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*“Year-to-date through April, General Fund revenue collections are \$(81.9) million below forecast”.*

## Summary

Total April General Fund revenue collections were \$1.14 billion, or (6.1)% below April of last year. This amount was \$(9.9) million below the forecast used for the recently enacted FY 2008 budget revisions. Year-to-date through April, General Fund revenue collections are \$(81.9) million below forecast. *(See Table 1 for summary information).*

For the first 10 months of FY 2008, General Fund collections are down (5.1)% when compared to last year. When factoring in Urban Revenue Sharing, the year-to-date collections of \$7.33 billion are (6.6)% below last year. The April decline in revenues includes 2 of the 3 main tax categories:

- Sales tax collections were down (6.1)% compared to April 2007, and were \$(27.7) million short of the monthly forecast.
- Individual income tax collections were up 0.4%, which was \$36.8 million above forecast. The increase was due to the Department of Revenue’s ability to process returns and deposit payments more quickly than last year.
- Corporate income tax collections were down (29.5)%, which was \$(16.2) million below forecast.

*(See page 11 for detail information).*

### FY 2008 Budget Update

Although April General Fund revenues were not far below the revised forecast, preliminary May data suggests that revenues will be

substantially below forecast for May. Since almost all May individual and corporate income tax revenues have already been received, we are able to project that May collections in those categories will be \$(150) million below the enacted budget forecast. After accounting for sales tax collections, the shortfall could increase to \$(175) million. In combination with the year-to-date April shortfall of \$(82) million, the May results could put revenues \$(257) million below forecast.

The FY 2008 budget revision legislation (Laws 2008, Chapter 53) envisioned the possibility of revenue collections coming in below forecast for the year. Chapter 53 provides a contingency of \$364 million to address any year-end shortfalls.

The \$364 million includes \$152 million in surplus cash funds. (Chapter 53 generated budget solutions greater than the anticipated shortfall at the time.) In addition, Chapter 53 permits the use of the \$212 million remaining in the Budget Stabilization Fund (BSF).

With revenues potentially \$(257) million below forecast, the state would still have \$107 million in contingency funds remaining after addressing the projected shortfall (\$364 million less \$257 million). At this time, JLBC Staff does not anticipate that June revenue losses would exceed the remaining \$107 million in

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## Summary (Continued)

contingency funds. Given the current economic uncertainties, however, we cannot discount that possibility. As a result, we may need to explore further methods of increasing the year-end contingency.

In addition, revenues by themselves will not determine the overall General Fund surplus or shortfall. The level of spending below appropriations (otherwise known as “revertments”) also affects the year-end balance. The current budget assumes \$85 million in revertments. These unspent appropriations are difficult to predict in advance.

### FY 2009 Budget Update

Further FY 2008 shortfalls would also affect FY 2009. In March, JLBC Staff had estimated a FY 2009 shortfall of \$1.9 billion, with an assumed FY 2009 revenue growth rate of 1.2% above FY 2008. This rate was based on the 4-sector March consensus forecast plus input from the

Finance Advisory Committee (FAC) meeting.

Since FY 2008 base revenues will be lower than projected, FY 2009 revenues would have to grow faster than 1.2% to keep the FY 2009 shortfall at no more than \$1.9 billion. With a shortfall of \$257 million, for example, FY 2009 revenue would have to increase by 4.0%.

To gauge the likelihood of that growth, we surveyed several FAC members in the last week for their current perspective on FY 2009. Their estimates ranged from flat to 3% growth, suggesting the 1.2% projection from March may still be valid. Under that 1.2% growth scenario, the FY 2009 shortfall would rise to \$2.2 billion.

**JLBC/JCCR Meetings** – The Monthly Fiscal Highlights include a summary of the May JCCR meeting (*page 7*). There was no JLBC meeting in May.

“...FY 2009 revenues will have to grow faster than 1.2% to keep the FY 2009 shortfall at no more than \$1.9 billion”.

## April Revenues

**Table 1**

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

	<u>FY 2008 Collections</u>	<u>Difference From Chapter 53 Forecast</u>	<u>Difference From FY 2007</u>
April	\$ 1,137.5	\$ (9.9)	\$ (73.5)
Year-to-Date	\$ 7,328.5	\$ (81.9)	\$(516.1)

**Sales Tax** collections were \$373.8 million in April. This amount was down (6.1)% compared to last April, and \$(27.7) million below forecast. In the first 10 months of FY 2008, sales tax revenues are down (2.1)% compared to last year. *Table 2* displays the April and year-to-date growth rates for selected categories.

**Table 2**

**Sales Tax Growth Rates**

	<u>April</u>	<u>Year-to-Date</u>
Retail	(5.3)%	(3.4)%
Contracting	(18.9)%	(9.8)%
Utilities	(3.4)%	7.0%
Use	7.0%	10.0%
Restaurant & Bar	(1.0)%	0.3%

There were significant variations in April collections by sector. Retail and contracting

collections together account for two-thirds of all sales tax revenues. The retail sector declined by (5.3)%, and contracting fell by (18.9)%. Retail and contracting continue the negative trend, with the 3-month rolling average for contracting down (15.4)% from the prior year, and retail down (6.7)%.

Through March (the latest available subcategory data), taxable sales in the retail category are down (1.6)% from the prior year. Within retail, the largest subcategory, General Merchandise and Miscellaneous Retail, is down (0.7)%. The single largest subcategory decline continues to be Motor Vehicles, with a (14.1)% decline. Taxable retail sales by subcategory are shown in *Table 3*.



## April Revenues (Continued)

Table 3

### Taxable Retail Sales by Subcategory

	<u>% of Total Sales</u>	<u>YTD % Change Over FY 2007</u>
General/Misc. Merchandise	28.4%	(0.7)%
Motor Vehicles/Misc. Auto.	23.3%	(14.1)%
Bldg Hardware, Mfg Home	8.0%	(6.4)%
Food and Liquor Stores	7.8%	1.9%
Furniture, Home Furnishings	7.0%	(3.3)%
Clothing and Accessories	6.2%	(2.8)%
Manufacturing	5.6%	(4.6)%
Other Subcategories	<u>13.8%</u>	<u>22.2%</u>
<b>Total</b>	<b>100.0%</b>	<b>(1.6)%</b>

**Individual Income Tax** collections were \$606.0 million, or 0.4% above last year. Year-to-date, income tax collections are (5.3)% below last year. April collections were \$36.8 million greater than the recently enacted budget forecast. *Table 4* displays individual category growth rates.

Table 4

### Individual Income Tax Growth Rates

	<u>April</u>	<u>Year-to-Date</u>
Withholding	(0.5)%	2.0%
Estimated + Final Payments	5.0%	(3.9)%
Refunds	9.8%	17.8%

April withholding was (0.5)% below last year. The April decline brings year-to-date collections down to 2.0% over the prior year.

Estimated and final payments increased year-over-year by 5.0% in April. Based on preliminary May data, however, the April increase appears to be inflated. We had originally forecasted a (4.1)% decrease in payments due to the slowing economy and implementation of the 5% income tax cut authorized by Laws 2006, Chapter 354.

In May 2007, the state processed \$173 million in estimated and final payments, compared to approximately \$32 million in May of this year. This drop-off suggests that the 5% April growth is due to quicker than expected income tax processing, rather than a real underlying trend change in tax payments.

April refunds of \$321.2 million were \$28.8 million, or 9.8% over the prior year. The actual amount of refunds for the month exceeded the forecast by \$11.2 million.

**Corporate Income Tax** collections were \$125.2 million, or (29.5)% below last year. This amount is \$(16.2) million below the recently enacted budget forecast for the month.

April is the third of four large collection months for corporate income tax, as taxpayers make their quarterly payments. Through 10 months, collections are down (24.6)% from last year. Payments have decreased by (11.4)%, while refunds have increased by over 140%.



*“Corporate Income Tax collections were \$125.2 million, or (29.5)% below last year”.*

## Recent Economic Indicators

### NATIONAL

According to the Bureau of Economic Analysis' (BEA) preliminary 2008 1<sup>st</sup> quarter estimate of **U.S. Real Gross Domestic Product (GDP)**, the economy grew by 0.9%, higher than the BEA advance 2008 1<sup>st</sup> quarter estimate of 0.6%. The common definition of a recession is two consecutive quarters of negative change in the GDP.

In the 1<sup>st</sup> quarter, weakness in private domestic investment, personal expenditures for durable goods, and net imports were offset by increased personal expenditures for services, exports, and state and local government spending.

In April, the Conference Board's **U.S. Consumer Confidence Index** fell (5.5)% from March, to 62.3. At its current level, the index stands (41.4)% below April 2007's reading of 106.3.

The **U.S. Index of Leading Economic Indicators** increased slightly for the second straight month in April by 0.1% and is down (1.8)% year-over-year. Six of the 10 components that make up the composite index increased in April. Stock prices, the interest rate spread, and building permits were the largest positive contributors while the index of consumer expectations, average weekly manufacturing orders, and manufacturers' new orders for non-defense capital goods were the largest negative contributors.

**U.S. semiconductor billings** (3-month moving average) increased by 3.5% in April and by 2.3% year-over-year. The Semiconductor Industry Association reports that healthy sales of electronic products globally have driven the demand for semiconductors. Semiconductor sales in the U.S. grew more slowly than worldwide sales.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) increased slightly by 0.2% in April. The year-over-year increase was 3.9%.

### ARIZONA

April total statewide **non-farm employment** decreased, year-over-year, by (0.2)%. In comparison, the average year-over-year growth rate for April in the past 10 years was 3.1%. Arizona's **unemployment rate remained virtually flat** at 3.9% due in part to a

decreased civilian labor force. Overall, the private sector lost 5,700 jobs in April, whereas the government sector gained 1,100 jobs, mostly in federal and local jurisdictions. A majority of the jobs lost in April occurred in the construction industry.

**Construction employment** decreased by (1.6)% in April and by (11.5)% year-over-year with the specialty trade sub-sector reporting the most losses among all sub-sectors. April was the eighth consecutive month of job losses. The average year-over-year growth rate for April in the past 10 years was 5.5%. **Manufacturing employment** decreased by (0.3)% in April and by (1.8)% year-over-year.

Between January and March, the number of building permits authorized (3-month moving average) statewide, totaled 2,413, including 1,714 **single-family residential building permits** and 699 **multi-family building permits**. The number of permits authorized in the single family segment increased 8.8% over the prior period, while the number of permits in the multi-unit segment increased 14.8%. Despite this increase, year-over-year, permitting activity in the single-family and multi-family segments are down (56.7)% and (48.2)%, respectively.

The Real Estate Center at Arizona State University reported the Greater Phoenix **single-family median resale home price** in April fell (4.5)% from March levels, and (20.8)% from levels a year ago, to \$210,000. With the decline in sales price, the number of **single-family homes sold** increased 28.8% month-over-month to 5,585 homes. The Center's 5,585 reported single-family home sales, however, includes 2,025 trustee sales. A trustee sale transfers ownership to a bank or other person or entity as a result of foreclosure. Including these trustee sales, the number of single family homes sold is up 15.0% year-over year. Data from a year ago, excluding trustee sales, was not available.

In April, the **townhouse-condominium median price** remained unchanged for the third straight month at \$165,000. The number of units bought and sold however, increased 21.9% above March levels, to 835. Year-over-year, the median resale price and number of units sold decreased (10.8)% and (36.0)%, respectively.

*"The number of permits authorized in the single family segment increased 8.8% over the prior period..."*

## Recent Economic Indicators (Continued)

The Phoenix metropolitan area **supply of housing** indicator continued to improve in April -- indicating it would take 11.4 months to sell the current inventory of homes. This is 8.1 fewer months than January levels, but 2.4 months longer than a year ago. This 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 **Arizona Business Conditions Index (BCI)** increased 5.9% in April to 52.2 and is down (10.8)% year-over-year. April was the second consecutive month in which an increase in the index was reported since November 2007. The index is now above the critical 50-point mark. A reading below 50 suggests a slowdown in the overall level of economic activity in the near term. Whereas this indicator suggests improvement in the level of economic activity in April, other economic indicators reflect continued weakness. The new orders sub-index was the largest positive contributor to the overall index, whereas the price index indicated further upward pressure on prices.

An alternative measure of business in the state is the University of Arizona's **Business Leaders Confidence Index (BLCI)**. In the 2<sup>nd</sup> quarter of 2008, the BLCI fell to 36.9. Like the BCI, a reading below 50 indicates a contracting or slowing economy. At 36.9, the index is (30.4)% below the index a year ago, and (8.7)% below the prior quarter. All 6 components, including; the National Economy, Arizona Economy, Industry Sales, Industry Profits, Industry Hiring, and Capital Expenditures, contributed to the lower reading relative to the prior quarter. Like recent surveys, the sales expectations component continued to post the highest results while the national economy remains the lowest.

**AHCCCS caseload's** in May totaled 1,103,481 members, 2,114 members, above the April totals. Year-over-year, the AHCCCS caseload has increased by 5.4%, or 56,901 members.

**The number of TANF** recipients decreased (0.9)% in March and (11.1)% year-over-year to 79,063 recipients. The state budget projects 84,700 recipients in FY 2008.

Between February and April, the **Department of Corrections' (ADC) inmate population** increased by an average of 252 inmates per month to an average population of 38,374 inmates. In the department's FY 2008 budget, ADC received funding for an increase of 160 inmates per month. While monthly inmate growth between February and April exceeds the budgeted increase, fiscal year-to-date growth totals 151 inmates per month.



## Recent Economic Indicators (Continued)

Table 5

### 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>
<b>Arizona</b>				
- Unemployment Rate	April	3.9%	(2.5)%	5.4%
- Non-Farm Employment – Total	April	2.67 million	(0.2)%	(0.2)%
Manufacturing	April	178,800	(0.3)%	(1.8)%
Construction	April	200,200	(1.6)%	(11.5)%
- Contracting Tax Receipts (3-month average)	Feb-Apr	\$65.6 million	(3.1)%	(15.4)%
- Retail Sales Tax Receipts (3-month average)	Feb-Apr	\$155.0 million	(7.0)%	(6.7)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jan-Mar	1,714	8.8%	(56.7)%
Multi-unit	Jan-Mar	699	14.8%	(48.2)%
- Greater Phoenix Existing Home Sales				
Single-Family	April	5,585*	28.8%	15.0%
Townhouse/Condominium	April	835	21.9%	(36.0)%
- Greater Phoenix Median Home Sales Price				
Single-Family	April	\$210,000	(4.5)%	(20.8)%
Townhouse/Condominium	April	\$165,000	(0.0)%	(10.8)%
S&P/Case-Shiller Home Price Index	February	172.72	(4.1)%	(20.8)%
- Months Supply of Housing (ARMLS)	April	11.4 months	(1.8) months	2.4 months
- Phoenix Sky Harbor Air Passengers	February	3.3 million	(0.8)%	0.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	February	\$8.79	NA	(2.7)%
- Leading Indicators Index	December	118.5	(0.5)%	(0.4)%
- Business Conditions Index (>50 signifies expansion)	April	52.2	5.9%	(10.8)%
- Consumer Confidence Index	4 <sup>th</sup> Quarter 2007	79.8	(21.7)%	(24.2)%
- Business Leaders Confidence Index	2 <sup>nd</sup> Quarter 2008	36.9	(8.7)%	(30.4)%
- Arizona Personal Income	4 <sup>th</sup> Quarter 2007	\$212.5 billion	0.8%	5.5%
- Arizona Population	July 1, 2007	6.34 million	173,066	2.8%
- AHCCCS Recipients	May	1,103,481	0.2%	5.4%
- TANF Recipients	March	79,063	(0.9)%	(11.1)%
- DOC Inmate Growth (3-month average)	Feb-Apr	38,374	252 inmates	2,096 inmates
<b>United States</b>				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	1 <sup>st</sup> Quarter 2008	\$11.7 trillion	0.9%	2.5%
- Consumer Confidence Index	April	62.3	(5.5)%	(41.4)%
- Leading Indicators Index	April	102.0	0.1%	(1.8)%
- U.S. Semiconductor Billings (3-month moving average)	Jan-Mar	\$3.42 billion	3.5%	2.3%
- Consumer Price Index (3-month moving average)	Feb-Apr	213.2	0.2%	3.9%

\*Includes 2,025 trustee sales

## JCCR Meeting



At its May 13, 2008 meeting, the Joint Committee on Capital Review considered the following issues:

**Cochise Community College District – Review of Revenue Bond Projects** – The Committee gave a favorable review to Cochise Community College District’s \$11.1 million bond projects. The project would finance new student housing facilities and a science building on their Douglas campus with a total revenue bond issuance of \$11.0 million and with \$0.1 million in district funds. Also, the Committee recommended that A.R.S. 15-1446 be clarified regarding the financial cap on community college lease-purchase issuances and Committee review for these issuances.

**Arizona Department of Transportation – Review of Grand Canyon Airport Modular Housing Project** – The Committee gave a favorable review for the Arizona Department of Transportation (ADOT) to spend \$2.5 million to construct 15 modular homes and related infrastructure at the Grand Canyon National Park Airport. The new modular homes would cost \$153,700 each, including the new home, installation of utilities, basic appliances, paving, and removal of existing modular homes.

**Arizona Department of Transportation – Review of Sprinkler and Fire Alarm Systems Project** – The Committee gave a favorable review of the \$1.1 million to install automatic fire sprinkler and alarm systems at 7 existing ADOT equipment services buildings with the requirement that ADOT seek Committee review prior to expending the \$164,500 of undesignated monies. Currently, 7 of the 21 statewide equipment repair shops operated by ADOT are out of compliance with life safety code requirements per the National Fire Protection Association and the State Fire Marshal.

**Arizona State University – Review of Memorial Union Fire Renovations Bond Project** – The Committee gave a favorable review of Arizona State University’s \$13 million cost increase for the Memorial Union Fire Renovations bond project. The Committee additionally recommended that ASU submit for review any change in the current \$40.0 million estimated insurance reimbursement amount in excess of \$500,000 and a revised

financing plan. The \$13 million increase will be funded with insurance reimbursements. The Committee first favorably reviewed the \$40 million bond project in December 2007, which now has increased to a total cost of \$53 million.

**Northern Arizona University – Review of Infrastructure Upgrades Bond Project** – The Committee gave a favorable review to Northern Arizona University’s (NAU) infrastructure upgrade project to be financed with a \$15 million system revenue bond issuance. NAU will use this bond issuance to fund utility infrastructure projects, which include utility extensions, electrical upgrades, chiller installation, and chiller tie-ins.

**Northern Arizona University – Review of New Residence Life Warehouse Bond Project** – The Committee gave a favorable review of a new 16,800 square foot residence life warehouse that will be used to store items for residential life including carpeting, appliances, and snow removal equipment. The project is to be financed with a \$3.9 million system revenue bond issuance, which will be funded with auxiliary funds such as dorm fees.

**Northern Arizona University – Review of Revised Applied Research Facility Bond Project, Yuma** – The Committee gave a favorable review of NAU’s revised Applied Research Facility on its Yuma campus to be financed with a \$2.5 million system revenue bond issuance. The Committee first favorably reviewed the project in May 2006 for \$4 million in lease-purchase agreements, but NAU now seeks to add 2,225 sq. ft. to the 10,000 sq. ft. facility.

## 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. In the third quarter of FY 2008, AZNet has completed work at the Registrar of Contractors headquarters and at Department of Economic Security sites in Flagstaff and Bisbee. A project to replace end-of-life routers has been completed at 138 of 142 ADOT sites statewide.

**Arizona Department of Administration – Semi-Annual State Employee Health Insurance Report** – Pursuant to A.R.S. § 38-658, the Arizona Department of Administration (ADOA) is submitting their required semi-annual report of the health insurance program. The Health Insurance Trust Fund had receipts of \$685 million for Plan Year (PY) 2007, with expenses of \$654 million, increasing the balance by \$11 million to \$128 million as of September 30, 2007. The program provides health insurance for 131,496 active state employees, retirees, and dependents. Of this amount, 29,561 are active employees and 36,929 are retirees. Annual cost per member averaged \$4,202 for active employees and \$7,402 for retirees.

Statute requires ADOA to report on performance standards for the program, as well as customer satisfaction. In PY 2007, nearly \$98,000 in penalties was assessed to vendors, an improvement from the \$500,000 in penalties assessed for PY 2007. Penalties were imposed for failure to meet goals for responsiveness to customer service calls.

**AHCCCS – Report on Systematic Alien Verification for Entitlements Program** – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) is providing its quarterly report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program. A.R.S. § 36-2903.03 requires all AHCCCS applicants to provide documentation verifying their immigration status to qualify for AHCCCS services. If AHCCCS determines this documentation to be fraudulent, the applicant is referred for prosecution.

AHCCCS, in conjunction with DES, verified the immigration status of 18,993 individuals between October 1, 2007 and December 31, 2007. *Table 1* below shows the number of verifications completed by agency by month. This is a decrease of (266) below the 19,259 verifications that were completed during the previous quarter. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. In the previous quarter which ended September 30, 2007, AHCCCS and DES also did not identify any fraudulent residency documents. In addition, in the October 1 through December 31 time period, 7 citizens were referred for prosecution pursuant to State and Federal law regarding fraudulent schemes, theft, and artifices. This is an increase of 5 above the number of citizens that were referred for prosecution during the previous quarter.

Month	AHCCCS	DES	Total
October	1,361	5,568	6,929
November	1,150	5,240	6,390
December	1,009	4,665	5,674
<b>Total</b>	<b>3,520</b>	<b>15,473</b>	<b>18,993</b>

**Arizona Department of Corrections – Report on Monthly Bed Plan Update** – The Department of Corrections (ADC) has provided a report to JLBC Staff with updated information related to their bed plan. Some highlights of the report are as follows:

- The department extended the response deadline from April 14 to May 5 for the Request for Proposal for additional provisional beds. The additional provisional beds are to replace the cancellation of ADC contract with the State of Indiana for 1,260 beds.
- The Arizona Department of Administration has secured \$200 million in lease-purchase financing for the construction of 4,000 new state beds, including: 1,000 female beds in Perryville, 1,000 male beds in Tucson, and 2,000 male beds in Yuma. Construction for the initial 1,000 beds is estimated to be completed in July 2009.
- Management and Training Corporation is currently in the process of securing financing for 2,000 new private beds located in Kingman. Construction for these beds is anticipated to be completed 16 months from the time financing is secured.

**Arizona Department of Corrections – Report on FY 2006 Operating Per Capita Cost Report** – The FY 2007 General Appropriation Act required ADC to provide an operating per capita cost report for FY 2006. Like in FY 2005, the department contracted with a private vendor to complete the report and an accompanying technical manual.

The operating cost per inmate housed in state facilities in FY 2006 totaled \$61.74 per day, as compared to a FY 2005 cost of \$58.21 per day. The daily cost per inmate was \$51.44 in county jails, \$53.36 for in-state private beds, and

## Summary of Recent Agency Reports (Continued)

\$48.31 for out-of-state rented provisional beds.

**Economic Estimates Commission – Report on the Budget Stabilization Fund** - Pursuant to A.R.S. § 35-144(F), the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a formula that compares the growth rate of real adjusted Arizona personal income in the most recent calendar year to the average in the last 7 calendar years.

The formula recommends a BSF withdrawal whenever the annual adjusted personal income growth rate is both less than the average growth rate and 2%. According to a EEC report issued May 22, 2008, the calendar year 2007 growth rate was 2.88% compared to the trend growth rate of 3.63%. Thus, the BSF formula does not recommend a fund withdrawal in FY 2008 since growth was above 2%. In the absence of the 2% floor, the formula would have called for a BSF payout of \$71.7 million as the growth rate of 2.88% was (0.75)% below the trend growth of 3.63%. Compared to the formula calculation, the Legislature has instead already approved a BSF withdrawal of \$487 million for FY 2008.

**Department of Economic Security – Quarterly Report on Progress in Meeting Federal Work Participation Requirements** – A footnote in the FY 2008 General Appropriation Act requires the Department of Economic Security (DES) to report quarterly on progress made in meeting federal Temporary Assistance for Needy Families (TANF) work participation requirements.

The federal Deficit Reduction Act (DRA) of 2005 changed the

calculation that determines a state’s required work participation rate for clients receiving TANF cash assistance. Prior to Federal Fiscal Year (FFY) 2007, the required work rate was reduced based on caseload decline since 1995. With the implementation of the DRA, the reduction is based on caseload decline since 2005. For FFY 2007, DES had a work participation rate of 26.1% and a minimum required rate of 25%. For FFY 2008, it is expected that the minimum required rate will be 21.2%. DES currently estimates it has achieved a year-to-date work participation rate of 15.2%. Failure to meet the required rate will result in a federal corrective action plan and eventually in fines up to 5% of the total Federal TANF Block Grant, about \$10 million.

**Department of Education – Report on Federal Monies for English Learners** – Pursuant to A.R.S. § 15-756.10, paragraph 3, the Arizona Department of Education (ADE) recently submitted a report that includes an itemized list of all federal monies received by the department for English language learners in FY 2007. As required by statute, the report includes a list of how much of these monies were distributed to school districts on a district by district basis and the purposes for which these federal monies are designated. The report cites all federal monies received for FY 2007 that could be used in whole or in part for language acquisition programs, which totaled to \$332.2 million. That sum includes \$260.3 million for Title I-A, \$6.4 million for Title 1-C, \$48.1 million for Title II, and \$17.4 million for Title III.

**Department of Health Services – Report on Arnold v. Sarn** – Pursuant to a footnote in the FY 2008 General Appropriation Act, the Department of Health Services (DHS) has submitted the 3<sup>rd</sup> quarter report (January-March 2008) on

settling the *Arnold v. Sarn* lawsuit.

DHS reports that several meetings have been held between the parties, the Court Monitor, and the Maricopa County vendor, Magellan. They have agreed to a performance improvement plan to address the results of the 2007 Court Monitor’s audit. The plan will focus on training staff, improving treatment plans, improving clinical supervision, and improving competency. Additionally, the court order requires DHS to achieve the same percentage scores received on the 2006 audit by October 2008.

DHS further reports that progress continues to be made on the cases identified in November by the Court Monitor which needed immediate attention. As of April, 46 cases have been unofficially closed and the remaining are being finalized for closure.

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

On April 21, 2008, the Governor signed Executive Order 2008-20 authorizing the transfer of \$50,000 from the Health Crisis Fund to DHS to provide resources to control a measles outbreak in Pima County. This was followed up with Executive Order 2008-23 on May 20, 2008 which authorized an additional \$350,000 for the same purpose. According to the more recent Executive Order, there have been

## Summary of Recent Agency Reports (Continued)

21 cases of measles identified in Pima County and 6,000 potentially exposed individuals have required monitoring.

In total, the Governor has authorized \$500,000 from the Health Crisis Fund in FY 2008. In addition to the expenditures referenced above, the Executive previously authorized \$100,000 to control syphilis outbreaks.

**Arizona Department of Public Safety – Quarterly Report on GIITEM** – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report quarterly on the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM).

*DPS Personnel:*

In the third quarter of FY 2008, DPS spent or encumbered \$2.1 million of the \$10 million appropriation for the 100 DPS immigration staff. Fiscal year-to-date, DPS has spent a total of \$5.9 million from this appropriation. Of the 100 DPS personnel, at least 50 sworn DPS positions are to be used for immigration and border security and up to 50 DPS positions are to expand GIITEM's public awareness, investigation and intelligence efforts. As of March 31, 2008, 65 of the 100 DPS positions were filled, of which 36 were assigned to immigration enforcement, including 34 sworn officers and 2 civilians, and 29 work with gang enforcement, including 27 sworn officers and 2 civilians. During the third quarter, DPS hired 7 new DPS sworn officers and 1 civilian for immigration enforcement.

*Local Law Enforcement Efforts (Multi-Jurisdictional Task Force):*

In the first 3 quarters of FY 2008, DPS spent or encumbered \$949,800 of the \$10 million for local law enforcement grants. As of March 31, 2008, 14 agencies statewide contributed one detention officer to the Detention Liaison (DLO) Program that assists with collection of gang and human smuggling intelligence information at

various correctional facilities. Currently, 23 federal, county and local law enforcement agencies provide 51 officers to GIITEM efforts. Another 6 agencies have agreements but are unable to provide GIITEM staff. This represents no change in staffing above the second quarter.

**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 April 30, 2008, DPS had 1,355 authorized sworn full-time positions, including 100 authorized sworn/civilian positions for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). Of the 1,355 authorized sworn positions, 1,207 (or 89%) are currently filled, representing a net increase of 12 positions in the 3<sup>rd</sup> quarter

**Arizona Department of Transportation – Quarterly Report on Motor Vehicle Division Wait Times** – A FY 2008 General Appropriation Act footnote requires the Arizona Department of Transportation (ADOT) to report to the Legislature quarterly on customer wait times in Motor Vehicle Division (MVD) field offices and vehicle registration renewal by mail turnaround times. Customer wait time from receiving a ticket until arriving at the counter increased from 11.3 minutes in the 2<sup>nd</sup> quarter of FY 2008 to 13.6 minutes in the 3<sup>rd</sup> quarter. Customer wait times in metropolitan areas ranged from just under 7 minutes in the Flagstaff office to 22 minutes in the Central Phoenix office.

For FY 2008, the footnote also required ADOT to report the amount of time it takes to receive a numbered ticket. ADOT reports

that they have been unable to reliably document the wait time to get a numbered ticket from an MVD employee, despite trying several different methods.

# State of Arizona

## General Fund Revenue: Change from Previous Year and Enacted Forecast April 2008

	Current Month					FY 2008 YTD (Ten Months)				
	Actual April 2008	Change From		Forecast		Actual April 2008	Change from		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	373,838,251	(\$24,358,122)	(6.1) %	(\$27,672,438)	(6.9) %	\$3,700,796,798	(\$78,443,657)	(2.1) %	(\$54,747,171)	(1.5) %
Income - Individual	605,994,371	2,327,180	0.4	36,804,939	6.5	2,959,442,538	(165,940,452)	(5.3)	2,688,317	0.1
- Corporate	125,213,564	(52,416,128)	(29.5)	(16,205,036)	(11.5)	607,514,730	(198,076,848)	(24.6)	(23,589,846)	(3.7)
Property	711,222	542,265	320.9	202,484	39.8	13,259,619	(1,734,799)	(11.6)	366,407	2.8
Luxury	6,163,100	830,161	15.6	910,100	17.3	50,735,872	(4,244,754)	(7.7)	(1,062,138)	(2.1)
Insurance Premium	57,471,361	15,452,331	36.8	(6,528,639)	(10.2)	297,794,905	7,640,751	2.6	(4,637,258)	(1.5)
Estate	51,881	(202,228)	(79.6)	51,881	--	320,003	891,460	--	51,881	19.3
Other Taxes	815,805	62,736	8.3	765,484	--	1,248,186	10,696	0.9	746,500	148.8
<b>Sub-Total Taxes</b>	<b>\$1,170,259,555</b>	<b>(\$57,761,805)</b>	<b>(4.7) %</b>	<b>(\$11,671,225)</b>	<b>(1.0) %</b>	<b>\$7,631,112,651</b>	<b>(\$439,897,603)</b>	<b>(5.5) %</b>	<b>(\$80,183,308)</b>	<b>(1.0) %</b>
<b>Other Revenue</b>										
Lottery	6,301,600	1,228,900	24.2	2,831,600	81.6	31,655,119	(1,398,581)	(4.2)	1,801,200	6.0
License, Fees and Permits	4,474,588	823,142	22.5	104,788	2.4	30,927,749	(3,043,382)	(9.0)	(460,397)	(1.5)
Interest	4,934,542	(3,316,662)	(40.2)	1,031,242	26.4	81,213,678	(163,966)	(0.2)	(1,532,498)	(1.9)
Sales and Services	4,452,922	(2,253,940)	(33.6)	(1,830,020)	(29.1)	41,432,892	(1,963,554)	(4.5)	(5,024,264)	(10.8)
Other Miscellaneous	2,238,129	(2,777,549)	(55.4)	(856,765)	(27.7)	30,019,016	747,993	2.6	4,009,528	15.4
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,836,689	1,661,836	--	444,689	31.9	33,670,598	21,812,521	183.9	609,104	1.8
<b>Sub-Total Other Revenue</b>	<b>24,238,470</b>	<b>(4,634,273)</b>	<b>(16.1) %</b>	<b>1,725,534</b>	<b>7.7 %</b>	<b>248,919,052</b>	<b>15,991,031</b>	<b>6.9 %</b>	<b>(597,327)</b>	<b>(0.2) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$1,194,498,025</b>	<b>(\$62,396,078)</b>	<b>(5.0) %</b>	<b>(\$9,945,691)</b>	<b>(0.8) %</b>	<b>\$7,880,031,703</b>	<b>(\$423,906,572)</b>	<b>(5.1) %</b>	<b>(\$80,780,635)</b>	<b>(1.0) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(57,044,911)	(11,109,023)	24.2	0	0.0	(570,449,107)	(111,090,223)	24.2	0	0.0
Budget Plan Transfers	0	0	--	0	--	18,876,179	18,876,179	--	(1,123,821)	(5.6)
<b>Sub-Total Other Adjustments</b>	<b>(57,044,911)</b>	<b>(11,109,023)</b>	<b>24.2 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(551,572,928)</b>	<b>(92,214,044)</b>	<b>20.1 %</b>	<b>(1,123,821)</b>	<b>0.2 %</b>
<b>TOTAL REVENUE</b>	<b>\$1,137,453,114</b>	<b>(\$73,505,101)</b>	<b>(6.1) %</b>	<b>(\$9,945,691)</b>	<b>(0.9) %</b>	<b>\$7,328,458,775</b>	<b>(\$516,120,616)</b>	<b>(6.6) %</b>	<b>(\$81,904,456)</b>	<b>(1.1) %</b>