ARIZONA

MONTHLY FISCAL HIGHLIGHTS

October 2006

September General Fund revenue collections were $931.7 million, or 8.5% above September 2005. This amount was $15.3 million above the forecast for the month. The forecast comparison is based on projected FY 2007 revenues from the enacted budget. For the fiscal year-to-date, collections are $9.5 million above the forecast. *(See Table 3 on page 2.)*

Of the major tax categories, September sales tax grew 10.5%, individual income collections increased 10.1%, and corporate revenues rose 12.2%. While these are healthy growth rates, they are well below FY 2006 levels of growth. Through the first quarter of FY 2007, collections for all revenue categories are 7.6% above last year. When compared with the overall growth rates of 18.8% in FY 2005 and 16.7% in FY 2006, collections in the current year have slowed considerably. *(See Table 9 on page 13 for details.)*

In other fiscal news this month, the JLBC met on October 24th *(pages 4 – 5)*. Highlights included:

- The JLBC approved a 12.2% increase to the cost-per-square-foot factors used in the School Facilities Board's New School Facilities and Building Renewal formulas. The adjustment is estimated to have a $38.9 million impact on the New School Facilities Program over the next 4 years and increase the Building Renewal formula by $10.5 million to $19.7 million.
- The JLBC unfavorably reviewed the Arizona Department of Revenue's request to amend its Business Re-Engineering/Integrated Tax System (BRITS) contract by $14.8 million to finish the conversion of the individual income tax to BRITS. The Committee expressed concerns that the project is over budget and behind schedule.

A JLBC Subcommittee on Actuarial Audits also met on October 24th *(page 5)*. The FY 2006 budget appropriated funding to JLBC Staff to contract with actuaries to conduct an independent review of existing state-contracted actuarial services. The following areas were reviewed: 1) state pension systems, 2) the state employee health insurance program, 3) Title XIX capitation rates, and 4) the state risk management program. While most of the findings issued by the actuarial firms were favorable, several concerns were raised in the review of the Public Safety Personnel Retirement System (PSPRS), including the calculation of liabilities in the system. As a result, the actuary recommended a parallel independent audit of the system.

The Monthly Fiscal Highlights include a summary of recent statutory reports submitted to JLBC *(see pages 6 – 10)*. Of particular note:

- The Department of Economic Security's semi-annual report on Child Protective Services indicates caseload ratios are near the goal for each case type, when considering authorized caseworkers. Since only 722 of 979 positions are filled, however, actual ratios are considerably below target. Turnover continues to be high at an annual rate of 21%. Out-of-home placements, specifically in congregate settings, are on a slight decline.

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The Monthly Fiscal Highlights also include an update on some current budget issues:

- K-12 Building Renewal Lawsuit – The Arizona Superior Court issued a judgment in favor of the state. The suit, filed on behalf of certain school districts, alleged that the state's underfunding of the Building Renewal formula was unconstitutional. The Court found that the districts' claim was premature as they had not attempted to secure all available sources of facilities maintenance funds. *(See page 10.)*
- Tribal Contributions – The Tribal-State gaming pacts require the tribes to make contributions to the state. In FY 2006, contributions were $92.1 million, which was 24% greater than the FY 2005 level of contributions. *(See page 11.)*
- Projected FY 2007 General Fund Ending Balance – As part of an October 15th statutory report, JLBC Staff estimates a FY 2007 General Fund balance of $324 to $465 million. This would be $150 to $291 million above the $174 million balance enacted in the FY 2007 budget. This estimate is likely to change throughout the fiscal year as revenue estimates are further updated. *(See page 11.)*
- School Districts' Aggregate Expenditure Limit – The Arizona Department of Education (ADE) recently reported that school district budgets for FY 2007 exceed the constitutional aggregate expenditure limit by $8.0 million. District budgets are over the limit largely as a result of a $100 million increase in base level funding in FY 2007 and $80 million in new kindergarten funding. The Arizona Constitution permits the Legislature to authorize the districts to exceed the limit in the current year with a 2/3 vote on or before March 1, 2007. Otherwise, ADE will be required to instruct each district to reduce its expenditures to remain within the limit. *(See page 12.)*
- Safe and Stable Families Program – The Federal Promoting Safe and Stable Families Program was reauthorized, providing Arizona an additional $940,000 for caseworker visits to foster children. These monies can be used through FFY 2009. The reauthorization also added new a new performance standard of a 90% visitation rate by FFY 2012. Currently, DES reports a 65% visitation rate. *(See page 10.)*

SEPTEMBER REVENUES

Sales Tax collections were $379.9 million in September, or 10.5% above September of last year. The following table displays the September and year-to-date growth rates for the major categories:

Table 1

Sales Tax Growth Rates

	September	Year-to-Date
Retail	5.6%	5.0%
Contracting	16.1%	17.9%
Utilities	22.7%	13.5%
Use	9.9%	8.5%
Restaurant & Bar	3.8%	6.7%

Collections for some of the major sales tax categories continued to grow at a slower pace in September, while use tax collections rebounded from last month. The slower growth in collections may reflect a sluggish real estate market. For the month, revenues were $11.9 million above the forecast.

Individual Income Tax collections were $355.5 million in September, or 10.1% above last year. The following table displays the September and year-to-date growth rates for the individual income tax categories:

Table 2

Individual Income Tax Growth Rates

	September	Year-to-Date
Withholding	(0.5)%	5.0%
Estimated + Final Payments	33.2%	24.8%
Refunds	42.7%	31.9%

Withholding tax collections for September were slightly less than September collections last year, bringing the year-to-date total down to 5.0%. While withholding collections were significantly below forecast for the month, estimated and final tax payments increased markedly from last year, and refunds for the month were again higher than anticipated. Total revenues, therefore, were $(7.9) million below the forecast for the month.

The large increase in payments may reflect a reaction to taxpayers having to make large final payments last spring. Taxpayers may have increased their estimated payment levels

Table 3

General Fund Revenues
Compared to Enacted Forecast and FY 2006 Collections
($ in Millions)

	FY 2007 Collections	Difference From Forecast [1/]	Difference From FY 2006
September	$ 931.7	$ 15.3	$ 73.1
Year-to-Date	$ 2,296.0	$ 9.5	$ 161.2

1/ Enacted FY 2007 budget (June 2006)

to avoid being penalized for underreporting. We have seen no indication that actual tax liability has increased at this rate however, and some of these increased payments may be returned as refunds later in the year.

In addition, it is unclear at this point in the fiscal year why withholding tax collections are below forecast. While the first quarter has been below forecast, so far in October collections are over the forecast.

Corporate Income Tax collections were $191.2 million in September, or 12.2% above last year. September is typically one of the strongest months each year for corporate collections since quarterly payments are due then. For the fiscal year to date, corporate income tax revenues are $16.1 million above the forecast. Corporate profit reports are running consistent with tax collections. The U.S. Bureau of Economic Analysis (BEA) reported that national corporate profits increased 18.5% on a year-over-year basis, while state corporate income taxes rose by 21.2% in 2006's 2nd quarter.

RECENT ECONOMIC INDICATORS

The "final" estimate from BEA for the 2nd quarter of 2006 showed that **U.S. Gross Domestic Product (GDP)** increased at a 2.6% annual rate, somewhat slower than the previous estimate. Personal consumption, exports, and nonresidential construction were among the leading growth categories.

The **U.S. Index of Leading Economic Indicators** edged 0.1% higher in September, interrupting its recent downward trend. Half of the index components increased, including consumer expectations, stock prices and manufacturers' new orders.

Consumer sentiment was much better in September, with the Conference Board's **U.S. Consumer Confidence Index** rising 4.3% from the prior month. Confidence was buoyed by a better assessment of current conditions and a more optimistic outlook for the next 6 months.

A significant improvement in inflation helped to boost confidence in the economic outlook. The 3-month moving

Table 4

RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	September	3.7%	0.1%	(1.1)%
- Jobs	September	2.65 million	1.1%	4.7%
- Contracting Tax Receipts (3-month average)	Jul-Sep	$81.9 million	1.6%	17.9%
- Retail Sales Tax Receipts (3-month average)	Jul-Sep	$163.2 million	(4.5)%	5.0%
- Residential Building Permits - (3-month moving average)				
Single-unit	Jun-Aug	4,687	(13.6)%	(34.9)%
Multi-unit	Jun-Aug	663	(31.4)%	(32.8)%
- Greater Phoenix Existing Home Sales				
Single-Family	September	4,875	(12.2)%	(50.3)%
Townhouse/Condominium	September	930	(15.5)%	(47.5)%
- Greater Phoenix Median Home Sales Price				
Single-Family	September	$256,900	(2.1)%	(2.3)%
Townhouse/Condominium	September	$173,500	2.1%	8.4%
- Arizona Tourism Barometer	June	106.9	3.0%	4.9%
- Phoenix Sky Harbor Air Passengers	June	3.61 million	1.0%	1.1%
- Arizona Average Natural Gas Price ($ per thousand cubic feet)	July	$6.98	3.6%	(1.3)%
- Leading Indicators Index	August	118.6	0.7%	(0.5)%
- Business Conditions Index (>50 signifies expansion)	September	62.7	3.6%	(3.1)%
- Consumer Confidence Index	4th Quarter 2006	105.3	2.5%	7.3%
- Business Leaders Confidence Index	4th Quarter 2006	48.1	(3.0)%	(12.1)%
- Arizona Personal Income	2nd Quarter 2006	$194.3 billion	2.0%	9.8%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	October	1,030,004	0.2%	(2.4)%
- TANF Recipients	August	87,903	2.5%	(11.0)%
- DOC Inmate Growth (3-month average)	Jul-Sep	35,144	170 inmates	2,227 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	2nd Quarter 2006	$11.4 trillion	2.6%	3.5%
- Consumer Confidence Index	September	104.5	4.3%	19.4%
- Leading Indicators Index	September	137.7	0.1%	1.4%
- U.S. Semiconductor Billings (3-month moving average)	Jun-Aug	$3.83 billion	3.6%	18.3%
- Consumer Price Index (3-month moving average)	Jul-Sep	203.4	0.0%	3.3%

average for the **U.S. Consumer Price Index (CPI)** was unchanged in September and stood 3.3% higher than a year ago. Gasoline prices plunged (13.5)% from the previous month while other transportation costs also were falling. Excluding food and energy prices, the core CPI increased 0.2% in September and stood 2.9% higher than a year ago.

The advanced technology sector continued to perform well in recent months. **U.S. semiconductor billings** (3-month moving average) improved 3.6% in August to $3.83 billion, an 18.3% increase from a year ago. The Semiconductor Industry Association (SIA) reported that strong consumer spending pushed PC sales higher, and with falling fuel costs helping to increase spending power, manufacturers were gearing up for what is expected to be a strong holiday season. The SIA noted that semiconductors account for an average of 40% of the cost of products such as cell phones, MP3 players and digital cameras.

The improved economic climate was reflected in recent results for Arizona. The Behavior Research Center's **Arizona Consumer Confidence Index** climbed 2.5% in 2006's 4th quarter and was 7.3% above its level from a year ago. While confidence was essentially unchanged in Maricopa County, the rest of the state showed substantial improvement from the summer months. The latest survey responses suggested that consumers were less pessimistic about business conditions, the job market, and their income prospects.

The latest survey of supply chain managers throughout the state corroborated the results from the consumer sector. The **Arizona Business Conditions Index** (BCI) increased 3.6% to 62.7 in September and remained well above the mark of 50 associated with an expanding economy. The production component, which soared 11.4%, was the main driver in September's performance. The overall index reading continued to hover in the mid-60s range it has occupied for most of the last 3 years.

Arizona's job market continued to perform very well in September. The state's employers added 119,000 jobs in the last 12 months, pushing total **non-farm employment** to 2.65 million, a 4.7% increase from September 2005. All of the goods-producing sectors remained in positive territory, with construction, mining and manufacturing registering increases. The seasonally adjusted statewide **unemployment rate** inched up to 3.7% but remained far below the 4.6% U.S. average.

The good news on Arizona's economy came in spite of the struggling residential real estate market. The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** dropped to $256,900 in September, the first year-over-year decline in 10 years. Meanwhile, the **townhouse-condominium median price** increased 2.1% to $173,500 and was 8.4% higher than a year ago. The number of existing single-family homes sold for the year to date through September 2006 was (41.0)% below the level from a year ago, while the number of multi-family units sold plummeted (31.9)%.

New home construction continued to trace the same downward path. The number of **single-family residential building permits** issued (3-month moving average) declined (13.6)% in August and was (34.9)% below the number issued a year ago. The number of **multi-family housing units authorized** resumed its downward trend, falling (32.8)% on a year-over-year basis.

The **Department of Corrections' inmate population** increased by an average of 170 inmates per month from July through September. The total population increased by 2,227 inmates from a year ago.

The number of TANF recipients increased 2.5% to 87,903 in August and was (11.0)% below the level from August 2005. The **AHCCCS caseload** increased 0.2% in October from the prior month and was (2.4)% below the level from a year ago.

JLBC MEETING

At its October 24th meeting, the Joint Legislative Budget Committee considered the following issues:

JLBC Staff – Approval of Index for School Facilities Board Construction Costs – The Committee adjusted the cost-per-square-foot factors used on the School Facilities Board (SFB) building renewal and new school construction financing by an inflation factor of 12.2%, as requested by SFB. The 12.2% increase was based on an average of Phoenix construction cost indices developed by a project management firm and an international construction consulting group. The 12.2% increase may generate $38.9 million through FY 2011 for new construction authorized in the next year and could also increase Building Renewal costs by $10.5 million to $19.7 million in FY 2008.

The Committee also discussed the adequacy of prior year inflationary adjustments and heard testimony from SFB as well as from representatives from various school districts on the ability of school districts to build a school within the New School Facilities (NSF) formula amount. In addition, the Arizona Chapter of the Arizona Institute of Architects (AIA) requested an increase of 20% for FY 2008.

In FY 2006, SFB funded 38% of their projects over the new construction amount (total additional funding of $20.4 million) and so far in FY 2007, SFB has funded 82% of its projects over the funding amount (for a total additional funding of $9.2 million). SFB can fund above the per square foot factors if they determine that a school cannot be built within the minimum standards under the current funding formula. In FY 2007 SFB has funded K-6 schools at an average of $131 per-square-foot, which is roughly equal to the 12% price adjustment approved by the Committee.

Department of Revenue – Review Business Reengineering/Integrated Tax System Contract Amendment – The Committee gave an unfavorable review to the Department of Revenue's (DOR) amendment to its Business Reengineering/Integrated Tax System (BRITS) contract due to the project being over-budget and not on-time.

The BRITS amendment is expected to cost $14.8 million and would enable the department to finish converting individual income tax collections to BRITS. The $14.8 million would result in foregone revenue to the General Fund ($12.6 million), cities and counties ($1.7 million) and Proposition 301 education programs ($500,000). The $14.8 million contract amendment does not cover all of the original components of the BRITS project which included document imaging and customer relationship management (CRM) capabilities, whose costs could total approximately $10 million.

In addition to the amendment, the Committee also discussed the gain-sharing agreement between the contractor and the state. Under the agreement, the BRITS contractor receives 85% of the increased enforcement revenue attributable to BRITS, with the state receiving the remaining 15%. The Committee had concerns that revenues paid to the contractor may not be attributable to the BRITS system versus other causes like the improved Arizona economy. DOR contends that the BRITS system has generated $182 million in new revenues as a result of the system's implementation.

Beyond the unfavorable review, the Committee also adopted the following provisions: 1) DOR/GITA provide joint monthly status reports on the project until its conclusion; 2) DOR not pursue contract amendments for the document imaging and "customer relationship management" components until the individual income tax is implemented; 3) The Information Technology Authorization Committee (ITAC) report by December 31, 2006 to the JLBC as to improving general procedures for ensuring that all agencies keep them apprised of high dollar value contract changes to automation projects, and GITA's efforts to ensure that they provide sufficient monitoring; 4) JLBC Staff with DOR and OSPB jointly convene an outside panel to evaluate the BRITS baseline calculation and provide feedback regarding the effects of automation versus an improving economy on the increased level of collections; and 5) The Arizona Department of Administration (ADOA) report to the JLBC by November 30, 2006 as to steps to improve agencies' understanding of contract provisions.

Department of Revenue – General Fund Revenue Enforcement Goals – The Committee gave a favorable review to the Department of Revenue's FY 2007 General Fund Revenue Enforcement Goals. DOR's overall General Fund revenue enforcement goal for FY 2007 is $333.4 million, which is $12.1 million, or 3.8% above their FY 2006 goal of $321.3 million. However, the $333.4 million goal for FY 2007 is $(57.6) million or (14.7)% below their FY 2006 actual General Fund revenue enforcement collections of $391.1 million.

DOR's revenue enforcement goal consists of audit revenue, collections revenue, and accounts receivable.

Arizona Department of Administration – Review Emergency Telecommunications Services Revolving Fund Expenditure Plan – The Committee gave a favorable review to the Department of Administration's (DOA) wireless portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan. The expenditure plan allocates $9.4 million for the development and implementation of 911 telecommunication systems. Of the $9.4 million, 1) $1.4 million will be spent on Phase I costs associated with identifying the phone number and nearest cell phone tower of a caller and 2) $8 million will be spent on Phase II costs, which will enable answering facilities to be able to identify the location of the caller.

Arizona Health Care Cost Containment System – Review of Capitation Rate Changes – The Committee gave a favorable review to capitation rate changes proposed by the Arizona Health Care Cost Containment System (AHCCCS) for the Traditional, Proposition 204, KidsCare and KidsCare Parents as well as the Long-Term Care populations. The capitation rate adjustments being sought by the agency were below budgeted levels and are expected to save the General Fund approximately $6.4 million in FY 2007.

Arizona Commission on the Arts – Review of the Arizona Arts Endowment Fund and Private Contributions – The Committee gave a favorable review to the Arizona Arts Endowment Fund and Private Contributions Report submitted by the Arizona Commission on the Arts. According to the report, private contributions to the fund totaled $3.2 million in CY 2005, which was $2 million less than contributions collected in CY 2004. According to the Commission, private contributions decreased due to staff vacancies as well as the retirement of the previous director.

JLBC SUBCOMMITTEE ON ACTUARIAL AUDITS

On October 24, 2006 a JLBC Subcommittee on Actuarial Audits met to hear presentations and recommendations of actuaries contracted by JLBC Staff.

The FY 2006 budget (Laws 2005, Chapter 286) appropriated monies to the JLBC Staff budget to contract with actuarial firms to conduct independent reviews of state-contracted actuarial services. The intent of this appropriation was to provide additional insight to the Legislature regarding state programs where costs are driven in part by actuarial assumptions and rates.

After reviewing the use of actuarial analysis within state government, the JLBC Staff determined that 4 programs had the greatest potential for budgetary impact: the pension systems, the state employee self-funded health insurance program, Title XIX capitation rates, and the state risk management system. Contracts to review existing actuarial assumptions, methods, and conclusions were awarded to 4 companies:

- Pensions: Segal, Inc.
- Employee Health Insurance: Milliman, Inc.
- Title XIX: Lewis and Ellis, Inc.
- Risk Management: ARMTech, Inc.

In most cases, the findings of the reports were favorable. Only in the case of the Public Safety Personnel Retirement System (PSPRS), which also includes the Correction Officers Retirement Plan (CORP) and Elected Officials' Retirement Plan (EORP), were serious concerns raised. These concerns were of sufficient severity that Segal recommended that PSPRS conduct a parallel audit, or a full replication of the valuations and experience studies for all 3 plans, using an independent, third-party actuary. PSPRS expressed concern with several of these findings. While they agreed with some of the findings, they believe them to be largely immaterial in the overall funding of the systems. Nevertheless, PSPRS indicated that they intend to perform parallel audits to identify the magnitude of the problem and correct any errors, as recommended in the findings.

Findings for the Arizona State Retirement System (ASRS) were favorable, with only minor technical recommendations. ASRS either agreed with each recommendation or, in 2 cases, indicated why they believe the recommendations were not relevant, due to plan changes or other factors.

In the Arizona Department of Administration (ADOA) self-insured employee health program, the findings were generally favorable with some recommendations for improvements to methodology and documentation, as well as setting a 10% contingency reserve target in addition to the current Incurred But Not Paid (IBNP) claims target. ADOA indicated that they agreed with the findings, with the exception of the of the reserve target.

The Title XIX programs also received a generally favorable review with recommendations for improved data collection and use, and to change administration funding from a flat percent of program costs. The Department of Health Services (DHS) disagreed with the latter finding.

Findings for the ADOA Risk Management System were favorable, with only minor technical recommendations. In ADOA's response, they indicated that they will discuss each of the recommendations with the actuary who conducts the FY 2007 actuarial reports. The only recommendation with which ADOA had significant concerns was setting caps on the fluctuations of agency rates.

The Subcommittee requested that agencies report back to the full Committee by March 1, 2007 on the implementation of the recommendations found in the reports.

SUMMARY OF RECENT AGENCY REPORTS

Attorney General – Report on Incarceration Costs Offset by Monetary Judgments – Pursuant to A.R.S. § 31-238, the Office of the Attorney General is required to report semi-annually on the use of monetary judgments awarded to inmates to offset the costs of incarceration. According to the statute, if an inmate obtains a monetary judgment against the state, and the state offsets the cost of incarceration from the total amount of the judgment, 70% of the monies set off are transferred to the General Fund and 30% are transferred to the Attorney General's office to cover the cost of litigation. From January 1, 2006 to June 30, 2006, the state did not exercise its right to offset the costs of incarcerating inmates under this statute, since no monetary judgments were awarded during this time period. The agency does, however, indicate that it believes the existing statute results in reduced negotiated settlement amounts, which also discourages the filing of frivolous lawsuits.

Arizona Department of Corrections – Report on Expenditures – Pursuant to Laws 2006, Chapter 344 (General Appropriation Act), the Arizona Department of Corrections (ADC) is required to report on the monthly and year-to-date expenditures for the current and prior fiscal year. The report is also to include potential shortfalls, any estimated surpluses to offset the shortfalls, and a plan for eliminating the shortfall.

Based on the report, the department is estimating a FY 2007 shortfall exceeding $(21.3) million. The budget line items where the department is estimating expenditures above or below the appropriated amounts are as follows:

- Correctional Officer Personal Services - $(10.1) million
- Health Care Personal Services - $7.7 million
- All-Other Personal Services - $4.7 million
- Overtime & Compensatory Time - $(27.2) million
- Employee Related Expenditures - $3.6 million

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 2006 report shows that the average number of children served increased to 44,538, or 3.3% above FY 2005; the number of families served increased by 3.6%. Across categories, the number of children served in the Low Income Working category increased 8.8% and CPS related placements increased by 13.7%, while the number of children receiving transitional child care decreased by (6.9)% and the number of TANF-related children decreased by (14.7)%.

The amount spent by DES on child care subsidies increased to $165,339,198, or 5.4% above FY 2005. The average monthly subsidy paid per child increased $6.19, or 2.0%, to $309.40. This represents a caseload shift to more expensive placements, rather than an increase in rates, as most providers have rates near or at the maximum DES reimbursement. There will be a legislatively-authorized provider rate increase of approximately 4-5% in FY 2007. The total amount of co-payments increased 9.1% from FY 2005 to $14,345,023.

Caseload growth was significantly lower this year than last, as last year's growth rates reflected the end of the child care waitlist. No waitlist was implemented for FY 2006. The department reports that no waitlist is expected in FY 2007.

Department of Economic Security – Semi-Annual Report on CPS Financial and Program Accountability – Pursuant to A.R.S. § 8-818, the Department of Economic Security (DES) has submitted its semi-annual financial and program accountability report. The report includes 7 measures specifically identified in the Special Session legislation as well as 12 other measures requested by the JLBC. The highlights of this report, covering the last 6 months of FY 2006, are summarized below.

- The Child Protective Services (CPS) Training Academy enrolled 196 new case managers and graduated 191, while 186 remain in the 22-week program. This represents a 6% increase in enrollment over the previous 6 months. This increase is due, in part, to newly authorized case manager positions in the FY 2006 budget.
- As of June 2006, case manager caseloads were at or close to the department's goals in 2 of the 3 categories, based on authorized positions. Investigations were at 9.5 (goal: 10), in-home cases were at 19.5 (goal: 19), and out-of-home cases were at 21 (goal: 16). These caseload ratios are nearly unchanged from the previous 6 months. The number of filled positions was 722 of 979 authorized and funded positions. When considering only filled positions, caseloads are considerably higher (investigations: 15, in-home: 29.8, out-of-home: 25.1). These caseload numbers are slightly better than those in the previous 6 months (investigations: 15, in-home: 32.7, out-of-home: 27.5).
- DES reports that annualized case manager turnover during the last 6 months of FY 2006 was at 21.4%, with 102 case managers leaving the Division of Children, Youth and Families (DCYF). The turnover rate varies dramatically by district, from a high of 42.1% in District 4 to a low of 6.3% in the CPS Hotline. For the previous 6-month period, annualized turnover was at 25.4%, losing 113 employees. The report also shows that 182 new case managers were hired over the same time period.
- The percent of CPS dependency cases denied or dismissed in the last 6 months fell slightly from 0.3% to 0.1%, while the percent of Office of Administrative Hearings decisions affirming CPS case findings fell from 83.3% to 82.6%. The percent of complaints validated by the Ombudsman also fell from 6.6% to 3.0% (44 of 1,464 complaints).
- The number of children in out-of-home family placements fell slightly from 7,483 in December to 7,407 in June, while the number of congregate care placements declined from 1,804 to 1,797. DES also reports the number of children aged 0-3 in shelter care, the number of children aged 0-6 in group homes and the number of children in shelter care for more than 21 days. The accuracy of this data is questionable as the caseload numbers changed dramatically for both past and current caseloads compared to the previous semi-annual report.
- DES reports that they have begun to spend federal monies under the Title IV-E waiver for intensive family reunification and continuing services. In the last quarter of FY 2006, DES expended $2,550 for services. They estimate expenditures of $975,600 for the first half of FY 2007.
- At its September 28, 2005 meeting, the Committee asked DES to report on the participation of faith-based organizations in providing services. DES reports that they are planning a Faith Based Summit in association with private and other public interests. They expect the summit to eventually result in the creation of a statewide program similar to Colorado's Project 127, which "recruits churches to support Colorado's child welfare department in meeting the needs of foster children."

Department of Economic Security – Report on JOBS Expenditure Detail and Placement Data – Pursuant to a FY 2006 General Appropriation Act footnote, the Department of Economic Security (DES) is reporting on its education and training activities in the Job Opportunities and Basic Skills (JOBS) program for FY 2006. The footnote stated it was the intent of the Legislature that DES use $4.5 million of its $22.6 million JOBS appropriation to contract with education and training entities to assist JOBS clients in obtaining jobs paying at least $10 per hour. DES reports that while it did expend $4.7 million on education and training services, the average wage was only $8.19 per hour (an increase of $0.18 from FY 2005). DES reports the following difficulties in meeting the legislative intent:

- Demand by JOBS clients for services leading to higher paying placements is low. DES reports that 45% of clients do not have a high school diploma or G.E.D. Most prefer immediate employment to long-term education or training goals.
- The federal government requires the state to meet specific work participation rates. Some training activities likely to produce wages above $10 per hour do not count towards the work participation rate.

The department did provide information on placements and expenditures for FY 2006. It is unclear, however, to what extent these monies were specifically intended for training entities to help clients get $10-per-hour jobs. According to the agency:

- $3.4 million was expended for education services.
- $1.2 million was expended for training related expenses.
- $124,900 was expended for assessment services to clients.
- 4,676 clients received education and training services.
- 22,701 clients gained employment at an average hourly wage of $8.19.

DES also recommends eliminating this reporting requirement with the impending privatization of the JOBS program.

Department of Economic Security – Report on Participating Child Care Programs Operated in Public School Facilities – Pursuant to a FY 2007 General Appropriation Act footnote, the Department of Economic Security (DES) submitted details for each child care program that receives a reimbursement from DES and is operated out of a public school facility. DES reported results of a survey administered to child care providers in the program. With 1,072 of the 1,409 programs responding, DES found that 381 centers reported operating out of public schools. The report did not list details for individual programs, but rather reported summary data. Only 145 of the 381 centers reported their rent costs. The median annual rent cost was $6,347, and the range was between $192 and $110,400.

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 the adequacy and appropriateness of Title XIX Medicaid reimbursement rates to service providers in the developmentally disabled (DD) program. The firm DES hired to conduct the study states that the adopted rates are adequate and appropriate for FY 2007. The Division's inflationary changes in FY 2006 and FY 2007 total 5.6%. The report indicates that this is slightly below what the increase would have been if the Division had used the Home Health Agency Market Basket inflationary changes, which JLBC Staff estimates at 6.0%. If it is the desire to keep the benchmark rates current with inflation for FY 2008, the contracted firm recommends that the Division make a 3.2% adjustment to the benchmark rates to reflect inflation in FY 2008.

Department of Environmental Quality – Report on Progress of Water Quality Assurance Revolving Fund Sites – Pursuant to a General Appropriation Act footnote, the Arizona Department of Environmental Quality (ADEQ) is required to report to the JLBC by October 2, 2006 detailing the remediation status of each site listed on the Water Quality Assurance Revolving Fund (WQARF) registry at the end of FY 2006, and expected progress in FY 2007 and FY 2008. 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.

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 33 of the 35 WQARF sites on the registry, omitting 2 sites. Of the 33 reported sites, 23 were listed in the Early Response Action phase at least partially during FY 2006. Three sites had advanced to the Implementation of Remedy Phase or further during this same period.

By the end of FY 2008, the department anticipates 1 site will be delisted, 28 sites will advance through at least one phase of the WQARF process, and 4 sites are anticipated to remain in the same phase through the end of FY 2008.

A separate General Appropriation Act footnote requires ADEQ to submit a report annually by September 1 to the JLBC on the progress of the WQARF Program. This report provides additional details on the various steps involved in the WQARF program, the annual budget, and remediation work accomplished during the year.

Governor's Council on Workforce Policy – Report on FY 2006 Annual Report – Pursuant to A.R.S. § 41-1542, the Governor's Council on Workforce Policy (GCWP) submitted its annual report to the Committee as well as the Governor, the President of the Senate and the Speaker of the House. Laws 2006, Chapter 331 expands the reporting requirement to include spending on state workforce programs and state specific performance measures, and added the Committee as a recipient. The GCWP only reported spending by agency and did not provide a statewide spending total. The implied total workforce spending for FY 2006 was $657 million. The single largest component of this amount is $286 million for Unemployment Insurance benefits. Of that amount $258 million was for benefits. Among the community colleges, Maricopa County has the largest program, spending $189 million in FY 2006. Pima County had the second highest amount at $25 million. Other large programs in FY 2006 include the JOBS program, which provides employment and training services to TANF recipients ($33 million), Vocational Rehabilitation ($57 million), and the Workforce Investment Act program ($39 million). The Job Training program, which provides incentives to companies to provide training programs, is expected to spend $21 million in FY 2007. Total FY 2006 state workforce development spending was $202 million.

Table 5 shows the total reported funding for FY 2005 – FY 2007 by agency. *Table 6* on the following page summarizes FY 2006 funding by source and agency.

Table 5

FY 2005 – FY 2007 Workforce Development Funding

State Organization	FY 2005	FY 2006	FY 2007 1/
Department of Economic Security	$511,979,615	$431,750,601	N/A 2/
Department of Education	N/A 2/	15,151,473	$14,404,900
Department of Commerce	10,645,575	10,164,575	22,002,400
Community Colleges	N/A 2/	203,467,878	264,393,876

1/ Estimated.
2/ These amounts were not reported by the agency.

Table 6

FY 2006 Workforce Development Funding

State Organization	Total Funds	State	Federal	Other
Department of Economic Security 1/	$431,750,601	$9,242,349	$160,068,208	$262,440,044
Department of Education 1/	15,151,473	4,454,689	10,696,784	-
Department of Commerce	6,832,299	6,207,890	624,339	-
Community Colleges	203,467,878	181,608,266	4,530,063	17,329,549
Total	**$657,202,181**	**$201,513,194**	**$175,919,394**	**$279,769,593**

1/ Estimated.

The report includes federally-required performance measures, but does not include the new state specific performance measures this year. The GCWP reports that these measures will be included in the FY 2007 annual report. The report also excludes the original reporting requirements included in A.R.S. § 41-1542, such as minimum qualifying wage information and performance measures on training individuals and recruiting businesses.

Department of Juvenile Corrections – Consultant's Report on CRIPA Compliance – As a result of 3 youth suicides in FY 2003, DJC was investigated by the U.S. Department of Justice (DOJ) for violations of the Civil Rights of Institutionalized Persons Act (CRIPA). On September 15, 2004, the Governor signed a Memorandum of Agreement that requires the DJC to improve certain programs and facilities, including suicide prevention, special education, medical care, and mental health care. As a contingency of this agreement, the Department of Justice requires a 4-person Consultants Committee to complete CRIPA compliance evaluations every 6 months until the 3-year agreement period ends in September, 2007. This Committee consists of subject matter experts chosen by the involved parties and includes mostly academic scholars. To date, the State of Arizona has provided $11,349,500 in CRIPA-related funding, of which $10,091,000 is ongoing monies.

In the fourth CRIPA Consultant's Report, dated September 15, 2006, the majority of previously identified deficiencies at the Department of Juvenile Corrections have now been labeled as in "Substantial Compliance," indicating that further improvements are not currently required. Remaining issues identified as in "Partial Compliance" relate mainly to internal operations and staffing issues, such as vacancies, retention and recruiting. There are no issues that are in "Non-Compliance." At this time, the consultants have identified no additional items that require further state funding in FY 2008.

Governor's Office of Strategic Planning and Budgeting – Report on Federal Revenue Maximization Initiative – Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative.

The summary lists 9 ongoing projects, a decrease of 1 from the July report. This is the result of finalizing the following project:

- *Medicare Part B*: The Department of Health Services finalized its claims for Medicare Part A and Part B revenues for the period covering October 1, 2003 through December 31, 2005 at Arizona State Hospital. The final amount of $316,900 was close to the $335,000 estimated in June.

In addition to that project there were two other projects with changes since the last report:

- *Targeted Case Management*: The Department of Economic Security reports that no additional revenue will be available for this child welfare-related case management reimbursement for FY 2006.
- *Traumatic Brain Injury Waiver*: AHCCCS reports that the vendor proposing to create a new waiver for those with traumatic brain injury that would allow for a more expansive scope of services has decided not to pursue this after further review.

Department of Public Safety/Arizona Department of Corrections – Report on Take Home Vehicles – Pursuant to Laws 2006, Chapter 344 (General Appropriation Act), the Arizona Department of Corrections (ADC) and Department of Public Safety (DPS) are required to report by October 1, 2006 on department policy and allocations of take-home vehicles that are owned by each department and that do not remain on department property at the end of the work day.

Currently, DPS maintains approximately 1,936 vehicles that are assigned to 1 of 8 different categories based on their intended use. Of the 8 classifications, Category 1 includes vehicles assigned to personnel on a 24-hour basis, allowing the individuals to take-home the vehicles overnight. Category 1 vehicles are also vehicles used by other agency personnel assigned to inter-agency task forces. Vehicles assigned to this category currently total 1,262, or 65.2% of all department vehicles. The remaining 674 vehicles the department operates are not take-home vehicles. As a comparison, in FY 2006 Category 1 vehicles totaled 1,120, or 61.7% of all department vehicles.

A portion of the additional 142 Category 1 vehicles in FY 2007 may be attributed to DPS now accounting for vehicles provided to other agency personnel assigned to inter-agency task forces and vehicles allocated to currently vacant positions. *Table 7* on the following page identifies the number of employees/vehicles by division who are allocated a Category 1 vehicle.

With regard to ADC, their fleet consists of 1,925 vehicles. Of this amount, 71 vehicles (increased from 68 vehicles in FY 2006) are assigned to employees on a 24-hour basis and 48 vehicles are stationed off department property, but on other law enforcement property, at the end of the work day. The remaining vehicles are secured on department property. ADC's policy indicates the director must authorize access to take home vehicles and those vehicles are assigned to specific positions located at various facilities. The majority of vehicles are assigned to Wardens (7), Deputy Wardens (51) and Majors (7).

Table 7

DPS Eligible Take Home Vehicles

Division	**FTE Positions/Vehicles FY 2006**	**FY 2007**
Director's Office	18	26
Highway Patrol - Aviation	15	12
Highway Patrol Bureau	756	851
Criminal Investigations	265	320
Agency Support	42	33
Criminal Justice Support	24	20
Total	**1,120**	**1,262**

Arizona Department of Water Resources – Report on Interstate Water Banking – Pursuant to A.R.S. § 45-2473, the Arizona Department of Water Resources has submitted a report accounting for all monies received through the Interstate Water Banking Agreement with Nevada and for all disbursements made with those monies. In addition, the report also includes monies used to purchase or store water or otherwise fulfill contractual obligations, prepaid monies to the Central Arizona Project, monies received that are placed in an account with the State Treasurer, and any contract that obligates the Arizona Water Banking Authority (AWBA) to pay or disburse these monies to any other entity, including the Central Arizona Project.

In 2001, the AWBA entered into an agreement with the Southern Nevada Water Authority (SNWA) to use its best efforts to store 1.25 million acre-feet of long-term water storage credits for future use by SNWA. In 2004, the agreement was amended and required SNWA to pay AWBA $230 million for delivery and storage of the water. Equal payments of $23 million per year from Nevada to the AWBA will begin in 2009 and continue through 2018.

In the 2004 agreement, SNWA also agreed to pay an additional $100 million to AWBA to guarantee the availability of the 1.25 million credits for Nevada. The $100 million may be used to purchase water prior to receiving the $230 million. If the additional $100 million is not needed to guarantee the credits in the short term, Arizona may use this amount for its own purposes, subject to Legislative appropriation. Any amount used from the $100 million to purchase storage credits will be repaid, with interest.

As of October 2006, AWBA has received the $100 million from SNWA. Of that amount, approximately $37 million has been used to store water for Nevada. By December 2006, the AWBA expects to expend another $28 million to store additional water. As noted above, this $65 million will be repaid with interest.

AWBA estimates that a total of 423,000 acre feet of water, or 34% of the contractual amount, will have been stored on behalf of SNWA by the end of December 2006.

OTHER ISSUES

Safe and Stable Families Program – The Promoting Safe and Stable Families Program is a federal program that helps states provide family support, preservation and reunification services and adoption services. The program was recently reauthorized (P.L. 109-288) and in that reauthorization new monies were added to the Federal Title IV-B, Part 2 appropriation. The new monies, $40 million nationwide, are intended to support monthly caseworker visits to foster children and to provide grants for programs to improve outcomes for children whose parents abuse methamphetamines and other substances.

In FFY 2006, the full $40 million will be used for caseworker visits and the appropriated monies will available for use through FFY 2009. In FFY 2007, all monies will be use to fund the methamphetamine program grants. Only $5 million in FFY 2008 and $10 million in FFY 2009 are designated for caseworker visits, with the remaining amounts for the methamphetamine program grants. In FFY 2010 and 2011, the amount is split at $20 million for each program.

For FFY 2006, the Department of Economic Security (DES) received an additional $940,000 in Title IV-B, Part 2 monies for Arizona's share of this program for caseworker visits to foster children. That amount is available for use through FFY 2009. In FFY 2007, all new monies will be used for competitive methamphetamine program grants, making it impossible to say how much the state might receive; the grants range, however, from $500,000 to $1 million.

In addition to the new monies, the reauthorization included a new federal standard that 90% of foster children receive a monthly visit from their caseworker. This standard must be met by October 1, 2011. Currently, DES reports 65% of foster children, or 6,400 out of 9,990 children, receive a monthly visit. They also report that this number may be understated due to missing or incorrect data in the tracking system.

K-12 Building Renewal Lawsuit – On October 3, 2006, the Arizona Superior Court issued a summary judgment in favor of the state in the K-12 Building Renewal lawsuit. The suit, which was originally filed by 4 school districts in October 1999, alleged that the state's underfunding of the statutory Building Renewal formula was unconstitutional as it resulted in districts being unable to meet the minimum facility guidelines.

Building Renewal funding provides school districts with monies to maintain the adequacy of existing school facilities. Building Renewal monies are for major renovations and repairs, system upgrades to extend the life of a building and infrastructure costs on academic buildings owned by a district. The state began providing school districts with Building Renewal funding in FY 1999. Except for FY 2001, the formula has never been fully funded.

The Court found that the school districts had not made an effort to obtain all sources of state funding to maintain their facilities at the minimum guidelines, and therefore, their claim was premature. Other sources of funding available to school districts include Capital Outlay Revenue Limit (CORL) monies provided by the Arizona Department of Education and Emergency Deficiencies Correction funds provided by the School Facilities Board (SFB). The Court noted that if the plaintiff school districts are denied Emergency Deficiencies Correction monies when they have used all other available funding, their claim may be reinstated.

Sierra Vista Unified School District recently applied to SFB for emergency funding for several items. The board has not made a decision as to whether or not these items qualify for emergency funds.

Tribal Contributions – Pursuant to A.R.S. § 5-601.02, the Arizona Department of Gaming submitted its report on tribal contributions for FY 2006. The Tribal-State gaming compacts require the gaming tribes in Arizona to make contributions to the state on a quarterly basis.

In FY 2006, total tribal contributions were $92,145,300 based on $1,790,475,500 in aggregate gross gaming revenues. Per the Tribal-State gaming compacts, 88% of the tribes' annual contributions are paid to the Arizona Benefits Fund, which is administered by the Department of Gaming. Monies in the Arizona Benefits Fund are distributed as follows:

- 2% - Department of Gaming for the prevention and treatment of problem gambling ($1.6 million).
- 9% or $8 million (whichever is greater) –Department of Gaming for regulation of the state's tribal gaming industry ($8 million).
- 56% of the remaining monies – Instructional Improvement Fund to be used for education ($40 million).
- 28% of the remaining monies – Trauma and Emergency Services Fund to be used for state healthcare programs ($20 million).
- 8% of the remaining monies – Arizona Wildlife Conservation Fund to be used by the Arizona Game and Fish Department ($5.7 million).
- 8% of the remaining monies – Tourism Fund to be used by the Department of Tourism ($5.7 million).

In addition to the monies contributed to the Arizona Benefits Fund, the tribes allocate 12% of their total annual contributions to Arizona cities, towns and counties. These monies are used to provide government services that benefit the general public, including public safety, mitigating the impacts of gaming, and promoting commerce and economic development. In FY 2006, the aggregate amount contributed by all gaming tribes to cities, towns, and counties was $11,057,400.

Overall, FY 2006 tribal contributions grew by 24% over the FY 2005 total. The increase is attributed to strong state population growth, a robust economy, tourism, and the introduction and expansion of gaming and non-gaming amenities such as hotels, spas and golf courses at existing facilities. According to gaming industry reports, in calendar year 2005 Arizona was the third highest grossing tribal gaming state after California and Connecticut.

Looking forward, the Arizona Department of Gaming expects strong tribal contributions growth rates in future years on account of strong visitation figures and tribal gaming expansion. In the first quarter of FY 2007, another gaming facility opened and by FY 2008 the Navajo Nation is expected to open 3 gaming facilities in Arizona. The Tribal-State gaming compacts also stipulate an automatic across-the-board increase in tribal gaming device allocations every five years based on state population growth, which will take effect in February 2008. At present, the Department of Gaming predicts tribal contribution growth rates of 25% in FY 2007, 19% in FY 2008 and 19% in FY 2009.

Table 8

FY 2006 Tribal Contributions

Recipient	Distribution Formula	FY 2006 Actual
State Govt - Arizona Benefits Fund	88% of total	$81,087,900
Local Govt Contribution	12% of total	11,057,400
Total		**$92,145,300**
Arizona Benefits Fund Distribution		
Dept. of Gaming- Regulation	$8M or 9%, whichever is greater	$ 8,000,000
Dept. of Gaming- Problem Gambling	2% of original state amount	1,621,800
Instructional Improvement Fund	56% of remaining monies	40,021,000
Trauma and Emergency Services Fund	28% of remaining monies	20,010,500
Arizona Wildlife Conservation Fund	8% of remaining monies	5,717,300
Tourism Fund	8% of remaining monies	5,717,300
Total		**$81,087,900**

FY 2007 Revenue and Ending Balance Projection – Laws 2006, Chapter 344 requires the JLBC Staff to report to the Committee by October 15, 2006 as to whether the estimated FY 2007 General Fund revenue and ending balance are expected to change by more than $50 million from budgeted projections. In a memo to Committee members, JLBC Staff reported that it did anticipate that FY 2007 revenues and the FY 2007 ending balance will exceed the budget by more than $50 million. The report noted three main factors JLBC Staff anticipated influencing the magnitude of the increase:

- *FY 2006 Revenue Performance:* Preliminary actual revenue collections exceeded the General Fund revenue forecast enacted in June of $9,153.7 million by approximately $126 million. This amount will carry forward into FY 2007.

- *FY 2007 Revenues:* The enacted FY 2007 budget was based on total revenues of $9,478.0 million, which assumed a growth rate of 7.7% in permanent on-going revenues. Based on higher than expected FY 2006 collections, the enacted budget forecast amount results in a growth rate of 6.4%.

  Based on preliminary data, first quarter revenues are up approximately 9.0% above FY 2006 collections, compared to a budgeted growth rate of 8.2% for the period. The budgeted growth rate for FY 2007 assumes that growth will be higher in the first quarter of the year, then decline each quarter, ending the fiscal year with a total growth rate of 6.4% compared to prior year actual collections.

  The growth for the first quarter translates into revenues which are about $19 million above the forecast. Adjusting for approximately $13 million in individual income tax estimated payments, which we believe will ultimately be returned to the taxpayers as refunds in the upcoming tax season, revenues for the first quarter are about $6 million over the forecast. Extrapolating this result to a full year would result in surplus revenue of $24 million.

  The JLBC's four sector consensus model, based on the September Finance Advisory Committee forecast, the base and low University of Arizona econometric model, and the JLBC Staff forecast, provides a forecast of 8.0% growth for FY 2007. With this growth rate, year-end revenues would exceed the forecast by $165 million.

  As result, it is estimated that FY 2007 revenues could exceed the forecast by $24 million to $165 million.

- *FY 2007 Spending:* The FY 2007 ending balance will also depend on whether or not spending projections are met. Some agencies are reporting potential shortfalls, but these may be made up by surpluses elsewhere. Potential surpluses include $20 to $30 million in AHCCCS due to caseloads below forecast, and as high as $7 million in the Department of Health Services also do to lower than anticipated caseloads. These potential surpluses could be offset by a shortfall of $(19) million in the Child Services programs in the Department of Economic Security (DES) due to changes in federal law, as well as higher than expected caseloads. Note that DES is not reporting a department-wide shortfall for FY 2007. Also, the Department of Corrections has indicated that overtime and compensatory time increases could result in a shortfall of $(21) million.

The total impact of the revenue changes noted above is currently estimated at $150 million to $291 million above the FY 2007 ending balance of $174 million in the enacted budget. This estimate will be subject to change during the remainder of the fiscal year. The above amounts include no estimates for potential supplementals.

School Districts' Aggregate Expenditure Limit – Pursuant to A.R.S. § 15-911, Subsection B, the State Board of Education reported on October 25, 2006 that currently budgeted expenditures for all school districts collectively statewide for FY 2007 exceed by $7,984,500 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 2007 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 $100 million in inflation funding and $80 million in new Kindergarten weight funding that were appropriated for FY 2007.

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, 2007 (Article IX, Section 21, Subsection 3). Otherwise on or before March 5, 2007, 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).

State of Arizona
General Fund Revenue: Change from Previous Year and June Forecast
September 2006

	Current Month					FY 2007 YTD (Three Months)				
		Change From					Change from			
	Actual	September 2005		Revised Forecast		Actual	September 2006		Revised Forecast	
	September 2006	Amount	Percent	Amount	Percent	September 2006	Amount	Percent	Amount	Percent
Taxes										
Sales and Use	379,889,665	$36,105,106	10.5 %	$11,880,265	3.2 %	$1,123,816,353	$98,205,563	9.6 %	$16,657,453	1.5 %
Income - Individual	355,502,457	32,543,736	10.1	(7,913,643)	(2.2)	871,975,435	61,363,526	7.6	(22,701,565)	(2.5)
- Corporate	191,161,918	20,781,530	12.2	18,136,518	10.5	262,212,926	33,124,741	14.5	16,094,026	6.5
Property	46,789	(45,485)	(49.3)	46,789	--	438,544	(21,133)	(4.6)	(461,456)	(51.3)
Luxury	5,517,151	(247,515)	(4.3)	(107,849)	(1.9)	16,283,833	259,285	1.6	(591,167)	(3.5)
Insurance Premium	21,970,669	(7,665,509)	(25.9)	(8,929,331)	(28.9)	104,574,281	(4,643,390)	(4.3)	(6,725,719)	(6.0)
Estate	40,505	(1,281,717)	(96.9)	40,505	--	145,219	(8,785,450)	(98.4)	(54,781)	(27.4)
Other Taxes	38,771	(1,882)	(4.6)	(26,354)	(40.5)	152,818	683	0.4	(42,557)	(21.8)
Sub-Total Taxes	$954,167,925	$80,188,264	9.2 %	$13,126,900	1.4 %	$2,379,599,409	$179,503,825	8.2 %	$2,174,234	0.1 %
Other Revenue										
Lottery	3,321,300	929,700	38.9	(1,078,700)	(24.5)	6,694,200	1,836,400	37.8	(1,205,800)	(15.3)
License, Fees and Permits	5,041,510	1,716,411	51.6	1,521,410	43.2	12,499,451	4,464,787	55.6	3,073,351	32.6
Interest	7,571,444	3,878,597	105.0	471,444	6.6	18,275,055	10,651,268	139.7	6,075,055	49.8
Sales and Services	4,330,332	(1,730,014)	(28.5)	(312,568)	(6.7)	9,901,048	(3,421,762)	(25.7)	(1,489,652)	(13.1)
Other Miscellaneous	2,634,229	1,052,992	66.6	1,655,829	169.2	6,034,589	2,290,405	61.2	3,143,589	108.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	600,699	(2,473,916)	(80.5)	(99,301)	(14.2)	797,182	(2,602,953)	(76.6)	(2,302,818)	(74.3)
Sub-Total Other Revenue	23,499,514	3,373,770	16.8 %	2,158,114	10.1 %	54,201,525	13,218,145	32.3 %	7,293,725	15.5 %
TOTAL BASE REVENUE	**$977,667,439**	**$83,562,034**	**9.3 %**	**$15,285,014**	**1.6 %**	**$2,433,800,934**	**$192,721,970**	**8.6 %**	**$9,467,959**	**0.4 %**
One-Time Revenue										
Urban Revenue Sharing	(45,935,888)	(10,500,144)	29.6	0	0.0	(137,807,664)	(31,500,432)	29.6	0	0.0
'05 Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
'07 Disproportionate Share	0	0	--	0	--	0	0	--	0	--
'06 In-Lieu Transfer	0	0	--	0	--	0	0	--	0	--
Sub-Total Transfers In	(45,935,888)	(10,500,144)	29.6 %	0	0.0 %	(137,807,664)	(31,500,432)	29.6 %	0	0.0 %
TOTAL REVENUE	**$931,731,551**	**$73,061,890**	**8.5 %**	**$15,285,014**	**1.7 %**	**$2,295,993,270**	**$161,221,538**	**7.6 %**	**$9,467,959**	**0.4 %**