



This Month

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

“For the first quarter of FY 2008, General Fund collections are almost flat when compared to last year, and are \$(148.1) million less than forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 31, 2007.

September General Fund revenue collections were \$926.5 million, or (0.6)% below September of last year. This amount was \$(59.3) million below the forecast based on the enacted state budget.

For the first quarter of FY 2008, General Fund collections are almost flat when compared to last year, and are \$(148.1) million less than forecast. *(See page 3.)*

Each of the major categories was below the forecast in September:

- Sales tax collections declined (3.4)% compared to September 2006, and were \$(44.2) million short of the monthly forecast.
- Individual income tax collections increased 1.9%, which was \$(22.3) million below forecast.
- Corporate income tax collections were (7.1)% below last year, and \$(17.2) million less than forecast.

JLBC/JCCR Meetings – The Monthly Fiscal Highlights include a summary of the October JLBC and JCCR meetings *(pages 6-8)*. Among the items considered, the JLBC gave a favorable review to AHCCCS’ proposed capitation rate increases. The rate increases are estimated to cost \$9 million more than budgeted for in FY 2008. In addition, the JLBC approved a 2.2% increase in the cost-per-square foot amount allocated for K-12 new school construction projects. The increase is projected to result in an additional cost of \$9.6 million over the next five years, of which \$500,000 would be incurred in FY 2008.

The Highlights also include a summary of recent statutory reports submitted to the JLBC *(pages 9-13)*.

Federal Higher Education Changes – In other fiscal news this month, recently enacted

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federal legislation made several changes to higher education student aid programs. Included among the changes, the family income level under which a student becomes eligible for a Pell grant was raised, and the maximum grant award was increased. In addition, interest rates on Stafford loans were reduced. Funding was also added for certain grant programs. *(See page 14.)*

2008 Super Bowl will generate direct visitor spending of between \$70 and \$110 million, which would result in a state General Fund revenue gain of between \$3.6 and \$5.5 million. *(See page 15).*

Super Bowl Impact – The JLBC Staff, in response to several inquiries, projects that the



“In the first quarter of FY 2008, sales tax revenues are only 0.2% above the first quarter of last year.”

September Revenues

Sales Tax collections were \$366.8 million in September. This amount was (3.4)% below last year, and \$(44.2) million below forecast. In the first quarter of FY 2008, sales tax revenues are only 0.2% above the first quarter of last year. *Table 1* displays the September and year-to-date growth rates for the major sales tax categories.

Looking more closely at retail, in the first 2 months of FY 2008, taxable sales in this category were down (1)% over the same period last year. While there are a total of 17 retail subcategories, 3 subcategories, Motor Vehicle Dealers, Miscellaneous Retail and General Merchandise, make up half of all taxable sales. Combined, sales in these 3 categories were down (5)%, weighted heavily by a (13)% decline in the largest category, Motor Vehicle Dealers. The other 2 categories were essentially flat. Excluding Motor Vehicle Dealers, taxable retail sales were up 2% over the same period last year. Taxable retail sales data for each category are shown in *Table 2* below.

	<u>September</u>	<u>Year-to-Date</u>
Retail	(3.8)%	(1.5)%
Contracting	(6.2)%	(2.8)%
Utilities	(9.6)%	2.2%
Use	3.1%	8.3%
Restaurant & Bar	5.2%	5.0%

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

Individual Income Tax collections were \$362.3 million, or 1.9% above last year. *Table 3* displays individual category growth rates.

	<u>% of Total Sales</u>	<u>YTD % Change Over FY 2007</u>
Manufacturing	5.6%	(1.2)%
Motor Vehicle Dealers	18.6%	(12.8)%
Miscellaneous Automotive	5.5%	(6.1)%
Furniture, Home Furnishings	6.9%	3.6%
Bldg Hardware, Mfg Home	8.1%	(5.0)%
Food and Liquor Stores	7.7%	12.2%
Miscellaneous Retail	11.7%	0.7%
Clothing and Accessories	6.1%	3.7%
General Merchandise	16.7%	0.6%
Other Subcategories	<u>13.3%</u>	<u>6.9%</u>
Total	100.0%	(1.0)%

September Revenues (Continued)

Table 3
Individual Income Tax Growth Rates

	<u>September</u>	<u>Year-to-Date</u>
Withholding	7.6%	6.6%
Estimated + Final Payments	(4.6)%	(2.4)%
Refunds	12.6%	31.8%

September withholding was 7.6% above last year. Although this is a positive level of growth, withholding collections have been inconsistent over the last few months due to the timing of when they are processed. In August, for example, withholding fell (1.1)%.

While withholding increased in September, estimated and final payments declined (4.6)% from last year. Payments for the month were just over \$150 million. September is the first month in which large estimated and final payment revenues are received by the state.

Overall, individual collections were \$6.8 million above last year, which was \$(22.3) million less than forecast.

Corporate Income Tax collections were \$177.6 million in September. This was (7.1)% below last year, and \$(17.2) million below the forecast for the month. While payments were flat when compared with last September, almost \$13 million in refunds was recorded during the month. September is also the first month of large corporate collections. The next big month for collections is December.

Interest income was \$23.3 million, which was \$14.3 million over the estimate for the month. Statute provides for State Transportation Board Fund Obligations (BFO's), which are loans from the General Fund operating balance to the Department of Transportation to accelerate highway construction. The

BFO's are not to exceed \$200 million. Given the manner in which the BFO's are structured, the interest payments come due to the State Treasurer every 4 years.

The September increase includes a \$16.6 million BFO interest payment, partially offset by less than anticipated earnings on the General Fund operating balance. Total BFO interest payments for FY 2008 are anticipated to be \$22.4 million, with the remaining \$5.8 million to be paid in June 2008.

“Overall, individual collections were \$6.8 million above last year, which was \$(22.3) million less than forecast.”



Table 4
General Fund Revenues
Compared to Enacted Forecast and FY 2007 Collections
(\$ in Millions)

	<u>FY 2008</u> <u>Collections</u>	<u>Difference From</u> <u>Forecast</u> ^{1/}	<u>Difference</u> <u>From FY 2007</u>
September	\$ 926.5	\$ (59.3)	\$ (5.3)
Year-to-Date	\$ 2,300.6	\$ (148.1)	\$ 4.6

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

Recent Economic Indicators

NATIONAL

The **U.S. Index of Leading Economic Indicators** increased 0.3% in September, continuing the trend of alternating monthly increases and decreases since January that have essentially offset each other. Seven of the 10 components that make up the composite index increased in September. The building permit component made the largest negative contribution, but was offset by large positive contributions from vendor performance, stock prices, and unemployment insurance claims.

U.S. semiconductor billings increased 3.2% in August (3-month moving average) to \$3.59 billion, though year over year chip sales were down (6.3%). The Semiconductor Industry Association (SIA) states that flash memory products are the leading product contributing to sales growth in this month.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) remained unchanged in September. The year-over-year increase was 2.4%. All sub-indices of the CPI increased slightly in the month of September, but were offset primarily by lower gasoline and natural gas prices in the month of August. Excluding the impact of food and energy prices, the core CPI increased 0.2% in September and was 2.1% higher than a year ago.

ARIZONA

September total statewide **non-farm employment** increased, year over year, by 2.6%. By comparison, the September year-over-year average growth rate in the prior 10 years was 3.4%. Arizona's **unemployment rate** decreased by (10.8)% in September to 3.3%, a historically low figure for Arizona's jobless rate and considerably below the 4.7% U.S. average.

The **construction** sector continued to lose ground with (2,200) jobs lost between August and September, leaving statewide construction employment (5.1)% below the level reported a year ago. The average year-over-year growth rate for September in the prior 10 years was 6.5%.

Manufacturing employment was essentially flat again in September, but compared to the same month last year, the industry is employing (1,300) fewer workers.

The Greater Phoenix real estate market exhibited continued weakness throughout September as the market transitioned into a period of the year when traditionally fewer homes are being bought and sold. Contributing factors to the continued weakness in real estate include the excess supply of homes and tighter mortgage underwriting guidelines.

According to statistics released by the Realty Studies group at Arizona State University (ASU), the number of existing **single-family homes sold** plummeted to 3,051 homes in September, (28.1)% below August levels and (37.4)% below sales in September 2006. To a lesser extent, the **single-family median home sales price** also decreased in September – falling to \$250,000 or (2.7)% below the median September 2006 price.

Consistent with the decrease in sales of existing single family-homes, sales of existing **townhouse-condominium units** fell (28.3)% from the prior month, to 685 units. This reduction in sales activity adversely impacted the prices in September as the price **median sales price** fell (6.8)% to \$170,000.

Statewide **single-family residential building permits** (3-month moving average) fell (9.4)% from the prior period and (26.6)% on a year-over year basis, to 3,440. However, despite this decrease, the comparable number of **multi-family building permits** authorized increased to 789, resulting in month-to-month and year-to-year increases of 7.0% and 18.9%, respectively. Permitting activity of the multi-family segment of the market tends to have significant volatility from month-to-month.

The **Arizona Business Conditions Index (BCI)** dropped (6.0)% to 55.3 in September, marking the third monthly decline in a row in this index. The component of the overall index that has dropped the most in the past two months is the number of new orders recorded, which was down by (21.2)% relative to July. However, the overall index is still above the critical 50-point mark.



“Contributing factors to the continued weakness in real estate include the excess supply of homes and tighter mortgage underwriting guidelines.”

Recent Economic Indicators (Continued)

The number of AHCCCS recipients increased to 1,082,594, 1.2 % above September 2007 levels. This increase is the highest monthly growth rate experienced since November 2004. While AHCCCS participation is now 5.1% above October 2006, the FY 2008 budget projected the AHCCCS caseload would grow by 2.5%.

The number of TANF recipients increased 4.2% to 82,417 in September, above August, and was (6.2)% below the level reported in September 2006. The FY 2008 budget projects the TANF caseload will grow by 2.5%.

Between July and September, the **Department of Corrections' inmate population** increased by an average of 182 inmates per month, similar to the increase realized in FY

2006. The total population grew by 2,345 inmates from a year ago. The budget for FY 2008 anticipates inmate population growth of 1,920, or a net increase of 160 inmates per month.

Table 5

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	September	3.3%	(10.8)%	(17.5)%
- Non-Farm Employment – Total	September	2.74 million	1.1%	2.6%
Manufacturing	September	186,500	0.1%	(0.7)%
Construction	September	240,000	(0.9)%	(5.1)%
- Contracting Tax Receipts (3-month average)	Jul-Sep	\$79.6 million	(2.8)%	(2.8)%
- Retail Sales Tax Receipts (3-month average)	Jul-Sep	\$160.8 million	(1.5)%	(0.4)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jun-Aug	3,440	(9.4)%	(26.6)%
Multi-unit	Jun-Aug	789	7.0%	18.9%
- Greater Phoenix Existing Home Sales				
Single-Family	September	3,050	(28.1)%	(37.4)%
Townhouse/Condominium	September	685	(28.3)%	(26.3)%
- Greater Phoenix Median Home Sales Price				
Single-Family	September	\$250,000	(2.0)%	(2.7)%
Townhouse/Condominium	September	\$170,000	(6.8)%	(2.0)%
- Phoenix Sky Harbor Air Passengers	August	3.60 million	(3.3)%	3.7%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	July	\$7.46	(8.0)%	6.9%
- Leading Indicators Index	July	121.1	1.0%	2.3%
- Business Conditions Index (>50 signifies expansion)	September	55.3	(6.0)%	(10.2)%
- Consumer Confidence Index	3 rd Quarter 2007	101.9	(4.1)%	(0.8)%
- Business Leaders Confidence Index	4 th Quarter 2007	42.5	(15.8)%	(11.6)%
- Arizona Personal Income	2 nd Quarter 2007	\$209.2 billion	1.1%	7.5%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	October	1,082,594	1.2%	5.1%
- TANF Recipients	August	82,417	4.2%	(6.2)%
- DOC Inmate Growth (3-month average)	Jul-Sept	37,489	182 inmates	2,345 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	2 nd Quarter 2007	\$11.5 trillion	3.8%	1.9%
- Consumer Confidence Index	September	99.8	(5.5)%	(5.8)%
- Leading Indicators Index	September	137.9	0.3%	0.1%
- U.S. Semiconductor Billings (3-month moving average)	Jun-Aug	\$3.59 billion	3.2%	(6.3)%
- Consumer Price Index (3-month moving average)	Jul-Sep	208.2	0.0%	2.4%

JLBC Meeting

At its October 18, 2007 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration (ADOA)

– Review of Risk Management Deductible – The Committee gave a favorable review to the Arizona Department of Administration's (ADOA) plan to continue to apply a \$10,000 deductible (the statutory maximum) in risk management cases. Currently, ADOA may charge a \$10,000 deductible for each risk management claim of \$150,000 or more unless the agency implements an ADOA approved plan to limit or eliminate similar future losses.

Arizona Department of Administration – Rule 14(3)(P) - Report on Loss Prevention Plans – The JLBC Staff presented revisions to the format of the loss prevention plans required of agencies with settlements to be approved by the Joint Legislative Budget Committee. Members of the Committee asked staff to provide recommendations on the format of the loss prevention plans which are now required by Committee rules. The recommendations were developed with input from ADOA Risk Management and will apply to all future loss prevention plans.

AHCCCS – Review of Proposed Acute Care and ALTCS Capitation Rate Changes – The Committee gave a favorable review to the capitation rate changes proposed by AHCCCS for the Traditional Medicaid, Proposition 204, KidsCare and KidsCare Parents populations as well as the Arizona Long-Term Care System (ALTCS) Elderly and Physically Disabled population. The proposed rates would cost \$9 million more from the General Fund than budgeted in FY 2008, assuming budgeted caseload levels.

Arizona Commission on the Arts – Review of the Arizona Arts Endowment Fund and Private Contributions – The Committee gave a favorable review of the Arizona Commission on the Arts' report on private monies that are donated for use in conjunction with public monies from the Arizona Arts Endowment Fund. In CY 2006, private contributions were \$4.7 million.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave a

favorable review to the allocation plan for monies received from the Guidant Corporation consent judgment. The Attorney General's Office (AG) recently entered into a multistate settlement agreement with Guidant Corporation as a result of allegations that the company continued to sell a specific model of Implantable Cardioverter Defibrillators (ICDs) after a potentially dangerous malfunction was discovered in early 2002. Arizona will receive \$815,000 as its portion of the settlement monies, which will be deposited into the Consumer Fraud Revolving Fund.

JLBC Staff – Consider Approval of Index for School Facilities Board Construction Costs – The Committee approved a 2.2% increase in the cost-per-square-foot factors for new school construction, which is based on the Pinnacle One index. This adjustment is projected to increase new construction spending by \$9.6 million from FY 2008 through FY 2012. Of that amount, about 5%, or \$500,000, will be expended in the current fiscal year.

Administrative Office of the Courts – Review of Expenditures of Judicial Collection Enhancement Fund and Criminal Justice Enhancement Fund – The Committee gave a favorable review to the expenditures of: 1) \$2.5 million above the Supreme Court Judicial Collection Enhancement Fund (JCEF) appropriation and \$2.5 million above the Criminal Justice Enhancement Fund (CJEF) appropriation in FY 2008 to fund a new case and cash management system, and 2) \$700,000 above the Superior Court JCEF probation surcharge appropriation in FY 2008 for county Adult Probation officer pay raises.

Department of Public Safety – Quarterly Review of the Arizona Public Safety Communication Advisory Commission (PSCC) – The Committee gave a favorable review to the FY 2007 fourth quarter expenditures and progress for the statewide interoperability design project. Fourth quarter expenditures totaled \$524,100. For the entire fiscal year, DPS expended \$1.3 million of \$4.3 million in available FY 2007 funding. Activities in the fourth quarter addressed projects identified in the PSCC timeline relating to both the "short-term" and "long-term" interoperable solutions. The Arizona PSCC was established



JLBC Meeting (Continued)

to develop a statewide standard-based interoperability system that allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies.

Department of Public Safety – Consider Revision of the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Expenditure Plan – The Committee gave a favorable review to the revised GIITEM expenditure plan. The JLBC Chairman requested that the Committee recommend a revision to the GIITEM expenditure plan to increase the Maricopa County allocation by \$634,700. To date Maricopa has received \$1.5 million in funding. The funding will be provided to the Maricopa County Sheriff’s Office for transportation of illegal immigrants and human smugglers to county jails or Immigration and Customs Enforcement (ICE) for processing.

Department of Revenue – Review of Business Reengineering/Integrated Tax System (BRITS) Contract Amendment – The Committee gave a favorable review to the Department of Revenue’s proposed \$4 million contract amendment, which includes \$288,000 for 4 enhancements to individual income tax, and \$3.7 million for vendor operational support through June 2008. BRITS is the computer system being implemented by DOR to further automate and integrate their separate tax systems.

Arizona State University – Review of Downtown Phoenix Campus (DPC) Operational and Capital Plans – The Committee gave a favorable review to the DPC operational and capital plans. Some of the highlights of the plan include:

- The College of Letters and Sciences opened in fall 2007 under the auspices of the University College and will offer liberal arts classes and a bachelor’s degree in interdisciplinary studies.
- According to 21st day counts for the fall semester of 2007, 3,377 students are enrolled in one or more courses at the DPC, an increase of 22% from the prior year.
- ASU entered into an agreement with Capstone Development to construct student housing for 1,200 to 1,300 students set to open in August 2009.

- City of Phoenix expenditures from the \$223 million bond issuance for campus construction and development of civic space now total \$130.7 million.
- By FY 2012, ASU projects operational expenses will be \$90.6 million and will support 790 FTE positions and 7,600 students enrolled in at least one course downtown.
- By fall 2008, the City of Phoenix will develop civic space for public events.

JCCR Meeting

At its October 18, 2007 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Arizona Department of Corrections Door and Lock Replacement Plan – The Committee gave a favorable review to the \$5.2 million Prison Cell Door and Lock Replacement Plan, which will replace a control panel and 408 doors at the Arizona State Prison Complex Tucson, Rincon Unit. This unit was identified by ADC as the highest priority, and the project is expected to be completed in 14 months. In addition to this \$5.2 million, which was appropriated in FY 2007, the department received another \$5.2 million appropriation in FY 2008.

Arizona Department of Transportation – Review of FY 2008 Building Renewal Allocation Plan – The Committee favorably reviewed the \$3.9 million Building Renewal allocation plan, which includes \$3.8 million from the State Highway Fund for 215 projects and contingencies, and \$141,100 from the State Aviation Fund for 6 projects at the Grand Canyon Airport.

Arizona Department of Transportation – Report on 5-year Transportation Plan – The Committee received the ADOT 5-year Transportation Facilities Construction Program for FY 2008 – FY 2012. The information provided estimated expenditures and revenues by fiscal year for major highway projects totaling \$6.6 billion over the 5-year period. The 5-year highway plan did not include the \$62 million appropriated in the FY 2008 budget to accelerate certain highway programs. It also does not include the projects which will be funded from the additional resources associated with issuing 30-year rather than 20-year highway bonds. The Legislature approved the longer bond period in the last session, and it is expected to generate \$500 million in additional

construction financing for ADOT to use in the 5-year program as needed.

Table 6 lists the 17 new projects of \$25 million or more added to the 5-year plan.

The Committee requested that ADOT report on the 5-year Transportation Facilities Construction Program for FY 2009 – FY 2013 by July 31, 2008, and that the report include additional information on how much of the estimated \$500 million of additional bonding capacity from 30-year highway bonds is included in next year's 5-year plan. The Committee also adopted highway congestion performance measures, and requested that ADOT report on spending plans for the \$62 million appropriation for state highway acceleration in FY 2008 by December 15, 2007.

School Facilities Board – Review of FY 2008 Building Renewal Distributions – The Committee gave a favorable review to the proposed distribution of FY 2008 Building Renewal Fund monies in 2 equal installments of \$43.1 million in November 2007 and May 2008. Prior to receiving building renewal monies, statute requires districts to submit a 3-year building renewal plan to SFB by October 15. So far SFB has received 101 building renewal plans.

Table 6

ADOT 5-Year Plan Major Projects

	FY08 – FY12
	(\$ in millions)
<u>North Valley</u>	
I-17 – L101 to Jomax Rd, widen	\$ 95.0
I-17 – Jomax Rd to Carefree Hwy, widen	95.0
I-17 – Carefree Hwy to Anthem Way, widen (STAN advanced)	30.5
L303 (Estrella) – Happy Valley Rd to Lake Pleasant Rd, interim roadway	177.0
L303 (Estrella) – Lake Pleasant Rd to I-17, ROW & interim roadway	174.0
L303 (Estrella) – US 60 (Grand Ave) to I-17, ROW	70.0
<u>East Valley</u>	
L202 (Red Mtn) – 48 th St to Rural Rd, widen	46.3
L202 (Red Mtn) – Rural Rd to L101, widen	61.6
L202 (Red Mtn) – SR 51 to 48 th St, widen	51.9
<u>Southwest Valley</u>	
L202 (South Mtn) – 51 st Ave to I-10, new freeway	450.0
L202 (South Mtn) – I-10 to 51 st Ave, ROW	200.0
<u>West Valley</u>	
I-10 – Verrado Way to Sarival Rd, widen (STAN advanced)	43.2
L303 (Estrella) – I-10/L303, interchange	135.0
SR 85 – Southern Ave to I-10, widen	29.6
<u>Tucson</u>	
Tucson I-10 – I-8 to Picacho Peak, widen	126.0
Tucson I-10 – Valencia Rd, interchange	25.0
<u>Balance of State</u>	
Cottonwood SR 260 – Western Dr to Thousand Trails, widen	25.0

ROW – Right of Way SR – State Route

Summary of Recent Agency Reports



AHCCCS – Report on Medicaid Direct Service Claiming Program – Pursuant to Laws 2007, Chapter 255 the Arizona Health Care Cost Containment System (AHCCCS) is providing its annual report on the Medicaid Direct Service Claiming (DSC) program, formerly known as Medicaid in Public Schools (MIPS). This program has been in operation since January 1, 2001, and is designed to provide funding for certain Title XIX covered services furnished through public school special education programs.

To receive DSC services, children must be between the ages of 3 and 22, be eligible under the federal Individuals with Disabilities Education Act for special education, have a current Individual Education Plan that includes Medicaid eligible services, and be enrolled in AHCCCS. Covered services include nursing services, health aide services (attendant care), occupational therapy, speech therapy, physical therapy, transportation, behavioral health services, and audiology services.

In FY 2007, the DSC program provided payments for 10.2 million claims. This is a decrease of (48)% from FY 2006. In FY 2007, participating schools received a total of \$32,829,459 in Medicaid Federal Financial Participation (FFP) funds, which is a decrease of \$(17,146,234) or (34)% below FY 2006. AHCCCS reports that this reduction primarily impacted Health

Aide and Transportation services. Audit findings indicated the decrease was due to a lack of documentation required of the health aides, which has led to additional training regarding documentation and billing practices. The U.S. Department of Health and Human Services' Office of the Inspector General is also conducting an audit of the program for the period of January 1, 2004 through June 30, 2006. In preliminary discussions, the office has also identified documentation issues, as well as services being paid that are not authorized by the Individual Education Plan. The federal government also recently published proposed rules eliminating administrative cost reimbursement and limiting transportation cost reimbursement.

Table 7 details spending by service type.

The total reimbursement represents approximately 66% of the total cost of the services, while the remaining monies were provided by the participating schools.

AHCCCS – Report on Systematic Alien Verification for Entitlements Program – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) is providing its first quarterly report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program. Laws 2006,

Chapter 191 requires all AHCCCS applicants to provide documentation verifying their immigration status to qualify for AHCCCS services. If AHCCCS determines this documentation to be fraudulent, the applicant is referred for prosecution.

AHCCCS, in conjunction with DES, verified the immigration status of 14,534 individuals between April 1, 2007 and June 30, 2007. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. As a result, no non-citizens were referred for prosecution; however, 2 citizens were referred for prosecution pursuant to State and Federal law regarding fraudulent schemes.

**SAVE Immigration Status Verifications
April 1, 2007–June 30, 2007**

Month	AHCCCS	DES	Total
April	921	3,583	4,504
May	1,028	4,225	5,253
June	1,096	3,681	4,777
Total	3,045	11,489	14,534

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, 2007 to June 30, 2007, the state did not exercise its right to offset the costs of

Table 7

**Direct Service Claiming Reimbursement Paid by Service
FY 2007**

Service Type	Amount Reimbursed	Percentage of Total Amount	Percentage of Total Claims
Health Aid (Attendant Care)	\$11,524,731	35.1%	43.9%
Therapy	10,772,597	32.8%	5.7%
Transportation	7,779,260	23.7%	47.7%
Behavioral Health Service	1,403,528	4.3%	0.8%
Medical Services (Nursing)	1,349,343	4.1%	1.9%
Total	\$32,829,459		

Summary of Recent Agency Reports (Continued)

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 Community Colleges – Report on Dual Enrollment – Pursuant to A.R.S. § 15-1821.01, the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2007. Students in a dual enrollment course can earn both high school and community college credit for courses taught at their high school. Laws 2007, Chapter 229 established new requirements for this report, which include: 1) a list of all members of faculty advisory committees, 2) course level data on the performance of students dual enrolled, 3) the number of grants or scholarships awarded to students, and 4) program costs of the courses. Districts did not all report the new information in the same manner, which made comparison between districts difficult.

Highlights of the FY 2007 report include:

- 39,970 students were dual enrolled (up from 36,750 in FY 2006).
- 1,108 courses were offered, of which 479 courses were classified as Academic and 629 were Occupational (up from 937 total courses in FY 2006).
- Courses were offered at 263 locations in 11 districts.
- 38,367 students, or 96% of those enrolled, completed the course.
- 36,784 students earned a C or better, qualifying those students for both high school and community college credit.
- 4,111 freshman and sophomore students were dual enrolled (up

from 3,571 in FY 2006)

- 3,202 high school seniors who had been dual enrolled in FY 2004 through FY 2005 continued their studies at an Arizona Community College or University in FY 2005 through FY 2006.
- Of those students, 85% received a C or better in their dual enrollment courses, while 96% received a C or better when attending courses at a community college or university. (The data represents prior years due to availability of information from the Arizona State System for Information on Student Transfer system.)

Department of Corrections – Report on the Security Threat Group Unit – The FY 2008 General Appropriation Act (Laws 2007, Chapter 255) includes a footnote requiring the Arizona Department of Corrections (ADC) to continue to maintain the Security Threat Group (STG) unit and report on funding and personnel requirements to facilitate the identification of gang members, including the implementation of an enhanced phone monitoring system, and options for joining the California gang intelligence system (CalGang). The STG unit collects information, gathers intelligence, and validates inmates as being members of prison gangs. Pursuant to this requirement, the following information is available:

- 5 new positions have been added to the STG unit, including 3 investigators and 2 administrative assistants. The additional positions are a result of an agreement with the Department of Public Safety (DPS) whereby DPS will fund 85% of the personnel costs and ADC will fund the remaining 15%.
- ADC currently has access to the Arizona gang intelligence system (GangNet). Previous information provided by DPS indicates measures are underway to allow

GangNet users to connect with CalGang.

- A Request for Proposal for an enhanced inmate phone monitoring system has been issued and will be awarded shortly. The system will be operating 120 days after a provider is selected.

Department of Corrections / Department of Administration – Report on the Status of Public and Private Beds – Laws 2007, Chapter 255 (the Criminal Justice Budget Reconciliation Bill) authorized the construction of 4,000 new public beds and 2,000 new private prison beds. Chapter 255 also requires the Arizona Department of Administration (ADOA) and Arizona Department of Corrections (ADC) to report jointly to JCCR by the end of each calendar quarter on the status of the construction of the new beds.

2,000 Private Beds

ADOA issued a Request for Proposal (RFP) for 2,000 minimum custody private prison beds in August and held a pre-proposal conference in September. While the solicitation seeks proposals to build and operate 2,000 minimum security beds, ADOA has requested optional pricing for a medium security perimeter that would allow medium security inmates to be housed at the facility.

Chapter 255 specifies this RFP was to differ from the previously issued and canceled 3,000 bed RFP from several perspectives, including reducing the number of beds to 2,000, and eliminating ADC as an eligible bidder and any opening date requirements. While the initial 2,000 bed RFP was modified beyond what was authorized in Chapter 255, ADOA issued an amendment to the RFP in October to better conform to the previously issued 3,000 bed RFP. Differences remain between the 3,000 bed and

Summary of Recent Agency Reports (Continued)

2,000 bed RFP's. Some of the key changes are:

- Increased monitoring of private facilities, including daily management meetings, site visits, and an annual review.
- ADC established minimum staffing requirements/ratios for various services provided by the contractor.
- Expanded mental health and substance abuse treatment services.
- A requirement that the contractor assume all healthcare costs.

4,000 Public Beds

ADOA and ADC have jointly determined the construction sites for the 4,000 public beds and provided a project schedule/timeline. Chapter 255 authorized the use of lease-purchase financing for the construction of the beds. Based on the report, all beds will be minimum custody beds with a medium custody perimeter to enable multi-custody use and are to be constructed as follows: 1,000 female beds in Perryville, 1,000 male in Tucson, and 2,000 male beds in Yuma.

According to the schedule, ADOA and ADC anticipate the lease-purchase financing to be available January 2008 and construction commencing August 2008. If achieved, the units would open between April 2009 and December 2009, however, ADOA and ADC believe the construction may be accelerated. If accelerated, the units would open between February 2009 and July 2009.

Arizona Criminal Justice Commission – Report on Statewide Methamphetamine Interdiction Efforts – Pursuant to Laws 2006, Chapter 337, the Arizona Criminal Justice Commission (ACJC) is required to report quarterly on the use of \$3 million appropriated in FY

2007 for increased methamphetamine interdiction efforts by the counties.

All monies have been allocated to counties based on the formula in Chapter 337. ACJC reported that as of June, 31 2007, \$1.6 million had been spent by the counties. Of this amount, 9 counties have spent a total of \$1.5 million in the Arizona Meth Project, a prevention program, modeled after the Montana Meth Project, whose goal is to reduce first-time methamphetamine use among Arizona youth. Maricopa County has taken on the role of project coordinator and has finalized intergovernmental agreements with other counties to use Chapter 337 funding for the project.

The remaining \$143,500 was spent on various school meth education programs, drug task forces, and treatment programs. The remaining unspent funds total \$1.4 million and are unencumbered as of the end of FY 2007.

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 2007 report shows that the average number of children served increased to 44,609, or 0.2% above FY 2006; the number of families served also increased by 0.2%. Across categories, the number of children served in the Low Income Working category increased 6.4% and CPS related placements increased by 8.7%, while the number of children receiving transitional child care decreased by (7.1)% and the number of TANF-related children decreased by (25.1)%.

The amount spent by DES on child care subsidies increased to \$177,077,100, or 7.1% above FY 2006. The average monthly subsidy

paid per child increased 7%, to \$330.80. 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 5% in FY 2008. The total amount of co-payments increased 5.9% from FY 2005 to \$15,184,464.

No waitlist was implemented for FY 2007 and the department reports that no waitlist is expected in FY 2008.

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 2008. The department's inflationary change in FY 2008 is 3.2%, which allows all adopted rates to remain at 100% of the benchmark rates. A provider rate increase to fund this change was included in DES' FY 2008 budget. For CY 2008, inflation for the Home Health Agency Market Basket is estimated at 3.0%; however, the Division of Developmental Disabilities is currently in the process of rebasing the current published rate schedule and the impact that this process will have on the current published rate schedule is unknown at this time.

Department of Economic Security – Quarterly Report on Progress in Meeting Federal Work Participation Requirements – A footnote in the FY 2008 General Appropriation Act

Summary of Recent Agency Reports (Continued)

requires the Department of Economic Security to report quarterly on progress made in meeting federal Temporary Assistance for Needy Families (TANF) work participation requirements.

The federal Deficit Reduction Act (DRA) of 2005 changed the calculation that determines a state's required work participation rate for clients receiving TANF cash assistance. Prior to Federal Fiscal Year (FFY) 2007, the required work rate was reduced based on caseload decline since 1995. With the implementation of the DRA, the reduction is based on caseload decline since 2005. For FFY 2006, DES had a work participation rate of 29.1% and a minimum required rate of 20%. For FFY 2007, it is anticipated that the minimum required rate will be 41%. As of June 30, 2007, the work participation rate in FFY 2007 was 21.5%. Failure to meet the required rate will result in a federal corrective action plan, and potentially fines up to 5% of the Federal TANF Block Grant, about \$10 million. In the report, DES does not discuss what it intends to do to meet the work participation rate, nor what it will do if it fails to meet the required rate.

Game and Fish Department – 2007 Sunflower Shooting Range Feasibility Study – Pursuant to Laws 2007, Chapter 257, the Arizona Game and Fish Department (AGFD) submitted its study to the Joint Committee on Capital Review to determine the feasibility of developing a shooting range near Sunflower, Arizona. The proposed property was formerly operated by the Department of Public Safety (DPS) and has an existing pistol range that DPS used for firearms practice.

The AGFD feasibility study identified several significant issues associated with converting the current site.

First, Special Use permits from the Forest Service on the current site require reclamation and the removal of DPS buildings at the end of the permit cycle.

Additionally, the study determined that the area behind the old range does not have an adequate backstop to stop bullets from hitting a large power line. The range is also proximate to Forest Road 393 and several popular hiking trails. The AGFD determined that they could not sufficiently modify the existing pistol berms for rifle use to protect these features from downrange or wayward bullets.

Also, the footprint of the proposed site would not provide adequate yardage for a rifle range. Further expansion or development of a shooting range at this particular location would also result in adverse impacts to environmental, riparian, and wildlife habitat areas. Finally, the AGFD cites studies that found the maximum amount of time a person is willing to travel to a shooting range is 25 minutes. The site does not meet this standard for the nearest population centers, including Mesa and Payson.

Based on these findings, AGFD does not recommend this site for a shooting range.

Department of Health Services – Report on Homeland Security Allocation and Expenditure Report – Pursuant to A.R.S. § 41-4255, the Department of Health Services (DHS) has submitted a Homeland Security Allocation and Expenditure report. DHS receives 2 federal grants related to bioterrorism and emergency preparedness: the Coordinating Office for Terrorism Preparedness and Emergency Response (COTPER) grant and the Hospital Preparedness Program (HPP) grant. The program years (PY) for these grants run from September 1 through August 31.

Funding from the COTPER grant is allocated to DHS, county governments, and tribal regions for preparedness planning, surveillance, education, and training. From PY 2003 to PY 2007, Arizona was awarded \$92.1 million, of which \$6.2 million was specifically for pandemic influenza preparedness. In PY 2007, the state received \$22.3 million, of which \$7.7 million went to DHS and \$14.6 million was distributed to tribes and counties. Arizona will receive \$19 million from this grant in PY 2008; DHS has not yet determined how monies will be distributed.

The HPP grant provides funding for emergency preparedness at hospitals, community health centers, and DHS. From PY 2003 to PY 2007, Arizona was awarded \$44.8 million. Monies are currently awarded to 71 hospitals and 23 community health centers in addition to DHS. In PY 2007, the state received \$8.7 million, of which \$2.7 million went to DHS and \$6.2 million was distributed to hospitals and community health centers. Arizona will receive \$8.3 million in PY 2008, but DHS has not yet determined how monies will be distributed.

Department of Insurance – Cost Benefit Report for Electronic Transactions – Pursuant to A.R.S. § 35-142 (O) all agencies are required to submit a cost benefit report when the percentage of electronic transactions first exceeds at least 30% of an agency's total transactions. The cost benefit report is required by statute to include the costs of convenience fees, the amount of revenue generated, and any realized cost savings. In April 2007, during the second month in which the Department of Insurance began offering online renewals for insurance licenses through their Insurance Professional License Update System (IPLUS), electronic transactions exceeded 30% of total

Summary of Recent Agency Reports (Continued)

renewal transactions.

The Department of Insurance reports that from April 1, 2007 to August 31, 2007, it processed 3,460 license renewal transactions through IPLUS, representing 47.4% of the 7,307 total license renewal transactions processed. Total costs of electronic charges during this period were \$9,018.33, of which \$622.80 was due to web portal “per-transaction” processing charges and \$8,395.53 from credit card discount fees, and total license revenue generated through the IPLUS system was \$465,900. Overall savings, due to a reduction in processing times and fewer printing and postage costs, was \$16,015.64. All information is based on renewals from April 1 to August 31, 2007.

State Land Department – Quarterly Report on State Trust Land Activities
 – The FY 2007 General Appropriation Act (GAA) provided the State Land Department with \$3.1 million in additional monies for the planning and disposition of state trust lands. A GAA footnote also required the department to submit quarterly reports to the JLBC regarding state trust land activities. During the fourth quarter of FY 2007, the State Land Department completed 8 auctions, selling 448 acres valued at \$203.3 million. The department also completed 2 lease auctions, leasing 151 acres with an appraised value of \$74.2 million. In addition, the department leased 614 acres of State Trust land for right-of-way use valued at \$9.8 million and began or continued planning and engineering studies on 786,400 acres.

For FY 2007 as a whole, the department completed 16 land sales auctions, selling 4,262 acres valued at \$453.7 million. At 5 lease auctions, the department entered into long-term leases for 151 acres of land valued at \$181.8 million. Of the \$453.7 million in total sales

value, \$60 million was received in the fiscal year as cash sales and down payments on financed sales. The balance was financed directly through the Land Department and will be paid off over time.

The department recorded FY 2007 revenues of \$332.3 million. That total includes the \$60 million in cash sales from FY 2006, plus principal and interest payments on financed sales from previous years, payments on commercial and school leases, special use permits, right-of-way applications, natural resources leases, and other revenue sources for the department. Total revenues in FY 2006 were \$409.1 million.

Arizona Department of Public Safety – Report on Sworn Officer Salary Adjustments – Pursuant to Laws 2007, Chapter 255 (General Appropriation Act), the Arizona Department of Public Safety (DPS) is required to report on the allocations for Sworn Officer Salary Adjustments from the Parity Compensation Fund. In addition, DPS was required to report a salary comparison, by classification, of the 5 highest paying law enforcement agencies in the state and those that have an excess of 100 sworn positions.

Pursuant to Chapter 255, \$2,000,000 of the \$2,672,900 appropriated in FY 2008 for sworn salary adjustments was to be distributed to Officer I, Officer II, and Officer III classifications. According to DPS, of the \$2,672,900, \$2,062,000 was distributed to the officer positions, and \$610,900 was distributed to other sworn positions, as determined by DPS.

Of the 14 other agencies with over 100 sworn personnel, starting salaries for DPS officers are 1.7% below the average and DPS sergeants are 9.4% above the average. DPS maximum pay for Lieutenant, Commander and Chief positions are, on average, 2.3% less

than the other agencies with over 100 sworn personnel. Overall, DPS sworn salaries are 14.1% behind the market average or the average salaries in the 5 highest paying law enforcement agencies in the state.

Arizona Board of Regents – Credit Hour Threshold FTE Student Counts – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to report on the number of students that met or exceeded the undergraduate credit hour threshold at universities under ABOR’s jurisdiction during FY 2007. A.R.S. § 15-1626 states that the Legislature shall not appropriate monies to support, and ABOR may differentiate tuition paid by, university students who have exceeded 155 credit hours in FY 2006, 150 credit hours in FY 2007, and 145 credit hours in FY 2008 and each year thereafter. A.R.S. § 15-1626 exempts certain types of credits from the undergraduate credit hour threshold, such as credits earned in a degree program that requires credits above the threshold.

ABOR reports 224 full-time equivalent (FTE) students over the 150 credit hour threshold throughout the Arizona University System as of the 21st day of the fall 2006 semester. *Table 8* below summarizes the number of FTE students in excess of the 150 credit hour threshold by campus:

Campus	FTE Students
ASU - Main	141
ASU - East	16
ASU - West	11
NAU	14
UofA - Main	42
UofA - HSC	0
Total	224

Summary of Recent Agency Reports (Continued)

Arizona Department of Water Resources – Report on Assured and Adequate Water Supply Program Fees

Pursuant to a FY 2008 General Appropriation Act footnote, the Arizona Department of Water Resources (DWR) has submitted the amount of fees collected by the Assured and Adequate Water Supply (AAWS) program.

DWR reports that for the quarter ending September 30, 2007, the department received \$121,282 in revenues to the AAWS Administration Fund. Laws 2005, Chapter 217 established the fund to provide for the costs and expenses incurred by DWR when determining and declaring assured and adequate water supplies. The AAWS Administration Fund consists of monies that are paid to the DWR for applications related to assured and adequate water supplies. Previously, fees were deposited into the General Fund.

Actual collections have been lower than expected, which DWR notes is due to the declining housing market. The department previously estimated total FY 2008 revenues of \$1.1 million.

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 storage 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.

AWBA received the \$100 million from SNWA in 2 installments in 2005, which were deposited in a subaccount with the State Treasurer. In FY 2007, the AWBA did not receive any additional funds from SNWA for the delivery and storage of water pursuant to the Amended Agreement. In FY 2007, AWBA used \$44.3 million to store water for Nevada, compared to \$37 million spent in FY 2006 for this purpose. By December 2007, the AWBA expects to expend another \$6.3 million to store additional water. The ending balance for FY 2007 is estimated to be \$22.7 million. As noted above, this \$50.6 million will be repaid with interest.

AWBA estimates that a total of 529,100 acre feet of water, or 42% of the contractual amount, will have been stored on behalf of SNWA by the end of December 2007.

Other Issues

DEMA Emergency Transfer

The Governor is authorized by A.R.S. § 35-192 to declare emergencies in response to major disasters. This section also allocates \$4 million from the General Fund to the Governor's Emergency Fund every fiscal year for liabilities, expenses, and reimbursements arising from these disasters. Through the end of September \$450,000 had been allocated for 3 emergencies.

On August 28, 2007, \$200,000 was allocated from the Governor's Emergency Fund for damages incurred from the August Nogales Wash flood. An additional \$200,000 was allocated on September 14, 2007, to aid in the repair of infrastructure damage and other emergency needs resulting from July monsoon storms. Lastly, a \$50,000 allocation was made on

September 6, 2007, to help reimburse the Arizona Department of Emergency Management for costs incurred while participating in hazardous material cleanups.

Federal Student Aid Legislation

The College Cost Reduction and Access Act was signed into law on September 27, 2007 by President Bush. The law makes several changes to federal student aid programs, which include: new mandatory funding for Pell grants, several changes to repayment terms for student borrowers, a reduction in interest rates on some federal loans, and more funding for grant programs.

The new legislation also reduces government subsidies to for-profit lenders and also provides an increase in college aid. Below are some highlights of the new legislation.

Pell Grants

The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain post baccalaureate students to promote access to postsecondary education. Below are some recent changes to the grant program:

- Increases the maximum award amount by 12.5% over the next 4 academic years (see Table 9).
- Eliminates the "tuition sensitivity" provision, which currently discourages low-income students from attending low-cost institutions in order to fully benefit

from the Pell grant.

- Increases the family income level under which a student is automatically eligible for the maximum Pell grant from \$20,000 to \$30,000, and indexes this level to the Consumer Price Index.
- Establishes Promise Grants, provided to students with the greatest need who are also eligible for Pell grants.

Academic Year	Maximum Amount
2007-2008	\$4,310
2008-2009	\$4,800
2009-2010	\$4,800
2010-2011	\$5,000
2011-2012	\$5,400

Stafford Loans

Federal Stafford loans are fixed-rate, low interest loans available to undergraduate students attending accredited schools at least half time. Below are some recent changes to the loans:

- Reduced interest rates from 6.8% currently (in academic year 2007) to 6% in 2008, 5.6% in 2009, 4.5% in 2010, and 3.4% in 2011.

New Program Funding

- Provides \$57 million per year in FY 2008 through FY 2011 to restore

funding to Upward Bound programs. These monies provide support to low-income students in their preparation for college entrance. Funding for this program was suspended in FY 2007.

- Provides funding for TEACH grants, which allocate \$4,000 per year for high-achieving graduate and undergraduate students who commit to teaching a high-need subject for 4 years.
- Provides \$25 million per year for College Access Challenge Grants in FY 2008 and FY 2009. These grants are meant to increase postsecondary access to underserved students through a 2:1 match with participating states.

Other Issues (Continued)

Estimated Revenues from Super Bowl XLII

On February 3, 2008 Arizona will host Super Bowl XLII, at the University of Phoenix Stadium. JLBC Staff has received several inquiries as to the projected impact of the Super Bowl on state revenues.

There have been many studies done to estimate total economic impact of such events, including this upcoming Super Bowl. Many of those estimates put the total impact over \$500 million. These estimates include indirect and induced effects, not all of which are easily agreed upon, and in some cases are not taxable.

JLBC Staff has limited its analysis to the impact on state tax revenues. We used several sources, including a study by the Anderson Economic Group (AEG) for the 2006 Super Bowl in Detroit, an analysis from Arizona State University of the 1996 Super Bowl held in Tempe, and a 2003 analysis by Elliot D. Pollack and Company for the Phoenix Civic Plaza.

Using these sources, we have attempted to estimate direct taxable spending by out-of-state visitors who come for the Super Bowl. We have estimated that visitor direct spending would be between \$70 and \$110 million. This would produce state General Fund revenue between \$3.6 and \$5.5 million.

The analysis is based on the following assumptions:

- 90% of fans attending the Super Bowl will be from out of the state (based on estimates from the AEG and ASU studies).
- In addition to the 65,700 out-of-state fans that attend the game, 17,000 fans will visit from out of state without attending the game (based on estimates from the ASU study).
- 70% of visiting fans will rent lodgings at an average room rate of \$200 per night with an occupancy rate of 1.5 visitors per room. The average stay will be 3.6 nights (based on blended estimates from the AEG, ASU and Elliot D. Pollack studies, as well as information from the Arizona Hotel and Lodging Association).
- Average daily spending by visitors will be between \$233 and \$360, including lodging, meals, local travel, and other purchases (based on estimates from the AEG, ASU and Elliot D. Pollack studies).
- The 5% transaction privilege tax (TPT) receipts will be deposited to the state General Fund.

February, Phoenix area hotels are generally about 80% full. Some of these visitors and their associated revenue will be displaced by Super Bowl visitors.

The analysis also excludes the following factors:

- Any increase in corporate or individual income tax due to increased profits or employment resulting from the Super Bowl. It is difficult to determine what revenues are actually generated by the event, especially considering factors like the short duration of the event and that Super Bowl profits and employment displace some existing profit and employment.
- Any TPT collections on the stadium grounds, as they are retained by the Arizona Sports and Tourism Authority (AZSTA).
- Spending by businesses or the host committee associated with the Super Bowl. It is harder to estimate this spending and determine what portion would be taxable.
- Indirect or induced economic activity, which requires difficult economic assumptions.
- Any discount for tourism revenue displaced by the Super Bowl. For example, during January and

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast September 2007

	Current Month					FY 2008 YTD (Three Months)				
	Actual September 2007	Change From September 2006		Forecast		Actual September 2007	Change from September 2006		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	366,842,873	(\$13,046,792)	(3.4) %	(\$44,197,727)	(10.8) %	\$1,126,360,250	\$2,543,897	0.2 %	(\$86,205,850)	(7.1) %
Income - Individual	362,262,598	6,760,138	1.9	(22,312,902)	(5.8)	897,965,536	25,990,098	3.0	(55,304,164)	(5.8)
- Corporate	177,587,061	(13,574,857)	(7.1)	(17,210,239)	(8.8)	240,490,933	(21,721,993)	(8.3)	(30,504,567)	(11.3)
Property	71,007	24,218	51.8	21,007	42.0	427,381	(11,163)	(2.5)	(872,619)	(67.1)
Luxury	6,856,567	1,339,416	24.3	941,567	15.9	14,481,615	(1,802,218)	(11.1)	(3,263,385)	(18.4)
Insurance Premium	31,468,468	9,497,799	43.2	8,768,468	38.6	118,226,506	13,652,225	13.1	6,726,506	6.0
Estate	0	(40,505)	(100.0)	0	--	254,076	108,857	75.0	254,076	--
Other Taxes	36,979	(1,792)	(4.6)	(28,146)	(43.2)	140,879	(11,939)	(7.8)	(54,496)	(27.9)
Sub-Total Taxes	\$945,125,553	(\$9,042,375)	(0.9) %	(\$74,017,972)	(7.3) %	\$2,398,347,176	\$18,747,764	0.8 %	(\$169,224,499)	(6.6) %
Other Revenue										
Lottery	5,678,800	2,357,500	71.0	3,029,100	114.3	9,236,219	2,542,019	38.0	3,404,619	58.4
License, Fees and Permits	2,518,439	(2,523,071)	(50.0)	(1,851,561)	(42.4)	7,945,229	(4,554,222)	(36.4)	(3,381,471)	(29.9)
Interest	23,345,058	15,773,614	208.3	14,320,458	158.7	30,920,217	12,645,162	69.2	13,008,517	72.6
Sales and Services	4,563,544	233,212	5.4	(603,856)	(11.7)	9,771,630	(129,418)	(1.3)	(2,281,070)	(18.9)
Other Miscellaneous	1,752,951	(881,278)	(33.5)	(30,349)	(1.7)	3,342,644	(2,691,945)	(44.6)	(725,356)	(17.8)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	539,014	(61,685)	(10.3)	(170,986)	(24.1)	12,194,367	11,397,185	--	11,064,367	--
Sub-Total Other Revenue	38,397,806	14,898,292	63.4 %	14,692,806	62.0 %	73,410,306	19,208,781	35.4 %	21,089,606	40.3 %
TOTAL BASE REVENUE	\$983,523,359	\$5,855,917	0.6 %	(\$59,325,166)	(5.7) %	\$2,471,757,482	\$37,956,545	1.6 %	(\$148,134,893)	(5.7) %
One-Time Revenue										
Urban Revenue Sharing	(57,044,911)	(11,109,023)	24.2	0	0.0	(171,134,732)	(33,327,067)	24.2	0	0.0
Sub-Total One-Time Revenue	(57,044,911)	(11,109,023)	24.2 %	0	0.0 %	(171,134,732)	(33,327,067)	24.2 %	0	0.0 %
TOTAL REVENUE	\$926,478,448	(\$5,253,106)	(0.6) %	(\$59,325,166)	(6.0) %	\$2,300,622,750	\$4,629,478	0.2 %	(\$148,134,893)	(6.0) %