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“August results were \$(11.9) million below forecast. For the 2 months year to date, revenues are \$(39.2) million below forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on September 30, 2010.

Summary



August General Fund revenue collections totaled \$648.5 million. Due to the temporary 1 cent sales tax, total collections grew by 23.8% compared to August 2009. Without the tax increase, base revenues would have increased 5.8% compared to the prior year.

The growth of base revenues in August follows 2 consecutive months of revenue declines in June and July.

Despite the growth in revenues, the August results were \$(11.9) million below forecast. For the 2 months year to date, revenues are \$(39.2) million below forecast.

In comparison, August General Fund spending was \$1.1 billion, or \$507 million above last year. The increase was due to the timing of K-12 school district payments. Without the adjustments, spending would have been lower than last year.

Fiscal year-to-date, General Fund revenues of \$1.3 billion were offset by \$2.6 billion in spending. This imbalance caused the state's operating fund balance to decline to \$487.3 million at the end of August. The state pays its bills out of the operating fund balance, which consists of General Fund monies and certain dedicated funds.

Finance Advisory Committee

At its September 29, 2010 meeting, the FAC heard presentations on the status of the economy, including updated General Fund revenue and shortfall estimates. The FAC is a 15-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

The meeting highlighted the following points:

- After an unprecedented third consecutive year of revenue declines in FY 2010, General Fund collections have begun to grow again. After 2% growth in the 4th quarter of FY 2010, preliminary FY 2011 1st quarter growth is 3.3%. This growth includes an early estimate of September revenues, which will be reported in the October MFH.
- With over 300,000 lost jobs since December 2007 and over 40,000 pending foreclosures in Maricopa County, the road to complete recovery may well take to mid-decade.
- The projected FY 2011 budget shortfall is now estimated at up to \$(825) million. This estimate grew from the prior estimate of \$(700) million due to lower than expected revenues.

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Summary (Continued)

Table 1

	General Fund Revenues (\$ in Millions)		
	FY 2011 <u>Collections</u>	Difference From <u>Budget Forecast</u>	Difference <u>From FY 2010</u>
August	\$ 648.5	\$ (11.9)	\$ 124.6
Year-to-Date	\$ 1,308.4	\$ (39.2)	\$ 211.6

“The FY 2012 budget shortfall is projected to grow to \$(1.4) billion if no permanent actions are taken to resolve the FY 2011 shortfall.”

- The FY 2012 budget shortfall is projected to grow to \$(1.4) billion if no permanent actions are taken to resolve the FY 2011 shortfall. This estimate assumes the consensus revenue forecast of 4.8% along with funding formula spending increases and the backfill of one-time federal assistance. The shortfall does not include at least another \$1 billion in suspended funding formulas.
- Any sizeable permanent spending reductions in FY 2011 will prove challenging as over 75% of the General Fund budget is governed by federal maintenance of effort provisions as a condition of accepting federal aid. The education restrictions end in June but the Medicaid provisions will remain in effect as part of the recent federal health care legislation.

See the [September 2010 FAC Meeting](#) for additional information.

State Fiscal Stabilization Fund Update

In other budget news this month, Governor Brewer announced the release of funds from the Government Services portion of the State Fiscal Stabilization Fund for several awards:

- \$4 million for economic aid to Arizona's 13 rural counties.
- \$2 million to support the Arizona Center for Algae Technologies and Innovations, which will be matched by industry investment.
- \$100,000 to coordinate a statewide approach for education in the areas of Science, Technology, Engineering, and Math.

The Government Services funds are distributed at the discretion of the Governor and are to be used for public safety and “other government services”. Approximately \$30 million of these funds have yet to be specifically allocated.

JLBC Tax Handbook

JLBC Staff published its annual report, the [2010 Tax Handbook](#) this month. This report provides a list of major state tax sources along with historical collections, distribution formulas and exemptions.

Staff Retirements

Two long-time JLBC Staff retired this summer. Tim Everill was an Assistant Director and the MFH editor. Tim's career spanned nearly 40 years with the City of Phoenix, the School Facilities Board and the JLBC since 2001.

Sharon Savage also retired after 20 years as an Administrative Assistant.

We wish both Tim and Sharon well after long and distinguished careers in public service.

August Revenues

Sales Tax collections were \$341.9 million in August. Excluding the \$64.2 million from the temporary 1-cent increase, collections were \$277.7 million, or (3.4)% below August 2009.

Including the 1-cent increase, collections were \$(22.7) million below the forecast. The year-to-date loss is \$(47.6) million.

Table 2 displays the August growth rates for the largest categories

	August	YTD
Retail	(2.8)%	(1.8)%
Contracting	(24.5)%	(25.9)%
Utilities	(0.4)%	(4.4)%
Use	1.3%	8.3%
Restaurant & Bar	1.7%	1.1%

Retail and contracting together account for about 60% of all sales tax revenues. Contracting continued its poor performance, with a (24.5)% decrease compared to August of last year, while the retail category fell by (2.8)%.

The temporary 1-cent increase generated \$64.2 million for August, or \$(7.4) million below forecast. Collections of the temporary tax are expected to increase over the next several months as the impact of exemptions to the rate decreases.

As discussed in the August MFH, any contract signed prior to the effective date of the increase is exempt from the tax increase for the duration of the contract. In August, more than half of the contracting collections were exempt from the new rate.

Individual Income Tax net revenues were \$257.2 million in August, or 11.3% above the prior year. Collections were \$17.7 million above the forecast. Year-to-date, revenues have grown 6.2% and are \$18.1 million above forecast through August.

As indicated in Table 3 below, withholding tax payments increased by 7.0% in August, making 5 of the past 7 months positive. This increase continues to be difficult to interpret due to changes in the state withholding system.

As discussed in the August MFH, the Department of Revenue (DOR) established a new state withholding table. As of July 2010,

employee state withholding amounts are calculated as a percentage of their gross taxable wages.

It is still unclear how this change is affecting state withholding revenue. In the coming months, DOR will be surveying a sample of Arizona's largest employers in order to determine the impact of the new withholding table.

Table 3
Individual Income Tax Growth Rates
Compared to Prior Year

	July	YTD
Withholding	7.0%	2.5%
Estimated + Final Payments	24.8%	6.9%
Refunds	(24.0)%	(25.6)%

Corporate Income Tax net collections were \$18.2 million in August, or 211.1% above the prior year. Collections were \$4.9 million above the forecast.

Year-to-date through August, revenues are up 5.5% and are \$5.9 million above forecast. In September, corporate collections have grown substantially with increased business profitability.

The **Lottery Commission** reports that August ticket sales were \$42.3 million, which is \$(4.2) million, or (9)%, below sales in the prior year. Year-to-date, ticket sales are \$84.8 million, or 0.2%, above last year. Although ticket sales decreased slightly, distributions to state beneficiaries are up \$0.3 million, or 1.7%.

In August, the General Fund received \$4.3 million in lottery distributions, an increase of 57.3% over the prior year. This large increase is due to statutory distribution changes that redirected monies previously designated for the Local Transit Assistance Fund (LTAF and LTAF II), County Assistance Fund (CAF) and the State Parks Heritage Fund.

Non-General Fund

Tobacco Tax revenues were \$26.8 million in August. Collections were down (3.1)% compared to the prior year, and were \$(0.9) million below the budget estimate for the month. Year-to-date collections are down by (3.8)% and are \$(1.8) million below the budget estimate.

“Excluding...the temporary 1-cent increase, [sales tax] collections were \$277.7 million, or (3.4)% below August 2009.”

August Revenues (Continued)

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 \$99.0 million in August were up \$7.8 million or 8.5% compared to August of last year. Year-to-date, revenues have grown 5.5%.

General Fund Revenue: Change from Previous Year and Enacted Budget Forecast August 2010

	Current Month					FY 2011 YTD (Two Months)				
	Actual August 2010	Change From August 2009		Forecast		Actual August 2010	Change from August 2009		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use w/o 1¢ *	\$277,734,908	(\$9,869,169)	(3.4) %	(\$15,291,137)	(5.2) %	\$559,449,639	(\$18,783,072)	(3.2) %	(\$32,629,026)	(5.5) %
Income - Individual	257,155,321	26,040,185	11.3	17,652,302	7.4	494,922,164	29,027,744	6.2	18,127,748	3.8
- Corporate	18,218,380	12,362,106	211.1	4,876,480	36.6	41,665,049	2,168,064	5.5	5,948,749	16.7
Property	52,426	(6,630)	(11.2)	2,426	4.9	251,120	22,862	10.0	41,120	19.6
Luxury - Tobacco	1,700,881	(468,867)	(21.6)	(812,119)	(32.3)	3,988,256	(409,605)	(9.3)	(1,092,744)	(21.5)
- Liquor	2,108,405	848,440	67.3	324,405	18.2	3,869,130	(92,788)	(2.3)	(414,870)	(9.7)
Insurance Premium	40,413,079	(1,952,431)	(4.6)	(5,286,921)	(11.6)	81,411,780	(2,833,918)	(3.4)	(5,288,220)	(6.1)
Estate	437,176	143,070	48.6	437,176	--	437,176	143,070	48.6	437,176	--
Other Taxes	79,793	49,124	160.2	27,293	52.0	131,812	41,262	45.6	26,812	25.5
Sub-Total Taxes	\$597,900,369	\$27,145,828	4.8 %	\$1,929,905	0.3 %	\$1,186,126,126	\$9,283,619	0.8 %	(\$14,843,255)	(1.2) %
Other Revenue										
Lottery	4,339,855	1,580,655	57.3	(860,145)	(16.5)	4,339,855	1,580,655	57.3	(860,145)	(16.5)
License, Fees and Permits	2,841,706	344,277	13.8	341,706	13.7	4,823,341	(182,692)	(3.6)	723,341	17.6
Interest	646,983	(519,460)	(44.5)	646,983	--	647,897	(518,091)	(44.4)	647,897	--
Sales and Services	1,428,795	(1,188,832)	(45.4)	(1,171,205)	(45.0)	2,604,443	(1,759,407)	(40.3)	(1,395,557)	(34.9)
Other Miscellaneous	2,110,810	(698,030)	(24.9)	(3,189,190)	(60.2)	4,090,753	(2,384,798)	(36.8)	(6,509,247)	(61.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	258,312	6,615,146	--	(2,141,688)	(89.2)	2,844,055	(2,114,550)	(42.6)	(1,955,945)	(40.7)
Sub-Total Other Revenue	11,626,461	6,133,756	111.7 %	(6,373,539)	(35.4) %	19,350,345	(5,378,882)	(21.8) %	(9,349,655)	(32.6) %
TOTAL BASE REVENUE	\$609,526,830	\$33,279,584	5.8 %	(\$4,443,634)	(0.7) %	\$1,205,476,471	\$3,904,737	0.3 %	(\$24,192,910)	(2.0) %
Other Adjustments										
Urban Revenue Sharing	(39,500,543)	12,886,509	--	(0)	0.0	(79,001,087)	25,773,017	--	(1)	0.0
1¢ TPT Increase*	64,211,200	64,211,200	--	(7,412,329)	(10.3)	128,821,154	128,821,154	--	(14,960,663)	(10.4)
Sub-Total Other Adjustments	38,969,738	91,356,790	-- %	(7,412,329)	(16.0) %	102,916,762	207,690,866	-- %	(14,960,664)	(12.7) %
TOTAL GENERAL FUND REVENUE	\$648,496,568	\$124,636,374	23.8 %	(\$11,855,963)	(1.8) %	\$1,308,393,233	\$211,595,603	19.3 %	(\$39,153,574)	(2.9) %
Non-General Funds										
Highway User Revenue Fund	\$99,049,000	\$7,764,000	8.5 %	\$1,209,000	1.2 %	\$199,395,000	\$10,346,000	5.5 %	\$3,150,000	1.6 %
Tobacco Tax (All Funds Total)	\$26,773,222	(\$869,557)	(3.1) %	(\$869,557)	(3.1) %	\$54,126,448	(\$2,113,302)	(3.8) %	(\$1,835,287)	(3.3) %

* Sales and Use line excludes revenue from the temporary 1¢ increase approved by the voter in May 2010. That revenue is shown under One-Time Revenues. Total collections including the 1¢ increase were \$341.9 million. This amount is \$54.3 million, or 18.9%, above August 2009 and \$(22.7) million, or (6.2)%, below forecast. Year to date, total collections including the 1¢ increase were \$688.3 million. This amount is \$110.0 million, or 19.0%, above August 2009 and \$(47.6) million, or (6.5)%, below forecast

Economic Indicators

NATIONAL

In September, the Conference Board's **U.S. Consumer Confidence Index** declined to 48.5, down (4.7) points from a revised August level of 53.2. Most of the decline in consumer sentiments in September was driven by deteriorating expectations about the coming 6 months as opposed to current conditions. The latest reading indicates that consumers' economic outlook has declined markedly since the end of the second quarter.

The Conference Board's **U.S. Index of Leading Economic Indicators** rose 0.3% in August, following a 0.1% gain in July. Increasing building permits, expanding money supply, and a favorable interest-rate spread outweighed the negative contributions from greater jobless claims and slower delivery times in the month of August. The forward-looking measure has only declined once since it began its turnaround in April 2009. However, the index has grown more tepidly in recent months, which lends further support that the pace of the economic recovery has slowed.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, rose by 0.3% in August, the same increase as in the prior month. Year over year, the index is up by 1.2%. The August increase in consumer prices was due to higher energy prices. The core CPI, which excludes food and energy prices, remained unchanged in August. The slow-growing economy appears to be placing more downward than upward pressure on consumer prices.

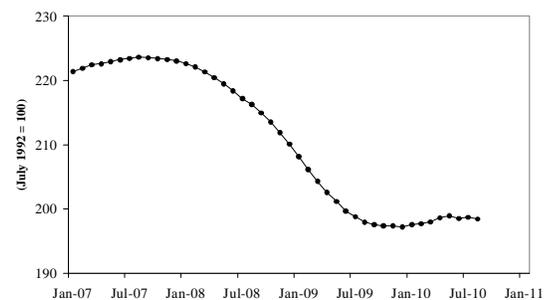
The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. were \$4.75 billion in July, a 3.6% improvement over June and a 52.7% increase over the same month in the prior year. Semiconductor sales have almost doubled since bottoming out in February 2009.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Arizona's coincident index decreased by (0.1)% in August, the second decline in the last 3 months. Arizona was 1 of 16 states nationwide for which the measure fell last month. As seen in the graph below, after the Arizona coincident index reached its trough in December 2009, the measure increased for 5 consecutive months only to retreat slightly in June. However, since June, the index has been essentially flat, suggesting that the economic recovery has lost some of its momentum. See [Tracking Arizona's Recovery](#), for additional historical information.

Arizona Coincident Economic Activity Index



The Bureau of Economic Analysis (BEA) released new state **personal income** figures earlier this month. According to BEA, Arizona personal income was an estimated \$223.6 billion (seasonally adjusted at annual rate) in the second quarter of 2010, a 1.3% increase over the prior quarter. However, half of this growth in personal income was attributable to current transfer receipts, such as retirement, medical and income maintenance benefits and unemployment insurance compensation. In the absence of transfer payments, Arizona personal income would have been roughly at the same level as in the third quarter of 2006.

Since this measure without transfer payments better captures underlying economic activity in the state than the total personal income figure, it provides further evidence that the state has much ground to make up in the recovery phase of the business cycle.

Employment

According to the latest release of employment data by Arizona Department of Commerce, the state added 28,200 **nonfarm payroll jobs** in August over the prior month. While this represented a month-over-month increase of

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Economic Indicators (Continued)

"The Department of Commerce reported that 27,473 initial claims for unemployment insurance were filed in August... (16.1)% fewer claims than in August 2009."

1.2%, it was nonetheless below the 10-year average of 1.4%. Compared to 12 months ago, payroll employment is down by (0.1)%, or (2,000) jobs, the smallest year-over-year decline since February 2008.

The construction sector added 1,900 jobs to its payrolls in August, the largest monthly increase since April this year. Construction jobs represented 4.9% of total nonfarm employment in August, or slightly less than half of what it was during the peak of the housing boom in the summer of 2006.

August marked the 31st consecutive month with a year-over-year loss in total nonfarm employment, the longest streak in recorded history (data available from 1939). Year-over-year job losses peaked in June 2009 when there were reportedly (217,200), or (8.4)%, fewer people on the payrolls than in the previous year. Since the onset of the recession in December 2007, the state has lost (335,000) jobs, or (12.3)% of its workforce. Almost one-third of these jobs losses occurred in the construction industry. See [Tracking Arizona's Recovery](#), for additional historical information.

The state's **unemployment rate** inched up 0.1% in August to 9.7%, the highest reading in 27 years. According to the Bureau of Labor Statistics, Arizona was one of 27 states nationwide that saw its jobless rate rise in August. The national unemployment rate rose from 9.5% to 9.6%.

The Department of Commerce reported that 27,473 **initial claims for unemployment insurance** were filed in August. At this level, there were (16.1)% fewer claims than in August 2009. Last month also marked the 10th consecutive month with year-over-year declines in first-time claims. Claims peaked in April 2009 when more than 41,000 individuals filed for initial jobless benefits. See [Tracking Arizona's Recovery](#), for additional historical information.

The **average weekly hours** of production workers in manufacturing industries is a leading indicator since "factory hours" tend to lead the business cycle as employers usually adjust work hours before increasing or decreasing the size of their workforce. According to the Arizona Department of Commerce, preliminary data indicates that the average work week in August was 39.4 hours, a (1.3)% decrease from the prior month. Some of the alternating monthly increases and decreases

reported in the last few months can be attributed to seasonal variations. When compared to the same month in the prior year, the measure has advanced in each of the previous 7 months. However, it will likely take some time before the average workweek returns to the pre-recession level of 40.5 hours.

Housing

In August, the number of new Maricopa County **foreclosure notices**, which is the initial step in the foreclosure process, declined 7.1% from July levels to 7,559. The measure is down (14.2)% relative to the August 2009 peak.

The number of Maricopa County **pending foreclosures**, or homes at risk of being sold by the trustee at some point in the future, declined for the 6th straight month to 41,318. Pending foreclosures are currently (16.4)% below last year's levels and are (19.7)% below the December 2009 peak of 51,466. See [Tracking Arizona's Recovery](#), for additional historical information.

The **single-family median resale home price** in Metropolitan Phoenix totaled \$139,585 with a total of 8,790 **existing home sales**. Relative to July levels, the median resale price declined by (3.1)%. Compared to a year ago the median resale price decreased slightly by (0.4%). The sale of foreclosed homes accounted for 45.4% of total single-family transactions, the highest level since February 2009.

Based on MLS data released in September, the **month's supply of housing** indicator decreased to 7.4 months in August, (0.4) months below the prior month. Relative to last August, the measure is up 1.5 months.

Based on data released by the U.S. Census Bureau, an average of 998 building permits were authorized per month in Arizona between June and August 2010. This is comprised of 915 **single-family residential building permits** and 82 **Multi-family permits**. In percentage terms, single-family permitting activity is down (38.7)% from a year ago while multi-family permits are up 690% as a year ago an average of only 10 permits were authorized.

Economic Indicators (Continued)

State Agency Data

Participation in income driven programs has either moderated or declined in the last few months, as evidenced by the data presented below.

In September, **AHCCCS caseloads** equaled 1.35 million members, a (0.1)% decrease over the prior month. AHCCCS caseloads are currently 1.8% above September 2009 levels. Total enrollment has stayed essentially unchanged since December 2009. The FY 2011 budget funded a projected September 2010 caseload growth of 5.2% above September 2009 levels, for a total of 1.40 million members.

There were 55,337 **TANF recipients** in the state in July, a monthly caseload decrease of (24.2)%. Year-over-year, the number of TANF recipients has declined by (34.8)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. Beginning in July, recipients can only receive benefits for a maximum of 36 months in a lifetime. Previously, the maximum had been 60 months. This change resulted in a caseload decline of approximately (16,000) recipients. The FY 2011 budget assumed caseloads of approximately 70,000 in FY 2011.

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 1.08 million food stamp recipients in the state, an increase of 3.0% over the prior month. Compared to the same month last year, food stamp participation was up by 13.5%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Correction's (ADC) inmate population** decreased to 40,377 inmates between June and August 2010. Relative to a year ago, the population has declined by 140 inmates.

"There were 55,337 TANF recipients in the state in July...year-over-year, the number of TANF recipients has declined by (34.8)%."

Economic Indicators (Continued)

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>
Arizona				
- Unemployment Rate	August	9.7%	0.1%	0.2%
- Initial Unemployment Insurance Claims	August	27,473	(11.0)%	(16.1)%
- Unemployment Insurance Claimants	August	86,789	0.2%	(26.0)%
- Non-Farm Employment - Total	August	2.38 million	1.2%	(0.1)%
Manufacturing	August	148,300	(0.9)%	(1.5)%
Construction	August	116,300	1.7%	(7.2)%
- Average Weekly Hours, Manufacturing	August	39.4	(0.5)%	3.7%
- Contracting Tax Receipts (3-month average)	Jun-Aug	\$31.0 million	(1.6)%	(26.4)%
- Retail Sales Tax Receipts (3-month average)	Jun-Aug	\$129.6 million	(3.1)%	(2.3)%
- Residential Building Permits (3-month moving average)				
Single-unit	Jun-Aug	931	(7.1)%	(37.3)%
Multi-unit	Jun-Aug	73	6.3%	(38.7)%
- Greater Phoenix Existing Home Sales				
Single-Family	August	8,790	(1.7)%	(3.2)%
Townhouse/Condominium	August	1,470	(14.8)%	(0.3)%
- Greater Phoenix Median Home Sales Price				
Single-Family	August	\$139,585	(3.1)%	0.4%
Townhouse/Condominium	August	\$94,500	(5.4)%	(12.1)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	August	7,559	(7.1)%	(14.2)%
Pending Foreclosures (Active Notices)	August	41,318	(2.0)%	(16.4)%
Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	110.3	(0.6)%	3.4%
- Arizona Months Supply of Housing, (ARMLS)	August	7.4 months	(0.4) months	1.5 months
- Phoenix Sky Harbor Air Passengers	July	3.32 million	(0.9)%	(0.7)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	June	\$5.94	(3.1)%	5.9%
- Arizona Consumer Confidence Index (1985 = 100)	3 rd Quarter 2010	49.1	(1.0)%	(18.4)%
- Arizona Coincident Index (July 1992 = 100)	August	198.48	(0.1)%	0.3%
- Arizona Personal Income	2 nd Quarter 2010	\$223.6 billion	1.3%	1.7%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	September	1,351,146	(0.1)%	1.8%
- TANF Recipients	July	55,337	(24.2)%	(34.8)%
- SNAP (Food Stamps) Recipients	July	1,078,387	3.0%	13.5%
- ADC Inmate Growth (3-month average)	Jun-Aug	40,377	(136) inmates	(140) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	May/June	19,939	(29)	(208)
Maricopa County	May/June	27,771	(198)	576
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2 nd Quarter 2010 (Second Estimate)	\$13.2 trillion	1.6%	3.0%
- Consumer Confidence Index (1985 = 100)	September	48.5	(8.8)%	(9.2)%
- Leading Indicators Index (2004 = 100)	August	110.2	0.3%	6.9%
- U.S. Semiconductor Billings (3-month moving average)	May-Jul	\$4.75 billion	3.6%	52.7%
- Consumer Price Index, SA (1982-84 = 100)	August	218.2	0.3%	1.2%

FAC Meeting

At its recent 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. The 4-sector consensus estimate is a composite of equally weighted estimates from:

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



Given the 4-sector consensus forecast, JLBC Staff outlined the latest budget shortfall estimates for FY 2011 and FY 2012. In addition, JLBC Staff outlined budget solutions used to address past budget shortfalls, along with the challenges of addressing future shortfalls due to federal restrictions.

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Jim Rounds and the State Treasurer, Dean Martin.

The presenters and FAC panelists generally believed that the recession has technically ended in Arizona, but that the recovery is likely to be very gradual and would depend on positive changes in the real estate market, along with an improved employment outlook.

Summary of Recent Agency Reports

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 2 latest quarterly reports 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 25,821 individuals between January 1, 2010 and June 30, 2010. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. (Amy Upston)

Corporation Commission – Report on Corporations Division Filings – Pursuant to a General Appropriation Act footnote, the Corporation Commission submitted an annual report on the total number of filings received and processed by the Corporations Division and the amount of time, in business days, to process each type of service.

For expedited filings, the amount of time required to process corporate filings increased from an average of 4 business days in FY 2009 to 5 business days in FY 2010. The commission’s goal for processing expedited filings is 5 business days or less.

For regular filings, the amount of time required to process corporate filings increased from an average of 22 business days in FY 2009 to 30 business days in FY 2010. The commission’s goal for processing regular filings is 30 business days or less.

The commission also reported that in FY 2010 all of the 81,242 corporate filings received were processed and all of the 120,614 annual report filings received were processed. As compared to FY 2009, the corporate filings increased from the 78,589 corporate filings received, whereas the annual reports declined from the 136,485 annual reports received. (Juan Beltran)

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 to exceed \$2.00 per month, to inmates possessing at least one electrical appliance. For FY 2010, the department assessed a monthly utility fee of \$2.00 and collected \$448,186.74. (Martin Lorenzo)

DEMA – Report on Camp Navajo Fund – Pursuant to A.R.S. § 26-152, the Department of

Summary of Recent Agency Reports (Continued)

Emergency and Military Affairs (DEMA) is required to submit an annual report by August 31 of each year describing the activity in the Camp Navajo Fund. The Camp Navajo Fund pays for the National Guard to operate a regional training site and storage facility located at Bellemont. The fund's revenues consist of monies received from federal and other government sources for storage of government commodities and services provided by the camp. DEMA reports that the Camp Navajo Fund received revenues of \$9.3 million and had expenditures of \$10.9 million in FY 2010. The fund had a beginning balance of \$1.9 million, leaving a fund balance of \$304,000 at the end of the fiscal year. (Eric Billings)

Arizona Historical Society – Report on Non-Appropriated Expenditures – Pursuant to A.R.S. § 41-821E, the Arizona Historical Society is required to report on non-appropriated fund expenditures for the society. Non-appropriated expenditures for FY 2010 were \$855,400, a decrease of \$(146,900) below the FY 2009 total of \$1,002,300. (Bob Hull)

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 2009. The report indicates that \$30.5 million of the \$30.7 million FFY 2006 allocation has been expended. Information for FFY 2007 - FFY 2009 is included in *Table 1* below.

The state was allocated and the Arizona Department of Homeland Security awarded \$57.8 million in homeland security grants for FFY 2009. The department reported total expenditures of \$8.0 million, leaving \$49.8 million unexpended. State agencies were awarded \$11.0 million, of which no money has been expended. Local governments were awarded \$46.8 million, of which \$8.0 million has been expended. The largest local grantee was the City of Phoenix (\$6.2 million). The largest state grantee was the Department of Emergency and Military Affairs (DEMA) (\$6.2 million). The largest individual grant of \$6.1 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 2009 represented an increase from the amount received in FFY 2008 and FFY 2007. While Arizona received \$57.8 million in FFY 2009, the state received \$50.5 million and \$40.8 million in FFY 2008 and FFY

2007, respectively. Of the funds received, 66.6% have been expended for FFY 2008, and 94.8% have been expended for FFY 2007. (Eric Billings)

State Parks Board – Annual Report on Out-of-State Travel – Pursuant to a FY 2010 General Appropriation Act footnote, the State Parks Board is submitting a report on out-of-state travel expenses in FY 2010. The footnote stipulates that during FY 2010, out-of-state travel expenses by State Parks Board staff shall not exceed \$5,000 each year from appropriated or non-appropriated monies. The Parks Board spent \$150 for out-of-state travel expenses in FY 2010. (Art Smith)

School Facilities Board - Report on Costs for Building Renewal and New Construction at the Arizona State Schools for the Deaf and the Blind - The School Facilities Board (SFB) is required to biennially report on the resources needed to fulfill the building renewal and new construction requirements for the Arizona State Schools for the Deaf and the Blind (ASDB). ASDB operates 2 campuses, a campus in Phoenix and a campus in Tucson. According to SFB, the total cost for building renewal for ASDB is projected to be \$636,500 in FY 2012 and \$689,100 in FY 2013. SFB also estimates new construction costs totaling \$21,052,900 for ASDB to meet minimum space requirements through FY 2013. (Jack Brown)

Table 1

Awards and Expenditures by Homeland Security Grant Recipients

	<u>FFY 2007</u>	<u>FFY 2008</u>	<u>FFY 2009</u>
State Awards	\$13,868,000	\$14,304,200	\$10,987,100
Local Government Awards	<u>26,974,200</u>	<u>36,232,100</u>	<u>46,790,500</u>
Total Awards	\$40,842,200	\$50,536,300	\$57,777,600
State Expenditures	\$12,685,500	\$8,681,900	\$ 0
Local Government Expenditures	<u>26,017,900</u>	<u>24,951,100</u>	<u>7,990,800</u>
Total Expenditures	\$38,703,400	\$33,633,000	\$ 7,990,800
Percentage of Total Awards Currently Expended	94.8%	66.6%	13.8%

August Spending

“August 2010 spending of \$1.1 billion was \$506.7 million greater than August 2009.”

FY 2011 Spending

August 2010 General Fund spending of \$1.1 billion was \$506.7 million higher than August 2009. Year-to-date, spending is \$2.6 billion through August, or \$252.2 million above last year. (See Table 6).

- In August, Department of Education spending was \$604.9 million higher than the prior year. August expenditures were higher than the prior year due to rollover payments being made to school districts later in the year compared to in FY 2010.
- The Department of Economic Security (DES) had expenditures of \$(7.8) million in August. The negative expenditures are the result of technical transfers between the agency's funds and does not reflect actual DES spending.
- Spending by the Department of Public Safety (DPS) decreased by \$(18.3) million compared to last year. DPS spending in August 2009 reflected the front loading of the agencies' General Fund appropriation due to the delayed enactment of the FY 2010 Revenue BRB, which postponed the use of State Highway Fund monies for agency operations.
- General Fund spending increased by \$52.1 million compared to last year due to debt service payment associated with the sale/leaseback of state assets.
- Spending by the School Facilities Board was \$(49.6) million lower than the prior year due to the refinancing of the agencies' August debt service payment.
- University spending was \$60.2 million in August, or \$(26.6) million lower than the prior year due to the Universities' payment deferral being spread throughout the fiscal year. Currently, a portion of each month's payment is deferred to the next year, while in FY 2010 the Universities entire June payment was deferred.
- Spending by individual agencies compared to the prior year was higher than it otherwise would have been due to employer health insurance contributions. These contributions were made in August this year, compared to September in the prior year.

Table 6

General Fund Spending (\$ in Millions)

<u>Agency</u>	<u>August 11</u>	<u>Change from August 10</u>	<u>Year to Date</u>	<u>YTD Change from FY 10</u>
AHCCCS	106.6	(28.2)	308.8	27.2
Corrections	98.5	5.8	154.9	(1.2)
Economic Security	(7.8)	(8.4)	318.3	7.2
Education	670.8	604.9	1,292.5	305.9
Health Services	15.6	1.8	117.5	(19.2)
Public Safety	1.5	(18.3)	22.0	(18.2)
School Facilities Board	24.2	(49.6)	32.8	(49.1)
Universities	60.2	(26.6)	115.3	(58.7)
Leaseback Debt Service	52.1	52.1	52.1	52.1
Other	<u>57.5</u>	<u>(26.8)</u>	<u>169.9</u>	<u>6.2</u>
Total	1,079.2	506.7	2,584.1	252.2

Table 8				
Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 10
	August 10	Change from August 09	Year-to-Date	
Department of Administration	6,573.9	2,736.2	8,460.3	3,241.2
Dept of Admin – Sale/Leaseback D/S	52,066.9	52,066.9	52,066.9	52,066.9
Office of Administrative Hearings	40.5	(18.9)	272.1	115.7
Department of Agriculture	501.3	(25.1)	3,266.7	2,011.2
AHCCCS	106,648.8	(28,151.0)	308,770.2	27,161.5
Arizona Commission on the Arts	36.6	8.2	88.1	(13.9)
Attorney General	1,228.1	(107.1)	2,526.1	(363.3)
AZ Capital Post Conviction Public Defender	44.8	(20.7)	117.5	(26.2)
State Board of Charter Schools	49.7	8.3	179.4	90.0
Board of Chiropractic Examiners	-	(148.0)	-	(148.0)
Department of Commerce	69.1	(25.0)	250.7	13.7
Community Colleges	-	-	33,106.6	-
Corporation Commission	96.9	(63.5)	143.1	(30.4)
Department of Corrections	98,467.8	5,829.2	154,919.5	(1,158.6)
AZ Criminal Justice Commission	-	2.1	-	4.6
AZ St. Schools for the Deaf & Blind	1,481.9	(421.9)	3,538.4	(840.6)
Dept. of Economic Security	(7,757.4)	(8,418.3)	318,327.0	7,208.7
Department of Education	670,083.2	604,890.5	1,292,521.6	305,861.7
DEMA	1,130.6	866.6	2,149.1	879.9
Dept. of Environmental Quality	1.1	(364.8)	1.2	(894.0)
Office of Equal Opportunity	33.7	17.9	50.3	14.9
State Board of Equalization	38.3	(7.9)	87.5	(8.0)
Board of Executive Clemency	292.9	240.6	346.0	195.7
Dept. of Financial Institutions	150.6	(53.7)	604.4	80.3
Department of Fire, Life, Bldg Safety	96.6	(48.1)	223.6	(136.5)
Office of the State Forester	321.6	321.6	644.6	644.6
Arizona Geological Survey	31.0	(25.0)	79.8	(24.0)
Government Information Tech.	46.9	.8	121.5	19.7
Governor	1,365.2	773.9	1926.0	712.9
Gov. - OSPB	120.3	(3.5)	312.4	(12.6)
Department of Health Services	15,648.9	1,820.2	117,486.4	(19,249.7)
Arizona Historical Society	2,836.9	2,580.0	3,123.4	2,615.1
Prescott Historical Society of AZ	35.1	(18.8)	86.9	(36.3)
Independent Redistricting Comm.	-	.2	-	(24.8)
Commission on Indian Affairs	10.5	10.0	10.5	10.0
Department of Insurance	340.1	(483.3)	2,027.2	733.3
Judiciary				
Supreme Court	10,314.4	5,604.5	11,322.0	5,132.7
Superior Court	1,685.4	(455.0)	17,015.9	(1,570.0)
Court of Appeals	2,089.8	1,126.8	4,923.7	2,586.9
Dept. of Juvenile Corrections	2,734.0	(2,744.8)	17,498.9	5,536.3
State Land Department	139.6	(1,061.0)	765.7	(3,001.7)
Law Enforcement Merit System	2.9	(2.8)	17.8	2.6
Legislature				
Auditor General	1,204.6	(409.3)	5,031.0	1,803.5
House of Representatives	705.2	(68.0)	1,812.2	(277.9)

Agency	August 10	Change from August 09	Year-to-Date	YTD Change from FY 10
Joint Legislative Budget Comm.	443.6	291.6	641.9	257.7
Legislative Council	510.5	128.5	1,601.7	654.8
Senate	480.5	(59.9)	2,437.2	966.0
Dpt. of Liquor Licenses	-	(158.4)	-	(372.4)
Board of Medical Student Loans	128.0	(69.4)	128.0	(69.4)
Mine Inspector	190.1	15.4	370.4	104.1
Dpt. of Mines & Mineral Resources	73.7	43.2	111.1	34.5
Nav. Streams & Adjudication	4.8	(35.4)	12.9	(35.1)
Arizona State Parks Board	-	(21,900.0)	20,000.0	(1,900.6)
Pioneers' Home	75.5	75.7	206.3	206.3
Comm. for Postsecondary Ed.	-	(208.2)	-	(250.1)
Department of Public Safety	1,509.8	(18,263.7)	21,976.0	(18,231.6)
Arizona Department of Racing	231.8	(2,004.7)	679.3	(1,750.8)
Radiation Regulatory Agency	7.4	(232.3)	396.8	38.5
Arizona Rangers Pension	1.1	0.1	2.3	0.1
Real Estate Department	667.9	423.4	1,172.2	665.8
Department of Revenue	5,474.5	379.0	10,215.3	462.4
School Facilities Board	31,994.7	(49,610.6)	32,760.8	(49,057.7)
Secretary of State	3,869.5	3,668.6	4,728.9	4,247.7
AZ Library and Archives	65.6	(318.8)	96.0	(862.4)
Tax Appeals Board	10.8	(8.3)	77.8	35.0
Department of Transportation	2.8	(1.9)	11.5	4.1
State Treasurer	-	(15,191.1)	-	(15,346.3)
Universities				
Board of Regents	5,313.1	5,091.9	5,489.0	4,805.4
Arizona State University	24,194.8	(14,615.5)	48,389.7	(29,231.0)
Northern Arizona University	8,551.9	(4,419.8)	17,103.8	(8,839.6)
University of Arizona	22,135.0	(12,724.3)	44,270.0	(25,448.7)
Veterinary Medical Examiners Board	-	(250.0)	-	(250.0)
Department of Veteran Services	2,373.4	1,792.4	3,597.0	2,161.2
Department of Water Resources	444.3	(911.1)	1,234.0	(1,684.9)
Dept. of Weights & Measures	68.3	(20.3)	148.5	(60.3)
Other	(678.3)	(0.4)	54.5	0.2
Grand Total	1,079,153.4	506,664.7	2,584,134.9	252,179.9