part to the fact that there were 2 more processing days in March of this year compared to last year. The \$220.6 million in withholding is the single largest monthly total since January 2001.

Final payments were up over \$10 million or 38.4% and refunds were about \$31 million or (15.7)% less than last year. In total, individual income tax collections were \$61.6 million above the budgeted forecast for the month, bringing the year-to-date variance to \$36.9 million. As we enter the primary tax filing months, the increase in final payments and decrease in refunds reflect, at least in part, the under-withholding of tax during the first half of the fiscal year.

Corporate Income Tax collections declined in March compared to last year, with net revenue \$(15.4) million below March 2003. Collections for the month were very close to the budgeted forecast, maintaining the year-to-date variance at about \$48.6 million above the forecast. A relatively high level of refunds reduced net revenue. In addition, estimated payments were \$(10.5) million, or (19.7)% below last year. Corporate income tax revenue for the fiscal year-to-date is still running 28.3% ahead of last year's results.



Recent Economic Indicators: The latest statistics on the nation’s economy showed higher inflation and modest economic growth. The **U.S. Consumer Price Index** continued to climb through the first three months of 2004, with the increase driven by the steep rise in fuel prices. Excluding the effects of food and energy costs, the core index increased 1.6% from March 2003.

The U.S. Index of Leading Economic Indicators improved 0.3% in March after pausing in February. The positive components included manufacturers’ new orders for consumer goods, building permits, and vendor performance. The index now has advanced 4.4% from its most recent low in March 2003. The Conference Board’s **Consumer Confidence Index** was 88.3 last month, virtually unchanged from a revised 88.5 in February. The assessment of current conditions improved, but consumers remained wary about their job prospects.

The three-month moving average of **U.S. Semiconductor Billings** barely edged downward in February by (0.1)% to \$2.931 billion. While sales in the Western Hemisphere and Japan were flat or falling, they were improving worldwide.

On the local front, the economic news was somewhat better. The **Arizona Index of Leading Economic Indicators** gained 0.2% in February and stood 4.4% above its level from a year ago. Residential building permits and delivery times boosted the index, while new orders and inventories were among the negative factors. On the down side, the **Arizona Business Conditions Index** (BCI) dropped (7.0)% in March, with declines posted across the board. Even so, the BCI remained well above the 50% benchmark associated with an expanding local economy.

The news on Arizona’s job market continued to improve. The Department of Economic Security reported that the **Arizona unemployment rate** dipped to a seasonally adjusted 4.9% in March, the lowest reading since August 2001. Meanwhile, the state's employers have added 45,100 workers since March 2003, with the construction industry contributing 15,200 positions to the total. Overall, non-farm employment increased 2.0% during the last 12 months.

The latest data from state government programs reflected mixed results. The **number of TANF recipients** (3-month average) declined to 123,050 in January, a (3.9)% drop from the previous three-month period. While the caseload was 0.9% above last year’s level, it was (2.9)% below the forecast. Average payments per client were 5.8% above the forecast for the year to date.

AHCCCS caseloads were also running below the forecast. The number of acute-care **AHCCCS clients** declined (1.7)% during the last three months and stood (7.2)% below the budgeted level. The **Proposition 204 caseload** decreased (1.6)% during the latest three-month period, but the number of clients remained 12.4% higher than a year ago.

The **Department of Corrections’ inmate population** grew by an average of 160 inmates per month from January through March, which was well above the budgeted rate of 118 new inmates (net) per month. This was the first time in the current fiscal year that the growth exceeded the forecast.

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	March	4.9%	(0.3)%	(1.0)%
-Jobs	March	2.337 million	0.4%	2.0%
-Contracting Tax Receipts (3 month average)	November-January	\$48.4 million	2.9%	11.0%
-Retail Sales Tax Receipts (3 month average)	November-January	\$138.9 million	14.6%	7.2%
-Arizona Tourism Barometer	January	99.6	3.8%	2.5%
-Leading Indicators Index	February	124.2	0.2%	4.4%
-Business Conditions Index (>50 signifies expansion)	March	62.8	(7.0)%	23.4%
-AHCCCS Recipients (3 month average)				
Regular	January–March	565,446	(1.7)%	3.2%
Proposition 204		171,224	(1.6)%	12.4%
-TANF Recipients (3 month average)	December–February	123,050	(3.9)%	0.9%
-DOC Inmate Growth (3 month average)	January–March	31,488	160 inmates	1,439 inmates
U.S.				
-Consumer Confidence Index	March	88.3	(0.2)%	43.8%
-Leading Indicators Index	March	115.3	0.3%	4.4%
-U.S. Semiconductor Billings (3 month moving average)	December–February	\$2.931 billion	(0.1)%	20.1%
-Consumer Price Index (3 month moving average)	January–March	186.3	0.6%	1.8%

State of Arizona

General Fund Revenue: Change from Previous Year and Budgeted Forecast

March, 2004

	Current Month					FY 2004 YTD (Nine Months)				
	Actual March 2004	Change From				Actual March 2004	Change from			
		March 2003		Budget Forecast			March 2003		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$264,435,000	\$25,838,160	10.8 %	\$15,986,853	6.4 %	\$2,427,533,448	\$174,598,461	7.7 %	\$110,786,573	4.8 %
Income - Individual	89,514,766	61,035,899	214.3	61,608,505	220.8	1,629,092,520	73,588,643	4.7	36,908,734	2.3
- Corporate	27,432,846	(15,440,162)	(36.0)	64,126	0.2	268,107,570	59,137,556	28.3	48,648,316	22.2
Property	651,617	206,101	46.3	(18,988)	(2.8)	21,957,338	3,561,778	19.4	3,370,019	18.1
Luxury	5,037,354	681,359	14.7	(498,221)	(9.7)	45,141,464	(4,108,235)	(8.4)	(4,678,711)	(9.5)
Insurance Premium	62,720,124	(4,088,354)	(6.1)	(1,417,822)	(2.2)	157,742,795	24,104,131	18.0	15,136,386	10.6
Estate	1,414,827	(1,955,933)	(58.0)	(4,156,873)	(74.6)	29,359,653	(48,536,295)	(62.3)	(20,785,647)	(41.5)
Other Taxes	765,367	(1,280,023)	(62.6)	368,467	92.8	2,597,192	(3,774,519)	(59.2)	(974,908)	(27.3)
Sub-Total Taxes	\$451,971,901	\$64,997,047	16.8 %	\$71,936,047	18.9 %	\$4,581,531,980	\$278,571,520	6.5 %	\$188,410,762	4.3 %
Other Revenue										
Lottery	2,437,300	406,700	20.0	0	0.0	29,441,800	4,201,500	16.6	0	0.0
License, Fees and Permits	2,121,867	(29,779)	(1.4)	141,668	7.2	17,615,843	(515,606)	(2.8)	1,271,387	7.8
Interest	939,953	(94,169)	(9.1)	(924,770)	(49.6)	20,583,581	8,534,741	70.8	6,125,849	42.4
Sales and Services	3,518,003	554,905	18.7	99,621	2.9	36,427,993	1,431,355	4.1	(1,405,093)	(3.7)
Other Miscellaneous	3,322,291	1,247,398	60.1	577,818	21.1	26,925,807	15,600,432	137.7	9,870,080	57.9
Disproportionate Share	0	0	0.0	0	0.0	5,625,187	5,625,187	0.0	5,625,187	0.0
Transfers and Reimbursements	241,701	(195,720)	(44.7)	(795,565)	(76.7)	14,041,709	7,845,941	126.6	529,830	3.9
BSF Transfer for Alt. Fuels	0	(75,233)	(100.0)	0	0.0	171,080	(3,323,406)	(95.1)	171,080	0.0
Sub-Total Other Revenue	12,581,115	1,814,102	16.8 %	(901,228)	(6.7) %	150,833,000	39,400,144	35.4 %	22,188,320	17.2 %
TOTAL BASE REVENUE	\$464,553,016	\$66,811,149	16.8 %	\$71,034,819	18.0 %	\$4,732,364,980	\$317,971,664	7.2 %	\$210,599,082	4.7 %
One-Time Revenue										
Urban Revenue Sharing	(30,422,097)	5,457,824	(15.2)	0	0.0	(273,798,873)	49,120,416	(15.2)	0	0.0
Tax Amnesty	0	0	0.0	0	0.0	15,080,406	15,080,406	0.0	0	0.0
Federal Cash Assistance	0	0	0.0	0	0.0	87,234,214	87,234,214	0.0	0	0.0
Judicial Enhancement	0	0	0.0	0	0.0	4,584,725	4,584,725	0.0	0	0.0
Sub-Total Transfers In	(30,422,097)	5,457,824	(15.2)	0	0.0	(166,899,528)	156,019,761	(48.3)	0	0.0
TOTAL REVENUE	\$434,130,919	\$72,268,973	20.0 %	\$71,034,819	19.6 %	\$4,565,465,452	\$473,991,425	11.6 %	\$210,599,082	4.8 %

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.

JCCR MEETING

At its March 26th meeting, the Joint Committee on Capital Review considered the following issues:

ADOA/ADC Prison Expansion Lease-Purchase Projects –

The JCCR reviewed and approved the 1,000-bed prison expansion projects and issuance of Certificates of Participation (COPs) in the amount of \$33.3 million to finance the projects. As envisioned by the 2nd Special Session, the issuance will fund expansion of 200 beds at ASPC – Douglas, 500 beds at ASPC – Perryville, and 300 beds at ASPC – Tucson. ADOA anticipates construction will begin in May 2004 with an occupancy date of December 2004. The COPs will be repaid over a 15-year period with a total payment of \$45 million. The Committee also requested that ADOA and ADC report by June 1, 2004 on the construction schedule for the 1,000 state beds and the timeline for contract finalization and projected opening dates of 1,000 new private prison beds.

ADOA Refinancing – The JCCR reviewed and approved the refinancing of the 1993B Certificates of Participation (COPs) issuance. The Committee requested ADOA report back on the interest rate, debt service schedule, costs, and estimated savings of the refinanced COPs after the issuance. One-time savings are estimated to be \$991,400.

GITA/ADOA Telecommunications Privatization Request for Proposals (RFP) –

The JCCR favorably reviewed, effective April 2, the Request for Proposals (RFP) for Telecommunications Privatization, and added stipulations related to further review and reporting of pricing, costs and savings information, contract term, agency schedules and technical changes. Additional Committee review is required before finalizing the telecommunications contract.

ASU Lease-Purchase and Bond Projects –

The JCCR favorably reviewed the issuance of Certificates of Participation (COPs) in the amount of \$92 million for the construction of 2 Interdisciplinary Science and Technology buildings at ASU-Main Campus. These 2 projects are the result of the 2003 University Research Infrastructure legislation. The COPs will be repaid over a 25-year period using some of the COP issuance to make interest only payments on the debt service through FY 2008, after which General Fund appropriations from Laws 2003, Chapter 267 will be used to make the payments.

The Committee favorably reviewed the issuance of revenue bonds in the amount of \$22 million for the Information Technology/Telecommunications Infrastructure Upgrades

project at ASU. The bonds will be repaid over a 10-year period from tuition collections and indirect cost recovery monies. The project will upgrade and enhance the ASU computer networks and voice, data, and video distribution systems.

The Committee favorably reviewed the issuance of revenue bonds in the amount of \$11.2 million for the Phase 3 Infrastructure Improvement Projects and the revised scope of the Arizona Biodesign Institute. The bond issuance includes \$7.4 million for the infrastructure improvements and \$3.8 million for the Biodesign Institute. The bonds will be repaid over a 30-year period from tuition collections and indirect cost recovery monies. The Infrastructure Improvement Projects include utility delivery systems, campus sewer systems, storm water control, and electrical system upgrades. The revised scope of Phase I of the Biodesign Institute, favorably reviewed in December 2002, will convert 10,000 square feet already under construction into specialized animal facilities and add 3,800 square feet of modular space.

UofA Lease-Purchase Projects –

The JCCR favorably reviewed the issuance of Certificates of Participation (COPs) in the amount of \$21.6 million for construction of the Highland Avenue Parking Structure and Phase I of the Residential Life Building Renewal at the University of Arizona (UofA). The COPs will be repaid over a 25-year period using auxiliary revenues generated from parking fees and dorm fees. The Committee requested the UofA submit for review any additions that expand the scope of the project by \$100,000 or 10% of the contingency amount.

School Facilities Board Report on New School Construction –

The JCCR favorably reviewed the School Facilities Board (SFB) report on new school construction. Previously heard at the December 2003 meeting, the Committee deferred action and requested SFB to submit additional information on new school construction cost estimates for FY 2005. SFB estimates that it will oversee 64 new school construction projects and spend \$319.7 million in FY 2005.

SFB New School Construction Projects –

The JCCR favorably reviewed the SFB revised list of \$49.2 million in new school construction projects to be financed with the remaining \$50 million in lease-purchase authority. The Committee gave a favorable review of the list of potential projects at its December 2003 meeting, contingent on SFB returning to report actual projects included in the agreement. The list includes 7 projects in 5 school districts.