

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
March 2005

March General Fund revenue collections were \$567.5 million, which was an increase of 30.7% above the same month a year ago. The March 18th Legislative budget proposal increased the January JLBC Baseline revenue forecast by \$100 million. March actual collections are \$20.7 million higher than the revised March estimate for the month. Year-to-date, collections are \$26.6 million over the March 18th budget proposal forecast.

Sales tax collections were once again strong, with March collections up 10.4% compared to last year. Individual income tax withholding collections were up 5.3% after adjusting for the revised withholding rates. Corporate income tax collections also continue to be strong, with March collections up 133%, more than double the same month last year.

General Fund Revenues				
Compared to Adopted Forecast and FY 2004 Collections				
(\$ in Millions)				
	<u>FY 2005</u> <u>Collections</u>	<u>Difference From</u> <u>May 2004 Forecast</u> ^{1/}	<u>Difference From</u> <u>Mar 2005 Forecast</u> ^{2/}	<u>Difference</u> <u>From FY 2004</u>
March	\$ 567.5	\$ 50.9	\$ 20.7	\$ 133.4
Year-to Date	\$ 5,318.5	\$ 411.5	\$ 26.6	\$ 748.3 ^{3/}

^{1/} Originally enacted FY 2005 budget (May 2004).
^{2/} March 18th Legislative budget proposal.
^{3/} Including the receipt of \$87.2 million federal cash assistance grant in October, 2003.

Sales Tax revenue increased by 10.4% on a year-over-year basis in March and was \$5.5 million above the forecast for the month. Year-to-date, collections are 10.2% over the first 9 months of last fiscal year. The following is based on year-to-date collections through March:

- Retail sales tax receipts have increased by 8.6%
- Contracting continues to exhibit the large increases begun last year, with a year-to-date increase of 18.8%.
- Restaurants and bars collections are up 9.6%.
- Use tax receipts (all of which is retained by the state) are up 13.6%. However, use tax receipts for the month of March were up only 5.6% compared to last year.

Individual Income Tax collections for March were 21.4% above last year. Withholding tax collections increased by 11.1% compared to last year. This growth includes the increase in withholding rates which went into effect on January 1st. Adjusting for the rate increase, withholding tax collections were an estimated 5.3% greater than last March.

Estimated and final payments were up 8.5% over last year's payments, although March is not a large collection month for

payments. Refunds were 5.0% greater than last year due to the continued usage of electronic state tax filing, which speeds up the refund process.

March individual income tax collections were down \$(15.0) million below the forecast for the month due primarily to the increased refunds noted above. Year-to-date, however, individual income tax collections are up 18.3% over the first 9 months of last fiscal year.

Corporate Income Tax revenue of \$63.8 million was \$36.4 million over March collections last year. Year-to-date corporate collections are 62.4% over the previous year.

The General Fund portion of **Luxury Tax** collections for March was 19.6% greater than last March, increasing the year-to-date total to 4.8% over the first 9 months of last year. The liquor categories of the luxury tax increased by 31.1% compared to March of last year. However, the Tobacco Tax component was down by almost (6.0)% for the month. Year-to-date, tobacco tax collections are up 2.9% over the prior year.

Recent Economic Indicators: More evidence of rising inflation unsettled the financial markets. The **U.S. Consumer Price Index (CPI)** rose 0.6% in March, while the three-month moving average climbed 0.5% and stood 3.0% above its level



from a year ago. Excluding food and energy prices, the core CPI increased 0.4% in March.

Higher prices contributed to a drop in consumer confidence. The Conference Board's **Consumer Confidence Index** dipped (1.9)% in March. Even so, expectations for the labor market improved, and the index remains 15.7% above its level from a year ago. The **U.S. Index of Leading Economic Indicators** also fell in March, with eight of the ten components losing ground.

U.S. semiconductor billings (three-month moving average) decreased (0.8)% in February. The Semiconductor Industry Association mentioned in its report that February is normally a weak month for microchip sales. Sales were 9.2% higher than the same period one year ago.

Arizona's unemployment rate jumped to 4.7% in March, but the increase was attributed to a surge in the number of job seekers rather than declining employment. More than 91,000 jobs were added during the last 12 months, a 3.9% increase.

The **Arizona Business Conditions Index (BCI)**, which is derived from a survey of supply chain managers, continued to improve in March. The latest reading of 70.4 was up 5.6% from the prior month and 11.2% from a year ago. The

employment component of the index made the strongest contribution, rising 16.1% from February.

The University of Arizona's **Business Leaders Confidence Index** was less sanguine. Although the overall index increased 0.8% from the first quarter's survey results, the respondents were less confident about the future prospects for the state and national economies.

Preliminary estimates indicated that **Arizona personal income** finished 2004 with increasing momentum. The state's year-over-year increase of 8.3% in 2004's fourth quarter was significantly stronger than the 6.7% gain reported for the nation as a whole.

The **number of TANF recipients** decreased to 101,936 in February, a (2.0)% decline from January and a (15.6)% drop from February 2004. The **AHCCCS caseload** increased in March. Enrollment was 1.4% higher than February and stood 10.4% above the level from one year ago.

The **Department of Corrections' inmate population** grew by an average of 21 inmates per month from January through March. This was well below the budgeted growth rate of 115 net new inmates per month.

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	4.7%	0.3%	(0.4)%
- Jobs	March	2.45 million	0.5%	3.9%
- Contracting Tax Receipts (3-month average)	Jan-Mar	\$55.5 million	(0.4)%	20.7%
- Retail Sales Tax Receipts (3-month average)	Jan-Mar	\$151.1 million	12.2%	9.4%
- Residential Building Permits - (3-month moving average)				
Single-unit	February	5,614	2.6%	11.8%
Multi-unit	February	966	26.3%	33.7%
- Arizona Tourism Barometer	January	100.7	1.4%	6.4%
- Phoenix Sky Harbor Air Passengers	February	3.04 million	(3.7)%	1.8%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	January	\$5.45	(11.7)%	0.2%
- Leading Indicators Index	January	120.4	(0.3)%	1.8%
- Business Conditions Index (>50 signifies expansion)	March	70.4	5.6%	11.2%
- Consumer Confidence Index	1 st Quarter 2005	104.3	3.2%	13.1%
- Business Leaders Confidence Index	2 nd Quarter 2005	62.8	0.8%	(7.2)%
- Arizona Personal Income	4 th Quarter 2004	\$168.6 billion	2.6%	8.3%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients	March	811,656	1.4%	10.4%
- TANF Recipients	February	101,936	(2.0)%	(15.6)%
- DOC Inmate Growth (3-month average)	Jan-Mar	32,633	21 inmates	1,005 inmates
United States				
Gross Domestic Product (seasonally adjusted annual growth rate)	4 th Quarter 2004	\$11.0 trillion	3.8%	3.9%
- Consumer Confidence Index	March	102.4	(1.9)%	15.7%
- Leading Indicators Index	March	115.1	(0.4)%	(0.5)%
- U.S. Semiconductor Billings -(3-month moving average)	Dec-Feb	\$3.2 billion	(0.8)%	9.1%
- Consumer Price Index - (3-month moving average)	Jan-Mar	191.9	0.5%	3.0%

State of Arizona

General Fund Revenue: Change from Previous Year and March Forecast

March 2005

	Current Month					FY 2005 YTD (Nine Months)				
	Actual March 2005	Change From March 2004		Revised Forecast		Actual March 2005	Change from March 2004		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$291,854,753	\$27,450,555	10.4 %	\$5,520,760	1.9 %	\$2,679,184,366	\$248,540,856	10.2 %	\$8,405,844	0.3 %
Income - Individual	108,697,181	19,182,415	21.4	(15,012,783)	(12.1)	1,927,053,682	297,961,162	18.3	(11,414,236)	(0.6)
- Corporate	63,828,617	36,395,771	132.7	19,852,352	45.1	435,303,288	167,195,718	62.4	20,157,643	4.9
Property	465,611	(186,006)	(28.5)	79,787	20.7	15,161,078	(6,796,260)	(31.0)	83,322	0.6
Luxury	6,025,205	987,851	19.6	578,784	10.6	47,304,875	2,163,411	4.8	(702,128)	(1.5)
Insurance Premium	93,496,391	30,776,267	49.1	5,752,844	6.6	222,882,225	65,139,430	41.3	3,968,880	1.8
Estate	2,171,723	756,896	53.5	146,723	7.2	26,983,105	(2,376,548)	(8.1)	545,618	2.1
Other Taxes	642,491	(122,876)	(16.1)	442,491	221.2	2,384,036	(213,156)	(8.2)	305,713	14.7
Sub-Total Taxes	\$567,181,972	\$115,240,873	25.5 %	\$17,360,958	3.2 %	\$5,356,256,655	\$771,614,613	16.8 %	\$21,350,656	0.4 %
<u>Other Revenue</u>										
Lottery	1,862,400	(574,900)	(23.6)	(1,237,600)	(39.9)	22,328,400	(7,113,400)	(24.2)	(2,330,600)	(9.5)
License, Fees and Permits	3,520,138	1,398,271	65.9	939,728	36.4	20,605,741	2,989,898	17.0	658,425	3.3
Interest	2,471,595	1,531,642	162.9	1,470,316	146.8	16,682,055	(3,901,526)	(19.0)	3,097,261	22.8
Sales and Services	6,108,757	2,590,754	73.6	2,633,457	75.8	33,340,166	(3,087,827)	(8.5)	1,953,784	6.2
Other Miscellaneous	2,823,852	(498,439)	(15.0)	863,355	44.0	15,857,609	(12,754,966)	(44.6)	678,574	4.5
Disproportionate Share	0	0	--	0	--	0	(5,625,187)	(100.0)	0	--
Transfers and Reimbursements	120,669	(121,032)	(50.1)	(1,341,831)	(91.7)	22,407,213	(79,039,790)	(77.9)	1,157,848	5.4
Sub-Total Other Revenue	16,907,411	4,326,296	34.4 %	3,327,425	24.5 %	131,221,184	(108,532,798)	(45.3) %	5,215,292	4.1 %
TOTAL BASE REVENUE	\$584,089,383	\$119,567,169	25.7 %	\$20,688,383	3.7 %	\$5,487,477,839	\$663,081,815	13.7 %	\$26,565,948	0.5 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(31,089,382)	(667,285)	2.2	0	0.0	(279,804,434)	(6,005,561)	2.2	0	0.0
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
VLT Transfer	14,458,374	14,458,374	--	0	0.0	108,516,868	108,516,868	--	0	0.0
Tax Amnesty	0	0	--	0	--	0	(15,080,406)	(100.0)	0	--
Judicial Enhancement	45,000	45,000	--	0	0.0	2,331,600	(2,253,125)	(49.1)	0	0.0
Sub-Total Transfers In	(16,586,008)	13,836,089	(45.5) %	0	0.0 %	(168,955,966)	85,177,776	(33.5) %	0	0.0 %
TOTAL REVENUE	\$567,503,375	\$133,403,258	30.7 %	\$20,688,383	3.8 %	\$5,318,521,873	\$748,259,591	16.4 %	\$26,565,948	0.5 %

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.