

1716 W. Adams  
Phoenix, AZ 85007

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



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

*"The state posted its 14<sup>th</sup> consecutive month of growth in September as base General Fund revenues (excluding one-time adjustments) were 6.5% above the prior year."*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 20, 2011.

## Summary



The state posted its 14<sup>th</sup> consecutive month of growth in September as base General Fund revenues (excluding one-time adjustments) were 6.5% above the prior year. General Fund revenue collections totaled \$851.4 million.

September collections were driven by 2 factors. First, sales tax collections were 6.8% over the prior year, with gains seen in the retail and contracting categories. Individual income tax (IIT) collections increased by 11.7%, largely due to an increase in estimated payments. The upward trend in estimated payments continues the pattern seen earlier this year during tax filing season.

Year-to-date, FY 2012 General Fund revenues are \$2.38 billion, or 7.7% above FY 2011 excluding one-time adjustments.

September General Fund collections were \$46.3 million above the enacted budget forecast. Year-to-date, revenues are \$125.9 million above the enacted forecast.

It should be noted, however, that pursuant to the Revenues Budget Reconciliation Bill (Laws 2011, Chapter 28), the Department of Revenue (DOR) conducted a tax amnesty program in September. During the month, taxpayers who owed money to DOR could avoid some penalties by voluntarily reporting and paying the back taxes.

These recovery collections are included with the regular collections reported in this month's revenue section. At this point, there is not an estimate of how much was collected during the month, though preliminarily it appears to be less than the budgeted \$22 million.

In comparison to September revenue of \$851.4 million, September 2011 General Fund spending was \$921.0 million. September expenditures were \$101.2 million higher than the prior year, primarily due to the transfer of General Fund monies in order to draw down matching federal Medicaid funds.

Fiscal year-to-date, General Fund revenues of \$2.38 billion have been offset by \$3.74 billion in spending.

### Finance Advisory Committee Summary

At its October 18, 2011 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. JLBC Staff provided members with the latest 4-sector consensus estimates for the "Big 3" revenue collections, along with long-term budget projections. Among the key points:

- Since the FY 2011 shortfall no longer has to be paid off with FY 2012 revenues, the state will likely generate a carry-forward balance at the end of FY 2012.
- Due to economic uncertainty and pending "budget" litigation, it is difficult to predict the magnitude of the FY 2012 balance. As a result, the JLBC Staff has developed 2 different scenarios.
- The projected carry-forward balance at the end of FY 2012 is \$130 million in one scenario and \$415 million in a second scenario. Since the balance is one-time in nature, using these monies for permanent revenue or spending initiatives would increase future year shortfalls.
- After estimating revenue and funding formula changes for next year, it is not yet clear whether the FY 2013 budget will be

## Table of Contents

<b>Summary</b> .....	1	• DES - Reimbursement Rates .....	6
• Finance Advisory Committee Summary .....	1	• DEQ - Water Quality Progress Report .....	6
<b>September Revenues</b> .....	2	• DPS - GIITEM Report .....	6
<b>Economic Indicators</b> .....	4	• DOR - Enforcement Goals Report .....	7
<b>Summary of Recent Agency Reports</b>		• Water Resources - Interstate Water Banking ..	7
• DES – Child Care Expenditures .....	6	<b>September Spending</b> .....	8
• DES – Annual TANF Diversion Report .....	6		

## Summary (Continued)

- in balance or in a shortfall. One model predicts a \$140 million surplus while the second "slow economy" model would result in a \$(375) million shortfall.
- With the expiration of the 1-cent sales tax, however, we are more likely to incur a shortfall in FY 2014 under either scenario. The shortfall is \$(600) million in the first scenario and \$(1.2) billion in the second.
  - 3-year budget estimates are highly speculative and subject to considerable

change. For example, a small revenue forecast error of 1% across 3 years could result in a \$500 million revision to the projections in either direction. As a result, the current FY 2014 estimates will probably change considerably over the next 3 years.

For the long-term budget projections presented to the FAC, JLBC Staff developed a [Revenue and Budget Update Summary](#) along with a [Budget Update Slideshow](#).

## September Revenues

	FY 2012 <u>Collections</u>	Difference From <u>Forecast</u>	Difference <u>From FY 2011</u>
September	\$ 851.4	\$ 46.3	\$ 50.6
Year-to-Date	\$ 2,383.6	\$ 125.9	\$ 274.5

**Sales Tax** collections were \$376.0 million, or 7.9% above September 2010. Excluding the \$74.5 million from the temporary 1-cent increase, collections were \$301.5 million, or 6.8% above September 2010. The temporary 1-cent tax grew significantly more than the base tax because last year's 1-cent collections reflected a 120-day exemption for purchases under contract prior to the effective date of the tax.

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

	<u>September</u>	<u>YTD</u>
Retail	8.8%	8.2%
Contracting	21.9%	16.7%
Utilities	1.7%	0.7%
Use	(9.1)%	6.5%
Restaurant & Bar	3.8%	8.3%

Retail and contracting together account for about 60% of all sales tax revenues. Retail continues to post significant gains over the previous year. Contracting's large gain this month follows the trend begun in the second half of FY 2011, which grew 7.6% over the same period in the prior year. Despite large gains, the first quarter of this year is still (19.7)% below the same quarter in FY 2007, which was the peak year for contracting.

**Individual Income Tax** net revenues were \$320.7 million in September. Collections were \$25.9 million above forecast. Year-to-date, revenues have grown 9.8% and are \$53.4 million above forecast through September.

As indicated in Table 3, withholding grew by 3.7% in September for a year-to-date increase of 5.1%. The bulk of the growth above forecast this month comes from higher than expected estimated payments, which may reflect the trend seen last tax season of higher taxpayer liability.

Given the 18.5% increase in liabilities last year, taxpayers likely adjusted their level of September estimated payments upward.

	<u>September</u>	<u>YTD</u>
Withholding	3.7%	5.1%
Estimated + Final Payments	17.3%	15.6%
Refunds	(42.0)%	(31.3)%

**Corporate Income Tax** net collections were \$118.9 million in September, which is \$1.0 million above the prior year. Collections were \$8.1 million above the forecast.

Year-to-date, collections have grown 24.5% and are \$34.8 million above forecast.

"[Sales tax] collections were \$301.5 million, or 6.8% above September 2010."

## September Revenues (Continued)

The **Lottery Commission** reports that September ticket sales were \$45.0 million, which is \$3.8 million, or 9.3%, above sales in the prior year. Year-to-date ticket sales are \$139.1 million, which is 10.3% above last year's sales.

### Non-General Fund

**Tobacco Tax** revenues were \$36.1 million in September. Collections were up 15.8% compared to the prior year. Year-to-date collections are up 6.9%, and are \$18.0 million above forecast.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those programs, along with funding the Early Childhood Development and Health Board.

**Highway User Revenue Fund (HURF)** revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$99.8 million in September were up \$1.8 million, or 1.8%, compared to September of last year. Year-to-date revenues are up 0.3%.

Table 4

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

	Current Month					FY 2012 YTD (Three Months)				
	Actual September 2011	Change From				Actual September 2011	Change from			
		September 2010 Amount	Percent	Forecast Amount	Percent		September 2010 Amount	Percent	Forecast Amount	Percent
<b>Taxes</b>										
Sales and Use - Base*	\$301,493,454	\$19,300,646	6.8 %	\$11,815,735	4.1 %	\$901,905,258	\$60,262,811	7.2 %	\$35,217,421	4.1 %
- 1¢ Increase*	\$74,476,988	8,321,958	12.6	4,863,554	7.0	221,688,217	26,712,033	13.7	14,367,230	6.9
Income - Individual	320,700,037	33,702,602	11.7	25,877,488	8.8	858,395,930	76,476,331	9.8	53,364,359	6.6
- Corporate	118,854,052	979,341	0.8	8,128,134	7.3	176,867,994	17,328,234	10.9	34,789,055	24.5
Property	49,469	802,951	--	17,377	54.1	345,904	848,266	--	44,301	14.7
Luxury	4,503,465	(523,843)	(10.4)	(588,284)	(11.6)	14,823,082	1,938,386	15.0	1,763,926	13.5
Insurance Premium	46,376,199	(6,938,547)	(13.0)	(4,349,879)	(8.6)	121,750,992	(12,975,535)	(9.6)	(13,943,156)	(10.3)
Estate	0	(196)	(100.0)	0	--	220,652	(216,720)	(49.6)	220,652	--
Other Taxes	33,008	1,587	5.1	5,724	21.0	138,086	(25,147)	(15.4)	17,734	14.7
<b>Sub-Total Taxes</b>	<b>\$866,486,671</b>	<b>\$55,646,498</b>	<b>6.9 %</b>	<b>\$45,769,848</b>	<b>5.6 %</b>	<b>\$2,296,136,115</b>	<b>\$170,348,659</b>	<b>8.0 %</b>	<b>\$125,841,522</b>	<b>5.8 %</b>
<b>Other Revenue</b>										
Lottery	5,457,940	1,170,185	27.3	689,851	14.5	10,463,980	1,836,370	21.3	843,175	8.8
License, Fees and Permits	2,190,588	23,477	1.1	251,878	13.0	6,878,458	(111,994)	(1.6)	190,228	2.8
Interest	2,305	(590,925)	(99.6)	(497,695)	(99.5)	5,624	(1,235,503)	(99.5)	(1,494,376)	(99.6)
Sales and Services	2,214,686	79,942	3.7	(38,492)	(1.7)	4,063,240	(675,947)	(14.3)	(997,033)	(19.7)
Other Miscellaneous	2,730,279	(1,592,239)	(36.8)	1,046,404	62.1	6,743,067	(1,670,204)	(19.9)	2,966,666	78.6
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	112,084	(897,960)	(88.9)	(910,218)	(89.0)	2,449,298	(1,404,801)	(36.4)	(1,451,574)	(37.2)
<b>Sub-Total Other Revenue</b>	<b>12,707,882</b>	<b>(1,807,520)</b>	<b>(12.5) %</b>	<b>541,728</b>	<b>4.5 %</b>	<b>30,603,667</b>	<b>(3,262,079)</b>	<b>(9.6) %</b>	<b>57,086</b>	<b>0.2 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$879,194,553</b>	<b>\$53,838,978</b>	<b>6.5 %</b>	<b>\$46,311,576</b>	<b>5.6 %</b>	<b>\$2,326,739,782</b>	<b>\$167,086,580</b>	<b>7.7 %</b>	<b>\$125,898,608</b>	<b>5.7 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(35,368,620)	4,131,923	--	0	0.0	(106,105,860)	12,395,769	--	0	0.0
Budget Plan Transfers	7,540,777	(7,343,234)	(49.3)	0	0.0	162,983,678	95,002,973	139.7	0	0.0
Budget Legislation	0	0	--	0	--	0	0	--	0	--
Leaseback Proceeds	0	0	--	0	--	0	0	--	0	--
<b>Sub-Total Other Adjustments</b>	<b>(27,827,843)</b>	<b>(3,211,311)</b>	<b>13.0 %</b>	<b>0</b>	<b>0.0 %</b>	<b>56,877,818</b>	<b>107,398,742</b>	<b>-- %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$851,366,710</b>	<b>\$50,627,667</b>	<b>6.3 %</b>	<b>\$46,311,576</b>	<b>5.8 %</b>	<b>\$2,383,617,600</b>	<b>\$274,485,322</b>	<b>13.0 %</b>	<b>\$125,898,608</b>	<b>5.6 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$99,800,534	\$1,782,321	1.8 %	\$312,048	0.3 %	\$298,401,805	\$988,962	0.3 %	(\$3,472,231)	(1.2) %
Tobacco Tax (All Funds Total)	\$36,072,099	\$4,909,645	15.8 %	\$10,270,715	39.8 %	\$99,739,225	\$6,402,595	6.9 %	\$17,976,106	22.0 %

\* Total September collections including the temporary 1¢ increase approved by the voters in May 2010 were \$376.0 million. This amount is \$27.6 million, or 7.9%, above September 2010 and \$16.7 million, or 4.6%, above forecast. Year to date, total collections including the 1¢ increase were \$1,123.6 million. This amount is \$87.0 million, or 8.4%, above September 2010 and \$49.6 million above forecast.

## Economic Indicators

### NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** inched up 0.2 points, or 0.4%, in September to 45.4. The consumer confidence index is currently close to (25)% below the reading in July and appears to have fallen back to recession levels. The slight uptick in September was attributable to a marginally better employment outlook than in the previous month. The September Survey, however, did not reflect the events in Europe and the sharp decline in global equity markets that occurred in the latter part of the month, as those occurred after the survey cutoff date. Weak consumer confidence does not bode well for consumer spending and upcoming holiday retail sales.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.3% in September, less than the gains of 0.5% in July and 0.4% in August. The CPI increase was primarily due to higher gasoline and food prices. Compared to the same month in the prior year, consumer prices were up by 3.9%. This was the sixth consecutive month with a year-over-year CPI gain in excess of 3%. Core inflation, which excludes energy and food prices, increased by 0.1%. Year-over-year, core inflation is up by 2.0%.

### ARIZONA

#### Housing

In September, the number of new Maricopa County **foreclosure notices** decreased (14.6)% from August levels to 4,544. The number of Maricopa County **pending foreclosures** decreased from 23,752 in August to 23,299 in September. The September total is (54.7)% below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#) for additional historical information.

While pending foreclosures continue their decline from recent highs, they continue to be a major influence on existing home sales and the respective prices. In the Metropolitan Phoenix area in September, there were a total of 7,940 **existing single-family home sales** that resulted in a **median resale home price** of \$125,000. Relative to the prior year, the number of sales is down (11.8)%, while prices are (8.8)% lower. Of the existing sales, 28.9%, or 2,295 were foreclosures.

#### State Agency Data

The FY 2012 budget included significant changes to the eligibility of several AHCCCS populations for services. Because of these changes, the economic indicators section will now include an expanded report of AHCCCS caseloads across several populations.

In October, **total AHCCCS caseloads** equaled 1.37 million members, a (0.7)% decrease over the prior month. Overall AHCCCS caseloads are currently 1.8% above October 2010 levels.

In terms of specific categories, the spend down and the KidsCare populations saw significant declines from the prior year of (93.0)% and (42.8)%, respectively. These declines are due to enrollment freezes for the programs. The spend down program has been frozen since May 2011 while the KidsCare program has had an enrollment freeze since January 2010. The Proposition 204 childless adult category has declined (12.7)% from the prior month as new enrollment under this category stopped in early July. Some of this decline results from members being transferred to other Medicaid categories. Since July 1, AHCCCS reports that 9,549 Proposition 204 childless adult members were transferred to the SSI program.

There were 37,798 **TANF recipients** in the state in September, a negligible caseload increase over the prior month. Year-over-year, the number of TANF recipients has declined by (12.7)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. The FY 2011 budget reduced the lifetime limit to 36 months. The FY 2012 budget further reduces this limit to 24 months. Previously, the maximum had been 60 months. The FY 2012 budget assumed caseloads of approximately 36,000 in FY 2012.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In September, there were a total 1.1 million food stamp recipients in the state, a 0.7% increase over the prior month. Compared to the same month last year, food stamp participation was up by 8.3%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

*"The consumer confidence index is currently close to (25)% below the reading in July and appears to have fallen back to recession levels."*

## Economic Indicators (Continued)

The 3-month average count of the **Department of Correction's (ADC) inmate population** decreased to 40,095 inmates between July and September 2011.

Relative to the prior 3-month period, the population has decreased by (51) inmates. Compared to a year ago the population has declined by (215) inmates.

Table 5

### ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate (SA)	August	9.3%	(0.1)%	(0.6)%
- Initial Unemployment Insurance Claims	August	27,959	(9.3)%	(7.7)%
- Unemployment Insurance Claimants	June	69,087	2.1%	(21.3)%
- Non-Farm Employment - Total	August	2.39 million	2.3%	1.7%
Manufacturing	August	151,300	0.1%	2.6%
Construction	August	113,700	0.9%	1.3%
- Average Weekly Hours, Manufacturing	August	40.5	2.8%	2.0%
- Contracting Tax Receipts (3-month average)	Jul-Sep	\$38.3 million	4.2%	16.7%*
- Retail Sales Tax Receipts (3-month average)	Jul-Sep	\$137.2 million	(3.4)%	8.2%*
- Residential Building Permits (3-month moving average)				
Single-family	Jun-Aug	1,004	3.6%	9.7%
Multi-unit	Jun-Aug	368	54.6%	347.0%
- Greater Phoenix Existing Home Sales				
Single-Family	September	7,940	(14.2)%	(11.8)%
Townhouse/Condominium	September	1,155	(9.4)%	(15.1)%
- Greater Phoenix Median Resale Home Price				
Single-Family	September	\$125,000	2.1%	(8.8)%
Townhouse/Condominium	September	\$76,700	(2.7)%	(11.5)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	September	4,544	(14.6)%	(39.4)%
Pending Foreclosures (Active Notices)	September	23,299	(1.9)%	(43.2)%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	100.54	(0.1)%	(8.8)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	26,983	(2.5)%	(39.1)%
- Phoenix Sky Harbor Air Passengers	August	3.41 million	(6.0)%	8.9%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	July	\$5.90	(5.4)%	(6.2)%
- Arizona Consumer Confidence Index (1985 = 100)	3 <sup>rd</sup> Quarter 2011	54.0	4.0%	10.0%
- Arizona Coincident Index (July 1992 = 100)	August	178.15	0.4%	1.7%
- Arizona Personal Income	2 <sup>nd</sup> Quarter 2011	\$232.8 billion	1.2%	5.5%
- Arizona Population	April 1, 2010	6.39 million	N/A	N/A
- AHCCCS Recipients	September	1,378,004	(0.4)%	2.0%
Acute Care Traditional		892,199	0.7%	5.3%
Spend Down		1,553	(45.3)%	(73.7)%
Prop 204 Childless Adults		206,478	(4.9)%	(5.8)%
Other Prop 204		159,243	0.0%	4.6%
Kids Care		15,752	(5.5)%	(42.4)%
Long-Term Care – Elderly & DD		51,418	0.1%	2.0%
Emergency Services		51,361	3.2%	6.0%
- TANF Recipients	September	37,798	0.0%	(12.7)%
- SNAP (Food Stamps) Recipients	September	1,150,059	0.7%	8.3%
- ADC Inmate Growth (3-month average)	Aug-Oct	40,095	(51) inmates	(215) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	August/June	18,977	70	(737)
Maricopa County	August/June	26,051	(67)	(969)
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2nd Quarter 2011 (3rd Estimate)	\$13.3 trillion	1.3%	1.6%
- Consumer Confidence Index (1985 = 100)	September	45.4	0.4%	(6.6)%
- Leading Indicators Index (2004 = 100)	August	116.2	0.3%	6.5%
- U.S. Semiconductor Billings (3-month moving average)	Jun-Aug	\$4.56 billion	(1.6)%	(5.3)%
- Consumer Price Index, SA (1982-84 = 100)	September	226.96	0.3%	3.9%

\*Adjusted for 1¢ sales tax

## Summary of Recent Agency Reports

**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 2011 report shows that the average number of children served decreased to 29,559, or (11.4)% below FY 2010; the number of families served decreased by (12.5)%. Across categories, the number of children served in the Low Income Working category decreased (27.6)%, CPS-related placements increased by 18.3%, and the number of Temporary Assistance for Needy Families-related children decreased by (11.2)%, while the number of children receiving transitional child care increased by 20.5%.

The amount spent by DES on child care subsidies decreased to \$122.5 million, or (10)% below FY 2010.

The average monthly subsidy paid per child increased 1.5% to \$345.52. The total amount of co-payments decreased (22.7)% from FY 2010 to \$8.2 million. (Benjamin F. Beutler)

**Department of Economic Security - Annual Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program** - Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) has provided the 2011 annual report on the TANF Grant Diversion Program. The 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 2011, 22,196 applicant households chose the grant diversion option and were diverted from long-term assistance. A total of 6,254 households obtained employment within 90 days of receiving assistance under the diversion program in FY 2011. Through January 2011, the most recent month for which data is available, 1,095 households reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2010 indicates 904 households of the total 9,276 households receiving diversion payments reapplied within 180 days. (Benjamin F. Beutler)

**Department of Economic Security - Report on 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 Medicaid reimbursement rates to service providers in the developmentally disabled (DD) program. The study states that despite the previous (10)% provider rate reduction, the provider network continues to meet the tests of sufficiency in providing the number, mix, and distribution of providers of services. The study also notes that the number of services provided match the growth in the DD population. It does not recommend an inflationary increase. (Amy Upston)

**Department of Environmental Quality (DEQ) – Report on Progress of Water Quality Assurance Revolving Fund Sites** – Pursuant to a General Appropriation Act footnote, DEQ 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, continuing through various studies and remediation once a site has been placed on the registry, and ending with the de-listing of a site once the investigation or cleanup has been completed.

The FY 2011 report contained a listing of the 35 WQARF sites on the registry. Progress goals were met at 25 of these sites. Of the 35 reported sites, 13 were listed in the Early Response Action phase at least partially during FY 2011. Five sites had advanced to the Implementation of Remedy Phase or further during this same period.

There are currently no sites the department estimates would be de-listed by the end of FY 2011. (James Alcantar)

**Department of Public Safety – Quarterly Report on GIITEM** – Pursuant to the General Appropriation Act, the Department of Public Safety (DPS) is required to report quarterly on the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). Through the fourth quarter of FY 2011, DPS spent or encumbered \$8.6 million of the \$9.2 million appropriation for the direct DPS immigration staff. In terms of local law enforcement grants, DPS spent \$2.3 million of the non-lapsing FY 2010 \$2.6 million appropriation and \$885,300 of the \$2.6 million FY 2011

## Summary of Recent Agency Reports (Continued)

appropriation for a total of \$3.2 million. The remaining \$1.7 million in FY 2011 local law enforcement grants will be available for use through FY 2012.

The \$3.2 million has been distributed as follows in *Table 6*:

<b>State Organization</b>	
Maricopa County Sheriff	\$1,600,000
Pima County Sheriff	825,400
Phoenix Police Department	584,400
Other Agencies	179,000
Support	<u>28,800</u>
<b>Total</b>	<b>\$3,217,600</b>

(Eric Billings)

**Department of Revenue – Annual Enforcement Goals Report** – Pursuant to a General Appropriation Act footnote, the Department of Revenue (DOR) is required to report on their FY 2012 revenue enforcement goals, and to provide an annual progress report to the Committee as to the effectiveness of the department’s overall enforcement and collections program for FY 2011.

In FY 2011, DOR’s enforcement goal was \$360.9 million, but they actually collected \$374.0 million.

DOR’s General Fund FY 2012 revenue enforcement goal is \$395.2 million, which is \$21.2 million, or 5.7%, above FY 2011 actual collections. According to DOR, these targets are based on the assumption that they will not experience further budget reductions.

Compared to actual FY 2011 General Fund enforcement revenue, DOR’s FY 2012 goals consist of:

- An increase in audit revenue of \$14.8 million, or 13.0%.
- An increase in collections revenue of \$5.7 million, or 3.5%.
- An increase in accounts receivables revenues of \$600,000, or 0.6%.

Audit enforcement revenue includes revenue due to DOR’s auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR’s collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from accounts receivable to DOR’s Collections Section. (Eric Billings)

**Department of Water Resources – Report on Interstate Water Banking** – Pursuant to A.R.S. § 45-2473, the Department of Water Resources has submitted a report accounting for all monies received through the Interstate Water Banking Agreement with Nevada and other obligations.

In 2001, the Southern Nevada Water Authority (SNWA) agreed to pay the Arizona Water Banking Authority (AWBA) \$230 million for delivery and storage, if available, of 1.25 million acre-feet of unused Arizona water. Equal payments of \$23 million per year from Nevada to the AWBA were to begin in 2009 and continue through 2018. Pursuant to the 2009 modified agreement, and because no Arizona water was available to be stored in FY 2009, the payment of \$23 million was delayed upon SNWA’s request. A December 2010 agreement revised the payment schedule to begin in 2015.

In FY 2010, AWBA received \$12.7 million from SNWA to bank water from Nevada’s unused Colorado River allocation. In FY 2011, AWBA banked 19,000 acre-feet of storage credits at a cost of \$3.8 million. This amount was paid from the \$12.7 million received in FY 2010. The FY 2011 subaccount ending balance was \$18,100.

In 2004, SNWA agreed to pay an additional \$100 million to AWBA in exchange for a guarantee that the 1.25 million storage credits would be available for Nevada. 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. AWBA received the \$100 million from SNWA in 2 installments in 2005, which were deposited in a subaccount with the State Treasurer. Of this amount, approximately \$80 million has been used to bank 541,418 acre-feet of

## Summary of Recent Agency Reports (Continued)

storage credits for Nevada. The remaining \$20 million has been transferred to the General Fund, including \$11.1 million as part of the mid-year FY 2010 budget revisions. The FY 2011 subaccount ending balance was approximately \$5,100.

In total, the AWBA has banked 600,651 acre-feet of storage credits, or 48% of the 1.25 million credits guaranteed to Nevada. The combined FY 2011 ending balance was approximately \$23,200. (Brett Searle)

## September Spending

September 2011 General Fund spending was \$921.0 million. September expenditures were \$101.2 million higher than the prior year primarily due to a transfer of General Fund monies in order to draw down matching federal Medicaid monies.

### FY 2012 Spending

September 2011 spending of \$921.0 million was \$101.2 million higher than September 2010 (See Table 7).

- The Department of Health Services spent \$159.0 million in September, which is \$153.3 million more than the previous year. This increase is due to the transfer of

General Fund monies in order to draw down federal Medicaid matching funds.

- The Department of Economic Security spending was \$8.0 million in September, which is a decrease of \$(25.4) million from the prior year. The lower expenditure amount reflects operating transfers among agency funds and does not reflect actual expenditures.

Table 7

### General Fund Spending (\$ in Millions)

Agency	<u>Sept 11</u>	<u>Change from Sept 10</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 11</u>
AHCCCS	\$ 132.4	\$ 10.6	\$ 440.4	\$ 9.8
Corrections	69.1	6.7	249.5	32.2
Economic Security	8.0	(25.4)	364.3	12.5
Education	276.3	(32.4)	1,604.3	3.1
Health Services	159.0	153.3	395.4	272.2
Public Safety	1.9	(0.5)	24.5	0.3
School Facilities Board	0.1	(0.1)	132.6	99.7
Universities	245.4	(9.8)	331.8	(38.6)
Leaseback Debt Service	0.0	0.0	49.1	(3.0)
Other	<u>28.8</u>	<u>(1.2)</u>	<u>145.9</u>	<u>(54.3)</u>
<b>Total</b>	\$ 921.0	\$ 101.2	\$ 3,737.8	\$ 333.9

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 11
	September 11	Change from September 10	Year-to-Date	
Department of Administration	2,547.0	1,597.3	7,699.1	(1,711.0)
Department of Admin Sale/Leaseback D/S	-	-	49,050.7	(3,016.2)
Office of Administrative Hearings	72.1	63.9	213.6	(66.7)
Department of Agriculture	553.1	98.8	2,403.9	(1,317.2)
AHCCCS	132,441.9	10,565.3	440,421.9	9,775.1
Attorney General	677.3	(354.7)	5,425.2	1,867.0
AZ Capital Post Conviction Public Defender	37.3	(11.8)	136.4	(30.3)
State Board of Charter Schools	53.2	13.6	228.8	9.7
Department of Commerce/AZ Commerce Authority	2,625.0	532.4	7,875.0	5,531.7
Community Colleges	-	-	17,144.3	(15,962.3)
Corporation Commission	46.7	10.2	135.6	(44.0)
Department of Corrections	69,135.5	6,722.4	249,516.1	32,183.5
AZ State Schools for the Deaf & Blind	1,492.5	(547.7)	6,467.6	888.8
Department of Economic Security	8,015.1	(25,404.7)	364,264.5	12,517.6
Department of Education	276,264.5	(32,406.1)	1,604,285.5	3,093.2
DEMA	571.1	(538.8)	3,079.8	(179.1)
Department. of Environmental Quality	-	0.6	-	(0.6)
DEQ – WQARF	-	(7,000.0)	7,000.0	-
Office of Equal Opportunity	10.8	2.4	38.9	(19.9)
State Board of Equalization	41.0	(11.5)	192.7	52.6
Board of Executive Clemency	131.6	96.8	262.0	(118.9)
Department of Financial Institutions	193.6	(332.0)	805.7	(324.3)
Department of Fire, Life, Bldg Safety	15.9	(595.1)	523.6	311.0
Office of the State Forester	182.0	105.6	803.2	82.1
Arizona Geological Survey	43.7	24.9	152.1	53.5
Government Information Tech.	(3.1)	(30.9)	(3.1)	(152.4)
Governor	490.5	59.0	1,600.6	(756.9)
Gov. - OSPB	151.7	(87.5)	490.4	(61.2)
Department of Health Services	159,010.3	153,277.8	395,374.8	272,155.8
Arizona Historical Society	568.2	285.1	1,142.5	(2,264.1)
Prescott Historical Society of AZ	43.7	10.0	153.4	32.8
Independent Redistricting Comm.	311.8	311.8	927.9	927.9
Commission on Indian Affairs	3.0	1.9	11.7	0.1
Department of Insurance	328.5	32.9	1,500.9	(822.0)
Judiciary				
Supreme Court	877.4	579.4	4,116.8	(8,412.8)
Superior Court	775.3	(431.5)	18,237.8	924.8
Court of Appeals	859.5	586.2	3,754.7	(1,442.4)
Department of Juvenile Corrections	3,073.3	(391.7)	13,078.7	(7,885.3)
State Land Department	28.2	25.7	186.1	(582.1)
Law Enforcement Merit System	4.4	(2.7)	12.0	(13.0)
Legislature				
Auditor General	1,292.9	198.6	4,626.3	(1,499.1)
House of Representatives	828.1	(10.2)	2,959.8	309.2
Joint Legislative Budget Comm.	135.2	(23.3)	529.8	(270.6)

<b>Agency</b>	<b>September 11</b>	<b>Change from September 10</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 11</b>
Legislative Council	311.8	81.4	1,881.4	49.2
Senate	595.9	(82.5)	2,023.6	(1,092.0)
Board of Medical Student Loans	-	(63.7)	-	(191.8)
Mine Inspector	70.4	27.7	358.4	(54.8)
Department of Mines & Mineral Resources	-	(597.4)	-	(708.5)
Nav. Streams & Adjudication	10.3	(32.8)	59.1	3.0
OSHA	-	-	-	-
Arizona State Parks Board	-	-	-	(20,000.0)
Pioneers' Home	-	(74.7)	655.8	374.8
Comm. for Postsecondary Ed.	610.4	452.7	610.4	452.7
Department of Public Safety	1,839.1	(466.1)	24,534.9	253.8
Arizona Department of Racing	1,873.9	(67.4)	2,293.0	(327.7)
Radiation Regulatory Agency	16.3	16.3	407.3	10.4
Arizona Rangers Pension	-	(1.2)	-	(3.6)
Real Estate Department	148.2	(27.6)	805.7	(542.3)
Department of Revenue	4,589.6	3,484.0	16,534.8	5,213.9
School Facilities Board	72.3	(52.3)	132,623.6	99,738.2
Secretary of State	660.1	(467.9)	2,835.2	(3,117.5)
Tax Appeals Board	5.7	(14.3)	78.4	(19.4)
Department of Transportation	3.4	2.8	10.6	(1.5)
State Treasurer	62.4	(5.4)	98.4	(20.8)
Universities				
Board of Regents	950.2	666.3	5,852.4	79.5
Arizona State University	112,156.8	(2,615.7)	148,083.5	(15,078.7)
Northern Arizona University	36,442.0	(2,603.3)	48,336.5	(7,812.7)
University of Arizona	95,802.4	(5,261.7)	129,547.5	(15,786.6)
Department of Veteran Services	339.7	2,002.9	1,349.5	(584.4)
Department of Water Resources	466.7	46.4	1,612.3	(42.2)
Department of Weights & Measures	72.9	(7.7)	264.3	35.1
Other	(0.1)	(118.3)	126.9	(79.5)
<b>Grand Total</b>	<b>921,030.1</b>	<b>101,242.8</b>	<b>3,737,810.8</b>	<b>333,888.6</b>