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“September collections were...\$(152.9) million below the budget forecast”.

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 30, 2009.

Summary



General Fund revenues exceeded spending by \$226 million in September. The state reversed the trend of shortfall months by shifting \$270 million in K-12 school payments from the General Fund to federal funds.

Fiscal year-to-date, General Fund revenues are \$1.80 billion compared to spending of \$2.81 billion, for a 3-month deficit of \$(1.01) billion. Based on the results of the most recent consensus forecast, the fiscal year-end shortfall is now projected to be \$(2.0) billion.

The net September surplus, however, masked a very poor revenue collection month. September General Fund revenue collections were \$706.7 million. Excluding budgeted transfers and Urban Revenue Sharing, September collections were (23.0)% below the prior year, and \$(152.9) million below the budget forecast. *(See Table 1 below and Table 6 on page 5 for more information.)*

Year-to-date, revenues are (16.1)% below the prior year, and \$(233.4) million below the budget forecast.

In comparison, September 2009 General Fund spending was \$480.7 million. *(See Table 2.)* Year-to-date spending is \$(252.5) million less than the prior year.

The net September surplus improved the state’s cash flow and reduced the level of daily borrowing. While the highest borrowing was \$166 million on September 1, the average daily balance was a positive \$9 million. October cashflow declined significantly from

September, as there was no significant use of federal funds as there had been in September. For the month of October, the highest daily borrowing is \$450 million on October 23 and the average daily balance is \$(226) million.

This issue of the [Monthly Fiscal Highlights](#) also includes an update on K-12 cash balances (see page 3) and a summary of the Finance Advisory Committee meeting (see page 11).

FY 2010 Revenues

The (16.1)% decline in September revenues reflects the 14th consecutive month of double-digit declines in General Fund revenue collections compared to the prior year.

Among the major revenue categories:

- September sales tax collections were down (15.9)% compared to September 2008, and were \$(28.5) million short of the monthly forecast. Year-to-date, sales tax collections are down (17.0)% from the prior year, and are \$(72.0) million below forecast.
- September individual income tax collections were down (24.9)% compared to September 2008, and were \$(82.8) million below forecast. September is a large estimated payment month for both corporate and individual income taxes. However, September payments in the individual income tax category were down almost (40)% below last year.

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Summary (continued)

	FY 2010 Collections	Difference From Budget Forecast	Difference From FY 2009
September	\$ 706.7	\$ (152.9)	\$ (123.3)
Year-to-Date	\$ 1,803.9	\$ (233.4)	\$ (479.9)

- September corporate income tax collections were \$(47.2) million below the forecast for the month. Year-to-date, corporate collections are down (38.4)% from the prior year, and are \$(45.2) million below forecast.

FY 2010 Spending

September 2009 spending of \$480.7 million was (\$378.8) million below September 2008. Year-to-date spending is (\$252.5) million below 2009 (See Table 2 below and Table 8 on page 14). The notable September changes included:

- The Arizona Department of Education (ADE) spent \$(269) million less than 2009. In September, \$270 million in federal stabilization monies from the stimulus legislation was used to pay the month's K-12 formula payment.
- Spending in AHCCCS, DHS, and DES remained virtually unchanged from September 2008. The cost of caseload growth in those agencies is being offset by higher federal match from the federal

stimulus legislation.

- University spending was \$56 million higher in September, as they received \$100 million in a payment rolled over from FY 2009. Adjusting for the rollover, FY 2010 year-to-date spending is \$(52.3) million less than FY 2009.
- The School Facilities Board spent \$(80.0) million less in September as the result of technical changes.

FY 2010 Status

The Finance Advisory Committee (FAC) met on October 22nd. (See FAC Summary on page 11). Based on the 4-sector consensus forecast presented at the meeting, FY 2010 revenue collections are projected to decline by (7.2)% for the Big 3 revenue categories. However, JLBC Staff recommended using a more conservative (8.7)% forecast. After adjusting for the smaller tax categories, the overall decline would be (8.2)%.

As noted above, FY 2010 revenue collections are down (16.1)% year-to-date. Given this first

"Year-to-date spending is (\$252.5) million below 2009".

Agency	Sept 09	Change from Sept 08	Year-to- Date	YTD Change from FY '09
Education	\$ 96.6	\$ (269.1)	\$1,083.2	\$ (39.9)
AHCCCS	121.3	2.1	402.9	0.1
Economic Security	17.6	4.9	328.7	(108.6)
Universities	147.3	56.1	321.3	47.7
Corrections	36.9	(38.7)	193.0	(33.0)
Health Services	16.2	(3.8)	152.9	7.9
School Facilities Board	0.1	(79.8)	81.9	(98.0)
Other	44.7	(50.5)	248.9	(28.6)
Total	\$480.7	\$ (378.8)	\$2,812.9	\$ (252.5)

Summary (continued)

“Based on the revised revenue forecast, the overall budget shortfall at the end of FY 2010 increased from the \$(1.5) billion noted in last month’s MFH to \$(2.0) billion.”

quarter performance, revenues could decline by no more than (4.9)% in the remainder of the year to meet the revised forecast.

While total collections are expected to remain relatively flat, percentage declines are expected to moderate in the second half of the fiscal year. The revenue base in the second half of FY 2009 was significantly lower than in the first half, which will make it easier to show smaller percentage reductions.

The revised forecast would result in a FY 2010 revenue shortfall of \$(698) million compared to the enacted budget. Year-to-date, the shortfall stands at \$(233) million.

Based on the revised revenue forecast, the overall budget shortfall at the end of FY 2010 increased from the \$(1.5) billion noted in last month’s MFH to \$(2.0) billion.

The main factors in the shortfall are an FY 2009 ending balance shortfall (\$478 million), the impacts of the FY 2010 budget vetoes (\$483 million), lower than anticipated revenue collections in FY 2010 as noted above (\$698 million), and changes in other FY 2010 budget projections (\$300 million).

Other FY 2010 Projections – This \$300 million shortfall includes \$135 million for supplemental spending in AHCCCS and DHS due to higher than budgeted caseloads. The shortfall estimate also includes \$165 million for potential unrealized budget savings assumed in the FY 2010 budget, including AHCCCS fraud savings and the prison concession agreement.

The budget assumed \$50 million in savings from reducing fraudulent AHCCCS expenditures. Regardless of the actual level

of fraud, neither statutory changes nor significantly revised administrative procedures have been enacted, making substantial new fraud savings unlikely. The budget also assumed \$100 million in an upfront payment from a private vendor in exchange for a long term contract to operate existing state prison facilities. Preliminary feedback suggests that the procurement process will take most of the fiscal year and may prove difficult to generate an upfront payment of that size.

K-12 Cash Balances

The FY 2009 budget included \$300 million in savings from requiring school districts to use their cash balances in place of General Fund monies for that year. If their balances prove insufficient, the state is required to pay the difference by November 2. Districts were required to use cash balances in their 3 main operating and capital funds that exceeded allowable “carry forward” levels. All other funds, such as federal and debt service funds, were exempted.

ADE indicates that districts were able to draw down \$184 million in cash balances. As a result, the state owes the remaining \$116 million by November 2.

The ADE appropriation for FY 2010 includes an estimated \$126 million in surplus funding due to an overestimation of student counts and other technical factors. ADE can use those monies to make the \$116 million payment.

September Revenues

Sales Tax collections were \$287.8 million in September. These revenues were down (15.9)% compared to last September, and were \$(28.5) million below the budget forecast. The September decline marked the 20th consecutive month of year-over-year reductions, and the 11th consecutive month of double digit declines compared to the previous year. *Table 3* displays the September growth rates for the largest categories.

Table 3

Sales Tax Growth Rates Compared to Prior Year

	<u>Sept</u>	<u>YTD</u>
Retail	(12.2)%	(12.2)%
Contracting	(40.5)%	(39.4)%
Utilities	(3.6)%	(1.1)%
Use	(12.9)%	(24.9)%
Restaurant & Bar	(6.6)%	(5.1)%

September Revenues (Continued)

“The September [sales tax] decline marked the 20th consecutive month of year-over-year reductions, and the 11th consecutive month of double digit declines compared to the previous year”

As noted in previous months, retail and contracting together account for about 30% of all sales tax revenues. The retail sector decreased by (12.2)% in September, and contracting fell by (40.5)%.

As noted in *Table 4* below, September taxable sales in the retail category are down (12.2)% from September of the prior year. The largest subcategory within retail is the General Merchandise and Miscellaneous Retail category, which is down (8.1)%. Motor Vehicles, which represents 20.5% of the total, is down (12.4)% compared to September of the prior year.

Sales tax collections in the Motor Vehicles subcategory declined less than in the preceding 2 months, perhaps resulting from the “cash for clunkers” vehicle program, which began in late July. The (12.4)% decrease in this category is a slight improvement from the (16.0)% decrease in the prior month.

Individual Income Tax net revenues were \$267.0 million in September. Collections were down (24.9)% compared to the prior year, and were \$(82.8) million below the budget forecast. Year-to-date collections are down by (14.0)% and are \$(45.2) million off the forecast amount. *Table 6* displays September growth rates for individual categories.

As indicated in the table below, withholding tax payments declined by (10.9)% in September, the 12th consecutive month of year-over-year declines. The state has not suffered that many months of year-over-year declines since at least 1960.

Table 5
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>September</u>	<u>YTD</u>
Withholding	(10.9)%	(6.1)%
Estimated + Final Payments	(38.3)%	(35.4)%
Refunds	53.2%	21.2%

As noted *Table 5* above, September payments in the individual income tax category were almost (40)% below last year, and fell \$(42.2) million short of projections.

Year-to-date, individual income tax collections are down by (14.0)% compared to the same period last year, and are \$(113.6) million below forecast.

Corporate Income Tax collections were \$67.9 million in September, or (48.6)% below last year. Collections were \$(47.2) million below forecast for the month. As noted above, September is a large estimated payment collection month for the corporate income tax category. However, collections were significantly below forecast. Year-to-date, corporate collections are (38.4)% below last year, and \$(45.2) million below the budget forecast.

The **Lottery Commission** reports that ticket sales for the month of September were \$41.8 million, which was \$2.9 million above sales in September 2008, an increase of 7.0%. A total of \$9.2 million has been transferred to the General Fund as of September 30th.

Table 4
September Taxable Retail Sales by Subcategory

	<u>% of Total Sales</u>	<u>% Change Over FY 2009</u>
General/Misc. Merchandise	30.7%	(8.1)%
Motor Vehicles/Misc. Auto.	20.5%	(12.4)%
Bldg Materials and Supplies	7.5%	(11.0)%
Food and Liquor Stores	7.4%	(9.8)%
Furniture, Home Furnishings	6.9%	(27.5)%
Clothing and Accessories	5.8%	(11.4)%
Manufacturing	5.5%	(16.7)%
Other Subcategories	<u>15.7%</u>	<u>(14.1)%</u>
Total	100.0%	(12.2)%

State of Arizona

General Fund Revenue:

Change from Previous Year and Budget Forecast September 2009

	Current Month					FY 2010 YTD (Three Months)				
	Actual September 2009	Change From September 2008		Forecast		Actual September 2009	Change from September 2008		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	287,828,224	(\$54,447,081)	(15.9) %	(\$28,453,662)	(9.0) %	\$866,060,935	(\$177,646,829)	(17.0) %	(\$72,048,861)	(7.7) %
Income - Individual	267,006,805	(88,386,236)	(24.9)	(82,807,030)	(23.7)	732,901,225	(119,532,907)	(14.0)	(113,615,698)	(13.4)
- Corporate	67,946,447	(64,137,055)	(48.6)	(47,191,853)	(41.0)	107,443,432	(67,085,739)	(38.4)	(45,157,368)	(29.6)
Property	35,987	(7,363)	(17.0)	19,987	124.9	264,245	(6,424)	(2.4)	(19,755)	(7.0)
Luxury - Tobacco	2,770,000	52,019	1.9	0	0.0	7,498,679	(437,275)	(5.5)	(633,321)	(7.8)
- Liquor	2,200,000	68,853	3.2	0	0.0	6,161,918	(523,344)	(7.8)	(728,082)	(10.6)
Insurance Premium	45,583,042	7,209,130	18.8	8,368,042	22.5	129,828,739	4,973,487	4.0	203,739	0.2
Estate	0	18,466	(100.0)	0	--	294,106	289,910	--	294,106	--
Other Taxes	33,767	(4,033)	(10.7)	(18,733)	(35.7)	124,318	(6,623)	(5.1)	(33,182)	(21.1)
Sub-Total Taxes	\$673,404,272	(\$199,633,300)	(22.9) %	(\$150,083,249)	(18.2) %	\$1,850,577,597	(\$359,975,744)	(16.3) %	(\$231,738,422)	(11.1) %
Other Revenue										
Lottery	3,447,000	1,030,500	42.6	347,000	11.2	6,206,200	1,383,200	28.7	6,200	0.1
License, Fees and Permits	1,827,124	(642,812)	(26.0)	(1,432,876)	(44.0)	6,833,157	(941,514)	(12.1)	(2,441,843)	(26.3)
Interest	10,487	(2,905,344)	(99.6)	10,487	--	1,176,475	(3,947,982)	(77.0)	1,176,475	--
Sales and Services	3,266,877	(581,263)	(15.1)	(1,283,123)	(28.2)	7,630,728	(1,195,073)	(13.5)	(2,589,272)	(25.3)
Other Miscellaneous	3,385,184	(783,011)	(18.8)	1,385,184	69.3	9,860,735	912,169	10.2	3,860,735	64.3
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	597,000	(1,225,361)	(67.2)	(1,803,000)	(75.1)	5,555,605	1,427,513	34.6	(1,644,395)	(22.8)
Sub-Total Other Revenue	12,533,672	(5,107,291)	(29.0) %	(2,776,328)	(18.1) %	37,262,900	(2,361,687)	(6.0) %	(1,632,100)	(4.2) %
TOTAL BASE REVENUE	\$685,937,944	(\$204,740,591)	(23.0) %	(\$152,859,577)	(18.2) %	\$1,887,840,497	(\$362,337,431)	(16.1) %	(\$233,370,522)	(11.0) %
Other Adjustments										
Urban Revenue Sharing	(52,387,052)	8,252,731	--	0	0.0	(157,161,157)	24,758,193	--	0	0.0
Budget Plan Transfers	73,188,960	73,188,960	--	0	0.0	73,188,960	(142,357,832)	(66.0)	0	0.0
Sub-Total Other Adjustments	20,801,908	81,441,691	-- %	0	0.0 %	(83,972,197)	(117,599,639)	-- %	0	0.0 %
TOTAL REVENUE	\$706,739,852	(\$123,298,900)	(14.9) %	(\$152,859,577)	(17.8) %	\$1,803,868,300	(\$479,937,070)	(21.0) %	(\$233,370,522)	(11.5) %

Economic Indicators

NATIONAL

According to the first (“advance”) estimate of the **U.S. Real Gross Domestic Product (GDP)** for the 3rd quarter of 2009, the nation’s economy grew at an annual rate of 3.5% following 4 consecutive quarters of decline. With the economy growing again, many economists believe that the recession probably ended in June this year. A little less than 1% of real GDP growth was due to a slower rate of inventory decumulation than in the prior quarter. Consumer and business spending, as well as residential fixed investment, and exports all returned to growth in the 3rd quarter.

In October, the Conference Board’s **U.S. Consumer Confidence Index**, a measure based on a survey of 5,000 U.S. households, stood at 47.7, down (5.7) points from a revised September level of 53.4. Despite the sharp decline, which is due to a deteriorating view of both the present conditions and future expectations, the measure is up 8.9 points from October 2008 levels. Playing a major part in the decline is consumers’ current and future view of the labor market.

The Conference Board’s **U.S. Index of Leading Economic Indicators** rose for the sixth consecutive month in September, with a month-over-month increase of 1.0%. The index, which is designed to anticipate economic activity 3 to 6 months in advance, indicates that the national economy has begun to recover. Eight of the 10 components that make up the index improved in September. The largest positive contribution came from the interest rate spread between the yield of 10-year Treasury Bonds and the Federal Funds rate, which is primarily the result of the Fed’s ongoing monetary stimulus programs.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.2% in September. The rise in energy, vehicle, and medical-care prices was partly offset by falling food prices and rent. The CPI is now (1.3)% below last year’s level. Excluding food and energy, core consumer prices inched up 0.2% in September. The core CPI has risen by 1.5% over the last 12 months.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. totaled \$3.25 billion in August, the largest amount since July 2008. The decline in year-over-year sales has

now fallen from a high of (26.2)% in December 2008 to a low of (2.3)% in August this year. The outlook for the semiconductor industry has improved markedly over the last few months.

ARIZONA

While the Arizona economy still appears to be in a recession, there are indications that suggest that the decline in economic activity is moderating. This can be inferred from a number of economic measures, such as personal income, nonfarm employment, initial claims for unemployment insurance, consumer confidence, and air passenger traffic. However, any improvement in coming months will be largely dependent on the conditions in the housing market. A strong and sustainable recovery will likely not occur until foreclosure-related sales return to more normal levels.

As reported in the last 2 issues of *Monthly Fiscal Highlights*, the Federal Reserve Bank’s coincident index is a relatively new measure designed to gauge current economic activity in the nation’s 50 states, including Arizona. The index combines four state-level indicators into a single statistic: nonfarm payroll employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

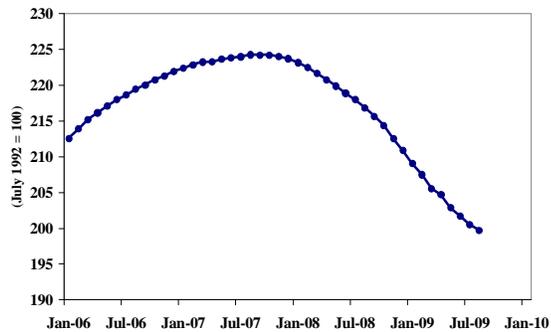
The most recent release of the index shows that economic activity in Arizona fell by (0.5)% in September. This was the 23rd consecutive month the Arizona coincident index declined. The index was (8.3)% below the reading in September 2008. By way of comparison, the national index declined by (0.1)% in September and was (3.4)% below last year’s level. The Fed reported that the index increased in 9 states nationwide.

The graph below, which shows the history of the Arizona coincident index, suggests that economic activity in the state has not yet reached its bottom.

“The most recent release of the [coincident] index shows that economic activity in Arizona fell by (0.5)% in September. This was the 23rd consecutive month the Arizona coincident index declined.”

Economic Indicators (Continued)

Arizona Coincident Economic Activity Index



“The state has lost (305,000) jobs since employment peaked in December 2007.”

The federal Bureau of Economic Analysis (BEA) recently released revised **state personal income** figures going back to 1969. The BEA revision revealed that both the previous level and growth of personal income in Arizona were understated. For example, under the revised estimate, the amount of Arizona personal income was understated by more than 3% in the period between 1999 and 2008.

The BEA release also indicated that Arizona personal income declined at a seasonally adjusted annual rate of (0.3)% in the second quarter of 2009. This should be compared to the much steeper decline of (8.0)% in the prior quarter.

The most recent employment report by the Arizona Department of Commerce shows that the state added 10,600 **nonfarm payroll jobs** in September. This was only a third of the job gains that are typically reported for this month, as teachers and other individuals hired by schools and universities return to work. September’s year-over-year loss in nonfarm employment was (7.5)%, or (195,800) jobs. Employment data indicates that labor market conditions have remained largely unchanged in the last 5 months. The state has lost (305,000) jobs since employment peaked in December 2007.

The **construction sector** shed (900) jobs in September. The industry now employs (45,800) or (26.4)% fewer workers than a year ago. At the height of the housing boom, the construction sector employed 9.5% of the state’s workforce compared to 5.7% today.

The **manufacturing sector** incurred a net loss of (300) jobs in August. Some segments of the manufacturing industry fared better than others. For example, the nondurable goods

manufacturing sector (e.g., food and paper production) added 500 new jobs in September: whereas, the durable goods manufacturing sector (e.g., computer and aerospace production) shed (800) jobs in the same month. The manufacturing industry as a whole employs (13,300) or (7.7)% fewer workers than a year ago.

The **average weekly hours** of production workers in manufacturing industries is a leading indicator since “factory hours” tends to lead the business cycle as employers usually adjust work hours before increasing or decreasing the size of their workforce. According to the Department of Commerce, average weekly hours in September remained unchanged at 38.1 hours. This was (6.8)% below the level recorded one year ago. Manufacturing employment is not expected to improve until the average workweek begins to increase.

The state’s **unemployment rate** in September was 9.1%, the same as in the prior month. While this is a slight improvement from the 9.2% unemployment rate reported for the month of July, it is important to note that most economists still expect unemployment to rise as the economy begins to recover. The reason for this is that as the economy begins to improve, discouraged workers who previously opted to leave the labor force will now resume their job search. This helps to explain why the unemployment rate is considered a lagging indicator.

Under an alternative measure of labor underutilization provided by the federal Bureau of Labor Statistics (BLS), the state’s unemployment rate reached 17.2% between the 4th quarter of 2008 through the 3rd quarter of 2009. This is a broader measure that also includes underemployed (individuals who are working part time for economic reasons but who would prefer full time employment) and discouraged workers.

The Department of Commerce reported that 30,654 **initial claims for unemployment insurance** were filed in September, an increase of 26.7% over last year. On the bright side, however, this was the lowest number of claims since November 2008. Claims for initial unemployment insurance appear to have peaked in April when more than 41,000 individuals filed for benefits. For the week ending on October 3, a total of

Economic Indicators (Continued)

104,228 Arizona residents filed for continued claims for jobless benefits. Claims appear to have peaked in the first week of August when 116,600 residents filed for continued benefits.

Based on data released by the U.S. Census Bureau, an average of 1,472 building permits were issued each month between July and September 2009. This amount includes an average of 1,317 **single-family residential building permits** authorized and 154 **multi-family permits**. On a month-over-month basis, the number of single-family permits issued decreased (11.8)% while the number of multi-family permits issued increased 29.0%. Year-over-year, activity in the single family segment decreased (8.2)%, while permits in the multi-family segment is down (71.7)%.

Based on ASU's September real estate report, the **single-family median resale home price** was \$139,800 based on 9,070 **single-family existing home sales**. The median resale price in the single family segment remained relatively unchanged for the third straight month. Relative to a year ago, however, prices have fallen (17.3)%. Since the June 2006 high of \$267,000, prices have fallen (47.6)%. The 9,070 transactions were similar to August levels but were 9.5% above levels a year ago.

In the multi-family segment, ASU's report indicates there were 1,175 **townhouse-condominium median** transactions with an average **sales price** of \$102,430. The total number of units bought and sold represents an increase of 46.9% above levels a year ago, while the year-over-year median resale price decreased (26.4)%.

The **S&P/Case-Shiller Home Price Index** measures housing prices based on repeat sales. Utilizing August data, the index for the Phoenix metropolitan area measured 108.41— similar to the levels seen in May 2001. At its current level, the index, and therefore housing prices, increased 1.6% relative to the prior month (July). This increase marks the third consecutive month-over-month rise in housing prices. These increases, however, are following decline in the index that lasted for 35 straight months. Year-over-year, the index suggests prices have declined (25.1)%. Relative to peak in June 2006 (227.42), the index is down (52.3)%. For comparison, the 20 metropolitan area index is down (30.1)% from its peak in July 2006.

Based on MLS data, the seasonally adjusted **month's supply of housing** indicator fell by (0.2) months between August and September. The measure currently suggests that it would take 5.7 months to deplete the current inventory of unsold homes. At this level, the supply of housing is (3.0) months less than it was a year ago and (11.0) months below the September 2007 high of 16.7 months.

A total of 3.17 million passengers entered and exited aircraft at the **Phoenix Sky Harbor International Airport** in August. This was a decline of (4.3)% from the same month in the prior year. Year to date, air passenger traffic is down by (8.1)%. Although air passenger traffic is still significantly below pre-recession levels, the year-over-year declines have moderated considerably over the last few months.

According to the Behavior Research Center's September **Arizona Consumer Confidence Index** report, consumer confidence increased 16.9 points (relative to January's report) to a level of 60.2. The significant increase is primarily attributed to consumer's belief that current business conditions as well as employment opportunities will improve late this year and early next year. Arizona consumer confidence reached an all time low of 44.2 in January 2009. The consumer confidence level at this time a year ago was not available.

The sharpest and longest recession in postwar history has not only resulted in record-large declines in tax receipts but also led to a surge in the demand for state health and welfare services, evident from the caseload data presented below.

In October, **AHCCCS caseloads** increased to a total of 1,329,721 members, 0.2% above the number of recipients in the previous month. AHCCCS caseloads are currently 17.7% above October 2008 levels. The FY 2010 budget funded a projected June caseload growth of 10.7%, for a total of 1,388,147 members.

There were a reported 85,799 **TANF recipients** in the state in August, which represented a monthly caseload increase of 1.1%. August's year-over-year increase was 6.3%. The FY 2010 budget assumed that the June 2010 TANF caseload would be 84,287.



Economic Indicators (Continued)

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In August, there were a total 948,214 food stamp recipients in the state, an increase of 2.4% over the prior month. Compared to the same month last year, food stamp participation was up by 35.5%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The **Department of Correction's (ADC) inmate population** increased to a 3-month average count of 40,579 inmates between July and September 2010. This equates to an average monthly increase of 63 inmates and a year over year increase of 1,488 inmates. In FY 2010, the department was funded for growth of 151 inmates per month.

With the exception of Maricopa County, the state and counties throughout the state typically share the costs of **adult and juvenile probation programs**. Maricopa County, however, has assumed all costs associated with adult and juvenile probation programs. Utilizing adult and juvenile probation data from June from August, respectively, the non-Maricopa probation caseload was 20,145 individuals, virtually unchanged from the prior period and a decrease of 274 probationers from a year ago. In Maricopa County, there were 26,421 probationers during the period, (778) less than the prior month and (4,854) less than a year ago.

Economic Indicators (Continued)

Table 7

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	9.1%	0.0%	3.1%
- Initial Unemployment Insurance Claims	September	30,654	(6.4)%	26.7%
- Non-Farm Employment – Total	September	2.41 million	0.4%	(7.5)%
Manufacturing	September	160,000	(0.2)%	(7.7)%
Construction	September	137,700	(0.6)%	(25.0)%
- Average Weekly Hours, Manufacturing	September	38.1	0.0%	(6.8)%
- Contracting Tax Receipts (3-month average)	Jul-Sep	\$39.6 million	(5.9)%	(39.4)%
- Retail Sales Tax Receipts (3-month average)	Jul-Sep	\$129.2 million	(2.7)%	(12.2)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jul-Sept	1,317	(11.8)%	(8.2)%
Multi-unit	Jul-Sept	154	29.0%	(71.7)%
- Greater Phoenix Existing Home Sales				
Single-Family	September	9,070	(0.1)%	9.5%
Townhouse/Condominium	September	1,175	3.1%	46.9%
- Greater Phoenix Median Home Sales Price				
Single-Family	September	\$139,800	0.6%	(17.3)%
Townhouse/Condominium	September	\$102,430	(1.0)%	(26.4)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	August	108.41	1.6%	(25.1)%
- Months Supply of Housing, (ARMLS)	September	5.7 months	(0.2) months	(3.0) months
- Phoenix Sky Harbor Air Passengers	August	3.17 million	(5.9)%	(4.3)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	July	\$6.27	11.8%	(30.3)%
- Arizona Consumer Confidence Index (1985 = 100)	3 rd Quarter 2009	60.2	26.6%	NA
- Arizona Coincident Index (July 1992 = 100)	September	197.72	(0.5)%	(8.3)%
- Arizona Personal Income	2 nd Quarter 2009	\$217.3 billion	(0.1)%	(3.3)%
- Arizona Population	July 1, 2008	6.50 million	146,759	2.3%
- AHCCCS Recipients	October	1,329,721	0.2%	17.7%
- TANF Recipients	August	85,799	1.1%	6.3%
- SNAP (Food Stamps) Recipients	August	948,214	2.4%	35.5%
- ADC Inmate Growth (3-month average)	Jul-Sep	40,579	63 inmates	1,488 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	June/August	20,145	8	(274)
Maricopa County	June/August	26,421	(778)	(4,854)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	3 rd Quarter 2009	\$13.0 trillion	3.5%	(2.3)%
- Consumer Confidence Index (1985 = 100)	October	47.7	(10.7)%	22.9%
- Leading Indicators Index (2004 = 100)	September	103.5	1.0%	2.9%
- U.S. Semiconductor Billings (3-month moving average)	Jun-Aug	\$3.25 billion	5.4%	(2.3)%
- Consumer Price Index, SA (1982-84 = 100)	September	215.79	0.2%	(1.3)%



FAC Meeting

At its October 22, 2009 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund revenues and the state budget, along with an outlook on both the national and state economy. The FAC is a 15-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

JLBC Staff provided members with the latest 4-sector consensus estimates for “Big 3” revenue collections. The 4-sector consensus estimate is a composite of equally weighted estimates from:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model;
- The FAC panel; and
- JLBC Staff.

As described earlier, the 4-sector consensus forecasts a (7.2)% decline for FY 2010. For FY 2011, each component of the 4-sector consensus showed improvement over FY 2010, from a low growth of 5.7% to a high growth of 13.0%. The weighted average of the 4 components of the consensus forecast was 7.8%.

Based on current trends, this rate of revenue growth would result in an estimated budget shortfall for FY 2011 of \$(3.3) billion. This estimate assumes no carryover of the FY 2010 shortfall. To the extent that any FY 2010 solutions were on-going, the FY 2011 shortfall would be reduced.

Panel members heard formal presentations from Jim Rounds and the State Treasurer, Dean Martin, in addition to comments from Pete Ewing, Lisa Danko, Brian Carey, Randie Stein, and Marshall Vest.

The presenters generally opined that the national recession has come to an end whereas the Arizona economy is still contracting, albeit at a slower rate than in previous months. They noted that the national recovery will likely pull along the Arizona economy as it begins to improve.

Some presenters also noted that the economy may initially generate some impressive growth rates in such areas as permitting activity and

retail sales due to the fact that such measures fell to record low levels during the recession, and that there is some limited pent-up demand which was built up during the downturn.

Beyond FY 2011, the 4-sector consensus projects 7% to 8% annual growth through FY 2013. These growth rates would result in an estimated structural balance of about \$(3.7) billion for each year.

“The presenters generally opined that the national recession has come to an end whereas the Arizona economy is still contracting, albeit at a slower rate than in previous months.”

Summary of Recent Agency Reports

Department of Economic Security – Annual Report on Temporary Assistance for Needy Families Grant Diversion Program - Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) has provided the first annual report on the Temporary Assistance for Needy Families Grant Diversion Program. The Grant Diversion Program's purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2009, 2,952 applicant households chose the grant diversion option and were diverted from long-term assistance. A total of 1,879 households obtained employment within 90 days of receiving assistance under the diversion program in FY 2009. Through January 2009, the most recent month for which data is available, 188 households reapplied for long-term assistance within 180 days of their participation in the diversion program. (Jay Chilton)

Department of Economic Security - Report on Adequacy and Appropriateness of Title XIX Reimbursement Rates for Developmental Disabilities Programs - Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) has provided its annual study of Title XIX Medicaid reimbursement rates to service providers in the developmentally disabled (DD) program. The study states that the rates may no longer be clearly adequate and appropriate or clearly consistent with Title XIX principles; however, the rates are "in the range where they could be judged to be on either side of the 'measurement line' " of adequate and appropriate for FY 2010.

For FY 2010, DES did not adjust the benchmark rates for inflation, but the study states that the current adopted rates are at 85.5% of hypothetical benchmark rates, which are estimates of what the benchmark rates would be had they been adjusted for inflation. In FY 2009, the rates were at 95% of the hypothetical benchmark rates. The decline compared to the benchmark rates is largely due to a 10% reduction in the rates paid to providers implemented by DES in response to the funding reduction adopted by the Legislature in the midyear FY 2009 budget revisions. The study also notes that since the benchmark indicators were not developed in the context of the current economic downturn, it is not appropriate to compare them to current actual rates to determine the actual rates' appropriateness. The study states that rates should not inoculate

providers against the effects of the economic recession, and it is not clear that the current rates will drive providers out of the network to the extent that DES will be unable to provide services to its customers. (Jay Chilton)

Department of Economic Security – Report on Annual Child Care Expenditures – A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2009 report shows that the average number of children served increased to 45,957, or 1.3% above FY 2008; the number of families served increased by 1.4%. Across categories, the number of children served in the Low Income Working category increased 1.2%, CPS-related placements increased by 5.1%, and the number of TANF-related children increased by 21.4%, while the number of children receiving transitional child care decreased by (10.7)%.

The amount spent by DES on child care subsidies increased to \$193,751,359, or 0.9% above FY 2008. The average monthly subsidy paid per child declined 0.4%, to \$351.33. The total amount of co-payments increased 1.3% from FY 2008 to \$15,670,911. (Jay Chilton)

DEMA – Report on Camp Navajo Fund – Pursuant to A.R.S. § 26-152, the Department of Emergency and Military Affairs (DEMA) is required to submit an annual report describing the activity in the Camp Navajo Fund by August 31 of each year. The Camp Navajo Fund pays for the National Guard to operate a regional training site and storage facility located at Bellemont. The fund's revenues consist of monies received from federal and other government sources for storage of government commodities and services provided by the camp. DEMA reports that the Camp Navajo Fund received revenues of \$10.2 million and had expenditures of \$10.6 million in FY 2009. This left a fund balance of \$1.9 million at the end of the fiscal year due to a beginning balance. (Eric Billings)

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

There are 10 steps in the WQARF process, beginning with a preliminary investigation,

Summary of Recent Agency Reports (Continued)

continuing through various studies and remediation once a site has been placed on the registry, and ending with the delisting of a site once the investigation or cleanup has been completed.

The report contained a listing of the 35 WOARF sites on the registry. Progress goals were met at 18 of these sites. Of the 35 reported sites, 15 were listed in the Early Response Action phase at least partially during FY 2009. Five sites had advanced to the Implementation of Remedy Phase or further during this same period.

The department had estimated that 2 sites would be delisted by the end of FY 2009, but the sites remain on the report. (Dan Hunting)

School Facilities Board – Report on Energy and Water Savings Pilot Program – Pursuant to Laws 2007, Chapter 266, the School Facilities Board (SFB) shall report by October 1, 2008 and October 1, 2009 on active grants made from the Energy and Water Savings Grant Fund, energy and water savings, cost savings, and other benefits resulting from the grants. Of the \$2.5 million appropriated to the fund in FY 2008, SFB has awarded \$2.25 million in development and implementation grants, while the remaining \$0.25 million was used for administrative and technical assistance costs. Development grants are used to assess existing school facilities and develop recommendations for improvements, while implementation grants are used to implement energy savings projects. Based on preliminary energy savings data from 6 school districts, SFB estimates that these school districts saved \$22,300 in energy costs between September 2008 and December 2008. (Jack Brown)

Table 8

General Fund Spending
(\$ in Millions)

Agency	Sept 09	Change from Sept 08	Year-to-Date	YTD Change from FY '09
Department of Administration	820.7	(3,947.2)	6,040.0	(6,610.7)
Office of Administrative Hearings	120.4	(19.5)	276.8	(156.8)
Department of Agriculture	1,470.4	(159.5)	2,725.9	(564.9)
AHCCCS	121,261.8	2,112.2	402,870.5	109.2
Arizona Commission on the Arts	51.7	(57.0)	153.7	(140.6)
Attorney General	4,608.1	(625.5)	7,497.7	(3,099.6)
Capital Post Conviction Public Defender	62.4	(50.4)	206.2	(48.0)
State Board of Charter Schools	139.5	.2	228.9	(119.6)
State Bd. of Chiropractic Exam.	-	-	148.0	148.0
Community Colleges	-	-	33,106.6	(3,452.4)
Department of Commerce	110.3	(545.8)	347.3	(1,176.7)
Corporate Commission	(28.2)	(759.1)	145.3	(1,554.8)
Department of Corrections	36,908.3	(38,740.3)	192,986.4	(33,008.4)
AZ Criminal Justice Commission	-	-	(4.6)	(135.2)
AZ St. Schools for the Deaf & Blind	810.6	(1,961.5)	5,189.7	(2,852.3)
Dept. of Economic Security	17,553.6	4,853.7	328,672.5	(108,575.6)
Department of Education	96,586.4	(269,063.3)	1,083,246.3	(39,949.9)
DEMA	684.2	(269.5)	1,953.4	(583.3)
Dept. of Environmental Quality	353.0	(385.8)	1,248.4	(1,379.0)
DEQ-WQARF	7,000.0	7,000.0	7,000.0	(6,000.0)
Office of Equal Opportunity	12.6	(22.0)	48.0	(20.2)
State Board of Equalization	84.3	(51.6)	179.8	(124.5)
Board of Executive Clemency	289.5	(19.3)	439.8	(31.6)
Dept. of Financial Institutions	415.4	(85.6)	939.5	(431.1)
Dept. of Fire, Life and Bldg. Safety	163.4	(128.3)	523.6	(529.5)
State Board of Funeral Directors	100.0	100.0	100.0	100.0
Arizona Geological Survey	144.7	29.4	248.7	(27.1)
Government Information Tech.	75.6	(141.8)	177.4	(116.1)
Governor	568.8	(190.3)	2,106.9	(179.2)
Department of Health Services	16,209.7	(3,837.2)	152,945.9	7,865.9
Arizona Historical Society	1,395.2	879.0	1,903.5	(421.2)
Prescott Historical Society of AZ	37.7	(2.2)	161.0	18.2
Independent Redistricting Comm	-	(7.6)	24.8	(39.7)
AZ Commission of Indian Affairs	7.7	(7.3)	8.2	(44.4)
Department of Insurance	1,110.8	1.7	2,404.8	(239.4)
Judiciary				
Supreme Court	2,557.1	(2,297.8)	27,332.3	(4,865.6)
Court of Appeals	664.6	24.6	2,331.3	94.8
Court of Appeals Div. II	593.0	(444.8)	1,263.1	(436.3)
Dept. of Juvenile Corrections	4,173.7	(6,373.7)	16,136.3	(8,068.5)
State Land Department	992.7	248.7	4,760.2	(1,355.7)
Law Enforcement Merit System	5.4	(5.1)	20.6	(3.5)

Agency	Sept 09	Change from Sept 08	Year-to-Date	YTD Change from FY '09
Legislature				
Auditor General	1,787.7	916.8	5,015.2	484.7
House of Representatives	2,026.3	(36.5)	4,116.4	12.1
Joint Legislative Budget Comm.	402.7	6.6	786.8	(59.2)
Legislative Council	738.6	(681.2)	1,685.5	(3,172.0)
AZ Library, Archives	784.1	(325.6)	1,742.6	(906.0)
Senate	1,591.5	180.4	3,062.6	205.1
Dpt. of Liquor Licenses	165.3	(556.6)	537.8	(1,180.3)
Board of Medical Student Loans	185.6	(78.0)	383.1	119.5
Mine Inspector	191.5	(128.5)	457.8	(77.6)
Dpt. of Mines & Mineral Resources	93.8	34.8	170.5	24.5
Nav. Streams & Adjudication	6.1	(39.6)	54.2	(20.0)
State Board of Nursing	-	(11.8)	-	(42.8)
Board of Osteopathic Examiners	100.0	100.0	100.0	100.0
Arizona State Parks Board	(.3)	(21,582.2)	21,900.3	(1,058.0)
Personnel Board	-	(47.0)	-	(117.8)
Arizona State Board of Pharmacy	200.0	200.0	200.0	200.0
Comm. for Postsecondary Ed.	332.3	(171.7)	582.4	(1,246.5)
State Board of Psychologist Exam.	300.0	300.0	300.0	300.0
Department of Public Safety	2,717.7	(6,015.7)	42,925.6	23,527.0
Arizona Department of Racing	279.5	(89.1)	2,709.6	1,969.6
Radiation Regulatory Agency	55.3	(214.6)	413.6	(298.9)
Arizona Rangers Pension	1.2	-	3.5	-
Real Estate Department	178.8	(392.9)	685.2	(508.1)
Department of Revenue	741.3	(10,928.9)	10,494.1	(13,868.0)
School Facilities Board	106.9	(79,781.5)	81,925.6	(98,004.0)
Secretary of State	203.8	(426.8)	684.1	(423.1)
Tax Appeals Board	40.7	13.8	83.5	(23.4)
Office of Tourism	200.0	200.0	200.0	200.0
Department of Transportation	3.1	(19.7)	10.6	(13.2)
State Treasurer	198.7	(27.6)	1,087.0	(276.0)
Universities				
Board of Regents	4,153.5	3,631.2	4,837.1	(3,719.1)
Arizona State University	63,760.6	24,930.1	141,381.6	24,950.2
Northern Arizona University	22,841.4	9,875.0	48,784.9	9,887.1
University of Arizona	56,594.2	17,626.8	126,313.1	16,537.4
Department of Veteran Services	399.9	(698.2)	1,835.7	(566.7)
Veterinary Examining Board	-	-	250.0	250.0
Department of Water Resources	1,043.9	735.0	3,962.9	484.5
Dept. of Weights & Measures	100.4	(176.5)	309.2	(217.1)
Other	39.2	(217.7)	14,835.1	11,535.9
Grand Total	\$480,680.2	\$(378,846.9)	\$2,812,921.6	\$(252,463.8)