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## What's Inside

April General Fund revenue collections were \$1.21 billion, or 1.8% above April 2006. This amount was \$(24.4) million below the January JLBC Baseline FY 2007 forecast. For the fiscal year-to-date, collections are \$26.3 million above the JLBC Baseline FY 2007 forecast. Excluding Urban Revenue sharing distributions, year-to-date base collections are 8.1% above last year. *(See Table 5 on page 9.)*

Of the major categories, individual income tax collections actually declined from last April. While revenues from withholding and payments increased, these additional collections were offset by the growth in refunds. As previously mentioned in last month's edition of the Highlights, slower processing of returns in March shifted a large number of these refunds into April. For the month, individual income tax revenues were \$(26.8) million below the forecast.

April sales tax revenues continued to be sluggish. Retail collections grew only 3.5%, and contracting collections decreased (0.9)% on a year-

over-year basis. This is the second month in a row contracting collections have declined. The reduction in contracting is tied to the level of construction activity. On a month-over-month basis, construction employment declined by 600 jobs in April. By way of comparison, April-over-March construction employment has grown at an average rate of 1,600 jobs over the last 10 years.

Corporate income tax collections continued to perform well, with April collections being \$17.7 million higher than forecasted.

April's revenue trends appear to be continuing in May. Based on month-to-date May collections, individual income tax revenues will likely be below forecast in this month as well. May's level of final payments is running substantially below last year while refunds are slightly above May 2006.

Based on these month-to-date results, May is likely to bring the year-to-date total for all General Fund revenues below the

forecast. June will also be important in determining year-end revenues, as estimated quarterly payments for both the individual and corporate income tax are due.

The House and Senate budget proposals both include a projected year end FY 2007 surplus of over \$525 million. Falling below the forecast in FY 2007 will reduce this forecasted carry forward into FY 2008. The impact in FY 2008 would then depend on whether the potential FY 2007 shortfall could be recouped by exceeding the current 6.0% base growth forecast for FY 2008.

In other fiscal news this month, the JLBC met on May 10<sup>th</sup> and the JCCR met on May 16<sup>th</sup> *(pages 4-5)*.

The JLBC approved \$27.5 million worth of transfers within the Department of Corrections FY 2007 budget to align it with actual projected expenditures. The JLBC also gave a favorable review to a Department of Commerce proposal to reallocate some 21<sup>st</sup> Century Fund monies.

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## What's Inside (continued)

*"It increasingly appears that some of the past individual income tax gains were one-time, resulting in slower FY 2007 growth."*



The JCCR gave a favorable review to an Arizona Exposition and State Fair Board proposal to allocate \$1.1 million in FY 2007 Building Renewal monies toward the repair of the Coliseum roof. The total cost to repair the roof is estimated to be \$5.2 million. The JCCR also reconsidered, and gave a fa-

vorable review to, an ASU student housing project at the Downtown Phoenix Campus. The Committee had previously given the project an unfavorable review at its January meeting, as the campus was not authorized by the Legislature. The Universities have since worked on a proposal to en-

hance legislative oversight of future capital projects.

The Monthly Fiscal Highlights also include a summary of recent statutory reports to JLBC (pages 6-7).

## April Revenues

**Sales Tax** collections were \$398.2 million in April, or 3.5% above last year. *Table 1* displays the April and year-to-date growth rates for the major categories.

|                  | <u>April</u> | <u>YTD</u> |
|------------------|--------------|------------|
| Retail           | 3.5%         | 4.0%       |
| Contracting      | (0.9)%       | 12.5%      |
| Utilities        | 5.4%         | 13.1%      |
| Use              | 2.6%         | 0.6%       |
| Restaurant & Bar | 9.1%         | 8.5%       |

April collections continued to grow below the forecasted rate. Retail collections increased 3.5%, and for the second month in a row contracting collections decreased from last year. For the month, overall sales revenues were \$(17.4) million below the January JLBC Baseline forecast.

**Individual Income Tax** collections were \$603.7 million in April, or (2.8)% below last year. *Table 2* displays the April and year-to-date growth rates for individual categories.

|                               | <u>April</u> | <u>YTD</u> |
|-------------------------------|--------------|------------|
| Withholding                   | 14.2%        | 9.3%       |
| Estimated +<br>Final Payments | 3.9%         | 13.2%      |
| Refunds                       | 33.5%        | 25.8%      |

Withholding collections grew at a healthy rate; however, these gains were offset by slow growth in payments and a high level of refunds. The increase in refunds was partially due to the previously enacted 5% tax cut, as well as the timing of when those returns were processed. Slower processing in March resulted in more returns being processed in April, which in turn generated an increase in refunds.

In total, FY 2005 individual collections grew 29%, and FY 2006 collections grew 24%. It increasingly appears that some of the past individual income tax gains were one-time, resulting in slower FY 2007 growth.

**Corporate Income Tax** collections were \$177.6 million in April, or 9.7% above last year. While prior year one-time gains appear to be impacting individual income tax collections, corporate collections continue to grow at a substantial rate. Year-to-date, corporate revenues are almost 20% above last year. This result is surprising, given that corporate collections grew 42% in FY 2005 and almost 25% in FY 2006.

|              | <u>FY 2007<br/>Collections</u> | <u>Difference From<br/>June 2006 Forecast</u> <sup>1/</sup> | <u>Difference From<br/>Jan 2007 Forecast</u> <sup>2/</sup> | <u>Difference<br/>From FY 2006</u> |
|--------------|--------------------------------|---|--|------------------------------------|
| April        | \$ 1,211.0                     | \$ 36.2   | \$ (24.4)  | \$ 21.3                            |
| Year-to Date | \$ 7,844.6                     | \$ 242.1  | \$ 26.3  | \$ 514.1                           |

<sup>1/</sup> Originally enacted FY 2007 budget (June 2006)  
<sup>2/</sup> JLBC January Baseline Budget

## Recent Economic Indicators

Inflation continues to reflect the rising cost of gasoline. The **U.S. Consumer Price Index (CPI)** (3-month moving average) climbed 0.7% in April, which followed a similar increase the prior month. Gasoline prices soared by more than 10% in April, although they were up by only 3.2% on a year-over-year basis. Food prices, which were 3.7% higher than a year ago, also were rising faster than the general price level. Excluding the effects of food and energy costs, the core CPI rose 0.2% in April and was 2.3% above its level from a year ago.

**U.S. semiconductor billings** decreased (2.2)% in March (3-month moving average), continuing a trend that began late last year. Sales by American manufacturers were down (10.3)% from the volumes posted a year ago. The Semiconductor Industry Association reported that global semiconductor sales were running 3.2% ahead of last year's results. Although unit sales of personal computers, mobile phones and other consumer products were expanding, excess supplies of electronic components were pushing prices lower.

The **U.S. Index of Leading Economic Indicators** dipped (0.5)% in April, following a revised 0.6% gain in March. The leading index has oscillated in a relatively narrow range for several months and has not signaled a firm trend for the economy. Building permits, unemployment insurance claims, and manufacturing hours worked were among the factors driving the index downward, while stock prices and the money supply were the only components that made positive contributions.

Meanwhile, consumer sentiment moved higher. The **U.S. Consumer Confidence Index** climbed 1.6% in May after retreating the previous 2 months.

The Conference Board reported that consumers were more upbeat about current conditions and had an improved view of the labor market. However, their outlook for business conditions in the next 6 months remained cautious.

Arizona's economy added 98,600 jobs in the 12 months ending April 2007. However, April's increase of 3,800 positions was a fraction of the 9,200 average gain reported during the last 10 years. Total **non-farm employment** increased 3.7% on a year-over-year basis. Arizona's **unemployment rate** edged up to 4.0% in April, while the nation's jobless rate increased to 4.5%

The key goods-producing sectors remained mired in a hiring slump. **Manufacturing** lost (200) jobs in April, bringing its year-over-year loss to (700). The construction industry shed another (600) workers in April, its 5<sup>th</sup> loss in the last 6 months. Over the last 10 years, **construction employment** registered an average increase of 1,500 jobs in April.

Much of the retrenchment in construction activity can be traced to the housing industry. The number of **single-family residential building permits** issued (3-month moving average) increased 2.7% in April but it remained (26.1)% below the level from a year ago.

The recent surge in the number of **multi-family permits** issued raised its 3-month moving average to 1,452, a 41.7% jump from a year ago. Overall, the number of housing units authorized statewide dropped (23.9)% for the year to date through April.

The Realty Studies group at Arizona State University announced that the Greater Phoenix **single-family median**

**sales price** was \$265,000 in April, which matched the April 2006 median price and was (0.2)% below March 2007. The 4,855 **single-family homes sold** reflected a (9.8)% drop from March and an (18.8)% decline from a year ago.

The attached-home segment was faring somewhat better. The **townhouse-condominium median sales price** set another record by climbing to \$184,950 in April, a 5.7% improvement from a year ago, while the **number of units sold** dipped to 1,305, which was down (3.3)% from the prior month and (6.1)% on a year-over-year basis.

The **Arizona Business Conditions Index (BCI)** rebounded by 7.0% in April to 60.1 and remained well above the mark of 50 associated with a growing economy. The index got its biggest boost from the production component, reversing its recent trend, while new orders also improved.

The **Department of Corrections' inmate population** increased by an average of 264 inmates per month from February through April, which followed a large jump in the prior period. The total population grew by 2,290 inmates from a year ago, a 6.8% increase.

The number of **TANF** recipients decreased (1.0)% to 79,797 in March and was (10.3)% below the level reported in March 2006. The **AHCCCS caseload** jumped 0.9% in May for the 2<sup>nd</sup> consecutive month and now stands 0.2% higher than the total from a year ago.



*"The construction industry shed another (600) workers in April, its 5<sup>th</sup> loss in the last 6 months."*

Table 4

| RECENT ECONOMIC INDICATORS  |                              |                 |                          |                        |
|---|------------------------------|-----------------|--------------------------|------------------------|
| Indicator   | Time Period                  | Current Value   | Change From Prior Period | Change From Prior Year |
| <b>Arizona</b>  |                              |                 |                          |                        |
| - Unemployment Rate   | April                        | 4.0%            | 0.1%                     | (0.2)%                 |
| - Non-Farm Employment – Total                                     | April                        | 2.73 million    | 0.1%                     | 3.7%                   |
| Manufacturing   | April                        | 186,800         | (0.1)%                   | (0.4)%                 |
| Construction  | April                        | 246,800         | (0.2)%                   | 2.7%                   |
| - Contracting Tax Receipts (3-month average)                      | Feb-Apr                      | \$75.3 million  | (10.7)%                  | 3.0%                   |
| - Retail Sales Tax Receipts (3-month average)                     | Feb-Apr                      | \$166.0 million | (7.2)%                   | 3.8%                   |
| - 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   | April                        | 4,855           | (9.8)%                   | (18.8)%                |
| Townhouse/Condominium   | April                        | 1,305           | (3.3)%                   | (6.1)%                 |
| - Greater Phoenix Median Home Sales Price                         |                              |                 |                          |                        |
| Single-Family   | April                        | \$265,000       | (0.2)%                   | 0.0%                   |
| Townhouse/Condominium   | April                        | \$184,950       | 2.2%                     | 5.7%                   |
| - Phoenix Sky Harbor Air Passengers                               | March                        | 3.89 million    | 18.9%                    | 2.2%                   |
| - Arizona Average Natural Gas Price (\$ per thousand cubic feet)  | February                     | \$9.03          | 11.1%                    | 10.4%                  |
| - Leading Indicators Index  | March                        | 120.4           | 0.2%                     | 0.2%                   |
| - Business Conditions Index (>50 signifies expansion)             | April                        | 60.1            | 7.0%                     | (9.0)%                 |
| - Consumer Confidence Index                                       | 1 <sup>st</sup> Quarter 2007 | 106.3           | 0.9%                     | (3.7)%                 |
| - Business Leaders Confidence Index                               | 2 <sup>nd</sup> Quarter 2007 | 53.0            | 2.1%                     | (8.6)%                 |
| - Arizona Personal Income   | 4 <sup>th</sup> Quarter 2006 | \$198.1 billion | 1.4%                     | 8.0%                   |
| - Arizona Population  | July 1, 2006                 | 6.17 million    | 3.6%                     | 3.6%                   |
| - AHCCCS Recipients   | May                          | 1,046,580       | 0.9%                     | 0.2%                   |
| - TANF Recipients   | March                        | 79,797          | (1.0)%                   | (10.3)%                |
| - DOC Inmate Growth (3-month average)                             | Feb-Apr                      | 36,278          | 264 inmates              | 2,294 inmates          |
| <b>United States</b>  |                              |                 |                          |                        |
| - Gross Domestic Product (seasonally adjusted annual growth rate) | 1 <sup>st</sup> Quarter 2007 | \$11.5 trillion | 1.3%                     | 2.1%                   |
| - Consumer Confidence Index                                       | May                          | 108.0           | 1.6%                     | 3.2%                   |
| - Leading Indicators Index  | April                        | 137.3           | (0.5)%                   | (0.7)%                 |
| - U.S. Semiconductor Billings (3-month moving average)            | Jan-Mar                      | \$3.34 billion  | (2.2)%                   | (10.6)%                |
| - Consumer Price Index (3-month moving average)                   | Feb-Apr                      | 205.2           | 0.7%                     | 2.6%                   |

## JLBC Meeting

At its May 10, 2007 meeting, the Joint Legislative Budget Committee (JLBC) considered the following issues:

**Attorney General – Review of Allocation of Settlement Monies** – The Committee gave a favorable review of the allocation plan from the Budget Car and Truck Sales consent agreement. The consent judgment is a result of allegations that Budget deceptively advertised used vehicles. The AG's office stands to gain \$125,000, specifically for attorney costs and fees associated with the case. The money will be deposited into the Consumer Fraud Revolving Fund.

**Attorney General – Review of Intended Use of Monies in the Antitrust Enforcement Revolving Fund** – The Committee gave a favorable review of the expenditure of \$318,000 in Antitrust Enforcement Revolving Fund monies. A

footnote in the FY 2007 budget requires review of expenditures in excess of \$232,400 from this fund. The fund has a sufficient balance to support the expenditures on personnel and operating expenses, which are consistent with statute.

**Department of Commerce – Review of First Quarterly Expenditure Report for the Arizona 21<sup>st</sup> Century Competitive Initiative Fund** – The Committee gave a favorable review of the transfer of \$1 million from the \$5 million allocation for assistance in obtaining federal research grants to education (\$500,000) and research and development (\$500,000) programs. The Committee also favorably reviewed the first quarterly expenditure report.

Additionally, the Committee requested that Science Foundation Arizona (SFAz) track the number of awards per

investment program that result in commercial products, track the amount of licensing and royalty revenue earned by grant recipients, and provide a breakdown of dollars leveraged from other sources. These items are to be provided when submitting results for the first year performance measures. The Committee further requested that SFAz provide numeric goals for the performance measures of the \$2.5 million discretionary grants program in its next quarterly report.

**Department of Corrections – Consider Approval and Review of Requested Transfer of Appropriations** – The Committee gave a favorable review to the transfer of \$27.5 million within the department's operating line items and Special Line Items, as recommended by JLBC Staff. The adjustments conform to the current House and Senate FY 2007 supplemental estimates.

## JLBC Meeting (Continued)

**Department of Education – Report of Plan to Fund AIMS Study Guides with Achievement Testing Monies** – The Committee gave a favorable review of the department’s plan to spend \$3.6 million in FY 2006 carry forward and FY 2007 surplus monies to fund the cost of AIMS study guides for FY 2007. In addition to the favorable review, the Committee also asked the department to provide statistics on the performance of tutored versus non-tutored students on AIMS retakes by May 29, 2007.

**Department of Environmental Quality – Review of Intended Use of Monies in the Indirect Cost Recovery Fund** – The Committee gave a favorable review of the department’s use of Indirect Cost Recovery Funds in excess of \$10.5 million, as required by a footnote in the FY 2007 budget. The department expended \$9 million from this fund in the first three quarters of the year, and

expects an FY 2007 total expenditure of \$11.8 million. The additional expenditures will be used for salaries, rent costs and other operating expenditures.

**Department of Public Safety – Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission** – The Committee gave a favorable review for the use of an additional \$4.0 million for non-DPS law enforcement agencies and equipment purchases. This amount includes \$1.6 million for the Maricopa County Sheriff’s Office, \$1.9 million for the City of Phoenix Police Department, and \$45,100 for the United States Immigration and Customs Enforcement Agency.

**Department of Transportation – Review of Third Party Progress Report** – The Committee gave a favorable review of the third party progress report for

the third quarter of FY 2007, given the progress ADOT is making in increasing its use of third parties and reducing the quality assurance backlog. The Committee asked ADOT to provide a progress report by April 30, 2008, indicating whether the 4% sampling rate for third party transaction review has retained statistical validity.

## JCCR Meeting

At its May 16, 2007 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

**Arizona Department Of Administration – Consider Approval of FY 2008 and FY 2009 Rental Rates for State-Owned Space** – The Committee approved FY 2008 rental rates of \$19.50 per square foot for office space and \$7 per square foot for storage space, contingent upon funding approval in the FY 2008 budget. The current office space rate of \$15.50 has not been changed since FY 2002.

**Arizona Department Of Administration/Department Of Juvenile Corrections – Review of DJC Well Renovation Project and ADOA Building Renewal Allocations** – The Committee gave a favorable review to the proposal to reallocate

\$200,000 in FY 2007 building renewal monies to purchase and install an arsenic removal system for the Department of Juvenile Corrections well renovation project.

**Arizona Exposition And State Fair Board – Review of FY 2007 Building Renewal Allocation Plan** – The Committee gave a favorable review to the request to use \$1.1 million in FY 2007 to repair the Coliseum roof. AESF has recently become aware that problems with the roof are more serious than originally anticipated. Total cost to repair the roof is estimated at \$5.2 million. Funding for the project includes the remaining \$1 million in FY 2007 Building Renewal plus \$1.9 million in FY 2007 operating budget to restore structural integrity to the roof, and \$2.3 million in FY 2008 operating and Build-

ing Renewal funds to replace the current protective membrane covering the roof.

**School Facilities Board – Consider Approval of Refinancing Deficiencies Correction Bonds** – The Committee approved the request to refinance \$88.6 million of outstanding State School Trust revenue bonds. The current interest rate on these bonds is 5.75%, and the SFB hopes to refinance them at 4.09%. This will result in a savings of approximately \$6.6 million over ten years.

**Arizona State University – Reconsider Review of Indirect Financing for Downtown Campus Student Housing Project** – The Committee gave a favorable review to the proposal to enter in to an indirect financing agreement to develop student housing for the ASU

Downtown Phoenix Campus. Under this agreement, Capstone Development will construct 2 facilities to house 1,200 to 1,300 students in downtown Phoenix. The project will be financed with \$116.6 million in tax exempt bonds issued by Capstone, which are estimated to be paid off in 23 years with student housing fees. ASU will acquire ownership of the land and facilities when the bonds have been repaid.



## Summary of Recent Agency Reports

**ADOA / GITA – Quarterly Report on AZNet Implementation** – In December 2004, the Joint Committee on Capital Review requested the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report quarterly on the Arizona Network (AZNet), as created by the Statewide Telecommunications Management Contract. The most recent quarterly report states that upgrades have been completed in 7 key regions and that Wide Area Network consolidation continues in the Flagstaff region. These projects are designed to reduce carrier circuit costs. A pilot was completed on a new remote access system which will allow employees to have secure access to agency networks while working from home. Additionally, end-of-life voice equipment has been replaced with IP telephone systems at the Arizona Department of Education and the Arizona Commission on the Arts. A similar replacement process has begun at the Arizona Department of Transportation and will continue in the fourth quarter of FY 2007.

**Corporation Commission – Report on Corporations Division Filings** – Pursuant to a footnote in the General Appropriation Act, the Corporation Commission submitted a quarterly report on the status of reducing processing delays in its Corporations Division.

For expedited filings, the amount of time required to process the filings fell from an average of 23 business days on March 25, 2005 to 3.4 business days on March 31, 2007. At the end of the second quarter of FY 2007, the turnaround time was 4.2 business days. The commission's goal for processing expedited filings is 5 business days or less.

For regular filings, the amount of time required to process the filings fell from an average of 68 business days on

March 25, 2005 to 41 business days on March 31, 2007. At the end of the second quarter of FY 2007, the turnaround time was 43 business days. The commission's goal for processing regular filings is 30 business days or less.

**Arizona Department of Corrections – Report on Monthly Bed Plan Update** – The Department of Corrections (ADC) has been providing monthly reports to JLBC Staff updating the status of several topics. The highlights include the following:

### Provisional Beds

- ADC awarded a contract for 1,260 medium security provisional beds at the Indiana New Castle Facility at a per diem rate of \$64 per inmate. The department began transferring Arizona inmates to Indiana on March 12. Due to ADC concerns about staffing and program services and an April 24 disturbance at the facility, the department has ceased transferring additional inmates to Indiana for the moment. At the time of the disturbance, 630 Arizona inmates were being held at the New Castle facility, along with 1,038 Indiana inmates.
- In November 2006, ADC released an RFP to rent 4,700 beds beginning July 1, 2007. These beds would replace 2 Texas contracts that were canceled by the vendors, and a 1,440 Diamondback contract that expires at the end of FY 2007. Included in the RFP were also 2,000 new provisional beds to address population growth.
- On May 2, ADC awarded 2 contracts that will be effective starting July 1, 2007. One contract was awarded to Correctional Corporation of America (CCA) for 2,160 minimum and medium security level beds at the Diamondback Facility in Watonga, Oklahoma at a per diem rate of \$59.45. ADC had previously contracted 1,440 beds at a per diem rate of \$46.65. The second contract was awarded to Cornell Corrections for 1,340 minimum and medium security beds at a fa-

cility in Hinton, Oklahoma at a per diem rate of \$56.95, which decreases to \$54.50 effective May 1, 2008.

### Community Accountability Program

- Between April 2006 and May 2007, a total of 135 of 137 inmates referred to the program have enrolled. Of the inmates enrolled, 21 remain in the program, 24 completed the program, and 90 were terminated by the program.

**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 \$14.3 million net funding surplus for FY 2007. ADE had previously reported an estimated surplus of \$8.3 million.

**Department of Health Services – Report on Arnold v. Sarn** – Pursuant to a footnote in the General Appropriation Act, the Department of Health Services has submitted a quarterly report on the department's progress toward settling the *Arnold v. Sarn* lawsuit. Previously, the plaintiffs had filed a Motion for Non-Compliance as a result of the Court Monitor's 2005 Independent Review. As a result, the parties agreed to a Joint Stipulation requiring the department to develop a plan that increases service capacity for independent living skills, housing support services, vocational/work supports, and substance abuse services. On April 4, 2007 the Court Monitor officially certified that DHS fulfilled its obligations under the Joint Stipulation and the Motion for Non-Compliance was withdrawn.

During the past quarter, DHS and the plaintiffs filed additional pleadings regarding an apartment-like complex known as the Good Shepherd Properties. DHS had planned to offer rent free housing at the property to up to 56 homeless adults with serious men-

## Summary of Recent Agency Reports (Continued)

tal illness (SMI). However, plaintiffs argued this plan violates the terms of the exit stipulations related to housing. Specifically, the stipulations state that housing options must not exceed 8 SMI residents or, if more than 8 residents are present, adults with SMI cannot occupy more than 25% of the units. The Court heard oral arguments regarding the Good Shepherd Properties in late April and on May 7, 2007 the judge ruled in favor of the plaintiffs. As a result of the Court's ruling, DHS will be able to house a maximum of 21 adults with serious mental illness at the Good Sheppard Properties and the remaining rooms must be rented to non-SMI adults or left vacant.

**State Land Department – Quarterly Report on State Trust Land Activities** – The FY 2007 General Appropriation Act (GAA) provided the State Land Department with \$3.1 million in additional monies for the planning and disposition of State Trust lands. A GAA footnote also required the department to submit quarterly reports to the JLBC regarding State Trust land activities. During the third quarter of FY 2007, the State Land Department completed 3 sales auctions, selling 1,969 acres of Trust land valued at \$171.1 million. The department also completed 1 lease auction, leasing 21 acres which will generate \$52.8 million over the 65-year term of the lease. In addition, the department leased 358 acres of State Trust land for right-of-way use valued at \$7.9 million and began or continued planning and engineering studies on 763,842 acres.

Fiscal year-to-date, the department has sold 3,773 acres of State Trust land valued at \$250.2 million. By way of comparison, through the first 3 quarters of FY 2006, the Land Department had sold 1,199 acres valued at \$360.3 million.

**Governor's Office of Strategic Planning and Budgeting – Report on Federal Revenue Maximization Initiative** – Pursuant to a General Appropriation

Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative. This report covers both the October-December 2006 time period as well as the January-March 2007 time period.

The summary lists 7 ongoing projects, a decrease of 2 from the October report. This is the result of finalizing the following projects:

*Title IV-E Funding for Out-of-Home*

- *Placement:* The Department of Economic Security (DES) reports that it has finalized the last claim and that there will be no further claims for this project.
- *Juvenile Justice and Title XIX reimbursement:* The Arizona Health Care Cost Containment System (AHCCCS) and 3 other state agencies had sought to identify possible Title XIX services and funds for youth in Arizona who are at risk for the juvenile justice system. After state legal review of the federal Center for Medicare and Medicaid Services denial of the state's claim, the decision was made to discontinue the project.

In addition to that project there was 1 other project with changes since the last report:

- *Family Planning/Behavioral Health:* The Department of Health Services decided not to pursue a potential project which would seek to obtain enhanced federal funding for some behavioral health counseling involving family planning. No explanation was given for the decision not to pursue the project.

**Arizona Department of Transportation**

– Quarterly Report on Motor Vehicle Division Wait Times – The Motor Vehicle Division (MVD) was appropriated an additional 25 FTE Positions in FY 2007 for MVD customer service staff to reduce customer wait time. Laws 2006, Chapter 344, requires the Ari-

zona Department of Transportation to report to the Legislature quarterly on customer wait times in MVD field offices and vehicle registration renewal by mail turnaround times.

The number of MVD counter clerks increased by 69, or 9.9%, from 698 in FY 2006 to 767 in the 3<sup>rd</sup> quarter of FY 2007, with a resultant decrease of (10.2) minutes, or (36.7)%, in customer wait time from receiving a ticket until arriving at the counter (from 27.8 minutes in FY 2006 to 17.6 minutes in the 3<sup>rd</sup> quarter of FY 2007). ADOT reports that there was an additional wait time of 4 minutes from arrival at the office until receiving a numbered ticket.

## Other Issues

### DEMA Emergency Transfer

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. On April 12, 2007, \$543,000 was transferred from the General Fund to the Department of Emergency and Military Affairs for the Glassy-Winged Sharpshooter Emergency.

On June 23, 2006, the Governor declared a state of emergency for Cochise County related to the Glassy-Winged Sharpshooter. The Glassy-Winged Sharpshooter is an insect which is a known carrier of bacteria that can cause plant diseases. The Governor's declaration immediately allocated \$200,000 for the emergency. At the time, the Arizona Department of Agriculture requested additional funding from the Governor's Emergency Fund to continue its

program to eradicate the Glassy-Winged Sharpshooter. At the August 1, 2006 meeting of the Arizona State Emergency Council, the Council approved the allocation of \$543,000 in additional monies for the Glassy-Winged Sharpshooter Emergency. The additional monies will be used to reimburse the Department of Agriculture for costs incurred in eradicating the pest up to \$528,000. The remaining \$15,000 will be retained by DEMA as the cost of administering the funds.

As of May 16, 2007, the entirety of the initial \$200,000 allocation had been expended and DEMA had paid \$181,300 of the \$528,000 in reimbursements to the Department of Agriculture. In March 2007 the Governor amended the Glassy-Winged Sharpshooter Emergency declaration to include Yuma, Pima, Pinal, Maricopa, and Santa Cruz Counties.

Of the \$4 million allotted to the Governor's Emergency Fund in FY 2007, a total of \$3 million has been allocated,

including the \$543,000 discussed above. This leaves \$1 million in the fund for FY 2007 emergencies.

Table 5

## State of Arizona

### General Fund Revenue: Change from Previous Year and January Baseline Forecast April 2007

|                                | Current Month          |                           |               |                       |                | FY 2007 YTD (Ten Months) |                           |               |                     |              |
|--------------------------------|------------------------|---------------------------|---------------|-----------------------|----------------|--------------------------|---------------------------|---------------|---------------------|--------------|
|                                | Actual<br>April 2007   | Change From<br>April 2006 |               | Revised Forecast      |                | Actual<br>April 2007     | Change from<br>April 2006 |               | Revised Forecast    |              |
|                                |                        | Amount                    | Percent       | Amount                | Percent        |                          | Amount                    | Percent       | Amount              | Percent      |
| <b>Taxes</b>                   |                        |                           |               |                       |                |                          |                           |               |                     |              |
| Sales and Use                  | 398,196,373            | \$13,292,234              | 3.5 %         | (\$17,408,227)        | (4.2) %        | \$3,779,240,455          | \$251,644,343             | 7.1 %         | (\$58,376,505)      | (1.5) %      |
| Income - Individual            | 603,667,191            | (17,707,095)              | (2.8)         | (26,826,467)          | (4.3)          | 3,125,382,990            | 194,272,090               | 6.6           | 50,829,419          | 1.7          |
| - Corporate                    | 177,629,692            | 15,746,207                | 9.7           | 17,724,806            | 11.1           | 805,591,578              | 133,696,533               | 19.9          | 23,120,817          | 3.0          |
| Property                       | 168,957                | (791,389)                 | (82.4)        | (1,031,043)           | (85.9)         | 14,994,418               | (1,329,641)               | (8.1)         | (394,942)           | (2.6)        |
| Luxury                         | 5,332,939              | (1,196,586)               | (18.3)        | 375,939               | 7.6            | 54,980,626               | (158,957)                 | (0.3)         | (2,608,277)         | (4.5)        |
| Insurance Premium              | 42,019,030             | 8,498,574                 | 25.4          | (5,480,970)           | (11.5)         | 290,154,154              | 14,586,393                | 5.3           | (6,666,715)         | (2.2)        |
| Estate                         | 254,109                | 186,145                   | 273.9         | 254,109               | --             | (571,457)                | (12,134,368)              | --            | 381,216             | (40.0)       |
| Other Taxes                    | 753,069                | 108,200                   | 16.8          | 675,944               | 876.4          | 1,237,490                | 98,907                    | 8.7           | 614,720             | 98.7         |
| <b>Sub-Total Taxes</b>         | <b>\$1,228,021,360</b> | <b>\$18,136,290</b>       | <b>1.5 %</b>  | <b>(\$31,715,909)</b> | <b>(2.5) %</b> | <b>\$8,071,010,254</b>   | <b>\$580,675,300</b>      | <b>7.8 %</b>  | <b>\$6,899,733</b>  | <b>0.1 %</b> |
| <b>Other Revenue</b>           |                        |                           |               |                       |                |                          |                           |               |                     |              |
| Lottery                        | 5,072,700              | 4,640,300                 | --            | 1,535,900             | 43.4           | 33,053,700               | (4,335,400)               | (11.6)        | (2,008,400)         | (5.7)        |
| License, Fees and Permits      | 3,651,446              | (31,447)                  | (0.9)         | (378,154)             | (9.4)          | 33,971,131               | 6,551,264                 | 23.9          | (405,975)           | (1.2)        |
| Interest                       | 8,251,204              | 301,268                   | 3.8           | 651,204               | 8.6            | 81,377,644               | 31,667,444                | 63.7          | 10,065,385          | 14.1         |
| Sales and Services             | 6,706,862              | 3,882,329                 | 137.5         | 2,699,862             | 67.4           | 43,396,446               | 1,254,401                 | 3.0           | 334,531             | 0.8          |
| Other Miscellaneous            | 5,015,678              | 4,805,370                 | --            | 3,773,778             | 303.9          | 29,271,023               | 10,264,641                | 54.0          | 7,677,684           | 35.6         |
| Disproportionate Share         | 0                      | 0                         | --            | 0                     | --             | 0                        | 0                         | --            | 0                   | --           |
| Transfers and Reimbursements   | 174,853                | 74,730                    | 74.6          | (975,147)             | (84.8)         | 11,858,077               | (6,996,507)               | (37.1)        | 3,775,180           | 46.7         |
| <b>Sub-Total Other Revenue</b> | <b>28,872,743</b>      | <b>13,672,550</b>         | <b>89.9 %</b> | <b>7,307,443</b>      | <b>33.9 %</b>  | <b>232,928,021</b>       | <b>38,405,843</b>         | <b>19.7 %</b> | <b>19,438,405</b>   | <b>9.1 %</b> |
| <b>TOTAL BASE REVENUE</b>      | <b>\$1,256,894,103</b> | <b>\$31,808,840</b>       | <b>2.6 %</b>  | <b>(\$24,408,466)</b> | <b>(1.9) %</b> | <b>\$8,303,938,275</b>   | <b>\$619,081,143</b>      | <b>8.1 %</b>  | <b>\$26,338,138</b> | <b>0.3 %</b> |
| <b>One-Time Revenue</b>        |                        |                           |               |                       |                |                          |                           |               |                     |              |
| Urban Revenue Sharing          | (45,935,888)           | (10,500,144)              | 29.6          | 0                     | 0.0            | (459,358,884)            | (105,001,445)             | 29.6          | 0                   | 0.0          |
| <b>Sub-Total Transfers In</b>  | <b>(45,935,888)</b>    | <b>(10,500,144)</b>       | <b>29.6 %</b> | <b>0</b>              | <b>0.0 %</b>   | <b>(459,358,884)</b>     | <b>(105,001,445)</b>      | <b>29.6 %</b> | <b>0</b>            | <b>0.0 %</b> |
| <b>TOTAL REVENUE</b>           | <b>\$1,210,958,215</b> | <b>\$21,308,696</b>       | <b>1.8 %</b>  | <b>(\$24,408,466)</b> | <b>(2.0) %</b> | <b>\$7,844,579,391</b>   | <b>\$514,079,698</b>      | <b>7.0 %</b>  | <b>\$26,338,138</b> | <b>0.3 %</b> |