



1716 W. Adams  
Phoenix, AZ 85007

Phone:  
(602) 926-5491  
Fax:  
(602) 926-5416



[www.azleg.gov/jlbc.htm](http://www.azleg.gov/jlbc.htm)

*“October collections were \$120.9 million below forecast”.*

## Summary

October General Fund revenue collections were \$599.6 million, or (12.3)% below October 2007. October collections were \$(120.9) million below forecast.

For the first 4 months of FY 2009, General Fund collections are down (9.4)% when compared to last year (excluding Urban Revenue Sharing and one-time transfers). The year-to-date shortfall through the first 4 months of the fiscal year is \$(442.1) million. *(See Table 1 and page 12 for more information).*

There were declines in all 3 major revenue categories, with sales tax representing the largest dollar decline:

- October sales tax collections were down (9.8)% compared to October 2007 and were \$(56.6) million short of the monthly forecast. October marked the 10<sup>th</sup> consecutive month of year-over-year reductions.
- October individual income tax collections were down (5.4)% compared to October 2007 and were \$(36.4) million below forecast.
- October corporate income tax collections were down (62.3)% from October 2007,

which was \$(36.4) million below forecast. October is not a large collection month for corporate income tax; however, collections were less than half of last year.

As we have explained in previous months, revenues would need to grow by 6.1% for the entire year to meet the budget forecast. Given the decline of (9.4)% in the first 4 months, revenues will fall significantly short of forecast. Last month we reported a projected shortfall of from \$(700) million to \$(1.1) billion based on the October 4-sector consensus forecast range. Based on deteriorating economic conditions and discussion with the Governor’s Office, the FY 2009 General Fund shortfall is now estimated to be \$(1.2) billion.

**Economic Indicators** – The job market in Arizona continues to weaken *(See page 4)*. The October job loss of (2.6)% was the largest since August 1975, and the October increase in initial claims for unemployment insurance was the largest since at least January 1971.

**JLBC/JCCR Meetings** – The Monthly Fiscal Highlights include summaries of the November JLBC and JCCR meetings (page 7).

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## October Revenues

	<u>FY 2009 Collections</u>	<u>Difference From June '08 Forecast</u>	<u>Difference From FY 2008</u>
October	\$599.6	\$(120.9)	\$(84.2)
Year-to-Date	\$2,883.4	\$(442.1)	\$(99.4)

**Sales Tax** collections were \$337.3 million in October. These revenues were down (9.8)% compared to last October, and were \$(56.6) million below forecast. *Table 2* displays the October growth rates for the largest categories.

	<u>Oct</u>	<u>YTD</u>
Retail	(8.1)%	(8.4)%
Contracting	(17.9)%	(17.9)%
Utilities	(7.2)%	7.2%
Use	(3.4)%	(0.4)%
Restaurant & Bar	(7.7)%	(5.0)%

As noted in previous months, retail and contracting together account for two-thirds of all sales tax revenues. The retail sector decreased by (8.1)% and contracting fell by (17.9)%.

For September (the latest available subcategory data), taxable sales in the retail category are down (8.4)% from the prior year. The largest subcategory within retail is the General Merchandise and Miscellaneous Retail category, which is down (2.1)%. The largest subcategory decline is in Motor Vehicles, which represents over 21% of the total, and is down over (27)% compared to the prior year. Taxable retail sales by category are shown in *Table 3*. (Eric Jorgensen)

	<u>% of Total Sales</u>	<u>% Change Over FY 2008</u>
General/Misc. Merchandise	30.1%	(2.1)%
Motor Vehicles/Misc. Auto.	21.6%	(27.4)%
Bldg Materials and Supplies	7.5%	(13.7)%
Food and Liquor Stores	7.3%	0.1%
Furniture, Home Furnishings	6.9%	(12.1)%
Clothing and Accessories	5.8%	(9.0)%
Manufacturing	5.6%	(9.9)%
Other Subcategories	<u>15.2%</u>	<u>7.4%</u>
<b>Total</b>	<b>100.0%</b>	<b>(8.4)%</b>

**Individual Income Tax** collections were \$260.6 million in October, or (5.4)% below last year. October collections were \$(36.4) million less than forecast. *Table 4* displays October and year-to-date growth rates for individual categories.

	<u>October</u>	<u>YTD</u>
Withholding	(1.6)%	(0.7)%
Estimated + Final Payments	(21.6)%	(19.2)%
Refunds	(6.3)%	0.2%

The volatility in withholding tax collections reported over the last 2 months due to variance in the number of processing days has leveled off, with year-to-date collections down (0.7)% from the first 4 months of last year.

Payments continue down almost (20)% from last year, while refunds remain essentially the same. (Hans Olofsson)

**Corporate Income Tax** collections were \$21.2 million, or (62.3)% below last year's collections, and \$(36.4) million below the forecast for the month of October. Although October is a relatively small collection month for corporate income tax, the decrease brings total corporate collections through the first 4

"Sales Tax collections were...down (9.8)% compared to last October, and were \$(56.6) million below forecast".

## October Revenues (Continued)

months of the fiscal year to \$195.7 million, or \$(109.8) million less than the forecast. (Martin Lorenzo)

The **Lottery Commission** reports that ticket sales for the month of October were 6.0% higher than October of last year. Year-to-date, ticket sales are down (1.3)% compared to last year. Based on Laws 2008, Chapter 287, the General Fund is expected to receive a total of \$57 million in lottery revenue distributions in FY 2009. Through October, a total of \$14.4 million has been deposited into the General Fund.

**Interest** income for the first 4 months of the fiscal year is (83.3)% below the same period in the prior year, and is (\$8.0) million below forecast. The reduction reflects significantly lower operating balances through the period, as well as reduced rates of returns on investments.

The enacted FY 2009 budget includes \$300.9 million in **budgeted fund transfers**. As reported in the September MFH, transfers of \$215.5 million were deposited into the General Fund in August, including fund balances from various state agencies and \$20 million from the Budget Stabilization Fund.

The Governor's Office of Strategic Planning and Budgeting (OSPB) has indentified a total of \$16.4 million of the \$300.9 million in budgeted transfers which will not be made in FY 2009 primarily due to federal restrictions on the transfer of Department of Environmental Quality Water Funds. The total year-to-date revenue shortfall amount of \$(442.1) million includes this reduced level of budgeted fund transfers.

## Economic Indicators

### NATIONAL

The federal Bureau of Economic Analysis (BEA) has released a second estimate of the **Gross Domestic Product** for the 3<sup>rd</sup> quarter of 2008. According to this report, 3<sup>rd</sup> quarter real GDP declined at an annual rate of (0.5)% compared to (0.3)% under the previous estimate. The downward revision was primarily attributable to a steeper decline in consumption expenditures than previously estimated.

The Conference Board's **U.S. Consumer Confidence Index** increased by 6.1 points in November to a reading of 44.1. While this was a moderate improvement from October (a month in which the index had the lowest reading ever), it is still believed that consumer confidence will remain at low levels for some time due to declining employment, real incomes, and household wealth combined with frozen credit markets and falling stock prices. Year over year, the index is down by (48.9)%.

The Conference Board's **U.S. Index of Leading Economic Indicators** declined by (0.8)% in October. Year over year, the index is down by

(3.5)%. October's survey was the first to reflect a full month of data since the financial crisis deepened. The October reading was pulled down by a sharp drop in stock prices and building permits combined with a further weakening of consumer expectations and vendor performance. According to the Conference Board, the decline would have been significantly sharper if it were not for the Fed's large injection of liquidity into the banking system in recent time. Money supply and interest rate spread were the only positive contributors to the index in October.

The **U.S. Consumer Price Index** fell by (1.0)% in October, the largest monthly decline in the history of the index (CPI series dates back to January 1947). The record-large decline of the index was primarily attributable to a (8.6)% fall in energy prices. The core CPI, which excludes food and energy prices, fell by (0.1)%, the first such decline since December 1982. The sharp drop in consumer prices in October, as reported by the federal Bureau of Labor Statistics (BLS), has raised the specter of long-term deflation among a number of analysts.

## Economic Indicators

### ARIZONA

Economic indicators released in October point to increasingly deteriorating conditions in both the state's job and housing markets. The Arizona Department of Commerce reported that the state lost (70,900) or (2.6)% of **nonfarm jobs** in October compared to the same month last year. This was the largest job loss in percentage terms since August 1975 when the state experienced a year-over-year job decline of (2.7)%. The largest recorded job decline during the 16-month long recession of 1981 and 1982 was (2.4)%.

While the **construction sector** continues to shed jobs, the year-over-year losses have stayed largely unchanged (slightly fewer than 38,000 jobs) over the last 3 months. Data released over the next few months will help to better gauge whether job losses in this industry are bottoming out or not.

The **manufacturing sector** showed continued weakness in October with a year-over-year job loss of (1.8)%. The only silver lining in the 24-month long contraction of the manufacturing industry is that job losses have moderated somewhat over the last few months.

While the construction and manufacturing industries are seeing some early signs of a potential tapering off in job losses, there are indications that conditions in other sectors of the economy, especially retail and employment services, are rapidly deteriorating. Year-over-year, the retail and employment services industries have shed 17,600 and 10,800 jobs, respectively.

October marked the 6<sup>th</sup> straight month with rising unemployment. The state's **unemployment rate** increased to 6.1% from 5.9% in the prior month. The nation's unemployment rate in October was 6.5%.

The Department of Commerce reported that 30,666 **initial claims for unemployment insurance** were recorded in October, an increase of 80.2% over last year. According to data provided on BLS' web site, this was the highest number of monthly claims since at least January 1971. (Data prior to this date was not available.)

Between July and September, the number of authorized building permits (3-month moving average) statewide totaled 1,980, including 1,435 **single-family residential building permits** and 545 **multi-family building permits**. Compared to the prior month, permitting activity in the single family and multi-family segments have decreased by (17.5)% and (14.3)%, respectively. Year-over-year, authorized permits in the single family segment are down by (48.1)%, while permits in the more volatile multi-family segment are down by (31.2)%.

Housing data for October released by ASU's Realty Studies shows that foreclosures comprise an increasing share of the total sales of existing homes in Greater Phoenix. According to this data, 45.6% of all single-family homes resold last month were foreclosures. The comparable figure in October 2007 was 28.8%.

The total number of **single-family homes** resold in October was 8,210, including 4,465 traditional sales and 3,745 foreclosures. The year-over-year increase for traditional home sales was 58.1% compared to 227.1% for foreclosed properties. These significant increases should be interpreted in the context of the historically low sales volume recorded last year.

While existing home sales have been trending up over the last 3 quarters, new home sales have actually declined. According to ASU's Realty Studies, a total of 3,915 new single family homes were sold in Greater Phoenix in the 3<sup>rd</sup> quarter of 2008, which was a decline of (34.5)% over the prior year. This number of new home sales represents a (49)% decline relative to the average volume of third-quarter sales in the previous 13 years. New single family home sales comprised less than 15% of total sales in the third quarter. The comparable figures for the same periods in 2006 and 2007 were 38% and 32%, respectively.

Based on the October report, the Greater Phoenix **single-family median resale home price** was \$175,000 for traditional homes and \$159,775 for foreclosed properties. Year over year, the median resale price has fallen by (30.0)% for traditional single-family units and (26.8)% for foreclosed properties. Monthly

*"This was the largest job loss in percentage terms since August 1975 when the state experienced a year-over-year job decline of (2.7)%."*

## Economic Indicators (Continued)



“...45.6% of all single-family homes resold last month were foreclosures.”

median price data for new single family homes was not available.

The **S&P/Case-Shiller Home Price Index**, which measures the change in housing prices based on repeat sales, points to a continued erosion of home prices in all of the nation’s major metropolitan areas, including Phoenix. According to the most recent release of the index, home prices in Phoenix fell by (31.9)% in September compared to last year. This was the second month that Phoenix experienced the largest price decline among the 20 metropolitan areas included in the index. Home prices in Phoenix, as reflected by the index, are now comparable to levels recorded in August 2004.

Based on MLS data released in October, the **month’s supply of housing** increased to 9.7 months from 8.8 months in September. This increase of was due to a reduction in the number of homes sold on the MLS. In a normal market there is typically no more than 4 to 5 months’ supply of housing on the MLS.

The **Phoenix Sky Harbor International Airport** publishes passenger statistics monthly. In September, a total of 2.9 million passengers entered and exited aircraft, which was a

decline of (11.9)% compared to the same month last year. September was the 7<sup>th</sup> consecutive month with year-over-year declines in flight passenger traffic. Year to date, 30.6 million passengers have enplaned and deplaned at Sky Harbor, which is a level comparable to that reported for the same period in 2005.

**AHCCCS caseloads** in November increased by 0.6%, or 6,356 members, to 1,136,468. At current levels, the AHCCCS caseloads are 5.1% above November 2007 levels. The FY 2009 budget funded a projected caseload growth of 2.6%, or a total of 1,189,224 members.

There were a reported 81,718 **TANF recipients** in the state in September, an increase of 1.2% from the prior month. Year over year, caseload is down (2.4)%. The FY 2009 budget assumes the TANF caseload will grow by 2.5%.

The **Department of Corrections’ (ADC) inmate population** increased by an average of 210 inmates per month between August and October. ADC has now an average population of 39,301 inmates, or 1,717 more inmates than in the same period last year. (Hans Olofsson, Martin Lorenzo)

## Economic Indicators (Continued)

Table 5

<b>ECONOMIC INDICATORS</b>				
<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	October	6.1%	0.2%	2.2%
- Initial Unemployment Insurance Claims	October	30,666	26.7%	80.2%
- Non-Farm Employment – Total	October	2.61 million	(0.1)%	(2.6)%
Manufacturing	October	177,100	(0.1)%	(1.8)%
Construction	October	182,900	(1.9)%	(17.1)%
- Contracting Tax Receipts (3-month average)	Aug-Oct	\$63.6 million	(2.8)%	(17.5)%
- Retail Sales Tax Receipts (3-month average)	Aug-Oct	\$144.3 million	(1.9)%	(7.6)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jul-Sept	1,435	(17.5)%	(48.1)%
Multi-unit	Jul-Sept	545	(14.3)%	(31.2)%
- Greater Phoenix Existing Home Sales				
Single-Family, Traditional Sales	October	4,465	(3.5)%	58.1%
Single-Family, Foreclosed Sales	October	3,745	2.5%	227.1%
Townhouse/Condominium, Traditional Sales	October	495	(1.0)%	(28.8)%
Townhouse/Condominium, Foreclosed Sales	October	355	18.3%	343.8%
- Greater Phoenix Median Home Sales Price				
Single-Family, Traditional Sales	October	\$175,000	(2.8)%	(30.0)%
Single-Family, Foreclosed Sales	October	\$159,775	4.4%	(26.8)%
Townhouse/Condominium, Traditional Sales	October	\$136,750	(5.7)%	(21.2)%
Townhouse/Condominium, Foreclosed Sales	October	\$119,375	1.6%	(20.8)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	September	139.79	(3.5)%	(31.9)%
- Months Supply of Housing, SA (ARMLS)	October	9.7 months	0.9 months	(6.1) months
- Phoenix Sky Harbor Air Passengers	September	2.9 million	(13.7)%	(11.9)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	August	\$7.53	(16.2)%	5.9%
- Consumer Confidence Index (1985 = 100)	2 <sup>nd</sup> Quarter 2008	73.4	(8.0)%	(31.0)%
- Business Leaders Confidence Index	4 <sup>th</sup> Quarter 2008	42.4	10.1%	(0.2)%
- Arizona Personal Income	2 <sup>nd</sup> Quarter 2008	\$216.6 billion	1.6%	4.6%
- Arizona Population	July 1, 2007	6.34 million	173,066	2.8%
- AHCCCS Recipients	November	1,136,468	0.6%	5.1%
- TANF Recipients	September	81,718	1.2%	(2.4)%
- DOC Inmate Growth (3-month average)	Aug-Oct	39,301	210 inmates	1,717 inmates
<b>United States</b>				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	3 <sup>rd</sup> Quarter 2008	\$11.7 trillion	(0.5)%	0.7%
- Consumer Confidence Index (1985 = 100)	November	44.9	15.7%	(48.9)%
- Leading Indicators Index (2004 = 100)	October	99.6	(0.8)%	(3.5)%
- U.S. Semiconductor Billings (3-month moving average)	July-September	\$3.21 billion	(3.4)%	(15.7)%
- Consumer Price Index, SA (1982-84 = 100)	October	216.71	(1.0)%	3.7%

## JLBC Meeting

At its November 13, 2008 meeting, the Joint Legislative Budget Committee considered the following issues:

**JLBC Staff – Consider Approval of Index for School Facilities Board Construction Costs** – The Committee approved a 1.98% increase in the cost-per-square-foot factors for new school construction. This excludes the implementation of full day kindergarten (FDK) capital costs. An annual inflation adjustment is required by law. If the existing construction moratorium is continued, this adjustment will not have a short-term budget impact.

**AHCCCS – Review of Proposed Acute Care and ALTCS Capitation Rate Changes** – The Committee gave a favorable review to the capitation rate changes with the caveat that these policy changes may need to be reconsidered in the future. The proposed rates would cost \$27 million more from the General Fund than budgeted in FY 2009.

**Arizona Board of Regents – Review of FY 2009 Tuition Revenues** – The Committee unfavorably reviewed the Arizona Board of Regents (ABOR) expenditure plan for FY 2009 tuition revenues that are greater than the amounts appropriated for FY 2009. Appropriated tuition collections in FY 2009 are

expected to be \$538.1 million, representing a \$69.7 million increase above the FY 2008 total, and \$56.7 million above the original FY 2009 budget. In addition, non-appropriated tuition collections are estimated at \$391.4 million. Total tuition collections are \$929.5 million. Committee members were concerned that the proposed tuition expenditure plan could not be sustained in light of possible FY 2009 budget reductions.

**State Compensation Fund – Consider Approval of CY 2009 and CY 2010 Budgets** – The Committee took no action on the State Compensation Fund's (SCF) budgets for Calendar Year (CY) 2009 and 2010. The SCF operating budget of \$142.1 million (and 580 employees) in CY 2009 represents a \$33.2 million (30.5%) increase above CY 2008. Statute requires JLBC approval of the SCF budget.

Due to a prior court ruling preventing the state from transferring funds from SCF, they traditionally have not remained within the JLBC approved budget. As a result, the Committee chose not to take any action.

## JCCR Meeting

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

**Arizona Department of Administration - \$735,000 FY 2009 Building Renewal Projects and \$1.3 Million FY 2008 Building Renewal Reallocation** - The Committee gave a favorable review of the \$735,000 in critical FY 2009 Building Renewal projects for 2 roofing projects. These monies will be used to replace the partially collapsed kitchen roof at the Department of Juvenile Correction's Catalina Mountain School and repair the roof at the Arizona School for the Deaf and the Blind's Apache dormitory. The Committee also favorably reviewed ADOA's request to allocate \$1,296,610 of the FY 2008 Building Renewal appropriation to the elevator project at 1600 W. Monroe.

**Arizona Department of Transportation - \$984,700 FY 2009 Building Renewal Projects** - The Committee gave a favorable review of the \$984,700 in critical FY 2009 Building Renewal projects. These monies will fund 115 projects for a total of \$984,700, which is comprised of \$920,400 from the State Highway Fund and \$64,300 from the State Aviation Fund.

**Universities – University Lottery Bond Projects – Building Renewal** - The Committee gave a favorable review of \$64.6 million (Arizona State University \$20.8 million, University of Arizona \$17.5 million, Northern Arizona University \$26.3 million) in fire, life, and safety building renewal projects. These issuances represent a portion of the \$1 billion University Lottery Bonding package as authorized by Laws 2008, Chapter 287. The proposed debt



## JCCR Meeting (Continued)

service is designed to be funded with 2 separate revenue streams. Approximately \$4.4 million, or 80%, will come from state

Lottery proceeds, while \$1.1 million will come from local university funds.

## Summary of Recent Agency Reports

**Arizona Department of Administration - Report on the Use of Alternative Fuels and Clean Burning Fuels in the State Motor Vehicle Fleet** - Pursuant to A.R.S. § 41-803R, the Arizona Department of Administration reported on the FY 2008 year-end inventory of state-owned alternative fuel vehicles. Of the 12,715 state vehicles, 5,483 or 43.1% are subject to the alternative fuel vehicle requirements.

Of the 5,483 state vehicles subject to the alternative fuel vehicle requirements, 3,554 or 64.8% are alternative fuel vehicles. This is an increase of 5.1% from the prior year and exceeds the 40% target established by statute.

Statute also requires 90% of the state vehicles in Maricopa County to be capable of using alternative fuels. The state reports that 79.1% of its Maricopa County vehicles are alternative fuel vehicles.

Notwithstanding the quantity of vehicles capable of using alternative fuel, only 6.8% of the fuel budget was for alternative fuels. (Dan Hunting)

**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) report quarterly on the Arizona Network (AZNet), as created by the Statewide Telecommunications Management Contract. In the fourth quarter of FY 2008, AZNet completed replacement of end-of-life equipment at the last 6 of 142 Arizona Department of Transportation sites statewide and added a geographically redundant data connection between Phoenix and Tucson for the Magnet-2 network. In the first quarter of FY 2009, AZNet completed migration of telephone systems at the Departments of Agriculture and Education to the new IP Telephony system. However, a similar project

at the Department of Economic Security has been put on hold due to Local Area Network upgrade requirements. (Dan Hunting)

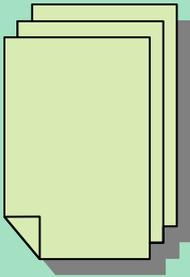
**AHCCCS - Report on Systematic Alien Verification for Entitlements Program** - Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) is providing its quarterly report on the collection and verification of documentation associated with the Systematic Alien Verification 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 the Department of Economic Security (DES), verified the immigration status of 18,177 individuals between April 1, 2008 and June 30, 2008. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. In addition, in the April 1 through June 30 time period, 3 citizens were referred for prosecution pursuant to state and federal law regarding fraudulent billing, schemes, and forgery. (Amy Upston)

**Arizona Community Colleges - Report on Dual Enrollment** - Pursuant to A.R.S. § 15-1821.01, the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2008. Students in a dual enrollment course can earn both high school and community college credit for courses taught at their high school.

Highlights of the FY 2008 report include:

- 19,899 students were dual enrolled (down from 20,018 in FY 2007).
- 1,317 courses were offered, of which 552 courses were classified as Academic and 765 were Occupational (up from 1,108



## Summary of Recent Agency Reports (Continued)

total courses in FY 2007).  
(Marge Zylla)

**Department of Economic Security -  
Report on Adequacy and  
Appropriateness of Title XIX  
Reimbursement Rates for  
Developmental Disabilities Programs**  
- Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) has provided its annual study of Title XIX Medicaid reimbursement rates to service providers in the developmentally disabled (DD) program. The study states that the adopted rates are “in the range of adequate and appropriate” for FY 2009. The adopted rates will be at 96.8% of the benchmark rates. (Jay Chilton)

**Department of Economic Security –  
Report on Annual Child Care  
Expenditures – A.R.S. § 46-810**  
requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2008 report shows that the average number of children served increased to 45,367, or 2% above FY 2007; the number of families served also increased by 2%. Across categories, the number of children served in the Low Income Working category increased 5.9%, CPS-related placements increased by 3.6%, and the number of TANF-related children increased by 0.9%, while the number of children receiving transitional child care decreased by (11.5)%.

The amount spent by DES on child care subsidies increased to \$192,109,000, or 8% above FY 2007. The average monthly subsidy paid per child increased 6.7%, to \$352.88. These increases are due in part to a 5% increase in maximum reimbursement rates funded by the Legislature in the FY 2008 budget. The total amount of co-payments increased 1.8% from FY 2007 to \$15,464,652. (Jay Chilton)

**Arizona Department of Education –  
Report on K-12 Aggregate  
Expenditure Limit** – Pursuant to A.R.S. § 15-911B, the State Board of Education reported on October 29, 2008 that currently budgeted expenditures for all school districts collectively statewide for FY 2009 exceed by \$98,198,000 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 State Constitution permits the Legislature to authorize K-12 expenditures above the AEL for the current year with a two-thirds majority vote on or before March 1, 2009 (Article IX, Section 21, Subsection 3). Otherwise on or before March 5, 2009, 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 2008, FY 2007 and FY 2002. The FY 2008 exemption was for \$146.6 million and was authorized by HCR 2005 from the 2008 Regular Session. (Steve Schimpp)

**Arizona Department of  
Environmental Quality (ADEQ) –  
Report on Progress of Water Quality  
Assurance Revolving Fund Sites** – Pursuant to a General Appropriation Act footnote, ADEQ is required to report the status of each site listed on the Water Quality Assurance Revolving Fund (WQARF) registry.

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. (Dan Hunting)

The report contained a listing of the 35 WQARF sites on the registry. Progress goals were met at 16 of these sites. Of the 35 reported sites, 17 were listed in the Early Response Action phase at least partially during FY 2008. Four sites had advanced to the Implementation of Remedy Phase or further during this same period.

The department had estimated that 3 sites would be delisted by the end of FY2008, but the sites remain on the report. (Dan Hunting)

**Department of Health Services –  
Report on Arnold v. Sarn** – Pursuant to a FY 2009 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted the 1<sup>st</sup> quarter report (July-September 2008) on settling the *Arnold v. Sarn* lawsuit.

DHS reports that while the contractor (Magellan) has made some progress in meeting the goals outlined in the court-ordered Performance Improvement Plan (PIP), it has not demonstrated full compliance in the service areas requiring clinical supervision and utilization of an unmet needs database. As result of its inability to comply with these provisions, the contractor was sanctioned by DHS in September 2008. The contractor has appealed the sanction for the unmet needs database. DHS, the contractor, the Plaintiffs and the Court Monitor continue to hold monthly meetings to discuss the implementation of the PIP and compliance with court orders.

## Summary of Recent Agency Reports (Continued)

DHS reports that it has worked with the contractor in assisting the Court Monitor in conducting Annual Independent Reviews, in which approximately 400 consumer charts have been audited. The final report on the reviews is expected to be completed in December 2008. (Art Smith)

**Department of Health Services – Report on Crisis Intervention Training** – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted a report on the progress made in crisis intervention training (CIT). The CIT monies are a one-time appropriation of \$250,000 that is non-lapsing through June 30, 2009.

As of September 30, 2008, DHS was in the process of entering into an Intergovernmental Agreement (IGA) with Arizona State University (ASU) to serve as the contracted provider for the CIT program. However, the Arizona Department of Administration (ADOA) subsequently denied DHS' request to enter the IGA; thus, none of the monies have been disbursed.

Under the terms of the IGA, ASU would have partnered with regional law enforcement entities, family-run agencies, behavioral health advocacy groups, and behavioral health providers to assess the need for CIT trainings. (Art Smith)

**Department of Health Services – Report on MethSMART Prevention Program** – Pursuant to a FY 2008 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted its 4<sup>th</sup> quarter follow-up report on youth methamphetamine programs. DHS issued a request for proposals for the \$500,000 appropriation in September 2007. The FY 2008 General Appropriation Act specifies that this money is expected to be awarded to a statewide alliance of

community-based organizations with a proven track record in providing substance abuse programming to children.

On February 8, 2008, \$499,800 of these monies were awarded to 3 contractors: The Arizona Alliance of Boys & Girls Clubs (\$400,000), South Eastern Arizona Behavioral Health Services (\$60,800) and Apache County Public Health Services District (\$39,000). DHS has indicated that during the months of March through June 2008, the 3 contractors served 7,300 participants and expended \$461,400 of the monies awarded. The remaining balance of \$38,600 will revert to the General Fund. (Art Smith)

**Superior Court - Report on Probation Services** - Pursuant to Laws 2008, Chapter 285, the Administrative Office of the Courts (AOC) is required to report to the JLBC on several probation items:

### *Case Carrying and Non-Case Carrying Positions*

Adult Probation and Juvenile Probation maintained 389.3 and 188.5 case carrying positions, and 478.8 and 404.8 non-case carrying positions, respectively. Between 78.1% and 97.2% of these positions were filled.

### *Total Receipts and Expenditures*

Total spending from all funds for Adult and Juvenile Probation Services was \$304.7 million, including \$44.4 million of state funding. This represents an increase in total spending of 7.1% and in state funding of 3.5% over FY 2007. *Retained Funding*

The AOC retained a total of \$8.4 million in FY 2008 to support local probation departments and the state level probation staff through training, certification, and research. (Jon McAvoy)

**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 2008 on November 3, 2008.

### *Adult Probations*

AOC reports statewide Adult Probation Services Fund total expenditures of \$129.0 million in FY 2008. Of this total, county funds represent 60.2% of all expenditures, state funds represent 22.8%, Federal Funds represent 0.8%, and other sources of revenue, such as probation fees and local fees, represent 16.2%.

### *Juvenile Probation*

Total FY 2008 expenditures for the Juvenile Probation Fund were \$165.7 million. Of this total, county funds represent 64% of all expenditures, state funds represent 30%, Federal Funds represent 2%, and other sources of revenue, such as probation fees and local fee, represent 4%. (Jon McAvoy)

**State Land Department – Annual Report on the Community Protection Initiative Fund** – A.R.S. § 37-643 requires the State Forester to provide an annual report on the status of the Community Protection Initiative Fund. The fund was created in FY 2008 with a \$1,000,000 deposit from the General Fund. The fund is used by the State Forester to track communities at risk of wildfire and to issue grants to at-risk communities to prepare wildfire protection plans. The Forester has

## Summary of Recent Agency Reports (Continued)

expended \$53,000 related to a fire map to track the progress of at-risk communities. The Forester has also obligated grant funding in the amount of \$850,000 to 10 at-risk communities, and \$20,000 to the University of Arizona. The grants have not yet been disbursed.  
(Jay Chilton)

### **Arizona Department of Transportation – Quarterly Report on Motor Vehicle Division Wait Times –**

A FY 2009 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 11.1 minutes in the 4<sup>th</sup> quarter of FY 2008 to 13.0 minutes in the 1<sup>st</sup> quarter of FY 2009. Customer wait times in metropolitan areas ranged from 4.6 minutes in the Mesa East office to 30.4 minutes in the South Mountain office. For FY 2009, 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. (Juan Beltran)

# State of Arizona

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

	Current Month					FY 2009 YTD (Four Months)				
	Actual October 2008	Change From October 2007		Forecast		Actual October 2008	Change from October 2007		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	337,313,340	(\$36,518,158)	(9.8) %	(\$56,581,060)	(14.4) %	\$1,381,021,104	(\$119,170,644)	(7.9) %	(\$201,659,396)	(12.7) %
Income - Individual	260,640,863	(14,822,276)	(5.4)	(36,408,637)	(12.3)	1,113,074,995	(58,493,294)	(5.0)	(123,797,905)	(10.0)
- Corporate	21,161,425	(34,969,464)	(62.3)	(36,378,375)	(63.2)	195,690,596	(100,931,226)	(34.0)	(109,813,704)	(35.9)
Property	2,043,577	529,717	35.0	467,677	29.7	2,314,246	373,006	19.2	(408,754)	(15.0)
Luxury	4,791,206	9,869	0.2	(480,794)	(9.1)	19,412,422	(51,068)	(0.3)	(673,578)	(3.4)
Insurance Premium	2,073,115	(644,716)	(23.7)	2,073,115	--	126,928,367	5,984,030	4.9	15,701,567	14.1
Estate	0	19,314	(100.0)	0	--	4,196	(230,566)	(98.2)	4,196	--
Other Taxes	55,166	(1,625)	(2.9)	2,666	5.1	186,108	(11,563)	(5.8)	(23,892)	(11.4)
<b>Sub-Total Taxes</b>	<b>\$628,078,692</b>	<b>(\$86,397,339)</b>	<b>(12.1) %</b>	<b>(\$127,305,408)</b>	<b>(16.9) %</b>	<b>\$2,838,632,034</b>	<b>(\$272,531,325)</b>	<b>(8.8) %</b>	<b>(\$420,671,466)</b>	<b>(12.9) %</b>
<b>Other Revenue</b>										
Lottery	9,563,400	7,272,800	317.5	3,336,800	53.6	14,386,400	2,859,581	24.8	0	0.0
License, Fees and Permits	3,604,293	(749,940)	(17.2)	(444,807)	(11.0)	11,378,964	(920,498)	(7.5)	(3,088,536)	(21.3)
Interest	1,465,863	(7,048,292)	(82.8)	(3,026,337)	(67.4)	6,590,320	(32,844,051)	(83.3)	(8,038,180)	(54.9)
Sales and Services	3,289,568	(225,499)	(6.4)	(1,533,632)	(31.8)	12,115,369	(1,171,327)	(8.8)	(5,537,431)	(31.4)
Other Miscellaneous	10,802,194	4,455,883	70.2	6,322,194	141.1	19,750,761	10,061,806	103.8	10,747,661	119.4
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	3,422,475	2,039,919	147.5	1,762,475	106.2	7,550,567	(6,026,356)	(44.4)	910,567	13.7
<b>Sub-Total Other Revenue</b>	<b>32,147,793</b>	<b>5,744,871</b>	<b>21.8 %</b>	<b>6,416,693</b>	<b>24.9 %</b>	<b>71,772,381</b>	<b>(28,040,845)</b>	<b>(28.1) %</b>	<b>(5,005,919)</b>	<b>(6.5) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$660,226,485</b>	<b>(\$80,652,468)</b>	<b>(10.9) %</b>	<b>(\$120,888,715)</b>	<b>(15.5) %</b>	<b>\$2,910,404,415</b>	<b>(\$300,572,170)</b>	<b>(9.4) %</b>	<b>(\$425,677,385)</b>	<b>(12.8) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(60,639,783)	(3,594,872)	6.3	0	0.0	(242,559,133)	(14,379,491)	6.3	0	0.0
Budget Plan Transfers	0	0	--	0	--	215,546,792	215,546,792	--	(16,404,600)	(7.1)
<b>Sub-Total Other Adjustments</b>	<b>(60,639,783)</b>	<b>(3,594,872)</b>	<b>6.3 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(27,012,341)</b>	<b>201,167,301</b>	<b>(88.2) %</b>	<b>(16,404,600)</b>	<b>154.6 %</b>
<b>TOTAL REVENUE</b>	<b>\$599,586,702</b>	<b>(\$84,247,340)</b>	<b>(12.3) %</b>	<b>(\$120,888,715)</b>	<b>(16.8) %</b>	<b>\$2,883,392,074</b>	<b>(\$99,404,869)</b>	<b>(3.3) %</b>	<b>(\$442,081,985)</b>	<b>(13.3) %</b>