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“October continued the state’s trend of revenue growth as base General Fund collections (excluding one-time adjustments) grew for the 15th consecutive month and were 16.6% above the prior year.”

Summary

October continued the state’s trend of revenue growth as base General Fund collections (excluding one-time adjustments) grew for the 15th consecutive month and were 16.6% above the prior year. General Fund revenues totaled \$667.7 million.

The significant increase in October collections was driven by growth in the individual income tax category, with that segment of revenues posting a 29.9% gain in October. Because October 15 is the deadline to file individual returns under an extension, this increase continues the pattern of higher final tax payments that was seen in the April tax season.

Year-to-date, FY 2012 General Fund revenues are \$3.05 billion, or 9.6% above FY 2011 excluding one-time adjustments.

October General Fund collections were \$49.5 million above the enacted budget forecast. Year-to-date, revenues are \$174.7 million above the enacted forecast.

In comparison to October revenue of \$667.7 million, October 2011 General Fund spending was \$458.7 million. This was \$(88.7) million less than the prior year, largely due to budget reductions and changes in the timing of transfers for the Medicaid state match.

Fiscal year-to-date, General Fund revenues of \$3.05 billion have been offset by \$4.20 billion in spending.

State Funds Report

On November 1, JLBC Staff published the biennial state funds report. Statute requires that every 2 years, JLBC Staff recommend the elimination of not more than 7% of the total number of state funds and the conversion of not more than 7% of the total dollar value of non-appropriated funds to appropriated status.

In terms of the elimination of funds, JLBC Staff recommend the elimination of 90 funds based on state agency feedback regarding funds that are inactive or obsolete for other reasons.

Regarding changing the status of non-appropriated funds, the report included a list of all non-appropriated funds with projected spending of greater than \$20 million in FY 2012. These funds constitute about 98% of overall non-appropriated expenditures.

Since FY 2000, the proportion of the total funds budget appropriated by the Legislature has fallen from 56% to 42%. The number of separate dedicated funds also continues to grow over time. During the last 10 years, the number of separately tracked dedicated funds has expanded from 520 in FY 2002 to 631 in FY 2012. Of the 111 net new funds, 24 are appropriated and 87 are non-appropriated.

Given the recent trend of declining legislative oversight of funds, the JLBC Staff noted that the Legislature may want to reconsider continuation of this reporting requirement.

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on November 18, 2011.

October Revenues

“Individual Income Tax net revenues were \$264.7 million in October, or 29.9% above the prior year. Collections were \$54.8 million above forecast.”

Table 1

General Fund Revenues (\$ in Millions)			
	FY 2012 <u>Collections</u>	Difference From <u>Forecast</u>	Difference <u>From FY 2011</u>
October	\$ 667.7	\$ 49.5	\$ 102.7
Year-to-Date	\$ 3,050.7	\$ 174.7	\$ 376.5

Sales Tax collections were \$378.7 million, or 8.7% above October 2010 and \$20.7 million above forecast. Excluding the \$74.7 million from the temporary 1-cent increase, collections were \$304.0 million, or 7.7% above October 2010. The temporary 1-cent tax grew significantly more than the base tax because last year’s 1-cent collections reflected a 120-day exemption for purchases under contract prior to the effective date of the tax.

Year-to-date, base sales tax collections are 7.3% above the prior year and are \$51.0 million above forecast.

Table 2 displays the October growth rates for the largest categories.

Table 2 Sales Tax Growth Rates Compared to Prior Year		
	<u>October</u>	<u>YTD</u>
Retail	7.8%	8.1%
Contracting	15.5%	16.4%
Utilities	6.3%	2.2%
Use	12.2%	7.7%
Restaurant & Bar	8.2%	8.3%

Retail and contracting together account for about 60% of all sales tax revenues. Retail continues to post significant gains over the previous year. Contracting’s large gain this month follows the trend begun in the second half of FY 2011, which grew 7.6% over the same period in the prior year. Despite large gains, year-to-date revenues are still (19.6)% below the same period in FY 2007, which was the peak year for contracting.

Individual Income Tax net revenues were \$264.7 million in October, or 29.9% above the prior year. Collections were \$54.8 million above forecast. Year-to-date, revenues have grown 13.9% and are \$108.2 million above forecast through October.

As indicated in Table 3, withholding grew by 7.9% in October for a year-to-date increase of 5.8%. While the withholding increase is significant, two-thirds of the overall Individual Income Tax increase this month was due to lower refunds and higher final payments. October 15 is the deadline to file individual returns under an extension. This increase reflects the trend seen last tax season of higher taxpayer liability.

Table 3

Individual Income Tax Growth Rates
Compared to Prior Year

	<u>October</u>	<u>YTD</u>
Withholding	7.9%	5.8%
Estimated + Final Payments	33.2%	20.0%
Refunds	(31.1)%	(31.2)%

Corporate Income Tax net collections were \$25.3 million in October, which is \$5.4 million above the prior year. Collections were \$501,700 above the forecast.

Year-to-date, collections have grown 12.7% and are \$35.3 million above forecast.

Tax Amnesty – Pursuant to Laws 2011, Chapter 28, the Department of Revenue operated a Tax Recovery program between September 1 and October 1. During that period, taxpayers who owed money to DOR could avoid some penalties by voluntarily reporting and paying the back taxes. These recovery collections are reported with the regular collections for each category. At this time, there is not an estimate of the distribution of collections by category.

The **Lottery Commission** reports that October ticket sales were \$48.5 million, which is \$5.0 million, or 11.5%, above sales in the prior year. Year-to-date ticket sales are \$187.5 million, which is 10.7% above last year’s sales.

October Revenues (Continued)

Non-General Fund

Tobacco Tax revenues were \$26.4 million in October. Collections were up 1.9% compared to the prior year. Year-to-date collections are up 2.4%, and are \$3.2 million above forecast.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those

programs, along with funding the Early Childhood Development and Health Board.

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$97.0 million in October were up \$114,263, or 0.1%, compared to October of last year. Year-to-date revenues are up 0.3%.

Table 4

General Fund Revenue: Change from Previous Year and Enacted April Budget Forecast October 2011

	Current Month					FY 2012 YTD (Four Months)				
	Actual October 2011	Change From October 2010		Forecast		Actual October 2011	Change from October 2010		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$303,972,395	\$21,794,407	7.7 %	\$15,756,876	5.5 %	\$1,205,877,653	\$82,057,218	7.3 %	\$50,974,297	4.4 %
- 1¢ Increase*	\$74,682,481	8,404,092	12.7	4,933,114	7.1	296,370,698	35,116,125	13.4	19,300,344	7.0
Income - Individual	264,736,993	60,912,771	29.9	54,814,520	26.1	1,123,132,923	137,389,102	13.9	108,178,879	10.7
- Corporate	25,252,509	5,392,064	27.1	501,659	2.0	202,120,503	22,720,298	12.7	35,290,714	21.2
Property	2,179,303	(462,917)	(17.5)	211,998	10.8	2,525,207	385,349	18.0	256,299	11.3
Luxury - Tobacco	(697,522)	(1,861,687)	--	(1,867,864)	--	6,006,883	(2,034,406)	(25.3)	(2,077,077)	(25.7)
- Liquor	3,096,276	867,385	38.9	816,196	35.8	10,530,787	2,294,326	27.9	2,105,169	25.0
Insurance Premium	1,490,142	(446,054)	(23.0)	(983,831)	(39.8)	123,241,134	(13,421,589)	(9.8)	(14,926,987)	(10.8)
Estate	173	173	--	173	--	220,825	(216,547)	(49.5)	220,825	--
Other Taxes	51,129	(5,205)	(9.2)	(12,877)	(20.1)	189,215	(30,352)	(13.8)	4,857	2.6
Sub-Total Taxes	\$674,763,879	\$94,595,029	16.3 %	\$74,169,964	12.3 %	\$2,970,215,827	\$264,259,524	9.8 %	\$199,327,319	7.2 %
Other Revenue										
Lottery	4,051,240	(277,415)	(6.4)	(1,007,962)	(19.9)	14,515,220	1,558,955	12.0	(164,787)	(1.1)
License, Fees and Permits	2,273,613	(83,182)	(3.5)	165,472	7.8	9,152,071	(195,176)	(2.1)	355,700	4.0
Interest	17,556	(418,318)	(96.0)	(482,444)	(96.5)	23,180	(1,653,821)	(98.6)	(1,976,820)	(98.8)
Sales and Services	1,368,293	(60,330)	(4.2)	(371,811)	(21.4)	5,431,533	(736,277)	(11.9)	(1,368,844)	(20.1)
Other Miscellaneous	6,719,022	4,740,792	239.6	3,476,366	107.2	13,462,089	3,070,588	29.5	6,443,032	91.8
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(302,795)	(489,897)	--	(4,486,768)	--	2,146,503	(1,894,698)	(46.9)	(5,938,342)	(73.5)
Sub-Total Other Revenue	14,126,929	3,411,650	31.8 %	(2,707,147)	(16.1) %	44,730,596	149,571	0.3 %	(2,650,061)	(5.6) %
TOTAL BASE REVENUE	\$688,890,808	\$98,006,679	16.6 %	\$71,462,817	11.6 %	\$3,014,946,423	\$264,409,095	9.6 %	\$196,677,258	7.0 %
Other Adjustments										
Urban Revenue Sharing	(35,368,620)	4,131,923	--	0	0.0	(141,474,480)	16,527,692	--	0	0.0
Budget Plan Transfers	14,215,306	528,212	3.9	0	0.0	177,198,984	95,531,185	117.0	0	0.0
Tax Amnesty **	0	0	--	(22,000,000)	(100.0)	0	0	--	(22,000,000)	(100.0)
Leaseback Proceeds	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	(21,153,314)	4,660,135	-- %	(22,000,000)	-- %	35,724,504	112,058,877	-- %	(22,000,000)	(38.1) %
TOTAL GENERAL FUND REVENUE	\$667,737,494	\$102,666,814	18.2 %	\$49,462,817	8.0 %	\$3,050,670,927	\$376,467,972	14.1 %	\$174,677,258	6.1 %
Non-General Funds										
Highway User Revenue Fund	\$96,999,533	\$114,263	0.1 %	(\$1,339,016)	(1.4) %	\$395,401,338	\$1,103,225	0.3 %	(\$4,811,247)	(1.2) %
Tobacco Tax (All Funds Total)	\$26,366,849	\$483,539	1.9 %	\$425,005	1.6 %	\$110,881,881	\$2,611,959	2.4 %	\$3,176,918	2.9 %

* Total October collections including the temporary 1¢ increase approved by the voters in May 2010 were \$378.7 million. This amount is \$30.2 million, or 8.7%, above October 2010 and \$20.7 million, or 5.8%, above forecast. Year to date, total collections including the 1¢ increase were \$1,502.2 million. This amount is \$117.2 million, or 8.5%, above October 2010 and \$70.3 million above forecast.

** The Budget Legislation forecast includes \$22 million of Tax Recovery Collection in October. The actual collections are reported in the individual categories above and not in the Budget Legislation line at this time as the actual distribution and total are not yet known.

Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** declined by (6.6) points in October, to a reading of 39.8, the lowest level since March 2009. The steep decline in consumer confidence was likely in response to the European debt problems and continued volatility in equity markets. Additionally, the survey also indicated that people are becoming increasingly more pessimistic about their financial and economic prospects. This explains why consumer confidence has fallen by more than 35% since the beginning of the summer. This deterioration in consumer sentiments, however, has not yet resulted in a pullback in consumer spending and retail sales. This appears to be less related to consumer confidence, however, than a necessity to replace aging durables, such as autos and home appliances.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, declined by (0.1)% in October, following 3 consecutive months with price increases of 0.3% or more. The CPI decrease in October was due to lower energy prices, especially for gasoline. While food prices rose by 0.1%, the increase was nonetheless the smallest since December 2010. Compared to the same month in the prior year, consumer prices were up by 3.6%. Core inflation, which excludes energy and food prices, increased by 0.1% in October. Year-over-year, core inflation is up by 2.1%.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Arizona was 1 of 30 states for which the coincident index increased in September. The Arizona coincident index increased by 0.3% in September, which was 0.1% above the national average. Year over year, the Arizona index is 2.1% above last year.

While Arizona's index has improved compared to the same time period last year, the index remains (12.8)% below its peak reading in August 2007. Only 4 other states (Florida, Idaho, Michigan, and Nevada) have had a larger decline than Arizona. By way of

comparison, the national coincident index has declined (4.0)% since its historical peak in January 2008. See [Tracking Arizona's Recovery](#) for additional historical information.

Housing

In October, the number of new Maricopa County **foreclosure notices** decreased (4.2)% from September levels to 4,354. The number of Maricopa County **pending foreclosures** decreased from 23,299 in September to 22,901 in October. The October total is (55.5)% below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#) for additional historical information.

While pending foreclosures continue their decline from recent highs, they continue to be a major influence on existing home sales and the respective prices. In the Metropolitan Phoenix area in October, there were a total of 7,215 **existing single-family home sales** that resulted in a **median resale home price** of \$124,900. Relative to the prior year, the number of sales is down (10.7)%, while prices are (9.9)% lower.

Of the existing sales, 26.3%, or 1,900 were foreclosures. This is a significant improvement from the peak in February 2009 when 50.5% of existing home sales were foreclosures. There are indications, however, that lenders are increasingly agreeing to short sales rather than foreclosing properties. This suggests that the housing market is still weighed down by a large volume of distressed sales, and therefore may not return to normal conditions for some time.

In terms of permitting activity in the state, it appears that single-family housing permits will decline for the sixth consecutive year in 2011. Through September, a total of 8,051 **single-family building permits** had been issued statewide, a (7.3)% decrease from last year. By contrast, the multi-family housing sector appears to be poised for significant growth in 2011. As of September, **multi-family building permits** for a total of 1,895 units had been issued in the state, an almost 67% increase from the prior year. While this percentage increase is impressive, it bears to note that in terms of the actual volume, multi-family permitting activity still remains 70% below the levels recorded 3 years earlier.

"[The Consumer Confidence survey indicated] people are becoming increasingly more pessimistic about their financial and economic prospects. This explains why consumer confidence has fallen by more than 35% since the beginning of the summer."

Economic Indicators (Continued)

Employment

According to the Employment and Population Statistics Unit (EPSU) of the Department of Administration, the state added 15,500 **nonfarm jobs** in October over September. This was a month-over-month gain of 0.6%, the same as the average growth rate for October over the prior 10 years. Most of these gains (82%) occurred in the private sector of the economy, with most of these gains being concentrated to the health care (3,500 jobs) and trade (2,100 jobs) industries.

In October, the state's employers had 44,700, or 1.9%, more individuals on the payrolls than 12 months earlier. October marked the 10th straight month with year-over-year gains in employment. The 1.9% growth in October followed job gains of 2.3% in September and 1.7% in August. The average nonfarm employment gain for the first 10 months of 2011 was 0.8%, or 19,400 jobs.

The construction sector added 2,300 net new jobs in October over September. This represented a month-over-month gain of 2.0%. Typically, the construction sector sheds jobs in October, as evident by a 10-year average loss of (0.5)% for this month. October marked the eighth consecutive month with gains in construction employment. Year over year, construction employment is up by 4.0%, or 4,600 jobs. In spite of this improvement in the construction sector, it should be noted that with 118,600 employees currently on the payrolls, this industry still remains more than 50% below peak employment levels in the summer of 2006.

The manufacturing industry had a net gain of 600 jobs in October, with most of these gains coming from the fabricated metal industry. The manufacturing sector added jobs in 7 of the last 10 months. Compared to October 2010, manufacturing employment has grown by 3.2%, or 4,700 jobs. This was the highest year-over-year gain since May 2006. All sub-sectors of the industry except for aerospace are expanding their payrolls.

While nonfarm employment in Arizona has grown faster, year over year, than the national average in the prior 4 months, it is important to note that the state's job gains remain small by historical standards. As noted above, the state had an average monthly gain of 19,400 jobs for the first 10 months of the current calendar year. With 283,400 jobs below pre-recession levels, and still modest job gains, the state appears to be years away from recovering the jobs lost since the end of 2007. See [Tracking Arizona's Recovery](#) for additional historical information.

The state's seasonally adjusted **unemployment rate** was 9.0% in October, a (0.1)% decline from the previous month and the lowest reading since March 2009. October marked the 32nd consecutive month with an unemployment rate at or above 9%. At the start of the

recession in December 2007, the state's unemployment rate was 4.1%, or (0.9)% below the national average. Since this time, Arizona's jobless rate has equaled or exceeded the national average in 41 out of 46 months.

State Agency Data

In November, total AHCCCS caseloads equaled 1.35 million members, a (1.0)% decrease over the prior month. Overall AHCCCS caseloads are currently (0.3)% below November 2010 levels.

The traditional AHCCCS population, which consists primarily of lower-income children and their parents, was up 0.2% in October and 5.2% higher than a year ago. The total population in this program is almost 900,000.

This growth has been offset by declines in other populations. The Proposition 204 childless adult program has not allowed new participants since July and this population has declined (40,138) since July 1 to 177,580. Of the decline, (9,910) is attributed to members who were transferred to the SSI program. The Proposition 204 program has declined (7.5)% compared to the prior month, and (20.6)% from the prior year.

While significantly smaller, the spend down and the KidsCare populations saw significant declines from the prior year of (98.9)% and (43.2)% due to enrollment freezes. There are now 65 individuals in the spend down program and 14,238 in the KidsCare program.

There were 38,170 **TANF recipients** in the state in October, a monthly caseload increase of 1.0%. Year-over-year, the number of TANF recipients has declined by (15.3)%. This decline is the result of the statutory lifetime limit a person may receive cash assistance. The FY 2012 budget reduced the lifetime limit to 24 months. Previously, the maximum had been 60 months. The FY 2012 budget assumed caseloads of approximately 36,000 in FY 2012.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In October, there were a total 1.1 million food stamp recipients in the state, a 0.6% increase over the prior month. Compared to the same month last year, food stamp participation was up by 7.9%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Correction's (ADC) inmate population** decreased to 40,008 inmates between September and November 2011. Relative to the prior 3-month period, the population has decreased by (8) inmates. Compared to a year ago the population has declined by (194) inmates.

Economic Indicators (Continued)

Table 5

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 (SA)	October	9.0%	(0.1)%	(0.8)%
- Initial Unemployment Insurance Claims	September	21,516	(15.2)%	(8.7)%
- Unemployment Insurance Claimants	September	64,739	(13.0)%	(14.0)%
- Non-Farm Employment - Total	October	2.43 million	0.6%	1.9%
Manufacturing	October	151,800	0.4%	3.2%
Construction	October	118,600	2.0%	4.0%
- Average Weekly Hours, Manufacturing	September	40.9	1.2%	1.5%
- Contracting Tax Receipts (3-month average)	Aug-Oct	\$36.4 million	1.2%	17.3%*
- Retail Sales Tax Receipts (3-month average)	Aug-Oct	\$136.8 million	(0.3)%	8.3%*
- Residential Building Permits (3-month moving average)				
Single-family	Jul-Sep	967	(3.7)%	14.8%
Multi-unit	Jul-Sep	409	11.2%	188.3%
- Greater Phoenix Existing Home Sales				
Single-Family	October	7,215	(9.1)%	(10.7)%
Townhouse/Condominium	October	1,025	(11.3)%	(15.6)%
- Greater Phoenix Median Resale Home Price				
Single-Family	October	\$124,900	(0.1)%	(9.9)%
Townhouse/Condominium	October	\$77,300	0.8%	(9.1)%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	August	100.43	(0.1)%	(7.7)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	October	4,354	(4.2)%	(38.5)%
Pending Foreclosures (Active Notices)	October	22,901	(1.7)%	(44.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	October	27,266	1.2%	(39.7)%
- Phoenix Sky Harbor Air Passengers	August	3.41 million	(6.0)%	8.9%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	August	\$6.57	11.4%	7.0%
- Arizona Consumer Confidence Index (1985 = 100)	4 th Quarter 2011	57.5	6.5%	2.1%
- Arizona Coincident Index (July 1992 = 100)	September	178.69	0.3%	2.1%
- Arizona Personal Income	2 nd Quarter 2011	\$232.8 billion	1.2%	5.5%
- Arizona Population	April 1, 2010	6.39 million	N/A	N/A
- AHCCCS Recipients	November	1,353,552	(1.0)%	(0.3)%
Acute Care Traditional		898,511	0.2%	5.2%
Spend Down		65	(83.9)%	(98.9)%
Prop 204 Childless Adults		177,580	(7.5)%	(20.6)%
Other Prop 204		157,431	(0.9)%	3.3%
Kids Care		14,238	(4.9)%	(43.2)%
Long-Term Care – Elderly & DD		51,689	0.3%	2.3%
Emergency Services		54,038	2.1%	18.1%
- TANF Recipients	October	38,170	1.0%	(15.3)%
- SNAP (Food Stamps) Recipients	October	1,155,916	0.6%	7.9%
- ADC Inmate Growth (3-month average)	Sept-Nov	40,008	(8) inmates	(194) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	September/June	18,945	35	(784)
Maricopa County	September/June	26,080	(14)	(816)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	4 th Quarter 2011 (1 st Estimate)	\$13.4 trillion	2.5%	1.6%
- Consumer Confidence Index (1985 = 100)	October	39.8	(14.2)%	(20.2)%
- Leading Indicators Index (2004 = 100)	October	117.4	0.9%	6.6%
- U.S. Semiconductor Billings (3-month moving average)	Jun-Aug	\$4.56 billion	(1.6)%	(5.3)%
- Consumer Price Index, SA (1982-84 = 100)	October	226.76	(0.1)%	3.6%

*Adjusted for 1¢ sales tax

JCCR Meeting

At its November 17, 2011 meeting, the Joint Committee on Capital Review considered the following issues:

Northern Arizona University – Review of Parking Structure Bond and Office Projects – The Committee gave a favorable review of \$26.5 million in bond issuances to build a new parking structure on the Flagstaff campus and a \$10.0 million indirect financing agreement for an administrative office building.

Arizona State University – Review of Recreation Facilities and Post Office Projects – The Committee gave a favorable review of a \$56.0 million bond issuance to finance recreational facilities at the East and West campuses, along with renovating part of the old downtown Phoenix post office for a student union. These projects would be supported with a new mandatory \$150 student fee.

University of Arizona – Review of Athletic Facilities Projects – The Committee gave a favorable review of a \$73.5 million bond issuance to renovate and expand the north end-zone of the football stadium and upgrade items at other campus athletic facilities. These projects would be supported with donations and increased media revenues from the new Pac-12 contract.

Pinal County Community College District – Review of General Obligation Bond Issuance – The Committee gave a favorable review of the district's \$59.0 million

General Obligation bond issuance, which will primarily finance new construction related to classrooms and office space, along with land acquisitions and renovations.

State Parks Board – Review of FY 2012 State Lake Improvement Fund Capital Expenditures – The Committee gave a favorable review of the board's \$500,000 expenditure plan for the State Lake Improvement Fund in FY 2012. The expenditure plan includes funding for emergency building renewal, repairs and replacements.

Arizona Department of Transportation – Review of Sprinkler and Fire Alarm Systems Project – The Committee gave a favorable review to the Department of Transportation's plan to spend \$252,000 to install automatic sprinkler and fire alarm systems at equipment repair shops in Mesa and Show Low.

State Lottery Commission – Review of the FY 2012 Building Renewal Allocation Plan – The Committee gave a favorable review of the commission's FY 2012 Building Renewal Allocation Plan, which would be funded with \$79,200 from the State Lottery Fund.

Arizona Department of Administration – Consider Recommending FY 2012 Rent Exemption – The Committee recommended a technical rent exemption.

Summary of Recent Agency Reports

Arizona Department of Administration – Motor Vehicle Fleet – Pursuant to A.R.S. § 41-803R, the Arizona Department of Administration reported on the FY 2011 year-end inventory of state-owned alternative fuel vehicles. Of the 11,871 state vehicles, 4,740, or 39.9% are subject to the alternative fuel vehicle requirements.

Of the 4,740 state vehicles subject to the alternative fuel vehicle requirements, 3,298, or 69.6% are alternative fuel vehicles. This percentage remained unchanged 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 82.7% of its Maricopa County vehicles are alternative fuel vehicles. This is a decrease of (0.7)% from the prior year.

Notwithstanding the quantity of vehicles capable of using alternative fuel, only 2.4% of the fuel budget was for alternative fuels.
(Brett Searle)

Arizona Commerce Authority – Annual Report on Arizona Competes Fund – Pursuant to A.R.S. § 41-1545.04, the Arizona Commerce Authority (ACA) is required to report annually on grants from the previous fiscal year and other projects currently funded from the Arizona Competes Fund and performance measures for the recipients including job creation, capital investment and median wages.

Laws 2011, 2nd Special Session, Chapter 1 created the ACA effective July 1, 2011. As a result, the ACA did not make any expenditures from the Arizona Competes Fund in FY 2011. On October 24, 2011, the ACA announced the first award from the Arizona Competes Fund. While the amount of the agreement has not been disclosed,

Summary of Recent Agency Reports (Continued)

the monies are scheduled to be awarded to Clear Energy Systems, a Tempe-based manufacturer of portable energy systems, for a \$10.0 million expansion of the company to launch a new, one megawatt natural gas generator that will create an estimated 225 jobs in the Greater Phoenix area. To date, no other awards have been announced.

The Arizona Competes Fund receives an annual \$21.5 million deposit of income tax withholding monies and \$3.5 million in state lottery revenues. The monies are used to retain, attract, and expand businesses in Arizona through the provision of grants and loans. (Eric Billings)

Arizona Community Colleges – Report on Dual Enrollment – Pursuant to A.R.S. § 15-1821.01, the Arizona Community Colleges are reporting on dual enrollment students in FY 2009 cohort. 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 report include:

- 12,826 students were dual enrolled in the FY 2009 cohort (up from 12,591 in FY 2008).
- 9,219 students in the FY 2009 cohort continued studies at an Arizona community college or state university after high school graduation. (Up from 8,783 in the FY 2008 cohort).

(Marge Zylla)

Department of Corrections – Report on Transition Release Program – Pursuant to A.R.S. § 31-285, the State Department of Corrections (ADC) is required to submit an annual report that details the cost reductions to the department from an inmate early release Transition Program and the number of participants who did not receive an early release under the Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services. The ADC Transition Release Program began in March 2004 and allows eligible inmates in the Transition Program to be released 3 months earlier than the inmate's earliest release date.

In FY 2011, the department reports that 879 participants successfully completed the Transition Program and their term of community supervision while an additional 674 participants completed the Transition Program and continued their term of community supervision. A total of 114 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is responsible for 66,250 bed days saved which translates to a savings of \$1,126,300. (James Alcantar)

Department of Public Safety – Quarterly Report on the GIITEM Fund – Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. Through the first quarter of FY 2012, DPS spent or encumbered \$1.6 million of the FY 2011 non-lapsing \$2.6 million appropriation for local law enforcement grants. Of this amount, \$781,200 was expended in the first quarter as a grant to the Maricopa County Sheriff's Office. The remaining \$937,100 in FY 2011 local law enforcement grants will be available for use through FY 2012. DPS did not expend any of the \$2.6 million FY 2012 appropriation which will be available for use through FY 2013.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$37,800 in criminal fine and fee revenues in the first quarter of FY 2012. These monies are being used to reimburse the General Fund for a \$1.0 million appropriation made to the Pinal County Sheriff pursuant to Laws 2011, Chapter 308. (Eric Billings)

Superior Court – Report on Probation Services – Pursuant to a General Appropriation Act footnote and A.R.S. § 12-262C, 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 353 and 140 case carrying positions, and 454.6 and 391.1 non-case carrying positions, respectively in FY 2011. Between 83.7% and 98.4% of these positions were filled.

Total Receipts and Expenditures

Total FY 2011 spending from all funds for Adult and Juvenile Probation Services was \$266.8 million, including \$68.9 million of state funding.

Retained Funding

The AOC retained a total of \$7.5 million in FY 2011 to support local probation departments and the state level probation staff through training, certification, and research.

(James Alcantar)

Universities – Report on University Research Infrastructure Income – Pursuant to A.R.S. § 15-1670, Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) are required to submit an annual report on the amount of the previous year's income from licensure and royalty payments, the sale or transfer of intellectual property developed by the university, and to deposit a portion of that income into

Summary of Recent Agency Reports (Continued)

the state General Fund. All 3 universities have reported that no deposits were made in FY 2011, as they believe that their income is net of expenses instead of gross income.

Each of the universities reported no net income from licensure and royalty payments, the sale or transfer of

intellectual property in FY 2011. In terms of FY 2011 gross income, ASU reported \$1.1 million in licensing and royalty revenues, NAU reported \$42,700 in licensing and royalty revenues, and UA \$890,400 in licensing, royalty and assignment revenues.
(Marge Zylla)

October Spending

October 2011 General Fund spending was \$458.7 million. October expenditures were less than the prior year primarily due to budget reductions and changes in the timing of transfers for the Medicaid state match

FY 2012 Spending

October 2011 spending of \$458.7 million was \$(88.7) million less than October 2010 (See Table 6).

- In October, University spending was \$(21.6) million less than the prior year. The universities received a \$198 million lump sum reduction in FY 2012, which will be spread out throughout the fiscal year.
- DHS spending was \$(38.2) million lower than the prior year due to changes in the timing of a transfer for the Medicaid state match for the behavioral health program.

Agency	<u>October 11</u>	<u>Change from October 10</u>	<u>Year-to- Date</u>	<u>YTD Change from FY 11</u>
AHCCCS	129.7	38.4	570.1	48.1
Corrections	64.3	(19.0)	313.8	13.2
Economic Security	56.2	(15.8)	420.4	(3.2)
Education	81.6	(11.9)	1,685.8	(8.8)
Health Services	14.5	(38.2)	409.9	233.9
Public Safety	5.9	3.8	30.5	4.1
School Facilities Board	0.1	(0.1)	132.7	99.7
Universities	42.5	(21.6)	374.3	(60.2)
Leaseback Debt Service	0.0	0.0	49.1	(3.0)
Other	<u>63.9</u>	<u>(24.3)</u>	<u>209.9</u>	<u>(78.6)</u>
Total	458.7	(88.7)	4,196.5	245.2

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 11
	October 11	Change from October 10	Year-to-Date	
Department of Administration	760.3	(172.7)	8,459.4	(1,883.7)
Department of Admin Sale/Leaseback D/S	-	-	49,050.7	(3,016.2)
Office of Administrative Hearings	62.9	(74.8)	276.5	(141.4)
Department of Agriculture	592.2	100.7	2,996.1	(1,216.5)
AHCCCS	129,651.3	38,353.6	570,073.2	48,128.7
Attorney General	1,235.9	(3,305.6)	6,661.1	(1,438.5)
AZ Capital Post Conviction Public Defender	51.5	(1.3)	187.9	(31.5)
State Board of Charter Schools	46.3	(94.1)	275.1	(84.4)
Department of Commerce/AZ Commerce Authority	2,625.0	2,556.7	10,500.0	8,088.3
Community Colleges	17,144.3	1,182.1	34,288.7	(31,924.5)
Corporation Commission	46.3	6.2	181.8	(37.8)
Department of Corrections	64,304.4	(18,989.7)	313,820.5	13,193.8
AZ State Schools for the Deaf & Blind	1,097.7	(2,369.9)	7,565.3	(1,481.1)
Department of Economic Security	56,155.5	(15,762.6)	420,420.0	(3,245.0)
Department of Education	81,553.3	(11,895.9)	1,685,838.8	(8,802.7)
DEMA	539.1	(210.5)	3,619.0	(389.6)
Department. of Environmental Quality	-	-	-	(0.6)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	26.4	(4.7)	65.4	(24.5)
State Board of Equalization	96.2	24.6	288.8	77.2
Board of Executive Clemency	51.1	3.8	313.1	(115.1)
Department of Financial Institutions	184.2	31.0	990.0	(293.3)
Department of Fire, Life, Bldg Safety	262.9	(118.1)	786.5	(429.1)
Office of the State Forester	1,677.6	1,197.1	2,480.8	1,279.2
Arizona Geological Survey	196.8	64.6	348.9	118.1
Government Information Tech.	-	(56.9)	(3.1)	(209.3)
Governor	1,013.9	(25.1)	2,614.5	(782.0)
Gov. - OSPB	213.7	(74.4)	704.1	(135.6)
Department of Health Services	14,495.9	(38,211.4)	409,870.6	233,944.4
Arizona Historical Society	223.9	(232.6)	1,366.4	(2,496.7)
Prescott Historical Society of AZ	65.9	(30.3)	219.3	2.4
Independent Redistricting Comm.	272.9	272.9	1,200.8	1,200.8
Commission on Indian Affairs	11.6	9.0	23.3	9.1
Department of Insurance	430.7	77.3	1,931.6	(744.7)
Judiciary	-	-	-	-
Supreme Court	940.4	1,077.9	5,087.2	(7,232.3)
Superior Court	16,558.3	(945.8)	34,796.1	(123.6)
Court of Appeals	1,075.3	(453.1)	4,829.9	(1,895.5)
Department of Juvenile Corrections	4,414.8	840.6	17,493.4	(7,044.7)
State Land Department	361.7	5.6	547.8	(576.5)
Law Enforcement Merit System	4.5	(0.5)	16.5	(13.5)
Legislature				
Auditor General	1,256.6	120.8	5,882.9	(1,378.3)
House of Representatives	946.4	(1,459.4)	3,906.2	(1,150.1)

Agency	October 11	Change from October 10	Year-to-Date	YTD Change from FY 11
Joint Legislative Budget Comm.	138.2	16.0	668.1	(254.6)
Legislative Council	303.6	15.2	2,185.0	64.4
Senate	583.2	107.1	2,606.8	(984.8)
Board of Medical Student Loans	20.5	3.6	20.5	(188.2)
Mine Inspector	64.7	(4.2)	423.1	(59.0)
Department of Mines & Mineral Resources	-	(17.2)	-	(725.7)
Nav. Streams & Adjudication	7.2	(15.4)	66.3	(12.4)
Arizona State Parks Board	-	-	-	(20,000.0)
Pioneers' Home	128.2	51.5	784.1	426.2
Comm. for Postsecondary Ed.	88.0	88.0	698.4	540.7
Department of Public Safety	5,919.5	3,842.5	30,454.4	4,096.3
Arizona Department of Racing	135.0	(16.1)	2,427.9	(343.7)
Radiation Regulatory Agency	258.7	29.3	666.0	39.7
Arizona Rangers Pension	-	(1.2)	-	(4.7)
Real Estate Department	170.4	39.0	976.1	(503.3)
Department of Revenue	4,827.9	(2,264.1)	21,362.7	2,949.9
School Facilities Board	73.0	7.9	132,696.6	99,746.1
Secretary of State	798.0	(1,632.7)	3,633.2	(4,750.1)
Tax Appeals Board	27.0	11.5	105.4	(7.9)
Department of Transportation	2.2	(1.6)	12.8	(3.1)
State Treasurer	143.2	(44.5)	241.7	(65.3)
Universities				
Board of Regents	497.8	(3,877.8)	6,350.1	(3,798.3)
Arizona State University	19,169.4	(9,849.5)	167,252.9	(24,928.3)
Northern Arizona University	5,947.3	(2,604.7)	54,283.8	(10,417.4)
University of Arizona	16,872.6	(5,262.5)	146,420.1	(21,049.1)
Department of Veteran Services	1,412.6	(1,399.2)	2,762.1	(1,983.6)
Department of Water Resources	251.2	(45.7)	1,863.5	(87.9)
Department of Weights & Measures	77.7	(166.7)	341.9	(131.6)
Other	116.5	(17,099.2)	243.4	(34.3)
Grand Total	458,710.8	(88,655.4)	4,196,521.6	245,233.2