



This Month

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"For the first third of FY 2008, General Fund collections are up 0.1% when compared to last year, and are \$(226.9) million less than forecast"

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on November XX, 2007.

Total October General Fund revenue collections were \$683.6 million, or (6.4)% below October of last year. This amount was \$(78.9) million below the forecast based on the enacted state budget.

For the first third of FY 2008, General Fund collections are up 0.1% when compared to last year, and are \$(226.9) million less than forecast. When factoring in Urban Revenue Sharing, year-to-date collections are (1.4)% below last year. *(See page 11 for detail information).*

Two of the three major revenue categories were below the forecast in October:

- Sales tax collections declined (0.8)% compared to October 2006, and were \$(34.7) million short of the monthly forecast.
- Individual income tax collections were down (9.7)%, which was \$(49.0) million below forecast.
- Corporate income tax collections were 4.1% above last year, and \$2.6 million above the forecast.

JLBC/JCCR Meetings - The Monthly Fiscal Highlights include a summary of the November JLBC and JCCR meetings (*pages 5-6*). Among

the items considered, the JLBC gave an unfavorable review to DES' proposal to raise the Division of Developmental Disabilities' therapy rates and eliminate travel reimbursements. Members expressed concern that the change may result in a decrease in the availability of therapy services for rural clients. The JLBC also gave a favorable review to a proposal by the State Treasurer to eliminate their management fees with a provision that the Legislature make statutory changes allowing the Treasurer to fund the office via a portion of earnings.

The JCCR reviewed a number of items, including the Exposition and State Fair Board's Coliseum roof repair expenditure plan. The JCCR favorably reviewed the Board's request to use \$3.2 million of State Fair Fund monies to repair 2 failed cables, install a new roof membrane, and purchase an acoustical monitoring system. The JCCR also gave a favorable review to a University of Arizona proposal for a \$26 million expansion of its Student Recreation Center funded primarily with student recreation fees.

Recent Reports - The Highlights also include a summary of recent statutory reports submitted

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“In the first third of FY 2008, sales tax revenues are flat compared to last year.”



“Individual income tax collections were... \$(49.0) million less than forecast.”

This Month (Continued)

to the JLBC (*pages 7-10*). The Department of Education reported that it estimates a net FY 2008 General Fund surplus of \$61.1 million. Most of that amount, \$48.6 million, is for lower-than-budgeted FY 2007 enrollment growth (which affects FY 2008 formula funding). AHCCCS reported in its semi-annual report that total statewide Healthcare Group enrollment has

declined by 930 people to 25,984 people as of October 13, 2007. AHCCCS also reported it made other changes to the program including increased premiums, copayments, and deductibles.

October Revenues

Sales Tax collections were \$373.8 million in October. This amount was (0.8)% below last year, and \$(34.7) million below forecast. In the first third of FY 2008, sales tax revenues are flat compared to last year. *Table 1* displays the October and year-to-date growth rates for the major sales tax categories.

	<u>October</u>	<u>Year-to-Date</u>
Retail	(2.3)%	(1.7)%
Contracting	(12.0)%	(5.2)%
Utilities	17.6%	6.1%
Use	7.8%	8.1%
Restaurant & Bar	4.1%	4.7%

Retail and contracting collections, which together account for two-thirds of all sales revenues, both declined in October.

In the first 3 months of FY 2008, taxable sales in the retail category are down (2.3)% over the same period last year. Within retail, the largest subcategory, General Merchandise and Miscellaneous Retail, is down (1.0)%. The single largest drag on retail continues to be Motor Vehicle Dealers and Miscellaneous Automotive,

with a (10.9)% decline from last year. Excluding Motor Vehicles, taxable retail sales are up 0.6% compared to the same period last year. Taxable retail sales data by subcategory is shown in *Table 2* below.

Individual Income Tax collections were \$275.5 million, or (9.7)% below last year. This collection level was \$(49.0) million less than forecast. *Table 3* displays individual category growth rates.

	<u>October</u>	<u>Year-to-Date</u>
Withholding	5.7%	6.4%
Estimated + Final Payments	4.6%	(0.7)%
Refunds	198.2%	83.1%

October withholding was 5.7% above last year. After some volatility in the first two months of the fiscal year, year-to-date withholding collections have leveled off at around 6% growth.

Estimated and final payments also increased over October of last year. Payments for the month were almost \$61million, which is an increase of 4.6%. Year-to-date, payments are

	<u>% of Total Sales</u>	<u>YTD % Change Over FY 2007</u>
General/Misc. Merchandise	28.3 %	(1.0)%
Motor Vehicles/Misc. Auto.	24.0 %	(10.9)%
Bldg Hardware, Mfg Home	8.0 %	(5.6)%
Food and Liquor Stores	7.7 %	8.9 %
Furniture, Home Furnishings	6.9 %	2.9 %
Clothing and Accessories	6.1 %	1.9 %
Manufacturing	5.6 %	(2.9)%
Other Subcategories	<u>13.3%</u>	<u>3.3%</u>
Total	100.0%	(2.3)%

October Revenues (Continued)

almost flat compared to the first third of last fiscal year.

Refunds of almost \$(72) million were 3 times the level of refunds made in October 2006. This level of refunds is likely due to the "hangover effect" of taxpayers requesting 6 month extensions in filing their 2006 tax returns, resulting in the payment of refunds this year from a prior tax year.

Corporate Income Tax collections were \$56.1 million in October. This was 4.1% above last year, and \$2.6 million above the forecast for the month. While October is not one of the large collection months for corporate income tax, the increase brings collections for the first third of the fiscal year to \$(27.9) million below the forecast.



Table 4

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

	<u>FY 2008 Collections</u>	<u>Difference From Forecast</u> ^{1/}	<u>Difference From FY 2007</u>
October	\$ 683.6	\$ (78.9)	\$ (46.8)
Year-to-Date	\$ 2,984.4	\$ (226.9)	\$ (42.0)

^{1/} Enacted FY 2008 budget (June 2007).

Recent Economic Indicators

NATIONAL

The Bureau of Economic Analysis' initial 2007 3rd quarter estimate of **U.S. Gross Domestic Product (GDP)** indicates the economy grew at an annualized rate of 3.9%, a slight increase over the 2nd quarter growth rate of 3.8%. Personal consumption (consumer spending), exports, and federal government spending significantly contributed to the growth despite negative contributions from residential investment and imports.

The Conference Board's **U.S. Consumer Confidence Index** fell for the 4th straight month in November, nearing lows not reached since 2005. The index currently totals 87.3, (8.3)% below October 2007 levels and (17.1)% below the index in November 2006. The ongoing decrease has been attributed to deteriorating consumer expectations, consumers' negative assessment of current conditions, and the labor market.

The **U.S. Index of Leading Economic Indicators** decreased (0.5)% in October, continuing the yearlong pattern of alternating monthly increases and decreases that have essentially offset each other. Seven of the 10 components that make up the composite index decreased in October. The building

permit component again made the largest negative contribution, followed by unemployment insurance claims and the index of consumer expectations.

U.S. semiconductor billings increased 6.1% in September (3-month moving average) to \$3.81 billion, though year over year chip sales were down (6.3)%. The increase in sales is consistent with yearly historical patterns as consumers gear up for the holiday season. Demand was particularly strong for traditional consumer applications in the third quarter.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) remained essentially unchanged in October. The year over year increase was 2.7%. All sub-indices of the CPI increased slightly in the months of September and October. Excluding the impact of food and energy prices, the core CPI increased 0.2% in October and was 2.2% higher than a year ago.

ARIZONA

October total statewide **non-farm employment** increased, year over year, by 1.9%. By comparison, the October year-over-year average growth rate in the prior 10

"The Conference Board's U.S. Consumer Confidence Index fell for the 4th straight month in November, nearing lows not reached since 2005."

Recent Economic Indicators (Continued)



years was 3.4%. Arizona's **unemployment rate** increased from 3.3% in September to 3.5% in October.

Construction employment decreased by (7.4)% compared to October 2006, with losses reported in all major subsectors. The average year-over-year growth rate for October in the past ten years was growth of 6.5%.

Despite a few areas of improvement in October over the previous month, the Greater Phoenix real estate market remains weak. While the number of existing **single-family homes sold** in October increased by 18.4% over the prior month, the number of homes sold in October is (27.6)% below sales in October 2006. Despite the month-over-month increase in sales volume, the **single-family median home sales price** fell by (3.2)% in October to \$242,000, or (5.8)% below the median price a year ago.

Sales of existing **townhouse-condominium units** also rose in October – totaling 710 units or 3.6% more units sold than the previous month. The **median sales price** remained unchanged at \$170,000.

Statewide, the number of statewide **single-family residential building permits** (3-month moving average) further decreased by (19.7)% from the prior period and (29.2)% on a year-over-year basis, to 2,764. The comparable number of **multi-family building permits** authorized increased to 791, resulting in a year-over-year increases 25.8%. While permitting activity in the multi-family segment of the market has increased, this segment of the market tends to have significant volatility from month-to-month.

The **Arizona Business Conditions Index (BCI)** dropped (12.8)% to 48.2 in October. A reading of over 50 corresponds to local economic growth, while a reading below 50 suggests a

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>
Arizona				
- Unemployment Rate	October	3.5%	6.1%	(14.6)%
- Non-Farm Employment – Total	October	2.74 million	0.4%	1.9%
Manufacturing	October	186,100	(0.2)%	(0.9)%
Construction	October	235,800	(1.7)%	(7.4)%
- Contracting Tax Receipts (3-month average)	Aug-Oct	\$77.1 million	(3.3)%	(5.2)%
- Retail Sales Tax Receipts (3-month average)	Aug-Oct	\$156.3 million	(2.8)%	(2.1)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jul-Sept	2,764	(19.7)%	(29.2)%
Multi-unit	Jul-Sept	791	0.3%	25.8%
- Greater Phoenix Existing Home Sales				
Single-Family	October	3,610	18.4%	(27.6)%
Townhouse/Condominium	October	710	3.6%	(22.4)%
- Greater Phoenix Median Home Sales Price				
Single-Family	October	\$242,000	(3.2)%	(5.8)%
Townhouse/Condominium	October	\$170,000	(0.0)%	(2.9)%
- Phoenix Sky Harbor Air Passengers	September	3.27 million	(9.3)%	7.0%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	August	\$7.11	(4.7)%	(1.5)%
- Leading Indicators Index	August	121.3	0.2%	1.8%
- Business Conditions Index (>50 signifies expansion)	October	48.2	(12.8)%	(19.8)%
- Consumer Confidence Index	3 rd Quarter 2007	101.9	(4.1)%	(0.8)%
- Business Leaders Confidence Index	4 th Quarter 2007	42.5	(15.8)%	(11.6)%
- Arizona Personal Income	2 nd Quarter 2007	\$209.2 billion	1.1%	7.5%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	November	1,081,555	(0.1)%	5.0%
- TANF Recipients	October	83,715	1.6%	(4.4)%
- DOC Inmate Growth (3-month average)	Aug-Oct	37,611	122 inmates	2,214 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	3 rd Quarter 2007	\$11.6 trillion	3.9%	2.6%
- Consumer Confidence Index	November	87.3	(8.3)%	(17.1)%
- Leading Indicators Index	October	136.9	(0.5)%	(1.0)%
- U.S. Semiconductor Billings (3-month moving average)	Jul-Sep	\$3.81 billion	6.1%	(2.1)%
- Consumer Price Index (3-month moving average)	Aug-Oct	208.4	0.1%	2.7%

Recent Economic Indicators (Continued)

slowdown in the overall level of economic activity in the near term. Of all components comprising this index, the sharpest decline occurred in new orders.

In November, **the number of AHCCCS** recipients totaled 1,081,555, a (0.1)% decrease from October 2007 levels. As a result of the small decrease, AHCCCS participation is 5.0% above November 2006 levels. The FY 2008 budget projected the AHCCCS caseload would grow by 2.5%.

The number of TANF recipients increased to 83,715 in October, which is 1.6% above

September and (4.4)% below the level reported in October 2006. The FY 2008 budget projects the TANF caseload will grow by 2.5% to 84,700 recipients.

The **Department of Corrections' inmate population** increased by an average of 122 inmates per month between August and October, below the budgeted increase of 160 net new inmates per month. This increase results in a 3-month average inmate population of 37,611, or 2,214 more inmates than the same period in FY 2006.

JLBC Meeting

At its November 20, 2007 meeting, the Joint Legislative Budget Committee considered the following issues:

Department of Administration – Review of Telecommunications Contractor and Carrier Cost Rate Structure – The Committee gave a favorable review to the contractor and carrier cost rate structure of the Statewide Telecommunications Management Contract, with the provision that the favorable review did not constitute an endorsement of any FY 2009 General Fund appropriations to cover higher AZNet costs or additional funding requests, nor does it constitute an endorsement of the ADOA expenditure plan.

Department of Administration – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan – The Committee gave a favorable review to the \$8.5 million wireless portion of the Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan. In FY 2008, ADOA expects to distribute \$25.9 million from the ETSF to support 911 emergency services in communities across the state.

Department of Economic Security – Review of Increase to Division of Developmental Disabilities' Therapy Rates – The Committee gave an unfavorable review to the department's proposal to raise the Division of Developmental Disabilities' (DDD) therapy rates. The DES proposal eliminated provider travel reimbursements and increased provider rates in rural areas. The rate increase is estimated to have

an annual \$1.6 million General Fund cost. DES has proposed this rate change to improve service availability by encouraging more locally-based provision of services. Committee members expressed concern that therapy providers may not be willing to relocate to rural areas to provide services locally to clients in those areas, and that may result in a decrease in the availability of services for those clients.

Department of Revenue – Review of General Fund Revenue Enforcement Goals for FY 2008 – The Committee gave a favorable review of the report on the enforcement goals of the Department of Revenue (DOR). DOR's General Fund revenue enforcement goal for FY 2008 is \$369.8 million, which is \$(57.2) million, or (13.4)%, below their FY 2007 actual collections. DOR believes that the FY 2007 collections include one-time items that will not be replicated in FY 2008.

State Treasurer – Review of Changes to Management Fees – The Committee gave a favorable review of the Treasurer's proposal to eliminate their management fees with the provision that the Legislature make statutory changes allowing the Treasurer to retain a portion of earnings to fund the office. The Committee also gave a favorable review of the Treasurer's plan to immediately reduce the management fee from the current 8 basis points to 6 basis points. The Treasurer expects this plan to attract more assets from local governments and increase yields.



JCCR Meeting

At its November 20, 2007 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Review of the Department of Juvenile Corrections HVAC and Electrical Upgrades – The Committee gave a favorable review for the Department of Juvenile Corrections (DJC) to spend \$835,000 on HVAC upgrades and electrical repairs. Of this amount, \$530,000 will be spent on HVAC repairs at the Adobe Mountain, Catalina Mountain, and Black Canyon Mountain Schools, \$125,000 will be spent on electrical repairs at the Catalina Mountain and Black Canyon Mountain Schools, and the remaining \$180,000 will be spent on engineering costs and for project contingencies.

Arizona Department of Administration – Consider Recommending Rent Deferment for the Naturopathic Physicians Board of Medical Examiners – The Committee recommended the \$6,600 partial rent exemption for FY 2008 and FY 2009 requested for the Naturopathic Physicians Board of Medical Examiners.

Arizona Exposition and State Fair Board – Review of Coliseum Roof Repair Expenditure Plan – The Committee gave a favorable review to the Arizona Exposition and State Fair Board's (AESF) request to use \$3.2 million from the Arizona Exposition and State Fair Fund to finish repairing the Coliseum roof. In May, the Committee favorably reviewed AESF's plan to spend \$3.0 million on roof repairs. This \$3.2 million amount will be spent on repairing the 2 remaining failed cables, installing a new membrane covering on the roof, and purchasing and installing an acoustical monitoring system.

Arizona Game and Fish Department – Review of FY 2008 Building Renewal Allocation Plan – The Committee gave a favorable review to the \$474,200 FY 2008 Building Renewal Allocation Plan. The plan includes \$101,200 for fish hatchery projects, \$141,000 for a shooting range project, and \$232,000 for office renovation and replacement projects.

Arizona State Lottery Commission – Review of FY 2008 Building Renewal Allocation Plan – The Committee gave a favorable review to the \$60,000 FY 2008 Building Renewal Allocation Plan with the provision that the Commission report on the use of its contingency monies. Of this amount, \$25,000 will be used to replace the elevator controller, \$20,000 will be used for 4 smaller projects, and the remaining \$15,000 will be used for project contingencies.

University of Arizona – Review of Hazardous Waste Facility Enclosure Bond Project – The Committee gave a favorable review with the 3 standard university bonding provisions to the proposal to finance the Hazardous Waste Facility Enclosure project with a \$2.8 million system revenue bond issuance. The project will build an enclosed 6,556 square foot facility that is protected from the elements and provides environmental control and respiratory protection for workers. The facility will provide additional space for waste processing, segregated waste storage, analytical testing, supply storage, office support, and expansion space for future hazardous waste output.

University of Arizona – Review of Student Recreation Center Expansion Bond Project – The Committee gave a favorable review with the 3 standard university bonding provisions to the proposal to finance the Student Recreation

Center Expansion project with a \$26.1 million system revenue bond issuance and \$1.5 million from retained student fees. The \$26.1 million in revenue bonds will be paid for with student recreation fees. The project will expand the existing facilities to include additional fitness facilities, a Multipurpose Athletic Court gymnasium, landscaped outdoor space for casual recreation activities, and additional space for the Outdoor Adventures program, which organizes university recreational trips and provides rental equipment.

University of Arizona – Review of West Stadium Renovations for the Laboratory of Tree-Ring Research Bond Project – The Committee gave a favorable review with the 3 standard university bonding provisions to the proposal to finance the West Stadium Renovations project with a \$2.4 million system revenue bond issuance and \$800,000 from Federal grants. The project will accommodate the growing size of the faculty and staff and the increasing sophistication of tree-ring science. The renovation project will occur in 2 phases and encompass 16,300 square feet. Completion of the project will allow the Laboratory of Tree-Ring Research to vacate the Mathematics East Building.

Summary of Recent Agency Reports



City of Phoenix – Report on the Phoenix Convention Center Expansion Project – The City of Phoenix has issued its seventh progress report on the Convention Center expansion project.

The state’s obligation for the Convention Center expansion project is to pay the debt service and related costs on \$300 million in construction bonds, beginning in FY 2010.

Based on the City’s report, the following items are highlighted:

- ◆ The project is being completed in 2 phases. Phase 1 of the project, consisting of a new West Building, has been completed and hosted its first convention in July 2006.
- ◆ Phase 2, consisting of a new North Building and a renovated South Building, has begun and is on schedule to be completed by December 2008.

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 report also included results from a survey of AZNet agencies showing a customer satisfaction score of 5.5 on an 8 point scale. In the first quarter report, the AZNet program reported carrier cost savings of \$949,000. ADOA also indicated contract amendments have been agreed to that adjusted the targeted carrier savings schedule and increased office space in state buildings for AZNet staff.

AHCCCS – Semi-Annual Report on Healthcare Group – Pursuant to

A.R.S. § 36-2912, AHCCCS is submitting its semi-annual report to the Committee on the number and types of businesses participating in Healthcare Group (HCG). This report also provides a description of HCG activities since its last semi-annual report submitted in June 2007. AHCCCS reports that, as of October 13, 2007, total statewide HCG medical plan enrollment was 25,984, with participating members from 9,136 private employers and 19 political subdivisions. Since May 2007, enrollment has decreased by 930 people.

The FY 2008 budget included several reforms to the Healthcare Group program including a one-time \$8 million General Fund subsidy and freezing enrollment levels as of September 19, 2007. AHCCCS administration has also made several changes to the Healthcare Group program. As of September 2007, premiums were increased by 8.4% - 31.7% depending on the size of the employment group and the specific type of medical plan selected. Copayments and deductibles were also increased in September. These changes will not take effect for an individual until the individual’s yearly renewal. As of January 2008, members will no longer be able to enroll or renew membership in \$0 deductible plans. AHCCCS indicates that other cost savings measures are being implemented including moving to electronic renewal processing to decrease staff, printing, and mailing costs.

Arizona Community Colleges – Annual Report – Pursuant to A.R.S. § 15-1427, the Arizona Community Colleges are required to report on their progress during the previous year. The FY 2007 report includes the following summary information on the state system:

- 207,027 students (headcount) were enrolled for credit, resulting

in a Full-Time Student Equivalent count of 118,308.

- 90% of enrolled students resided within the district, while 9% did not reside within the district.
- Total number of instructors employed was 9,926, of which 2,499 (25%) were full-time and 7,427 (75%) were part-time.
- Total operating revenues were \$1.3 billion (this amount excludes bond proceeds and fund balance which total \$412 million).
- Total expenditures were \$1.3 billion.

In addition, districts are statutorily required to provide a listing and description of both credit and non-credit courses. All districts except Northland Pioneer Community College provided this information. The districts also included a description of their major accomplishments in FY 2007.

Arizona Criminal Justice Commission – Quarterly Report on Criminal Justice Information System Project – Pursuant to Laws 2007, Chapter 255, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditure of monies and the progress of the Criminal Justice Information System project.

In FY 2008 and 2009, ACJC was appropriated a total of \$1.7 million to fund an upgrade to the Criminal Justice Information System, also known as the Arizona Disposition Reporting System (ADRS). ADRS facilitates the movement of criminal justice data from law enforcement through the court system. Funding was appropriated to allow more automation of data entry as defendants proceed through the state’s judicial system. The automation is intended to increase the completeness of criminal background data, which is stored

Summary of Recent Agency Reports (Continued)

centrally at the Department of Public Safety (DPS).

As of October 2007, Phase I of the project was completed using federal grants. Phase I established a web interface to justice agencies, thereby eliminating the need for submittal of the paper disposition forms to DPS for data entry. Currently, DPS is drafting a Project Investment Justification; Phase II of the project will begin after the approval of the Project Investment Justification by the Government Information Technology Agency (GITA). To date, none of the appropriated funds have been expended.

Department of Education – Report on K-12 Aggregate Expenditure Limit – Pursuant to A.R.S. § 15-911, Subsection B, the State Board of Education reported on October 29, 2007 that currently budgeted expenditures for all school districts collectively statewide for FY 2008 exceed by \$146,596,600, the aggregate expenditure limitation (AEL) defined in Article IX, Section 21, subsection (4) of the Constitution of Arizona. The AEL, which was established in the State Constitution in 1980, limits growth in statewide K-12 expenditures to the combined rate of growth for enrollment and inflation, with exceptions for items like bonding and Proposition 301 monies. (The latter were exempted from the AEL through voter enactment of Proposition 104 in November 2002.) The AEL apparently is being exceeded for FY 2008 due to increases in per pupil funding for the year that are above and beyond amounts required for enrollment growth and inflation (the 2 factors involved in computing the AEL). These increases include the additional \$46 million in inflation funding and \$80 million in new Kindergarten weight funding that were appropriated for FY 2008.

The State Constitution permits the Legislature to authorize K-12 expenditures above the AEL for the current year with a 2/3rds majority vote on or before March 1, 2008 (Article IX, Section 21, Subsection 3). Otherwise on or before March 5, 2008, the State Board of Education is required to instruct each school district to reduce its expenditures on a pro rata basis in order to get statewide K-12 spending below the AEL (A.R.S. § 15-911.E).

The Legislature previously authorized AEL exemptions for FY 2007 and FY 2002. The FY 2007 exemption was authorized by HCR 2008 from the 2007 Regular Session.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2008 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2008. In that report, ADE estimates that it will experience a \$76.6 million surplus for FY 2008. Some of those monies, however, remain in a dedicated fund if they are unused and do not revert to the General Fund. After adjusting for that factor, the net surplus is \$66.1 million. The latter total includes \$28.9 million for lower than budgeted district enrollment growth in FY 2007 (which affects formula costs in FY 2008), \$19.7 million for lower than budgeted charter growth in FY 2008, \$19.1 million for higher than budgeted “local share” (K-12 “QTR”) revenues and \$(1.6) million for other factors. Enrollment growth costs, however, are subject to considerable change once Average Daily Membership (ADM) counts for the current school year become available, as those counts also will affect Basic State Aid costs for FY 2008. School district ADM counts for the current school year probably will not become available until at least March 2008.

Department of Environmental Quality – Report on Vehicle Emissions Inspections Contract – Pursuant to A.R.S § 49-545H1, the Department of Environmental Quality has submitted a report describing progress on the new Vehicle Emissions Inspection (VEI) contract. The VEI program tests vehicles in Maricopa and Pima Counties to ensure compliance with air quality standards. The new contract has been awarded to Gordon-Darby, which has been the VEI contractor since 2000. It will go into effect on January 1, 2009 and run through July 25, 2014. The contract includes new testing stations in Goodyear and Apache Junction, which will be operational when the contract takes effect on January 1, 2009.

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2007 - Pursuant to a General Appropriation Act footnote, the Department of Environmental Quality (ADEQ) is required to report annually by September 1 to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program in that it is designed to monitor, contain, and remediate contaminated groundwater at specified sites. Based on the report, actual expenditures for the year were \$16,516,200. Unexpended funds at the end of FY 2007 totaled \$10,835,100.

The WQARF Program maintains a list of contaminated sites, called the Registry. According to the report, as of December 31, 2006 there were 35 sites on the WQARF Registry. Sites on the registry have not changed since 2004. The report contained no information regarding the expected duration or total remediation costs for these sites.

Summary of Recent Agency Reports (Continued)

In FY 2008, program expenditures for individual sites are projected to be \$12,577,100, with an average per site cost of \$358,800.

The report includes information about cost recovery and cleanup activities at both the site and program level of detail. Table 6 provides a breakdown of cleanup results in FY 2007.

The program showed large increases in volatile organic compounds removed in FY 2007 due to increased remediation activity at state-lead federal superfund sites.

A different General Appropriation Act footnote requires ADEQ to report to JLBC the remediation status of each site listed on the Water Quality Assurance Revolving Fund (WQARF) registry at the end of FY 2007, and expected progress in FY 2008 and FY 2009.

There are 10 steps in the WQARF process, beginning with a preliminary investigation, continuing through various studies and remediation once a site has been placed on the registry, and ending with the delisting of a site once the investigation or cleanup has been completed.

The report contained a listing of the 38 sites. In addition to the 35 sites on the WQARF registry, the report also includes 3 sites for which WQARF provides oversight, but not funding. Of the 38 reported sites, 21 were listed in the Early Response Action phase at least partially during FY 2007. Three sites had advanced to the Implementation of Remedy Phase or further during this same period.

By the end of FY 2009, the department anticipates 3 sites will be delisted, 28 sites will advance through at least 1 phase of the WQARF process, and 6 sites are anticipated to remain in the same phase through the end of FY 2009.

DHS – Report on MethSMART Prevention Program – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted a quarterly report on the youth methamphetamine programs. DHS issued a request for proposals for the \$500,000 appropriation in September; the deadline for proposal submission was October 26. DHS plans to form a team of 5 to review the submitted proposals and make funding recommendations. The General Appropriation Act specifies that this money is to be awarded to a statewide alliance of community-based organizations with a proven track record in providing substance abuse prevention programming to children. Last year, the monies were provided to 15 Boys and Girls Clubs across the state to implement the MethSMART prevention program.

Arizona Historical Society – Report on Non-Appropriated Expenditures – Pursuant to A.R.S. § 41-821E, the Arizona Historical Society is required to report on non-appropriated fund expenditures for the society. Non-appropriated expenditures for FY 2007 were \$714,200, a decrease of \$(378,400) below the FY 2006 total of \$1,092,600.

Supreme Court – Report on Adult Probation Services Fund and the Juvenile Probation Fund. – Pursuant

to A.R.S. § 12-262C, the Administrative Office of the Courts (AOC) is required to report to the JLBC on the total receipts and expenditures in each account of the Adult Probation Services Fund (A.R.S. § 12-267) and the Juvenile Probation Fund (A.R.S. § 12-268). The report is to present the information by county and include the amount of Personal Services expended from each revenue source of each account. AOC submitted the report for FY 2007 on November 6, 2007.

Adult Probations – AOC reports statewide Adult Probation Services Fund total expenditures of \$127.6 million in FY 2007. Of this total, county funds represent 58.2% of all expenditures, state funds represent 24.2%, Federal Funds represent 0.8%, and other sources of revenue, such as probation fees and local fees, represent 16.8%.

Juvenile Probation – Total FY 2007 expenditures for the Juvenile Probation Fund were \$156.8 million. Of this total, county funds represent 72% of all expenditures, state funds represent 24%, Federal Funds represent 2%, and other sources of revenue, such as probation fees and local fee, represent 2%.

Department of Revenue (DOR) – Report on Ladewig Expenditures – DOR reports monthly on the status of the Ladewig litigation. DOR completed the 5-year Ladewig project on June 30, 2007 at a total cost of \$304 million, as shown in the table below. The \$304 million includes \$268 million for taxpayer refunds, \$20.2 million for plaintiff attorney fees, and \$15.8 million for

Table 6

Activity	FY 2004	FY 2005	FY 2006	FY 2007
Groundwater Treated (in billions of gallons)	10.5	13.4	16.3	7.9
Volatile Organic Compounds Removed (in pounds)	32,299	28,573	113,946	310,148
Metals Removed (in millions of pounds)	3.3	3.3	3.4	1.5
Contaminated Soil Removed (in tons)	91.6	248.2	2,816.4	1,755

Summary of Recent Agency Reports (Continued)

DOR administration. The \$268 million for taxpayer refunds includes \$47 million of accounts deposited in the Unclaimed Property Fund, and eventually returned to the General Fund, for individuals entitled to a Ladewig refund who could not be located.

DOR worked on the Ladewig project from FY 2002 through FY 2007, including 3 years of taxpayer refunds from FY 2005 through FY 2007. The project was based on the 2001 Arizona Supreme Court decision in the Ladewig v. State of Arizona case, in which the state was required to refund individual income taxes paid on non-Arizona dividends earned for the years 1986 through 1989. Payments and related costs associated with this case were capped not to exceed \$350,000,000 over 5 years.

	Expenditures ^{1/} (\$ in millions)
DOR Administration	\$ 15.8
Attorney Fees	20.2 ^{2/}
Taxpayer Payments	<u>268.0 ^{3/}</u>
Total	\$304.0

^{1/} In addition, DOR reports operating budget expenditures of \$134,900 in FY 2002 for Ladewig administration.
^{2/} \$2,000,000 was reimbursed in FY 2004 to DOR by Department of Administration Risk Management.
^{3/} Refunds to taxpayers were made in FY 2005 through FY 2007. Includes unclaimed taxpayer payments totaling \$47,000,000, which were transferred to the General Fund

Arizona Board of Regents - Report on University System's Financial Aid
 Pursuant to A.R.S. § 15-1650, the Arizona Board of Regents is required to submit an annual report on financial aid, which includes information from all 3 universities, comparisons to peer institutions, and summary information for the entire university system. Students can receive a variety of both need and non-need based aid.

Examples of need-based aid include scholarships, grants, and gifts from any state, federal or institutional source in which a student must demonstrate financial need to qualify. Examples of non need-based gift aid include scholarships and grants, gifts, or merit-based aid from institutional, state federal or other sources awarded solely on the basis of academic achievement, merit, or any other non-need-based reason.

Highlights from the FY 2007 report include:

- Approximately \$988.9 million in total financial aid dollars were provided to students.
- Of this amount, \$429.5 million (43.4%) came from federal sources, \$372.9 million (37.7%) came from state institutional sources, \$184.4 million (18.6%) came from private sources, and \$2.1 million (0.2%) came from state scholarships/grants and loans.
- A total of 93,646 students received aid.
- Of those students awarded aid, 4,818 were awarded non need-based gift aid, 30,962 were awarded need-based gift aid, and 64,107 were awarded miscellaneous types of non-gift aid (i.e. work study).
- The average aid package was \$8,165, which includes both need and non need-based aid.
- 52.4% of undergraduate students and 51.6% of graduate students have debt.
- Upon graduation, the average undergraduate student debt was \$18,029, while the average graduate student debt was \$35,880.

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast October 2007

	Current Month					FY 2008 YTD (Four Months)				
	Actual October 2007	Change From October 2006		Forecast		Actual October 2007	Change from October 2006		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	373,831,498	(\$3,058,982)	(0.8) %	(\$34,717,802)	(8.5) %	\$1,500,191,747	(\$515,086)	(0.0) %	(\$120,923,653)	(7.5) %
Income - Individual	275,455,820	(29,648,178)	(9.7)	(49,041,680)	(15.1)	1,173,421,357	(3,658,079)	(0.3)	(104,345,843)	(8.2)
- Corporate	56,130,889	2,192,304	4.1	2,609,389	4.9	296,621,822	(19,529,689)	(6.2)	(27,895,178)	(8.6)
Property	1,513,860	625,566	70.4	(686,140)	(31.2)	1,941,240	614,403	46.3	(1,558,760)	(44.5)
Luxury	4,519,952	(2,801,182)	(38.3)	(1,395,048)	(23.6)	19,202,105	(4,402,862)	(18.7)	(4,457,895)	(18.8)
Insurance Premium	2,717,831	(7,020,556)	(72.1)	(1,882,169)	(40.9)	120,944,337	6,631,669	5.8	4,844,337	4.2
Estate	(19,314)	47,354	(71.0)	(19,314)	--	234,762	156,211	198.9	234,762	--
Other Taxes	56,791	(3,088)	(5.2)	(8,334)	(12.8)	197,671	(15,025)	(7.1)	(62,829)	(24.1)
Sub-Total Taxes	\$714,207,327	(\$39,666,762)	(5.3) %	(\$85,141,098)	(10.7) %	\$3,112,755,041	(\$20,718,458)	(0.7) %	(\$254,165,059)	(7.5) %
Other Revenue										
Lottery	2,290,600	(1,822,700)	(44.3)	(666,100)	(22.5)	11,526,819	719,319	6.7	2,738,519	31.2
License, Fees and Permits	4,354,233	590,417	15.7	694,833	19.0	12,299,462	(3,963,805)	(24.4)	(2,686,638)	(17.9)
Interest	8,514,155	1,220,643	16.7	1,820,555	27.2	39,434,371	13,865,804	54.2	14,829,071	60.3
Sales and Services	3,515,067	248,163	7.6	(710,133)	(16.8)	13,286,696	118,744	0.9	(2,991,204)	(18.4)
Other Miscellaneous	6,346,311	2,533,359	66.4	3,889,711	158.3	9,670,165	(177,377)	(1.8)	3,145,565	48.2
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,382,556	1,243,642	895.3	1,172,556	558.4	13,576,923	12,640,827	--	12,236,923	--
Sub-Total Other Revenue	26,402,922	4,013,524	17.9 %	6,201,422	30.7 %	99,794,436	23,203,512	30.3 %	27,272,236	37.6 %
TOTAL BASE REVENUE	\$740,610,249	(\$35,653,238)	(4.6) %	(\$78,939,676)	(9.6) %	\$3,212,549,477	\$2,485,054	0.1 %	(\$226,892,823)	(6.6) %
One-Time Revenue										
Urban Revenue Sharing	(57,044,911)	(11,109,023)	24.2	0	0.0	(228,179,642)	(44,436,088)	24.2	0	0.0
Sub-Total One-Time Revenue	(57,044,911)	(11,109,023)	24.2 %	0	0.0 %	(228,179,642)	(44,436,088)	24.2 %	0	0.0 %
TOTAL REVENUE	\$683,565,338	(\$46,762,261)	(6.4) %	(\$78,939,676)	(10.4) %	\$2,984,369,835	(\$41,951,034)	(1.4) %	(\$226,892,823)	(7.1) %