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“August collections were...\$ (47.5) million below the budget forecast”.

Summary



General Fund spending exceeded revenues by \$48 million in August. In comparison, the July loss was \$(1.17) billion, primarily due to the \$600 million K-12 rollover payment. Fiscal year-to-date, General Fund revenues are \$1.10 billion compared to spending of \$2.33 billion. As revenue collections continue to lag, the fiscal year shortfall at the end of June 2010 could approach \$(1.5) billion.

The shortfall in General Fund revenues compared to expenditures continued to reduce the state's overall operating fund balance, which consists of the General Fund and non-interest bearing dedicated funds. To cover this shortfall, the Treasurer issued Treasurer Warrant Notes (TWNs), borrowing from the state's interest-bearing dedicated funds.

August General Fund revenue collections were \$523.9 million. Excluding Urban Revenue Sharing and fund balance transfers, August collections were (12.7)% below the prior year, and \$(47.5) million below the budget forecast. (See Table 1 and page 15 for more information.)

The average daily operating fund balance during the month of August was \$(200) million. The Treasurer issued TWNs on 19 days during the month. The largest amount borrowed on any day in August was \$397 million, on August 21.

Year-to-date, revenues are (11.6)% below the prior year, and \$(80.5) million below the budget forecast. The FY 2010 budget presumed that yearly revenues would grow by 0.9%.

September cashflow improved as borrowing declined compared to the prior 2 months. While the highest borrowing was \$166 million on September 1, the average daily balance was a positive \$9 million. One significant reason for the improved cashflow was the decision by the Executive branch to use \$270 million of federal stabilization funds rather than the General Fund to make the September 15th K-12 formula payment. (See page 4 for more discussion of these federal stabilization funds).

In comparison, August 2009 General Fund spending was \$572.5 million. August expenditures are lower than many months because there are no state aid payments to school districts in August. Year-to-date spending exceeds the prior year by \$126.1 million.

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Summary (continued)

	FY 2010 Collections	Difference From Budget Forecast	Difference From FY 2009
August	\$ 523.9	\$ (47.5)	\$ (291.1)
Year-to-Date	\$ 1,097.1	\$ (80.5)	\$ (356.6)

The Monthly Fiscal Highlights also includes summaries of the September JLBC and JCCR meetings (page 10) as well as a summary of the JLBC Staff's on-going analysis of agency cash flow issues due to the budget vetoes (page 16). These cash flow issues could either be resolved by an interim Special Session, or could be deferred until the January Regular Session. In the latter event, the Executive can take administrative actions to provide temporary relief to the agencies until January.

FY 2010 Revenues

The (12.7)% decline in August revenues reflects the 13th consecutive month of double-digit declines in General Fund revenue collections compared to the prior year.

Among the major revenue categories:

- August sales tax collections were down (16.7)% compared to August 2008, and were \$(20.7) million short of the monthly forecast. Year-to-date, sales tax collections are down (17.6)% from the prior year, and are \$(43.6) million below forecast.
- August individual income tax collections were down (0.2)% compared to August 2008, and were \$(1.7) million below forecast. Year-to-date, individual income tax collections are down by (6.3)% compared to the same period last year, and are \$(30.8) million below forecast.
- August corporate income tax collections were \$(9.0) million below the forecast for the month. Year-to-date, corporate collections are down (6.9)% from the prior year, and are \$2.0 million above forecast.

FY 2010 Spending

August 2009 spending of \$572.5 million was \$9.6 million above August 2008. For the year-to-date, spending of \$2.33 billion is \$126.1 million above 2009 (See Table 2). The fact

that spending is above the same period in FY 2009 is expected given an extra K-12 rollover payment this year. The main spending changes were as follows:

- The Arizona Department of Education (ADE) has spent \$987 million year-to-date in 2010, or \$229 million more than 2009. Because July 2009 had an extra rollover payment of \$282 million, however, the ADOA figures suggest that ADE's spending on an equivalent basis was \$53 million below FY 2009 levels.
- DES has spent \$113 million less year-to-date in 2010 than in 2009. Those figures reflect the fact that its federal match for the year's Long Term Care expenditures is expended in July, and those figures in 2010 include significant reductions for enhanced federal Medicaid match from the federal stimulus bill.
- Spending in AHCCCS and DHS is a combined \$9.7 million greater year-to-date in 2010 than in 2009. This is generally consistent with the FY 2010 budget assumption that caseload growth in Medicaid spending in those agencies would be offset by varying degrees by enhanced federal match from the federal stimulus legislation.
- Although July 2009 had 3 payrolls compared to 2 in July 2008, both 2008 and 2009 had 5 payrolls through August.

FY 2010 Status

The Governor signed the FY 2010 budget plan on September 4th. While the total package of transmitted bills represented a balanced budget, the Governor line item vetoed some spending reductions and vetoed the entire General Revenues BRB. While every state agency has a budget to operate, the veto resulted in a shortfall of \$(464) million.

"For the year-to-date, spending... is \$126.1 million above 2009".

Summary (continued)

“The cumulative impact of all these factors could eventually bring the FY 2010 shortfall to (\$1.5) billion”.

Agency	(\$ in M)
Dept. of Education	\$229.1
AHCCCS	(2.0)
Dept. of Health Services	11.7
Dept. of Public Safety	29.5
Dept. of Corrections	5.7
School Facilities Board	(18.2)
Dept. of Economic Security	(113.4)
All Other	<u>(16.3)</u>
Total	\$126.1

In addition, the FY 2009 budget remains unbalanced, and will need to be resolved in FY 2010. ADOA reported this week that its preliminary estimate of the FY 2009 ending shortfall was \$(478) million.

Combining the FY 2009 carryover shortfall of \$(478) million with the FY 2010 shortfall of \$(464) million yields a total of \$(942) million. This shortfall will likely increase throughout the year as this estimate does not yet incorporate the following factors:

- Any new FY 2010 revenue shortfall. To the extent that August year-to-date revenues are \$(81) million less than that forecast, it is unlikely that amount will be recovered in the remaining 10 months. FY 2010 revenue will next be re-estimated as part of the Finance Advisory Committee meeting on October 22nd.
- The workability of other budgeted assumptions. As with revenues, it is still too early to tell whether some of the budget proposals will generate the expected revenues or savings.

The cumulative impact of all these factors could eventually bring the FY 2010 shortfall to \$(1.5) billion.

Status of Budget Vetoes

The Governor’s veto of SB 1025, the General Revenue Budget Reconciliation Bill (BRB), has the potential to result in lost General Fund savings and affect some agency operations. If these provisions are again transmitted to the Governor and signed by January, most of the

savings will still occur in FY 2010.

Under the presumption that these provisions will eventually be enacted, administrative actions such as adjusting quarterly allotments of appropriations, and temporarily deferring risk management charges and state-owned rent payments could also address agency cash flow issues between now and January. In addition, the Executive has \$80 million remaining from the \$185 million unallocated General Purpose Federal Stabilization Fund that can be used for temporary bridge financing to address agency cash flow issues. (See page 16 for JLBC Staff analysis of SB 1025 impacts).

Allocation of Stabilization Funds

Under the American Recovery and Reinvestment Act (ARRA), Arizona will receive \$832 million as part of the Education State Fiscal Stabilization Fund. The Executive’s plans for these funds is beginning to emerge. While Arizona can qualify for \$832 million, the State has only been authorized to expend \$557 million to date. The remainder of the funds will be made available later this fall after Arizona submits additional information to the U.S. Department of Education. Table 3 below outlines an estimate of how these funds may be disbursed. (As noted above, the state also has \$185 million in General Purpose Stabilization Funds to expend, which are not limited to education).

In August 2009, the Universities were awarded \$154 million of Education Stabilization funds, while the Community Colleges are scheduled to receive \$29 million in early FY 2010. These amounts are calculated based on FY 2009 levels of spending, and are intended to restore prior reductions as required by the federal formula. Going forward, we expect the higher education system to receive \$176 million of Stabilization monies at a later date based on FY 2010 levels of spending, also to compensate for past reductions.

Laws 2009, 1st Regular Session, Chapter 5 reduced the FY 2009 K-12 appropriation by \$(250) million and backfilled this reduction with Education Stabilization funds. Due to technical reasons, these funds were not distributed to Arizona in FY 2009 and the associated reduction was not triggered. The FY 2010 budget originally assumed the use of

Summary (continued)

Table 3

Education Stabilization Allocation

	<u>\$ in Millions</u>
FY 2009 Universities Restoration	\$154
FY 2009 Comm. Colleges Restoration	29
Sept. Payment to Districts - Made by 10/1	270
Charter Payment - Made by 10/1 for Oct.	50
FY 2010 Higher Ed. Restoration	176
Repay FY 2009 Cash Balances (est.)	<u>153</u>
Total Education Stabilization Funds Used (est.)	\$832

\$222 million of Education Stabilization Funds, which would be used to achieve General Fund savings through a similar “cut and backfill” method. However, in order to compensate for the lost FY 2009 savings, the enacted FY 2010 budget increased the “cut and backfill” to \$472 million. The Governor, however, line-item vetoed the reference to FY 2010.

We believe that the Executive’s current plan is to use \$320 million for “cut and backfill” purposes in FY 2010. The Executive has already withheld \$270 million in the regular K-12 formula payment due to districts on September 15th. That amount will be replaced by Stabilization Funds. In a similar fashion, non-profit charter schools will receive approximately \$50 million in the near future to replace an equivalent amount of normal formula monies that will not be distributed on October 15th.

In addition, we believe the Executive is currently setting aside approximately \$153 million of Education Stabilization monies in

order to backfill the portion of the \$(300) million “cash balances” reduction from Laws 2009, 1st Special Session, Chapter 5. That legislation reduced K-12 funding by \$(300) million and assumed that local district cash balances would compensate for the difference. To the extent that these balances are not available, the state is responsible for paying the remainder. The current allocation plan would permit the state to use up to \$153 million of Stabilization Funds for the state’s requirement. That amount, however, has yet to be determined and will be calculated in October.

August Revenues

Sales Tax collections were \$287.6 million in August. These revenues were down (16.7)% compared to last August, and were \$(20.7) million below the budget forecast. The August decline marked the 19th consecutive month of year-over-year reductions, and the 10th consecutive month of double digit declines compared to the previous year.

Table 4 displays the August growth rates for the largest categories.

Table 4

Sales Tax Growth Rates Compared to Prior Year

	<u>August</u>	<u>YTD</u>
Retail	(12.4)%	(12.3)%
Contracting	(40.6)%	(38.9)%
Utilities	(3.7)%	0.2%
Use	(18.2)%	(30.3)%
Restaurant & Bar	(5.4)%	(4.3)%

August Revenues (Continued)

Table 5

August Taxable Retail Sales by Subcategory

	<u>% of Total Sales</u>	<u>% Change Over FY 2009</u>
General/Misc. Merchandise	30.7%	(7.2)%
Motor Vehicles/Misc. Auto.	20.5%	(16.0)%
Bldg Materials and Supplies	7.5%	(9.2)%
Food and Liquor Stores	7.4%	(13.0)%
Furniture, Home Furnishings	6.9%	(26.8)%
Clothing and Accessories	5.8%	(12.4)%
Manufacturing	5.5%	(14.8)%
Other Subcategories	15.7%	(13.0)%
Total	100.0%	(12.4)%

“The August decline [in sales taxes] marked the 19th consecutive month of year-over-year reductions, and the 10th consecutive month of double digit declines compared to the previous year.”

As noted in previous months, retail and contracting together account for two-thirds of all sales tax revenues. The retail sector decreased by (12.4)% in August, and contracting fell by (40.6)%.

As noted in *Table 5*, August taxable sales in the retail category are down (12.4)% from August of the prior year. The largest subcategory within retail is the General Merchandise and Miscellaneous Retail category, which is down (7.1)%. Motor Vehicles, which represents 20.5% of the total, is down (16.0)% compared to August of the prior year. This rate of decrease in the Motor Vehicles subcategory is an improvement from the (32.9)% decrease in this category for all of FY 2009.

There has been no noticeable impact on sales tax collections in the Motor Vehicles subcategory resulting from the “cash for clunkers” vehicle program, which began in late July. As noted above, August results in this subcategory showed a (16.0)% decrease from the prior year, which was below the (14.6)% decrease for July.

Individual Income Tax net revenues were \$231.1 million in August. Collections were down (0.2)% compared to the prior year, and were \$(1.7) million below the budget forecast. Year-to-date collections are down by (6.3)% and are \$(30.8) million off the forecast amount. *Table 6* displays August growth rates for individual categories.

Table 6

Individual Income Tax Growth Rates Compared to Prior Year

	<u>August</u>	<u>YTD</u>
Withholding	(0.4)%	(3.7)%
Estimated + Final Payments	(19.1)%	(25.0)%
Refunds	(10.7)%	6.7%

As indicated in the table above, withholding tax payments declined by (0.4)% in August, the 11th consecutive month of year-over-year declines. The state has not suffered that many months of year-over-year declines since at least 1960.

Corporate Income Tax collections were \$5.9 million in August, or (69.4)% below last year. Collections were \$(9.0) million below forecast for the month. While collections are significantly below the forecast for August, July and August are relatively small collection months. Year-to-date, corporate collections are (6.9)% below last year, and \$2.0 million above the budget forecast.

The **Lottery Commission** reports that ticket sales for the month of August were \$46.5 million, which was \$12.3 million above sales in August 2008, an increase of 36.0%. The Commission reports that the main contributor to the increased sales was Powerball, whose sales increased by \$6.1 million compared to the prior month. A total of \$6.2 million has been transferred to the General Fund as of August 31st.

Transfers and Reimbursements – were negative \$(6.4) million for August due primarily to litigation requiring the reversal of a prior Early Childhood Development transfer.

Economic Indicators

NATIONAL

According to the third (“final”) estimate of the **U.S. Real Gross Domestic Product (GDP)** for the 2nd quarter of 2009, the nation’s economy contracted at an annual rate of (0.7)% during this period. This should be compared with the previous estimate of (1.0)% released last month. The key revision to the GDP estimate was business software spending. Instead of a decline of (11.7)%, as previously estimated, business software investment increased at an annual rate of 1.2%.

The Conference Board’s **U.S. Consumer Confidence Index**, a measure based on a survey of 5,000 U.S. households, declined (1.5) points September to a reading of 53.1. At this level, however, the consumer confidence index is still well above the record-low reading of 25.3 in February. The decline in August is attributed to slightly more pessimistic view of current conditions.

The Conference Board’s **U.S. Index of Leading Economic Indicators** rose for the fifth consecutive month in August, with a month-over-month increase of 0.6%. The index, which is designed to anticipate economic activity 3 to 6 months in advance, points toward a rebound in economic activity. The August reading of 102.5 was the highest since January 2008. Five of the 10 components that make up the index improved in August. The largest positive contributors were vendor performance, the interest rate spread, and stock prices.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, rose by 0.4% in August. The CPI increase was primarily due to a 9.1% surge in gasoline prices. Compared to the same month last year, the general price level is down (1.4)%. Excluding food and energy, core consumer prices inched up 0.1%. The core CPI has risen 1.4% over the last 12 months. Since core inflation remains contained, the Federal Reserve has opined that it does not currently view the threat of inflation as imminent.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. increased by 5.8% in July, from \$2.91 billion to \$3.08 billion. July marked the fifth consecutive month with month-over-month increases in semiconductor

sales. In spite of these improvements, sales are still (8.1)% off last year’s level.

ARIZONA

While the state continued to report large year-over-year job losses in August, there were also some indications that conditions in the housing market appear to be stabilizing. Home prices are no longer falling, the supply of housing has remained largely unchanged over the last few months, and permitting activity appears to be trending up. Analysts caution, however, that for any improvement to be sustainable, it is imperative that foreclosures decrease and eventually revert to levels observed prior to the collapse of the real estate market.

As reported in last month’s issue of *Monthly Fiscal Highlights*, the Federal Reserve Bank’s coincident index can also serve as a measure to gauge the current state of the Arizona economy. 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 suggests that economic activity in Arizona continued its decline in August, albeit at a slower rate than in previous months. The Arizona coincident index fell by (0.4)% in August, a (7.9)% year-over-year decrease. The national index declined by (0.1)% and was (3.4)% lower than in August 2008. The Fed’s August release of the index suggests that as many as 10 states in the nation are beginning to experience a slight uptick in economic activity.

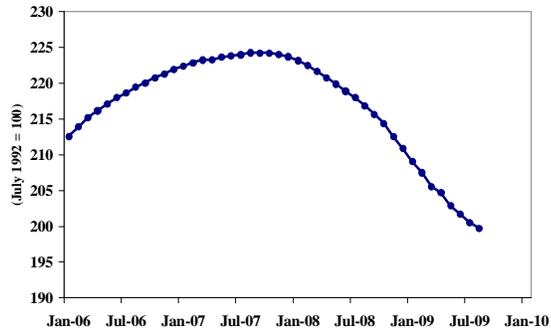
The graph below, which shows the history of the Arizona coincident index, suggests that economic activity in the state has not yet reached its bottom.

“The Arizona coincident index fell by (0.4)% in August, a (7.9)% year-over-year decrease”.

Economic Indicators (Continued)

“The goods-producing sector of the economy has shed (17.7)% of its workforce over the last 12 months compared to (5.8)% for service-providing industries.

Arizona Coincident Economic Activity Index



The most recent employment report by the Arizona Department of Commerce shows that the state added 19,700 **nonfarm payroll jobs** in August. The month-over-month gain in employment in August was primarily due to the seasonal hiring of teachers. The average increase in the last 10 years was slightly less than 33,000. Compared to August 2008, nonfarm payroll employment was down by (7.5)%, the nation's second largest percentage decline after Michigan. The state has lost (312,000) jobs since employment peaked in December 2007.

While no sector of the Arizona economy has been able to escape the recession, some industries have been more adversely affected than others. The goods-producing sector of the economy has shed (17.7)% of its workforce over the last 12 months compared to (5.8)% for service-providing industries. Although the service-providing sector of the economy has been less severely impacted, Arizona leads the nation in service-related employment losses by a margin of 1%.

The **construction sector** added 100 new jobs in August. This was the second monthly employment gain in the last two years. The industry employed (26.4)% fewer workers in August than a year ago. This segment of the economy has lost (109,000) jobs since the height of the construction boom in the summer of 2006.

The **manufacturing sector** also added 100 new jobs in August. Most of this gain came from the nondurable goods manufacturing segment of the industry. Compared to the same month last year, manufacturing employment is down by (7.7)%, which translates into a net loss of (13,400) jobs.

The **average weekly hours** of production workers in manufacturing industries is another measure of labor market conditions. Economists consider this measure 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 August decreased by (1.8)% from the previous month. The average work week of 38.1 hours in August is the lowest on record (data is available from January 2001) and (5.0)% below the level recorded one year ago.

The state's **unemployment rate** stayed essentially flat in August at a reading of 9.1%. The state's unemployment rate in August 2008 was 5.9%. The highest unemployment rate in the state was recorded in Yuma, where 19.1% of its labor force was reportedly out of work. Flagstaff had the lowest unemployment rate in August, with a reading of 7.5%.

The Department of Commerce reported that 32,747 **initial claims for unemployment insurance** were filed in August, an increase of 45.5% over last year. Claims for initial jobless benefits appear to have peaked in April when more than 41,000 individuals filed for unemployment insurance for the first time. For the week ending on September 5, more than 109,000 Arizona residents filed continued claims for jobless benefits, which was more than twice the amount reported one year earlier.

Based on data released by the U.S. Census Bureau, an average of 1,614 building permits were issued each month between June and August 2009. This amount includes an average of 1,494 **single-family residential building permits** authorized and 120 **multi-family permits**. On a month-over-month basis, the number of single-family and multi-family permitting activity increase 0.6%. Year-over-year, however activity in each of these segments decreased (14.1)% and (81.2)%, respectively.

Based on ASU's August real estate report, a total of 9,080 **single-family existing home sales** occurred in August at an average **single-family median resale home price** of \$139,000. The 9,080 sales was (21.0)% below July and 21.0% above levels a year ago. The median resale price in the single family

Economic Indicators (Continued)



segment remained relatively unchanged from the prior month, decreasing by \$(1,000), or (0.7)%. Relative to a year ago prices have fallen (21.9)%. Since the June 2006 high of \$267,000, prices have fallen (47.9)%.

In the multi-family segment, ASU's reports there were 1,140 **townhouse-condominium median** transactions with an average **sales price** of \$103,500. The total number of units bought and sold represents an increase of 39.9% above levels a year ago, while the year-over-year median resale price decreased (29.5)%.

The **S&P/Case-Shiller Home Price Index** measures the change in housing prices based on repeat sales. In July, the index for the Phoenix metropolitan area increased for the second straight month, measuring 106.66. Month-over-month, the index increased 1.8%, while the year-over-year change was (28.5)%. Relative to peak in June 2006 (227.42), the index is down (53.1)%. For comparison, the 20 metropolitan area index is down (30.1)% from its peak in July 2006.

Utilizing the most recent MLS data available, the **month's supply of housing** increased slightly between July and August. Specifically, at the current rate of existing home sales (on a seasonally adjusted basis), it would take 5.9 months to deplete the current inventory of unsold homes. The comparable figure in August 2008 was 10.2 months. The measure reached a high of 16.7 months in September 2007.

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 September, **AHCCCS caseloads** increased to a total of 1,327,237 members, 2.0% above the number of recipients in the previous month. AHCCCS caseloads are currently 17.3% above September 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 84,870 **TANF recipients** in the state in July, which represented a monthly caseload increase of 1.8%. July's year-over-year increase was 7.5%. The

FY 2010 budget assumed that the June 2010 TANF caseload would be 84,287.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In July, there were a total 925,732 food stamp recipients in the state, an increase of 3.5% over the prior month. Compared to the same month last year, food stamp participation was up by 35.6%. 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 by an average of 76 inmates per month between June and August 2009. During the first two months of FY 2010, the departments population increased by an average of 101 inmates per month, below the FY 2010 funded 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. Based on the most recent data, the non-Maricopa probation caseload was 20,137 individuals, or 110 probationers more than the prior month. Year-over-year, however, the probation caseload has decreased by (824) individuals. Maricopa County had 27,199 probationers during the period, which was (1,995) less than the prior month and (3,325) 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	August	9.1%	(0.1)%	3.2%
- Initial Unemployment Insurance Claims	August	32,747	(15.7)%	45.5%
- Non-Farm Employment – Total	August	2.40 million	0.8%	(7.5)%
Manufacturing	August	160,300	0.1%	(7.7)%
Construction	August	139,000	0.1%	(26.4)%
- Average Weekly Hours, Manufacturing	August	38.1	(1.8)%	(5.0)%
- Contracting Tax Receipts (3-month average)	Jun-Aug	\$42.1 million	0.4%	(38.2)%
- Retail Sales Tax Receipts (3-month average)	Jun-Aug	\$132.7 million	(2.3)%	(11.6)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jun-Aug	1,494	0.6%	(14.1)%
Multi-unit	Jun-Aug	120	0.6%	(81.2)%
- Greater Phoenix Existing Home Sales				
Single-Family	August	9,080	(21.0)%	21.0%
Townhouse/Condominium	August	1,140	(22.7)%	39.9%
- Greater Phoenix Median Home Sales Price				
Single-Family	August	\$139,000	(0.7)%	(21.9)%
Townhouse/Condominium	August	\$103,500	(3.8)%	(29.5)%
- S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	106.66	1.8%	(28.5)%
- Months Supply of Housing, (ARMLS)	August	5.9 months	(0.4) months	(4.3) months
- Phoenix Sky Harbor Air Passengers	July	3.34 million	3.4%	(4.1)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	June	\$5.61	(8.9)%	(39.9)%
- Arizona Consumer Confidence Index (1985 = 100)	1 st Quarter 2009	44.2	N/A	(58.4)%
- Arizona Coincident Index (July 1992 = 100)	August	199.74	(0.4)%	(7.9)%
- Arizona Personal Income	1 st Quarter 2009	\$211.5 billion	(0.7)%	(0.6)%
- Arizona Population	July 1, 2008	6.50 million	146,759	2.3%
- AHCCCS Recipients	September	1,327,237	2.0%	17.3%
- TANF Recipients	July	84,870	1.8%	7.5%
- SNAP (Food Stamps) Recipients	July	925,732	3.5%	35.6%
- DOC Inmate Growth (3-month average)	Jun-Aug	40,516	76 inmates	1,548 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	May/July	20,137	110	(824)
Maricopa County	May/July	27,199	(1,995)	(3,325)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2 nd Quarter 2009	\$12.9 trillion	(0.7)%	(3.8)%
- Consumer Confidence Index (1985 = 100)	September	53.1	(2.6)%	(13.5)%
- Leading Indicators Index (2004 = 100)	Aug	102.5	0.6%	1.9%
- U.S. Semiconductor Billings (3-month moving average)	May-Jul	\$3.08 billion	5.8%	(8.1)%
- Consumer Price Index, SA (1982-84 = 100)	Aug	215.43	0.4%	(1.4)%

JLBC Meeting

At its September 22, 2009 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.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave favorable reviews to the AG’s allocation plans for the \$2,547,000 that the AG will receive from 5 settlements for attorney’s fees and investigative costs, consumer fraud education, and for investigations and enforcement of the Consumer Fraud Act. The amounts to be deposited into the Consumer Fraud are: \$845,400 from several pharmaceutical companies, \$117,000 from Tim’s Auto Group, \$400,000 from WalMart, \$1 million from Central Coast Nutraceuticals, and \$100,000 from Payless Car Rental.

Department of Education – Review of Xanterra and Kinder Morgan Corporations Settlement – The Committee gave a

favorable review of ADE’s plan to provide \$153,900 in corrected Basic State Aid funding to school districts in Pinal and Coconino Counties to settle a judgment in the Arizona Tax Court regarding Xanterra and Kinder Morgan Corporations’ overpayment of prior year property taxes.

Department of Health Services – Review of Behavioral Health Title XIX Capitation Rate Changes – The Committee gave an unfavorable review to the department’s capitation rate. The proposed capitation rates exceed the budgeted amount by \$651,600 in General Fund monies due to program expansions that primarily address litigation requirements.

Arizona State Parks Board – Review of Requested Exchange of Fund Transfers – The Committee gave a favorable review to the Arizona State Parks Board’s request to exchange \$6.6 million in fund transfers, primarily by transferring monies from the Arizona Heritage Fund rather than the State Lake Improvement Fund and the State Parks Enhancement Fund.



JCCR Meeting

At its September 22, 2009 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Review of Arizona State Hospital Forensic Unit Project – The Committee gave a favorable review for the design and scope plans of the new \$32.2 million Arizona State Hospital (ASH) Forensic Unit. These monies will be used to construct a 100-bed facility made up of five 20-bed units. ADOA issued the Certificates of Participation and received the \$32.2 million of bond proceeds in April 2008.

Arizona Department of Administration – \$1.0 Million FY 2010 Building Renewal Projects – The Committee gave a favorable review for ADOA to expend \$1.0 million on building renewal emergency projects as the need arises.

Arizona Department of Administration – FY 2010 Quarterly Rent Payments and Rent Exemption – The Committee recommended quarterly rent payment schedules for Office of Pest Management, the Board of Homeopathic and Integrated Medicine Examiners, and the Board of Equalization and a rent exemption for the Personnel Board.

Northern Arizona University – Review of Health and Learning Center – The Committee gave a favorable review to Northern Arizona University for its proposal to spend \$114.3 million in system revenue bonds, primarily to fund an expanded recreation center, classrooms, and student infirmary. An annual \$470 student fee would fund 63% of the eventual yearly \$8.7 million debt service.

Arizona Department of Veterans’ Services – Review of the Tucson Veterans’ Home – The Committee gave a favorable review to the

JCCR Meeting (Continued)

Arizona Department of Veterans' Services' (ADVS) \$10 million General Fund appropriation for the construction and establishment of a veterans' home facility in Tucson. This will be combined with a \$18.5 million grant from the US Department of Veterans' Affairs for a total project cost of \$28.5 million. ADVS estimates needing \$5 million from the General Fund for

start-up costs, and may request ongoing General Fund appropriations for operational costs.

Summary of Recent Agency Reports

ADOA/GITA – Quarterly Report on AZNet Implementation – In December 2004, the Joint Committee on Capital Review requested the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) report quarterly on the Arizona Network (AZNet), as created by the Statewide Telecommunications Management Contract. In the third quarter of FY 2009, Department of Economic Security telephone service completed the transition to Internet Protocol Telephony (IPT). Additionally, the state's telephone capacity has been increased in response to a 40% increase in calls to the state's social services contact centers. ADOA staff continue to work with the contractor to resolve issues regarding billing and support for Virtual Office Systems, which allow state workers to access state computers from remote locations. (Dan Hunting)

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) provided its quarterly report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), verified the immigration status of 28,890 individuals between January 1, 2009 and March 31, 2009. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. (Aaron Galeener)

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. From January 1, 2009 to June 30, 2009, the state did not exercise its right to offset the costs of incarcerating inmates under this statute, since no monetary judgments were awarded during this time period. (Marge Zylla)

Arizona Department of Corrections – Report on Expenditures – Pursuant to Laws 2009, 1st Regular Session, Chapter 12 (FY 2010 General Appropriation Act), the Arizona Department of Corrections (ADC) is required to report on the monthly and year-to-date expenditures for the current and prior fiscal year. The report is also to include potential shortfalls, any estimated surpluses to offset the shortfalls, and a plan for eliminating the shortfall.

Based on the report which includes data through July 2009, ADC has identified shortfalls and surpluses within various line items and Special Line Items (SLI) in FY 2010. These estimates, however, are anticipated to offset each other not resulting in an overall surplus or shortfall. In addition, the report identifies the line items and SLI that ADC anticipates allocating their \$(34,645,900) lump sum reduction. The current allocation is as follows: Personal Services/ERE (\$9,750,000); OT/CT (\$1,280,400); Health OOE (\$8,870,200); Non-Health OOE (\$4,935,900); Private Prison Per Diem (\$1,139,400); and Provisional Beds (\$8,670,000). (Martin Lorenzo)

Department of Corrections – Report on Inmate Utility Fees – Pursuant to A.R.S. § 31-239, the Department of Corrections (ADC) shall annually report on monies collected from inmates who use electrical appliances. The report shall also include information on the expenditure of any monies collected. Statute requires the department to charge a fee, not

Summary of Recent Agency Reports (Continued)

to exceed \$2.00 per month, to inmates possessing at least one electrical appliance. For FY 2009, the department assessed a monthly utility fee of \$1.00 and collected \$237,748.98. The department reports that the monies were deducted monthly from inmate spendable accounts and were utilized to reduce electrical expenditures at the institutions from which fees were collected. Total inmate utility collections represent approximately 1.9% of ADC's total electrical expenditures of \$12,583,900 in FY 2009. Anecdotally, ADC has indicated that the monthly fee to inmates possessing at least one electrical appliance was increased from \$1.00 to \$2.00 beginning August 2009. This information, however, was not included in the department's report. (Martin Lorenzo)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2009 – Pursuant to a General Appropriation Act footnote, the Department of Environmental Quality (DEQ) is required to report annually by September 1 to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program in that it is designed to monitor, contain, and remediate contaminated groundwater at specified sites. Based on the report, FY 2009 expenditures were \$10,930,600.

Unexpended funds at the end of FY 2009 totaled \$349,900.

The WQARF Program maintains a list of contaminated sites, called the Registry. According to the report, as of December 31, 2006 there were 35 sites on the WQARF Registry. Sites on the registry have not changed since 2004. The report contained no information regarding the expected duration or total remediation costs for these sites.

In response to lowered funding, DEQ issued stop work directives to WQARF contractors on January 30, 2009 for all site activities not related to the operation and maintenance of soil and groundwater treatment systems. In FY 2010, program expenditures for 19 sites that remain active are projected to be \$2,874,500.

The report includes information about cost recovery and cleanup activities at both the site and program level of detail. *Table 1* is a breakdown of cleanup results in FY 2009.

The program showed large increases in groundwater treated and volatile organic compounds removed due to increased remediation activity at state-lead federal superfund sites.

In FY 2009, the Emergency Response Unit received reports of 214 hazardous substance incidents, 24 of which required on-site responses. (Dan Hunting)

Governor's Council on Workforce Policy – Report on FY 2009 Annual Report – Pursuant to A.R.S. § 41-1542, the Governor's Council on Workforce Policy (GCWP) submitted its annual report on workforce development. The total workforce spending from state, federal, and local sources for FY 2008 was \$415.7 million. Of this total, the Department of Economic Security accounted for \$183.6 million, Department of Education for \$17.2 million, Department of Commerce for \$39.0 million, and Community Colleges for \$175.9 million.

Excluding the community colleges, the largest programs in FY 2009 include the Jobs program, which provides employment and training services to Temporary Assistance to Needy Families (TANF) recipients (\$25.2 million), Vocational Rehabilitation (\$64.4 million), the Workforce Investment Act program (\$36.9 million), and the Department of Commerce Job Training program (\$38.3 million), which provides incentives to companies to provide training programs. (Eric Billings)

Arizona Department of Homeland Security – Report on Homeland Security Funding – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security has submitted an annual report detailing grant allocations and expenditures for Homeland Security Grants from Federal Fiscal Year (FFY) 2006 through FFY 2008. (See *Table 2*) The state was allocated and the Arizona Department of Homeland

Table 1

ADEQ - Breakdown of Cleanup Results

<u>Activity</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Groundwater Treated (in billions of gallons)	16.3	7.9	12.0	34.8
Volatile Organic Compounds Removed (in pounds)	113,946	310,148	298,453	624,108
Metals Removed (in millions of pounds)	3.4	1.5	2.4	3.1
Contaminated Soil Removed (in tons)	2,816.4	1,755	1,498	-
Pounds of Hazardous Substances Removed	-	-	-	34,934

Summary of Recent Agency Reports (Continued)

Table 2

Awards and Expenditures by Homeland Security Grant Recipients

	<u>FFY 2006</u>	<u>FFY 2007</u>	<u>FFY 2008</u>
State Awards	\$6,745,400	\$ 13,868,000	\$ 14,304,200
Local Government Awards	<u>23,958,600</u>	<u>26,974,100</u>	<u>36,232,100</u>
Total Awards	\$30,704,000	\$40,842,100	\$50,536,300
State Expenditures	\$6,397,000	\$10,038,200	\$5,315,400
Local Government Expenditures	<u>23,322,100</u>	<u>14,981,800</u>	<u>4,216,700</u>
Total Expenditures	\$29,719,100	\$25,020,000	\$9,532,100
Percentage of Total Awards Currently Expended	96.8%	61.3%	18.9%

Security awarded \$50.5 million in homeland security grants for FFY 2008. The department reported total expenditures of \$9.5 million, leaving \$41.0 million unexpended. State agencies were awarded \$14.3 million, of which \$5.3 million has been expended. Local governments were awarded \$36.2 million, of which \$4.2 million has been expended. The largest local grantee was the City of Phoenix (\$7.3 million). The largest state grantee was the Arizona Department of Emergency and Military Affairs (DEMA) (\$6.9 million). The largest individual grant of \$5.8 million went to DEMA to help structure individual emergency management programs, strengthen emergency management capabilities, and develop systems that encourage the building of partnerships with the public and private sector.

FFY 2008 represented an increase from the amount received in FFY 2007 and FFY 2006. While Arizona received \$50.5 million in FFY 2008, the state received \$40.8 million and \$30.7 million in FFY 2007 and FFY 2006, respectively. Of the funds received, 61.3% have been expended for FFY 2007, and 96.8% have been expended for FFY 2006. (Eric Billings)

Department of Racing – Report on Boxing Events and Revenue – Pursuant to a General Appropriation Act footnote, the

Department of Racing is required to report annually on the number of boxing events, gross receipts, state revenues, and license fee collections. During FY 2009, a total of 29 boxing events were held in Arizona. During that period, the total collections were \$24,100. The state received \$27,000 of additional revenue from Intergovernmental Agreements with Indian tribes and \$18,000 from unarmed combat fees. (Bob Hull)

Supreme Court – Report on Current and Future Automation Projects – Pursuant to a General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2010 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2010 will be approximately \$24.2 million. Of this amount, approximately \$5.1 million, or 21% will be spent on ongoing automation support, \$7.0 million, or 29% will be spent on shared infrastructure, and \$12.1 million, or 50% will be spent on 10 new projects in FY 2010. Of the 10 new projects, the larger projects include:

- Updating the limited jurisdiction case management system for statewide utilization (\$4,269,500)
- Updating the general jurisdiction case management system for 13 of the 15 counties in Arizona (\$3,095,900)
- Updating and enhancing the

Juvenile On-Line Tracking System (JOLTS) (\$1,142,500)

- Further development of electronic filing (\$3,430,000)

The report does not meet the reporting guidelines as required by the FY 2010 General Appropriation Act for the \$5.1 million in ongoing projects, as it does not itemize funding levels for specific projects associated with the \$5.1 million in ongoing automation projects and support. (Jon McAvoy)

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 2004, the Southern Nevada Water Authority (SNWA) agreed to pay the Arizona Water Banking Authority (AWBA) \$230 million for delivery and storage of water. Equal payments of \$23 million per year from Nevada to the AWBA were to 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. 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,

Summary of Recent Agency Reports (Continued)

subject to legislative appropriation.

In 2009, the agreement was modified to provide flexibility in interstate operations and included allowing changes to the schedule of dates and period, dates of water recovery, and coordination of schedules in forecasting water storage and recovery.

AWBA received the \$100 million from SNWA in 2 installments in 2005, which were deposited in a subaccount with the State Treasurer. Pursuant to the 2009 modified agreement, and because no water was scheduled to be stored in FY 2009, the payment of \$23 million was delayed upon SNWA's request. In FY 2009, no monies were used for the purchase and storage of water; however, \$8.6 million was transferred to the General Fund as part of the January mid-year FY 2009 budget revisions. Combined with expenditures from prior years, the ending balance for FY 2009 is estimated to be \$10.7 million (of the \$100 million). (Aaron Galeener)

State of Arizona

General Fund Revenue:

Change from Previous Year and Budget Forecast August 2009

	Current Month					FY 2010 YTD (Two Months)				
	Actual August 2009	Change From August 2008		Forecast		Actual August 2009	Change from August 2008		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	287,604,077	(\$57,574,664)	(16.7) %	(\$20,679,870)	(6.7) %	\$578,232,711	(\$123,199,748)	(17.6) %	(\$43,595,199)	(7.0) %
Income - Individual	231,115,136	(565,065)	(0.2)	(1,665,364)	(0.7)	465,894,420	(31,146,671)	(6.3)	(30,808,668)	(6.2)
- Corporate	5,856,274	(13,294,617)	(69.4)	(9,048,226)	(60.7)	39,496,985	(2,948,684)	(6.9)	2,034,485	5.4
Property	59,056	(396)	(0.7)	12,056	25.7	228,258	939	0.4	(39,742)	(14.8)
Luxury - Tobacco	2,169,748	(434,200)	(16.7)	(500,252)	(18.7)	4,728,680	(489,293)	(9.4)	(633,320)	(11.8)
- Liquor	1,259,965	(665,506)	(34.6)	(830,035)	(39.7)	3,961,918	(592,197)	(13.0)	(728,082)	(15.5)
Insurance Premium	42,365,510	(2,015,516)	(4.5)	(5,459,490)	(11.4)	84,245,698	(2,235,642)	(2.6)	(8,164,302)	(8.8)
Estate	294,106	274,492	--	294,106	--	294,106	271,444	--	294,106	--
Other Taxes	30,669	(5,630)	(15.5)	(21,831)	(41.6)	90,551	(2,591)	(2.8)	(14,449)	(13.8)
Sub-Total Taxes	\$570,754,541	(\$74,281,102)	(11.5) %	(\$37,898,906)	(6.2) %	\$1,177,173,327	(\$160,342,443)	(12.0) %	(\$81,655,171)	(6.5) %
Other Revenue										
Lottery	2,759,200	352,700	14.7	(340,800)	(11.0)	2,759,200	352,700	14.7	(340,800)	(11.0)
License, Fees and Permits	2,497,429	(906,928)	(26.6)	(1,382,571)	(35.6)	5,006,033	(298,702)	(5.6)	(1,008,967)	(16.8)
Interest	1,166,443	(1,157,067)	(49.8)	1,166,443	--	1,165,988	(1,042,638)	(47.2)	1,165,988	--
Sales and Services	2,617,627	(434,127)	(14.2)	(1,062,373)	(28.9)	4,363,850	(613,811)	(12.3)	(1,306,150)	(23.0)
Other Miscellaneous	2,808,840	414,249	17.3	808,840	40.4	6,475,551	1,695,179	35.5	2,475,551	61.9
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(6,356,834)	(7,770,447)	--	(8,756,834)	--	4,958,605	2,652,875	115.1	158,605	3.3
Sub-Total Other Revenue	5,492,705	(9,501,620)	(63.4) %	(9,567,295)	(63.5) %	24,729,227	2,745,603	12.5 %	1,144,227	4.9 %
TOTAL BASE REVENUE	\$576,247,246	(\$83,782,722)	(12.7) %	(\$47,466,201)	(7.6) %	\$1,201,902,554	(\$157,596,840)	(11.6) %	(\$80,510,944)	(6.3) %
Other Adjustments										
Urban Revenue Sharing	(52,387,052)	8,252,731	--	0	0.0	(104,774,105)	16,505,461	--	0	0.0
Budget Plan Transfers	0	(215,546,792)	(100.0)	0	--	0	(215,546,792)	(100.0)	0	--
Sub-Total Other Adjustments	(52,387,052)	(207,294,061)	-- %	0	0.0 %	(104,774,105)	(199,041,331)	-- %	0	0.0 %
TOTAL REVENUE	\$523,860,194	(\$291,076,783)	(35.7) %	(\$47,466,201)	(8.3) %	\$1,097,128,449	(\$356,638,171)	(24.5) %	(\$80,510,944)	(6.8) %

Analysis Of General Revenue BRB Veto

The Governor's veto of SB 1025, the General Revenue Budget Reconciliation Bill, has the potential to result in lost General Fund savings and to affect some agency operations. If these same provisions are again transmitted to the Governor and signed by January, most of the savings will still occur in FY 2010. To ensure the capture of these savings, some of the relevant dates in the legislation may need to be adjusted.

Under the presumption that the SB 1025 provisions will eventually be enacted, administrative actions could also be taken to address agency cash flow issues between now and January. These actions include Executive actions to adjust quarterly allotments of appropriations, temporary deferral of risk management charges and delays in state owned rent payments.

In addition, the Executive has \$185 million available in General Purpose State Fiscal Stabilization Funds from the American Recovery and Reinvestment Act. Of this amount, approximately \$105 million has been at least tentatively allocated. For example, the Executive has targeted \$1.7 million of these funds for the Arizona Exposition and State Fair Board to repair the Coliseum roof. The remaining \$80 million could be used for a temporary bridge loan to address agency cash flow issues.

The SB 1025 provisions below are divided into 3 sections. For provisions in Section A, the veto affects agency operations. For provisions in Section B, the veto affects General Fund revenues. Provisions in Section C are other provisions which may have other impacts. *Comments on the effects of each provision are in italics.*

A. Veto affects agency operations and cash flow.

Arizona Department of Agriculture

Section

1. As session law, permit the Citrus, Fruit and Vegetable Advisory Council and the Agricultural Advisory Council to increase fees up to \$389,000 in FY 2010, and permits ADA to continue \$172,000 in FY 2009 fees in FY 2010. 27

- *In order to increase their fees for FY 2010, the department believes they would need an effective date of December 31 or earlier since their fees are charged on an annual basis. A new BRB, however, could set a new time frame for the fee collection, thereby allowing the department to still collect the fees during FY 2010. The department has not provided a timeline indicating cash flow problems due to this provision being vetoed.*

Registrar of Contractors

2. As session law, allow 14% of prior fiscal year revenues from the Residential Contractor's Recovery Fund to be used for employee and contracted services, equipment, and for operational costs, rather than 10% of fund balance. 28

- *Under current law, the agency can expend 10% of the Recovery Fund balance on administration, or \$409,400 in FY 10, down from \$981,500 in FY 09. With the 14% of revenues allowed under this provision, the agency could have spent \$840,000. The department believes that it cannot use the Registrar of Contractors Fund, its primary fund used for operations, to pay for the operation of the Residential Contractors Recovery program. If they continued to operate the Recovery program at the current level from the Recovery Fund, they could operate the program into December, when the fund balance would be exhausted. It may be possible to continue the Recovery program through a short-term loan from the Registrar of Contractors Fund to the Recovery Fund.*

Analysis Of General Revenue BRB Veto (Continued)

Corporation Commission

- | | | |
|----|--|----------|
| 3. | As permanent law, direct a portion of the fee for the annual report of domestic and foreign corporations, as appropriated by the Legislature, to the Public Access Fund for the Corporation Commission's operating expenditures. The fee is currently deposited in the General Fund. | 3,4 |
| - | <i>The Corporation Commission says the Public Access Fund will run out of money in October. To this point, the Executive has not allowed the agency to temporarily increase its appropriation allotments from other funds to offset a shortfall in this fund in the short term. Agency appropriations are typically distributed to the agencies in quarterly allotments. An allotment adjustment of \$800,000 from the Utilities Fund appropriation would be sufficient to replace lost Public Access Fund revenues through January. Additionally, the projection that the fund will run out of money in October assumes that a rent payment of \$360,000 is made in September. A temporary rent deferral would provide further cash flow flexibility.</i> | |
| 4. | As permanent law, give the Corporation Commission the authority to adjust the annual registration fees for securities dealers and salesmen, and direct a portion of another fee from the General Fund to the Securities Regulation and Enforcement Fund. | 17,18,36 |
| - | <i>The Corporation Commission says the Securities Regulation and Enforcement Fund will run out of money in October. This projection assumes that a \$300,000 rent payment is made in September. A temporary rent payment deferral may extend the balance of the fund into November. In addition, a provision in the General Government BRB allows the fund to start to collect money in late November upon the effective date of that bill, when mutual fund fees will begin being deposited in the fund. The agency's analysis did not take this additional funding into account.</i> | |

Office of Pest Management

- | | | |
|----|--|----|
| 5. | As session law, allow the Office of Pest Management to increase its fees in FY 2010. The bill appropriates the revenue generated from the increased fees to the agency, and includes an intent clause that limits additional revenues generated by the fee increases to \$875,000. The bill also exempts the agency from rulemaking requirements for 1 year. | 34 |
| - | <i>At current spending levels, if the provision is not passed, the department estimates that it will be able to operate into December. Internal agency analysis, which included a rent adjustment to allow the agency to pay its rent in quarterly installments instead of as a yearly lump sum, showed that the fund would run out of money in January. The rent adjustment was recommended by the Joint Committee on Capital Review on September 22, 2009.</i> | |

Department of Revenue

- | | | |
|----|--|-------|
| 6. | As permanent law, provide that the first \$10.5 million in unclaimed property proceeds are to be deposited into the Housing Trust Fund, and the next \$24.5 million goes to the Department of Revenue. | 11,16 |
| - | <i>If the BRB is enacted by January, DOR has stated that it will not affect their operations. If the BRB is never enacted, DOR would literally run out of funds to operate by February.</i> | |
| 7. | As session law, provide that the Department of Revenue may utilize up to \$2 million of General Fund revenues to pay BRITS operational support costs after JLBC review. | 37 |
| - | <i>DOR expects to run out of money for BRITS IT support by the end of November 2009 and is currently using left over monies from FY 2009. DOR may use its operating monies for this purpose if the provision is not enacted by November.</i> | |

Analysis Of General Revenue BRB Veto (Continued)

Department of Revenue (Continued)

8. *As session law, provide that if 12.5% of the dollar value of properties recovered by unclaimed property contract auditors exceeds \$1,770,000 in FY 2010, the excess amount will be transferred to the DOR Administrative Fund and appropriated to DOR for contract auditor fees.* 38
- *This provision is related to the other unclaimed property provisions and the establishment of the DOR Administrative Fund. The department is currently spending its General Fund operating budget for this purpose but has not identified a timeline related to this specific issue.*

Fee Authority

9. *Continue FY 2009 fee raising authority for the Department of Health Services, the Radiation Regulatory Agency, and the State Land Department for FY 2010. The bill exempts recreation fees from the fee raising authority granted the State Land Department. The bill adds an intent clause that limits additional revenues to \$600,000 each for the Department of Health Services and the State Land Department, and \$500,000 for the Radiation Regulatory Agency.* 24,32
- *DHS – The department has indicated that the loss of the \$600,000 in fee authority will cause a cash flow issue, but has not identified a timeline.*
- *Land Department – While not a cash flow issue, the agency has indicated that because the provision prohibits them from raising recreation fees, they would only be able to generate about \$300,000 of the allowed \$600,000 in FY 2010, and have already adjusted agency spending to reflect that lower amount of potential revenue. In addition, however, for each month that passes the department says that they lose the ability to raise about \$40,000, which may result in a reduction in force of up to 8 to 10 people during the fiscal year. A loss of \$300,000 in spending authority represents about 2% of the agency's \$14 million trust land management budget.*
- *Radiation Regulatory Agency – The department has indicated that cash flow problems will arise if the provision is not effective before February and believes it can collect about 90% of the allowed \$500,000 in fees in about 4 to 5 months. The total amount represents about 20% of the agency's budget.*

B. Veto affects General Fund revenue

Department of Insurance

10. *As session law, notwithstanding the requirement for the Department of Insurance to recover at least 95% but not more than 110% of the department's appropriated budget.* 25
- *The elimination of the suspension of the constraint that fees collected by the department must fall within 95%-110% of the prior year's GF appropriation is likely to cost the General Fund approximately \$2.4 M in foregone revenues in FY 10. There would be no impact to agency operations as the department would still receive its full General Fund appropriation. Statute requires that the fees must be changed by December 1 in order to comply with the 95%-110% requirement. If enacted after that date, a new BRB could allow DOI to recoup the lost revenue by charging a higher fee. Fees are currently at about 150% of last year's General Fund appropriation.*

Lottery Commission

11. *As session law, reduce FY 2010 Lottery distributions to the County Assistance Fund by \$765,000, the Local Transportation Assistance Fund by \$2,300,000, and the Local Transportation Assistance Fund II (Mass Transit) by \$990,000. The total reduction is \$4,055,000.* 26
- *The veto results in the relevant funds receiving their full allotments, resulting in foregone General Fund savings of \$(4,055,000). In FY 2009, these funds did not receive their full distributions until April, so the General Fund savings could still be achieved if a bill is enacted in January.*

Analysis Of General Revenue BRB Veto (Continued)

Department of Revenue

12. As permanent law, accelerate by 2 years the length of time for all property types to be presumed abandoned and therefore unclaimed (from 5 years to 3 years), revised the time period for travelers' checks from 14 years to 3 years and money orders from 6 to 3 years. 7,15
- *This provision was estimated to generate \$74 million in additional General Fund revenue in the FY 2010 budget. Companies report on their unclaimed properties by November 1st. If the provision is enacted after that date, DOR estimates that the state will only collect approximately \$18 million of the \$74 million. This issue may be addressed by setting a new date in new legislation to achieve the full savings.*

Arizona Department of Transportation

13. As session law, provide that the amount of Vehicle License Tax collected from the 5-year registration option which is over and above what would have been collected had the vehicles been registered for 2 years be deposited into the state General Fund.
- *The provision was estimated to generate an additional \$28 million in General Fund revenue by the implementation of the 5-year registration option. ADOT has not yet implemented the 5-year registration option due to software issues. Assuming that this problem is resolved, General Fund savings can still be achieved if the bill is enacted after January.*

Other Revenues

14. As session law, require Maricopa County to transfer \$19,014,600 and Pima County to transfer \$2,985,400 into the General Fund, for a total transfer of \$22 million. Exempt these contributions from county expenditure limitations. Allows counties to use any source of county revenue to make the transfers. 31
- *The budget assumed a \$22 million transfer to the General Fund. Because of the veto, the transfer will not occur, however, the transfer can still be achieved if the legislation is passed after January.*
15. As permanent law, provide that nonresident taxpayers are required to prorate their standard deduction based on Arizona income as a percent of total income. 14
- *This provision was estimated to generate an additional \$22 million in General Fund revenue. If the repeal of the state equalization tax is removed from the bill, then the inclusion of this provision would require a Proposition 108 clause, since it would increase state tax revenue.*

C. Other Provisions

Arizona Department of Agriculture

16. As session law, require the Citrus, Fruit and Vegetable Advisory Council to provide 30 days advance notice of a public hearing for any proposed fee increases in FY 2010. 27
- *No fiscal impact.*

Department of Education

17. As permanent law, repeal the State Equalization Tax Rate authorized in A.R.S. § 15-994. 5
- *This provision reduces K-12 spending by \$250 million.*
18. As permanent law, SB 1025 specifies the official K-12 Qualifying Tax Rate (QTR) for FY 2010 at \$2.75 in compliance with the Truth in Taxation (A.R.S. § 41-1276). 8
- *Other statutory provisions set in this rate in the absence of this provision.*

Analysis Of General Revenue BRB Veto (Continued)

Department of Education (Continued)

19. As session law, redirect \$22 million from city Vehicle License Tax be distributed to county treasurers for distribution to local school districts in the amount of \$3.7 million per month beginning January 2010. Exempt these contributions from county expenditure limitations. Allows counties to use any source of county revenue to make the transfers. 30

- *This provision resulted in savings to the Department of Education (ADE), but those savings were restored as part of the Governor's line-item veto of the ADE budget.*

20. As permanent law, use a 16% assessment ratio for secondary property tax purposes on Class 1 property for all voter-approved overrides and bond elections authorized after December 31, 2011. The provisions apply to school districts, community college districts, cities, towns and counties, but exclude special taxing districts. The bill provides that the approved bonded indebtedness does not apply in computing the constitutional debt limitations for these jurisdictions. 13

- *Local government impact only.*

Government Information Technology Agency

21. As permanent law, beginning in FY 2011, require all revenues from the State Web Portal be deposited in the State Web Portal Fund. 9

- *Since this provision does not take effect until FY 2011, the veto will not affect GITA in FY 2010.*

22. As session law, limit the operating expenses exempt from appropriation to no more than \$3 million in FY 2010. 29

Lottery Commission

23. As permanent law, repeal the State Land Department's Community Protection Initiative Fund and Department of Environmental Quality's Water Supply Development Fund Special Line Item from the list of recipients of State Lottery Fund monies. 2

- *These funds were not expected to receive lottery distributions in FY 2010 because the funds are at the end of the distribution order and it is not anticipated that lottery revenues will be sufficient to provide distributions to these funds. If lottery revenues are higher than anticipated, however, the veto of this provision may result in foregone General Fund revenues up to \$13 million.*

Nursing Care Administrators

24. As session law, allow the Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers to increase its fees in FY 2010. The bill appropriates the revenue generated from the increased fees to the board, and includes an intent clause that limits additional revenues generated by the fee increases to \$85,000. The bill also exempts the board from rulemaking requirements for 1 year. 33

- *The Governor's office and the Board have indicated that this provision is no longer necessary. Separate legislation (Laws 2009, 1st Regular Session, Chapter 56) changed the board's fee structure, allowing the board to set its own fees in rule rather than have the fees set in statute.*

Analysis Of General Revenue BRB Veto (Continued)

Department of Racing

25. As permanent law, require pari-mutuel proceeds to be distributed to the General Fund rather than to Racing funds. The bill also appropriates General Fund monies to current Racing fund recipients to partially offset loss of pari-mutuel taxes. Makes Racing funds non-appropriated since they will now receive only General Fund monies. *See Department of Revenue unclaimed property provision for details on total appropriation redirected from both sources.* 1
- *Since the agency will still receive pari-mutuel revenues directly, the veto will not have an impact on agency operations, however, the General Appropriation Act also appropriated General Fund monies to the Racing funds. The loss of the redirect of the pari-mutuel revenues will result in foregone General Fund revenue of about \$5.3 million, however, as long as the department is directed to transfer the funds to the General Fund by the end of the fiscal year, the savings can be achieved.*

Department of Revenue

26. As session law, continue the requirement for JLBC review of any BRITS contract extensions or modifications that increase the contractor's share of gain-sharing proceeds from state revenues during FY 2010. Retroactive to June 30, 2009. 37
- *No fiscal impact.*

Arizona Department of Transportation

27. As permanent law, change A.R.S. § 28-3002A7 to remove the cap on fees for duplicate drivers licenses. 6
- *No fiscal impact.*

Revenues

28. As permanent law, changes the end of the state's General Fund contribution to the Rio Nuevo multipurpose facility district from 2025 to the earlier of that date or the completion of the currently scheduled debt service payments. The bill provides that no state funds may be used for operating expenses of the facility, nor for any costs that qualify for funding from the Arizona Convention Center Development Fund. The bill also provides for a performance audit of the district beginning in 2010. The bill specifies that the district's Board of Directors consist of 9 members, 5 to be appointed by the Governor, and 2 each to be appointed by the President of the Senate and the Speaker of the House. The bill provides that, until a notice to proceed is issued for a hotel and convention center, distributed funds may only be used for debt service on bonds issued before January 1, 2009, administrative expenses, contractual obligations incurred before June 1, 2009, and the design and construction of the hotel and convention center. The bill also requires the establishment of a web-site database reporting revenues and expenditures of the district, and requires the posting of annual financial reports on the web-site. 12,19-23,40
- *The veto has no immediate fiscal state impact.*
29. As session law, authorize cities and towns to use local impact fees for General Fund purposes. The bill also provides that cities and towns may not increase impact fees in order to replace fees spent for General Fund purposes. 39
- *No state fiscal impact.*