JLBC - Monthly Fiscal Highlights

March 2008

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"For the first 8 months of FY 2008, General Fund collections are down (4.3)% when compared to last year."

This Month

Total February General Fund revenue collections were $373.4 million, or (17.5)% below February of last year. This amount was $(29.9) million below the forecast based on the revised JLBC Baseline revenue estimate.

For the first 8 months of FY 2008, General Fund collections are down (4.3)% when compared to last year. When factoring in Urban Revenue Sharing, year-to-date collections are (6.0)% below last year. *(See page 11 for detail information).*

The decrease of (16.2)% in January reported in last month's highlights, along with the February decrease of (17.5)%, represent the largest percentage year over year declines since April 2002. The February decline in revenues includes 2 of the 3 main revenue categories:

- Sales tax collections were down (4.9)% compared to February 2007, and were $(18.4) million short of the monthly forecast.
- Individual income tax collections were down (53.3)%, which was $(10.7) million below forecast.
- Corporate income tax collections were 1.3% above last year, and $2.2 million above the forecast.

Based on new inputs to its consensus forecasting process last month, the JLBC Staff revised its FY 2008 Baseline General Fund revenue forecast to $9.15 billion. *(See page 6)* This February revision is $226.5 million less than the January Baseline, and $924.5 million below the enacted budget forecast. This revised revenue level would translate into a (0.7)% decline compared to FY 2007 revenues prior to tax law changes, and (3.2)% after tax law changes. The revised revenue forecast increases the estimated budget shortfall from $970 million to $1.2 billion.

In prior Monthly Fiscal Highlights, revenue collections were measured against the enacted budget. Collections will now be measured against the February revised Baseline forecast. This will enable the Legislature to more easily measure how monthly revenue collections may affect the FY 2008 shortfall estimate.

Given the current volatility of the economy, these latest revenue estimates could be revised downward again. Any large adjustments, however, would not likely occur until May, when the level of 2007 individual and corporate income tax filings becomes clearer.

JLBC/JCCR Meetings – There were no JLBC or JCCR meetings in March.

Finance Advisory Committee (FAC) – The FAC met on March 6th (page 6). The FAC is a panel of 16 leading economists that advises the Legislature 3 times a year on the state's economy. Based on the FAC's input and 3 other models, the largest General Fund revenue categories are forecasted to decline by (0.3)% in FY 2008 and increase by

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on March 31, 2008.

This Month (continued)

0.5% in FY 2009, prior to tax law adjustments.

The 4-sector consensus growth rate of (0.3)% can only be reached if revenues for the remainder of FY 2008 increase by 4.5%. As a result, JLBC Staff recommended during the FAC meeting to lower the "Big 3" revenue forecast to a (1.0)% decrease.

The FAC panel members' economic outlook for the next year is not favorable. As was the case when the FAC last met in December, the primary concern continues to be the real estate market, including the oversupply of housing, and the high level of loan defaults, mainly associated with the subprime mortgage market. Members expect economic growth to bottom out in FY 2009, followed by a gradual recovery.

February Revenues

"In the first 8 months of FY 2008, sales tax revenues are down (1.7)% compared to last year".

Sales Tax collections were $342.1 million in February. This amount was down (4.9)% compared to last February, and $(18.4) million below the revised JLBC Baseline forecast. In the first 8 months of FY 2008, sales tax revenues are down (1.7)% compared to last year. *Table 1* displays the February and year-to-date growth rates for the major categories.

Table 1
Sales Tax Growth Rates

	February	Year-to-Date
Retail	(10.2)%	(2.9)%
Contracting	(12.0)%	(8.1)%
Utilities	9.1%	6.9%
Use	19.3%	9.5%
Restaurant & Bar	(2.1)%	0.0%

There were significant variations in February collections by sector. Retail and contracting collections together account for two-thirds of all sales tax revenues. The retail sector declined by (10.2)%, and contracting fell by (12.0)%. The restaurant and bars category also declined by (2.1)%. The use tax and utilities categories both showed positive growth in February, with increases of 19.3% and 9.1% respectively.

"Year to date, income tax collections are (5.1)% below last year".

Individual Income Tax collections were $39.0 million, or (53.3)% below last year. Year-to-date, income tax collections are (5.1)% below last year. February collections were $(10.7) million less than the revised JLBC Baseline forecast. *Table 2* displays individual category growth rates.

Table 2
Individual Income Tax Growth Rates

	February	Year-to-Date
Withholding	0.6%	2.2%
Estimated + Final Payments	(2.8)%	(13.6)%
Refunds	20.1%	20.1%

February withholding was 0.6% above last year. The February increase brings year-to-date collections to 2.2% over the prior year.

Estimated and final payments decreased from the previous year for the fourth month in a row, although February is a small collection month. Payments declined (2.8)% compared to last February.

February refunds were approximately $46 million, or 20.1% over the prior year. This amount was $19 million over the estimated amount of refunds for the month.

The payment of refunds is extremely volatile. A single day's processing can result in $20 million or more in refunds. It is not clear that the $19 million variance from the original refund forecast for the month was the result of an increased level of refunds, or simply the result of the volatility in the processing of refunds. In addition, there was one more processing day in February compared to last year. As a result, the forecast for refunds for February was increased by $19 million, with an equal reduction in the forecast in subsequent months.

Corporate Income Tax collections were $21.4 million or 1.3% above last year. This amount is $2.2 million above the revised JLBC Baseline forecast for the month.

February Revenues (continued)

Table 3

General Fund Revenues
Compared to Enacted Forecast and FY 2007 Collections
($ in Millions)

	FY 2008 Collections	Difference From June '07 Forecast [1/]	Difference From Feb '08 Forecast [2/]	Difference From FY 2007
February	$ 373.4	$ (86.1)	$ (29.9)	$ (79.1)
Year-to-Date	$ 5,649.6	$ (706.3)	$ (29.9)	$ (361.3)

1/ Enacted FY 2008 budget (June 2007).
2/ Revised JLBC Baseline

Recent Economic Indicators

NATIONAL

In February, the Conference Board's **U.S. Consumer Confidence Index** totaled 75.0, or (14.1)% below January 2008 levels and (32.6)% below levels a year ago. The decrease is attributed to consumers' deteriorating view of current and future expectations as well as consumers' belief that jobs are hard to get.

The **U.S. Index of Leading Economic Indicators** declined for the fifth straight month in February by (0.3)% and is down (1.7)% year over year. Six of the 10 components that make up the composite index decreased in February. Average weekly initial claims for unemployment insurance and building permits were the largest negative contributors, while the real money supply and interest rate spread were the largest positive contributors.

U.S. semiconductor billings (3-month moving average) decreased by (5.6)% in February and (6.9)% year over year. While some decline in sales is consistent with traditional seasonal patterns for the industry, the Semiconductor Industry Association reports that slow growth in the U.S. economy may also have negatively impacted consumer purchases of electronic products.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) increased by 1.4% in February. The year over year increase was 4.4%. Seven of the 10 CPI sub-indices increased in February, while the sub-indices for apparel, transportation, and energy declined.

ARIZONA

February total statewide **non-farm employment** increased, year over year, by 0.1%. By comparison, the February year-over-year average growth rate in the prior 10 years was 3.2%. Arizona's **unemployment rate** decreased from 4.3% in January to 4.0% in February as the civilian labor force fell by (11,700) due to people dropping out of the labor force. In comparison, the national unemployment rate was 4.8%.

All industries except 1 reported job growth at a rate below their 10-year monthly average gains. **Construction employment** decreased by (0.9)% from January and by (10.4)% year over year with losses spread among all sub-sectors. The average year over year growth rate for February in the past 10 years was 6.4%. **Manufacturing employment** was unchanged from January and decreased by (2.3)% year over year.

Statewide, the number of building permits authorized (3-month moving average) totaled 2,542, including 1,475 **single-family residential building permits** and 1,067 **multi-family building permits**. The number of permits authorized in the single family segment fell (53.0)% from levels a year ago. Permitting activity in the multi-unit segment, however, increased 202.4% from last year.

According to the Real Estate Center at Arizona State University, the **single-family median resale home price** continued its fall in

Recent Economic Indicators (Continued)

February, totaling $220,000. At this level, the single-family median resale home price has declined (4.3)% from last month and (15.4)% from levels a year ago. Year-over-year, the number of **single-family homes sold** in February also fell, totaling 3,710 homes, or (13.3)% below February 2007 sales. Relative to January however, the number of single family homes sold increased by 10.7%.

In February, the **townhouse-condominium median price** fell to $165,000 with 620 units being bought and sold. Year-over-year, the median resale price and number of units sold has decreased (5.7)% and (41.0)%, respectively.

The **month's supply of housing** indicator uses the ratio between the number of homes listed for sale on the Arizona Regional Multiple Listing Service (ARMLS) and the number of homes sold in a given month to gauge the supply and demand of homes. The ARMLS area includes the real estate markets of Maricopa and Western Pinal Counties. Based on February MLS data, it would take 16.6 months to sell the current inventory of homes, 2.9 month less than January levels. In February 2007 the measure stood at 9.9 months.

The **Arizona Business Conditions Index** (BCI) decreased (3.9)% in February to 46.3 and is down (20.6)% year over year. A reading below 50 suggests a slowdown in the overall level of economic activity in the near term. All 5 components that make up the composite index declined in February, with the largest drop reported for the production component.

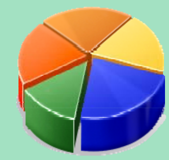
The Behavior Research Center's **Arizona Consumer Confidence Index** began the year with a reading of 79.8, a (21.7)% decrease from July 2007 levels. The index in Pima and Maricopa Counties were at their lowest levels since July 2002 and 2003, respectively. The decrease is attributed to a deteriorating view of current economic conditions as well as expectations that employment opportunities and business conditions will worsen.

Arizona personal income totaled $212.5 billion (seasonally adjusted annual rate) in the 4th quarter of 2007, reflecting a year over year growth rate of 5.5%. By comparison, the state's personal income grew by 8.0% in 2006. The deceleration in personal income growth in the 4th quarter was attributable to both wages and proprietors' income. While the wage and salary component was still a positive contributor to personal income growth, it ranked 4th from the bottom nationwide.

In March, **AHCCCS caseload's** totaled 1,090,243 members, or 6,413 members more than February 2008 totals. At this level however, the AHCCCS caseload has increased by 6.0%, or 61,675 members from prior year totals.

The number of TANF recipients has declined (1.6)% year over year to 80,067 recipients. The state budget projects 84,700 recipients in FY 2008.

Between December 2007 and February 2008, the **Department of Corrections' (ADC) inmate population** increased by 182 inmates per month to an average population of 37,916 inmates. Fiscal year-to-date however, ADC's inmate population growth totals 135 inmates, less than the budgeted increase of 160 inmates per month.



*"The **Arizona Consumer Confidence Index** began the year with a reading of 79.8, a (21.7)% decrease from July 2007 levels. The index in Pima and Maricopa Counties were at their lowest levels since July 2002 and 2003 respectively."*

Recent Economic Indicators (continued)

Table 5

RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	February	4.0%	(7.0)%	5.3%
- Non-Farm Employment – Total	February	2.67 million	1.0%	0.1%
Manufacturing	February	179,600	0.0%	(2.3)%
Construction	February	203,900	(0.9)%	(10.4)%
- Contracting Tax Receipts (3-month average)	Dec-Feb	$71.2 million	(5.3)%	(13.0)%
- Retail Sales Tax Receipts (3-month average)	Dec-Feb	$170.1 million	(2.6)%	(5.6)%
- Residential Building Permits (3-month moving average)				
Single-unit	Nov-Jan	1,475	(7.0)%	(53.0)%
Multi-unit	Nov-Jan	1,067	28.8%	202.4%
- Greater Phoenix Existing Home Sales				
Single-Family	February	3,710	10.7%	(13.3)%
Townhouse/Condominium	February	620	(3.1)%	(41.0)%
- Greater Phoenix Median Home Sales Price				
Single-Family	February	$220,000	(4.3)%	(15.4)%
Townhouse/Condominium	February	$165,000	(5.4)%	(5.7)%
S&P/Case-Shiller Home Price Index	December	187.67	(3.5)%	(15.3)%
- Months Supply of Housing (ARMLS)	February	16.6 months	(2.9) months	6.8 months
- Phoenix Sky Harbor Air Passengers	January	3.2 million	(4.6)%	(0.8)%
- Arizona Average Natural Gas Price ($ per thousand cubic feet)	December	$7.86	(22.4)%	(8.7)%
- Leading Indicators Index	October	119.5	(0.7)%	(0.1)%
- Business Conditions Index (>50 signifies expansion)	February	46.3	(3.9)%	(20.6)%
- Consumer Confidence Index	4th Quarter 2007	79.8	(21.7)%	(24.2)%
- Business Leaders Confidence Index	1st Quarter 2008	40.4	(4.9)%	(22.2)%
- Arizona Personal Income	4th Quarter 2007	$212.5 billion	0.8%	5.5%
- Arizona Population	July 1, 2007	6.34 million	173,066	2.8%
- AHCCCS Recipients	March	1,090,243	0.6%	6.0%
- TANF Recipients	January	80,067	(2.1)%	(1.6)%
- DOC Inmate Growth (3-month average)	Dec-Feb	37,916	182 inmates	2,056 inmates
United States				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	4th Quarter 2007	$11.7 trillion	0.6%	2.5%
- Consumer Confidence Index	February	75.0	(14.1)%	(32.6)%
- Leading Indicators Index	February	135.0	(0.3)%	(1.7)%
- U.S. Semiconductor Billings (3-month moving average)	Nov-Jan	$3.45 billion	(5.6)%	(6.9)%
- Consumer Price Index (3-month moving average)	Dec-Feb	212.3	1.4%	4.4%

FAC Meeting

At its March 6, 2008 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and implications of the slumping housing market and the resultant credit crunch. The FAC is a 16-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

JLBC Staff provided members with the latest 4-sector consensus estimates for "Big 3" revenue collections. The 4-sector consensus estimate is a composite of equally weighted estimates from:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model;
- The FAC panel; and
- JLBC Staff.

Based on the 4-sector consensus, revenues are projected to decline by (0.3)% in FY 2008, prior to any tax law changes. This is down from the December FAC meeting, at which time the 4-sector consensus projected a FY 2008 growth rate of 1.5%.

JLBC Staff recommended a lower FY 2008 revenue level, based on year to date collections. February year to date collections (pre-tax cuts) are down (2.8)% as compared to the same period last year. In order for the 4-sector consensus growth rate of (0.3)% to be reached, revenues for the remainder of the year would have to increase by 4.5%. Given the uncertain prospect of reaching that revenue growth level, the JLBC Staff's current forecast is a (1.0)% decline.

JLBC Staff also noted that this (1.0)% rate may still be too high and there is the potential for an additional $100 - $200 million revenue loss.

In FY 2009, the 4-sector consensus predicts growth will be 0.5%. Combined between FY 2008 and FY 2009, the 2-year 4-sector growth rate is 0.2%. Given that JLBC Staff's recommended (1.0)% revenue decline for FY 2008, the FY 2009 revenue growth would need to be 1.2% to remain consistent with the 2-year 4-sector forecast.

Panel members also heard formal presentations from Elliott Pollack and Marshall Vest in addition to comments from other panel members.

Committee members had an unfavorable outlook with regard to economic and revenue growth going forward. Members cited the downturn in the real estate market, and the resulting excess supply of housing currently on the market, as the primary reason for concern. In addition, Committee members stated that high levels of loan defaults and delinquencies, mainly associated with the subprime mortgage market, have resulted in higher lending standards, which may exacerbate the housing slump by limiting the pool of potential borrowers.

The Committee generally expects economic growth to bottom out sometime in FY 2009. With regard to the duration of the slowdown, most members believe it will last several years, and be followed by a gradual recovery.

Members noted that the adverse impacts of the housing slump and credit crunch are beginning to be felt in lowered consumer spending and higher rates on loans outside the highly leveraged and risky loans that initiated the constriction of credit. Marshall Vest and Elliott Pollack provided supporting data that showed flat retail sales and increasing credit spreads on high yield debt instruments.

Overall, the 4-sector consensus model projects two to three years of below trend revenue growth before returning to the 7% trend level in FY 2011. In general, the FAC panel concurred with these projections, but seemed to suggest that there are more downside than upside risks to the 4-sector consensus in FY 2009 and FY 2010.

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Summary of Recent Agency Reports

AHCCCS – Report on Graduate Medical Education Residency Positions – Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System has submitted its annual report on the number of new residency positions. The rep

t discusses the positions created by the additional $4,000,000 GF ($12,000,000 TF) appropriated for Graduate Medical Education in the FY 2007 budget. The agency indicates that the increased appropriation provided partial funding an additional 344 residency positions in FY 2007. AHCCCS provided a portion of the funding for these positions, with the remaining funding coming from other sources such as Medicare and the hospital's own funds. Of the 344 newly-funded positions, 27 are located in rural areas. The FY 2008 budget included an additional increase of $3,000,000 GF ($9,000,000 TF) for Graduate Medical Education.

AHCCCS – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a FY 2008 General Appropriation Act footnote, AHCCCS has submitted preliminary actuarial estimates of the capitation rate increases for FY 2009.

Based on a review of historical cost and utilization trend data, capitation rates are estimated to grow approximately 4%-6% in the Arizona Long Term Care System (ALTCS) program beginning October 1, 2008. Because the Acute Care program contract is currently out for bid, AHCCCS believes it would be detrimental to release an estimated growth rate for that population until the potential contractors have submitted their bids. AHCCCS says it will provide a preliminary Acute Care capitation rate range in May after contracts are awarded.

The FY 2009 JLBC Baseline assumed capitation rate growth of 6% for the Acute Care program and 6% in the ALTCS program. At a range of 4% - 6%, there would be General Fund savings of $0 to $2.6 million solely for the ALTCS program based on the caseloads included in the FY 2009 JLBC Baseline budget. The impact on the cost of the Acute Care program will depend on the capitation rate increase for that population.

AHCCCS – Report on Redetermination Policy – Pursuant to the FY 2008 Health and Welfare Budget Reconciliation Bill (Laws 2007, Chapter 263), AHCCCS has submitted its report on the effects of shortening the redetermination period to 6 months for Temporary Assistance for Needy Families (TANF) Cash Benefit clients age 21 or older. According to AHCCCS' report, a total of 55,564 letters were sent during a 7-month period (June 2007 through December 2007) to redetermine eligibility. Of the total, 8,412 are no longer receiving AHCCCS benefits because they were deemed no longer eligible for the program or failed to come in for their eligibility redetermination interview. These figures reflect the number of family units, not individuals, subject to the redetermination process.

Arizona Department of Corrections – Report on Community Accountability Pilot Program – A.R.S. § 41-1609.05 required the Arizona Department of Corrections (ADC) to establish a Community Accountability Pilot Program (CAPP). Statute authorizes the department to contract with a private or non-profit entity to provide supervision and treatment services for eligible offenders who have violated the terms and conditions of community supervision. The pilot program is scheduled to end July 1, 2012.

The department awarded the CAPP contract to a private vendor and the program began in April 2006. Since the program's inception, a total of 304 eligible offenders have been referred to the program. Of those referred to CAPP:

- 2 (0.2%) declined to participate,
- 44 (14.5 %) remain enrolled in the program,
- 72 (23.7%) successfully completed the program, and
- 186 (61.2%) were terminated from the program.

Arizona Department of Corrections – Report on Expenditures – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Corrections (ADC) is required to report monthly on their expenditures.

ADC just released its second report of the fiscal year. The department is estimating a FY 2008 surplus exceeding $19.4 million. The primary reason for the surplus is savings generated in the Provisional Beds Special Line Item. These savings are a result of: 1) delays in transferring inmates to 2 contracted facilities in the state of Oklahoma, and 2) the state of Indiana capping the number of inmates housed at a contracted facility in that state to 630 of an anticipated 1,260.

Arizona Department of Corrections – Report on Transition Release Program – Pursuant to A.R.S. § 31-285B, the Arizona Department of Corrections (ADC) is required to submit a quarterly report that details the cost reductions to the department from an inmate early release Transition Program and the number of participants who did not receive an early release under the Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services. The ADC Transition Release Program began in March 2004 and allows eligible inmates in the Transition Program to be released 3 months earlier than the inmate's earliest release date.

Between October 1 and December 31, 2007, the department reports that the Transition Program is responsible

Summary of Recent Agency Reports (Continued)

for 14,729 bed days saved, yielding a savings of $250,393. These savings were a result of 308 participants successfully completing the Transition Program.

While a significant number of participants have successfully completed the program, 19 participants failed to complete the early transition release by violating their conditions of supervision.

Department of Economic Security – Report on State-Funded Food Distribution – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Economic Security (DES) is reporting on food distribution effort funded through the Coordinated Hunger Special Line Item. For the last 6 months of calendar year 2007, there were 6 regional food banks that distributed 37.7 million pounds of food, a (24)% decrease when compared to the same time period during the previous year. DES has attributed the decline to increasing food and fuel prices.

Additionally, the footnote required DES to include letters from each participating regional food bank stating its satisfaction with the distribution process. This year, 4 of the participating food banks submitted letters indicating they were satisfied with the distribution process. The remaining 2 food banks were not asked by DES to submit letters, because they were only involved in the program for 2 months.

Department of Economic Security (DES) – Report on Preliminary Actuarial Estimates of the Long Term Care Developmental Disabilities Capitation Rate Increases for the Following Fiscal Year – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Economic Security (DES) has submitted preliminary actuarial estimates of the FY 2009 capitation rate increases for its Title XIX Long Term Care Developmental Disabilities program.

DES estimates that the Division of Developmental Disabilities FY 2009 capitation rate will increase between 3.5% and 5.5% over the FY 2008 rate. The FY 2009 JLBC Baseline assumes capitation rate growth of 3.0%. DES' estimated capitation rate increase represents a cost of between $2.5 million and $8.4 million General Fund above the amount included in the JLBC Baseline.

Arizona Department of Emergency and Military Affairs – Report on Request to Conduct Training on the Arizona-Mexico Border – Pursuant to the General Appropriation Act (Laws 2007, Chapter 255), the Arizona Department of Emergency and Military Affairs (DEMA) has submitted a response to a footnote directing the department to request permission from the U.S. Department of Defense (DOD) to conduct training exercising along the state's southern border.

DEMA reports that Arizona National Guard units are currently training at the Arizona-Mexico border under Operation Jump Start. This operation has deployed up to 6,000 members of the National Guard along the U.S.-Mexico Border to support efforts of the U.S. Border Patrol.

The department also responded that training locations for guard units are selected by unit commanders and approved by the Arizona National Guard, not by the DOD. Consequently, DEMA did not request permission from the DOD to conduct training along Arizona's southern border.

Department of Health Services (DHS) – Report on *Arnold v. Sarn* – Pursuant to a footnote in the FY 2008 General Appropriation Act, the Department of Health Services (DHS) has submitted a quarterly report to the Joint Legislative Budget Committee on the department's progress toward settling the *Arnold v. Sarn* lawsuit.

The Court Monitor completed her annual audit and filed the report in January 2008. The report measured 39 requirements that were previously agreed upon. Of the 11 items that had a 2007 target established, only 2 items met their goal. Additionally, 26 items did not have a 2007 target but had a 2006 target; of those, only 3 targets were met. Of the 39 items measured, all but 3 items scored lower than last year. DHS attributes these low scores, in part, to the system instability during the final 3 months of transition from ValueOptions to Magellan.

Based on the Court Monitor's findings, the involved parties have discussed the resolution of 46 problem cases. DHS reports that these cases have been resolved and are continuing to be monitored. The Court Monitor and parties have scheduled to meet to determine the corrective actions that need to be taken due to the findings included in the report. Additionally, the parties continue to discuss DHS's compliance with prior court-ordered obligations.

Department of Health Services (DHS) – Report on Current National and State System for Reporting and Collecting Information Regarding Adverse Effects of Vaccines – Pursuant to a FY 2008 General Appropriation Act footnote, DHS has submitted a report on the adverse effects of vaccines. According to the report, all 50 states, Indian Health Service, and 8 U.S. territories collect and report information relating to adverse effects of vaccines to the national Vaccine Adverse Events Reporting System (VAERS).

Public health facilities can report adverse events to the state immunization program or directly to VAERS. The state immunization program reports all adverse events to VAERS. Between January 1, 2007 and October 31, 2007, there were 439 unduplicated adverse events

Summary of Recent Agency Reports (Continued)

reported from Arizona. A total of 253 of the 439 adverse events reported were for children age 2 months through 18 years. During that same period, the Arizona State Immunization Information System shows that almost 2.2 million vaccines were provided. Thus, an adverse event was reported .02% of the time. The 6 most frequently reported adverse effects during 2007 in Arizona were: 1) drug ineffective; 2) redness at the injection site; 3) weakness; 4) pain at injection site; 5) itching; and 6) joint pain.

Department of Health Services (DHS) – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a FY 2008 General Appropriation Act footnote, DHS has submitted preliminary actuarial estimates of the capitation rate increases for FY 2009. Based on a review of utilization trend data and inflation, DHS estimates capitation rates growth as follows:

Children's Behavioral Health (CBH)	2.9% - 4.9%
Seriously Mentally Ill (SMI)	3.0% - 5.0%
General Mental Health/Substance Abuse (GMH/SA)	9.2% -11.2%

DHS has not submitted estimates for the Children's Rehabilitative Services (CRS) program. They have indicated that they are in the process of a competitive bid, and doing so could impact the responses. DHS has offered to provide these estimates in June after the bids have been received.

The FY 2009 JLBC Baseline assumed capitation rate growth of 6.0% for the CBH, SMI, GMH/SA and CRS Programs. Overall, the midpoint of DHS estimated capitation growth rate is less than what was assumed in the JLBC Baseline and would produce a General Fund savings of $2.8 million relative to the JLBC Baseline.

Department of Insurance – Report on Financial Audit of Healthcare Group – Pursuant to Laws 2007, Chapter 263 the Department of Insurance (DOI) has released a financial audit of Healthcare Group (HCG). The HCG program provides health insurance coverage for small businesses. Chapter 263 made many changes to the HCG program including an enrollment freeze and requiring DOI to perform a financial audit of HCG. The Legislature also included an $8.0 million General Fund subsidy for HCG in the FY 2008 budget.

DOI estimates that HCG had an FY 2007 ending deficit of $(24.0) million. This includes $20.1 million in FY 2007 losses and a FY 2007 beginning deficit of $(3.8) million. Of the $20.1 million in losses for FY 2007, $16.4 million was associated with the Health Maintenance Organization (HMO) plans and $4.5 million was associated with the Preferred Provider Organization (PPO) plan.

Of the $16.4 million in losses from the HMOs, $10.1 million was associated with Mercy Healthcare Group. Although they insure similar numbers of clients, Mercy Healthcare Group had a combined ratio of 132.2% while University Physicians had a ratio of 117.7% and losses of only $3.9 million. The combined ratio represents medical expenses plus administration expenses compared to revenues (meaning for every $1 in revenue received, Mercy Care spent $1.32). Because the health plans are not at risk under the HCG contract, this combined ratio is the reason for the large reconciliation payments. The PPO had a higher combined ratio of 142.8%, but only $4.5 million in losses, due to the comparatively small number of members.

DOI estimates the FY 2008 ending deficit to be $(8.6) million, after the $8.0 million General Fund subsidy has been used to pay off old obligations. AHCCCS notes that due to administrative changes and premium increases they now believe the FY 2008 ending deficit will be "significantly under" the DOI estimate. DOI reports that if HCG were a private insurer it would need to maintain positive assets in excess of $9 million to avoid regulatory actions. AHCCCS believes it can meet that reserve standard within 2 years, providing no additional restrictive actions are taken by the Legislature.

The report speculates that several policies contributed to an unhealthy and costly membership population, including allowing brokers to sell HCG products, eliminating the requirement that the plans pay non-contracted hospitals at the AHCCCS per diem default rates, implementing a 6-month "go bare" period, and offering multiple plan options, even among members from the same employment group. Additionally, the report also contends that HCG priced its premiums to attract healthy groups, rather than at the rates needed to support its population. This resulted in increased losses as HCG enrollment increased.

Arizona Department of Public Safety – Report on Sworn Personnel Staffing – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on sworn personnel staffing levels. As of December 31, 2007, DPS had 1,355 authorized sworn full-time positions, including 100 authorized sworn positions for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). Of the 1,355 authorized sworn positions, 1,195 (or 88.2%) are currently filled, representing a net increase of 19 positions in the 2nd quarter.

Summary of Recent Agency Reports (Continued)

Secretary of State – Report on Election Systems Improvement Fund Expenditures – Pursuant to a footnote in the FY 2008 General Appropriation Act, the Secretary of State is reporting on actual expenditures from the Election Systems Improvement Fund in FY 2007 as well as estimated expenditures from the fund in FY 2008 and FY 2009.

Monies in the fund are to be used to implement the provisions of the Help America Vote Act (HAVA). HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections.

In FY 2007 the Secretary of State's office spent a total of $12,493,200 from the Election Systems Improvement Fund, including $12,278,200 provided from federal funding and $215,000 provided from the state General Fund. Expenditures included $3,354,300 for acquisition, maintenance, and support of the voter registration system and $7,288,000 to reimburse counties for making voting locations more accessible.

The Secretary of State's office currently estimates spending approximately $19 million, $10 million in FY 2008 and $9 million in FY 2009. Of the $19 million in total spending, about $10 million will be used on the finalization of the statewide voter registration system. Funds will also be spent on a poll worker recruitment and education campaign for the fall 2008 elections and to pay for operation, maintenance, and support for accessible voting machines. Any remaining funding will be spent on voter education, making election sites more accessible, improvements to the telephonic grievance system, administration, consulting, poll worker and election official training, and telecommunications.

Supreme Court – Report on Arizona Lengthy Trial Fund – Pursuant to A.R.S. § 21-222(F), the Supreme Court is required to report annually on the amount of monies collected and expended, as well as the number of jurors receiving monies from the Lengthy Trial Fund (LTF). The fund is intended to reimburse jurors who lose their regular employment income while serving as jurors. Eligibility of funding is limited to jurors serving on trials lasting in excess of 5 days. A $15 filing fee for civil complaints, answers, and requests to intervene is deposited into the LTF.

In FY 2007, LTF revenues totaled $757,847 and the total amount reimbursed for trials completed in FY 2007 was $608,773. Throughout FY 2007, 727 jurors serving on 172 trials were paid from the LTF.

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast
February 2008

	Current Month					FY 2008 YTD (Eight Months)				
		Change From					Change from			
	Actual	February 2007		Forecast		Actual	February 2007		Forecast	
	February 2008	Amount	Percent	Amount	Percent	February 2008	Amount	Percent	Amount	Percent
Taxes										
Sales and Use	342,061,289	($17,582,649)	(4.9) %	($18,420,501)	(5.1) %	$2,977,323,969	($50,631,940)	(1.7) %	($18,420,501)	(0.6) %
Income - Individual	39,047,564	(44,488,470)	(53.3)	(10,704,877)	(21.5)	2,291,531,897	(123,346,864)	(5.1)	(10,704,877)	(0.5)
- Corporate	21,391,706	264,828	1.3	2,168,706	11.3	420,959,782	(128,341,375)	(23.4)	2,168,706	0.5
Property	652,557	(226,687)	(25.8)	52,557	8.8	11,837,031	(2,425,298)	(17.0)	52,557	0.4
Luxury	3,598,000	629,627	21.2	(1,655,000)	(31.5)	39,637,010	(5,412,260)	(12.0)	(1,655,000)	(4.0)
Insurance Premium	6,708,514	2,749,901	69.5	2,708,514	67.7	159,140,677	10,889,458	7.3	2,708,514	1.7
Estate	0	(71,962)	(100.0)	0	--	268,122	1,146,118	--	0	0.0
Other Taxes	46,463	(2,989)	(6.0)	(3,858)	(7.7)	397,186	(39,977)	(9.1)	(3,858)	(1.0)
Sub-Total Taxes	$413,506,093	($58,728,401)	(12.4) %	($25,854,459)	(5.9) %	$5,901,095,674	($298,162,138)	(4.8) %	($25,854,459)	(0.4) %
Other Revenue										
Lottery	2,655,800	(3,430,200)	(56.4)	(581,600)	(18.0)	21,999,419	(3,002,981)	(12.0)	(581,600)	(2.6)
License, Fees and Permits	3,291,963	1,310,282	66.1	751,563	29.6	24,101,508	(3,173,357)	(11.6)	751,563	3.2
Interest	5,587,324	(4,302,866)	(43.5)	(2,064,276)	(27.0)	69,896,100	6,309,813	9.9	(2,064,276)	(2.9)
Sales and Services	3,309,935	(833,537)	(20.1)	(1,266,665)	(27.7)	33,789,349	1,197,491	3.7	(1,266,665)	(3.6)
Other Miscellaneous	2,146,375	(1,753,656)	(45.0)	(815,425)	(27.5)	19,720,069	(2,889,167)	(12.8)	(815,425)	(4.0)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(14,493)	(225,140)	--	(114,493)	--	35,331,182	27,290,942	339.4	(114,493)	(0.3)
Sub-Total Other Revenue	16,976,904	(9,235,117)	(35.2) %	(4,090,896)	(19.4) %	204,837,627	25,732,741	14.4 %	(4,090,896)	(2.0) %
TOTAL BASE REVENUE	**$430,482,997**	**($67,963,518)**	**(13.6) %**	**($29,945,355)**	**(6.5) %**	**$6,105,933,301**	**($272,429,397)**	**(4.3) %**	**($29,945,355)**	**(0.5) %**
One-Time Revenue										
Urban Revenue Sharing	(57,044,911)	(11,109,023)	24.2	0	0.0	(456,359,285)	(88,872,178)	24.2	0	0.0
Sub-Total One-Time Revenue	(57,044,911)	(11,109,023)	24.2 %	0	0.0 %	(456,359,285)	(88,872,178)	24.2 %	0	0.0 %
TOTAL REVENUE	**$373,438,086**	**($79,072,541)**	**(17.5) %**	**($29,945,355)**	**(7.4) %**	**$5,649,574,016**	**($361,301,575)**	**(6.0) %**	**($29,945,355)**	**(0.5) %**