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“August revenues showed growth as base General Fund revenues (excluding one-time adjustments) were 8.6% above the prior year.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on September 30, 2011.

Summary



August revenues showed growth as base General Fund revenues (excluding one-time adjustments) were 8.6% above the prior year. General Fund revenue collections totaled \$767.2 million.

Sales tax collections increased by 6.8% over the prior year, with significant gains seen in the contracting and retail categories. Individual income tax (IIT) gains were based on withholding growth of 6.9%.

Year-to-date, FY 2012 General Fund revenues are \$1.53 billion, or 8.5% above FY 2011 excluding one-time adjustments.

August General Fund collections were \$44.2 million above the enacted budget forecast. Year-to-date, revenues are \$79.6 million above the enacted forecast. The Finance Advisory Committee (FAC) will meet October 18th to assess year-long revenue trends based on input from JLBC Staff, the University of Arizona Economic and Business Research Center, and FAC panelists.

In comparison to August revenue of \$767.2 million, August 2011 General Fund spending was \$1.15 billion. August expenditures were \$67.7 million higher than the prior year, primarily due to an increase in the state's share of Medicaid expenses.

Fiscal year-to-date, General Fund revenues of \$1.53 billion have been offset by \$2.82 billion in spending.

Updated FY 2011 Ending Balance

Pursuant to Section 145 of the General Appropriations Act, the General Accounting Office (GAO) transmitted an estimate of the FY 2011 ending balance to JLBC on September 14th. GAO currently estimates the FY 2011 ending balance will be \$3.2 million. This estimate should be considered preliminary, and will be further adjusted as GAO prepares its final ending balance report which is due before December 1, 2011.

Proposed Federal Assistance

Earlier this month, the President proposed legislation titled the American Jobs Act which would allocate funding nationwide for state and local government assistance, K-12 school building renewal, and several other programs. Arizona would receive the following allocations over the next 2 years from the proposed legislation:

- \$625.5 million – General state and local government assistance
- \$544.4 million – K-12 school modernization and repairs
- \$116.6 million – Community College modernization and repairs
- \$602.7 million – Highway and transit maintenance and construction

Because the legislation has yet to be considered by Congress, these estimates are preliminary and subject to change.

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August Revenues

Table 1

	General Fund Revenues (\$ in Millions)		
	FY 2012 <u>Collections</u>	Difference From <u>Forecast</u>	Difference <u>From FY 2011</u>
August	\$ 767.2	\$ 44.2	\$ 118.7
Year-to-Date	\$ 1,532.3	\$ 79.6	\$ 223.9

“Sales Tax collections were \$365.2 million, or 6.8% above August 2010.”

Sales Tax collections were \$365.2 million, or 6.8% above August 2010. Excluding the \$71.7 million from the temporary 1-cent increase, collections were \$293.5 million, or 5.7% above August 2010. The temporary 1-cent tax grew significantly more than the base tax because last year’s 1-cent collections reflected a 120-day exemption for purchases under contract prior to the effective date of the tax.

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

Table 2 Sales Tax Growth Rates Compared to Prior Year		
	<u>August</u>	<u>YTD</u>
Retail	8.4%	7.9%
Contracting	14.5%	14.1%
Utilities	(9.1)%	0.2%
Use	4.8%	13.7%
Restaurant & Bar	12.4%	10.6%

Retail and contracting together account for about 60% of all sales tax revenues. Contracting’s large gain this month follows the trend begun in the second half of FY 2011, which grew 7.6% over the same period in the prior year.

Individual Income Tax net revenues were \$279.6 million in August. Collections were \$15.5 million above forecast. Year-to-date, revenues have grown 8.6% and are \$27.5 million above forecast through August.

As indicated in Table 3, withholding grew by 6.9% in August for a year-to-date increase of 5.8%

Table 3 Individual Income Tax Growth Rates Compared to Prior Year		
	<u>August</u>	<u>YTD</u>
Withholding	6.9%	5.8%
Estimated + Final Payments	16.4%	14.4%
Refunds	(10.3)%	(12.4)%

Corporate Income Tax net collections were \$32.4 million in August, which is \$14.2 million above the prior year. Collections were \$19.1 million above the forecast. This large increase was due to over \$20 million in one-time audit collections. Without these collections, revenue would have been negative compared to the prior year. Year-to-date, collections are \$26.7 million above forecast.

The **Lottery Commission** reports that August ticket sales were \$48.2 million, which is \$5.9 million, or 14.0%, above sales in the prior year. Year-to-date ticket sales are \$94.0 million, which is 10.9% above last year’s sales.

Non-General Fund

Tobacco Tax revenues were \$23.8 million in August. Collections were down (11.0)% compared to the prior year. Year-to-date collections are down (2.2)%.

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 \$97.6 million in August were down \$(1.4) million, or (1.5)%, compared to August of last year. Year-to-date revenues have fallen (0.4)%.

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

	Current Month					FY 2012 YTD (Two Months)				
	Actual August 2011	Change From August 2010		Forecast		Actual August 2011	Change from August 2010		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$293,482,631	\$15,747,723	5.7 %	\$9,047,821	3.2 %	\$600,411,804	\$40,962,165	7.3 %	\$23,401,686	4.1 %
- 1¢ Increase*	71,743,198	7,531,998	11.7	3,668,538	5.4	147,211,229	18,390,075	14.3	9,503,676	6.9
Income - Individual	279,592,728	22,437,407	8.7	15,511,237	5.9	537,695,893	42,773,729	8.6	27,486,871	5.4
- Corporate	32,373,418	14,155,038	77.7	19,124,982	144.4	58,013,942	16,348,893	39.2	26,660,921	85.0
Property	70,217	17,791	33.9	5,438	8.4	296,435	45,315	18.0	26,924	10.0
Luxury - Tobacco	1,628,923	(71,958)	(4.2)	(80,983)	(4.7)	4,385,340	397,084	10.0	375,921	9.4
- Liquor	2,795,782	687,376	32.6	638,956	29.6	5,934,277	2,065,145	53.4	1,976,289	49.9
Insurance Premium	37,756,828	(2,656,251)	(6.6)	(4,701,484)	(11.1)	75,374,793	(6,036,988)	(7.4)	(9,593,277)	(11.3)
Estate	0	(437,176)	(100.0)	0	--	220,652	(216,524)	(49.5)	220,652	--
Other Taxes	56,678	(23,115)	(29.0)	10,445	22.6	105,078	(26,734)	(20.3)	12,010	12.9
Sub-Total Taxes	\$719,500,403	\$57,388,833	8.7 %	\$43,224,950	6.4 %	\$1,429,649,443	\$114,702,160	8.7 %	\$80,071,673	5.9 %
Other Revenue										
Lottery	5,006,040	666,185	15.4	153,324	3.2	5,006,040	666,185	15.4	153,324	3.2
License, Fees and Permits	2,988,384	146,678	5.2	412,548	16.0	4,687,870	(135,471)	(2.8)	(61,650)	(1.3)
Interest	2,548	(644,435)	(99.6)	(497,452)	(99.5)	3,319	(644,578)	(99.5)	(996,681)	(99.7)
Sales and Services	1,092,617	(336,178)	(23.5)	(620,498)	(36.2)	1,848,554	(755,889)	(29.0)	(958,541)	(34.1)
Other Miscellaneous	2,806,133	695,323	32.9	1,710,924	156.2	4,012,788	(77,965)	(1.9)	1,920,262	91.8
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	70,468	(187,844)	(72.7)	(190,979)	(73.0)	2,337,214	(506,841)	(17.8)	(541,356)	(18.8)
Sub-Total Other Revenue	11,966,190	339,729	2.9 %	967,867	8.8 %	17,895,785	(1,454,559)	(7.5 %)	(484,642)	(2.6 %)
TOTAL BASE REVENUE	\$731,466,593	\$57,728,562	8.6 %	\$44,192,817	6.4 %	\$1,447,545,228	\$113,247,601	8.5 %	\$79,587,031	5.8 %
Other Adjustments										
Urban Revenue Sharing	(35,368,620)	4,131,923	--	0	0.0	(70,737,240)	8,263,846	--	0	0.0
Budget Plan Transfers	71,100,415	56,841,334	398.6	0	0.0	155,442,901	102,346,207	192.8	0	0.0
Budget Legislation	0	0	--	0	--	0	0	--	0	--
Leaseback Proceeds	0	0	--	0	--	0	0	--	0	--
Sub-Total Other Adjustments	35,731,795	60,973,257	-- %	0	0.0 %	84,705,661	110,610,053	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$767,198,388	\$118,701,819	18.3 %	\$44,192,817	6.1 %	\$1,532,250,889	\$223,857,654	17.1 %	\$79,587,031	5.5 %
Non-General Funds										
Highway User Revenue Fund	\$97,604,599	(\$1,444,602)	(1.5) %	(\$2,930,340)	(2.9) %	\$198,601,271	(\$793,359)	(0.4) %	(\$3,784,279)	(1.9) %
Tobacco Tax (All Funds Total)	\$23,822,856	(\$2,950,366)	(11.0) %	(\$3,819,923)	(13.8) %	\$52,934,964	(\$1,191,484)	(2.2) %	(\$3,026,771)	(5.4) %

* Total August collections including the temporary 1¢ increase approved by the voters in May 2010 were \$365.2 million. This amount is \$23.3 million, or 6.8%, above August 2010 and \$12.7 million, or 3.6%, above forecast. Year to date, total collections including the 1¢ increase were \$747.6 million. This amount is \$59.3 million, or 8.6%, above August 2010 and \$32.9 million above forecast.

Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** fell by (14.7) points, or (25.2)%, in August to 44.5, the lowest level since April 2009. The latest reading indicates that consumer confidence slipped back to recessionary levels in August, as households' outlook on business conditions, employment, and personal finances worsened considerably. Econometric research has shown that large changes in consumer sentiments (in the range of 20% to 30%) tend to have a noticeable impact on retail sales and consumer spending.

The Conference Board's **U.S. Index of Leading Economic Indicators** rose by 0.3% in August, to 116.2. Increases in the money supply and a favorable interest rate spread contributed positively to the index, while a decrease in stock prices and a fall in consumer expectations pulled it back. Absent the advance of the financial components, the index would have fallen by (0.7)% in August. The advance of the index over the last 4 months would not have occurred without the strong positive contributions from the financial indicators.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.4% in August. The CPI increase was driven by higher energy, food, clothing, and shelter prices. Compared to the same month in the prior year, consumer prices were up by 3.8%, the largest such increase since September 2008. Core inflation, which excludes energy and food prices, increased by 0.2%. Year over year, core inflation is up by 2.0%. While core inflation remains contained, it should be noted that the year-over-year rate has been trending up since the beginning of calendar year 2011.

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 was 1 of 26 states for which the coincident index increased in August. From July to August, Arizona's index increased by 0.4% compared to an increase of 0.1% for the nation as a whole. July's Arizona index was 1.7% above last year.

While Arizona's index has improved compared to the same time period last year, the index remains (13.0)% below its peak reading in August 2007. Only 4 other states (Florida, Idaho, Michigan, and Nevada) have had a larger decline than Arizona. By way of comparison, the national coincident index has declined (4.5)% since its historical peak in January 2008. See [Tracking Arizona's Recovery](#) for additional historical information.

Employment

According to the Employment and Population Statistics Unit (EPSU) of the Department of Administration, the state added 52,800 **nonfarm jobs** in August over July. Job gains typically occur in August when students resume their classes in public schools. The job gain this August was significantly larger than the average August workforce increase of 34,900 in the prior 10 years.

Most of the monthly net job gain (almost 85%) was attributable to state and local public education. According to EPSU, this figure was probably overstated due to the fact that schools started earlier this year. This suggests that the monthly job gains from public education will be smaller than normal in September.

In August, the state had 40,700, or 1.7%, more persons on the payrolls than 1 year ago. August marked the 8th straight month with year-over-year gains in employment. The 1.7% gain in August was the best performance since March 2007. However, as noted earlier, this figure may have been overstated due to an earlier start of the school year than previously.

Private sector employment, which makes up almost 85% of all nonfarm jobs, added 12,400 jobs in August over July. This was the largest August private net job gain in 5 years. Year over year, private sector employment has grown by 2.0%, or 39,300 positions. Most of these gains have occurred in the service sector, especially the health care industry, and to a lesser extent, the leisure and hospitality industry.

The construction sector grew by 1,000 jobs in August over July, twice the gain typically reported for this month. August marked the second straight month with a year-over-year gain (1.3%) in construction employment after

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Economic Indicators (Continued)

“To return to pre-recession employment levels, the state would have to add 327,000 jobs, which would take years to accomplish at the current rate of job gains.”

54 consecutive months with year-over-year losses. Construction employment makes up 4.8% of nonfarm employment today compared to 9.5% during the height of the housing boom in July 2006.

The manufacturing industry continued to add jobs in August and now employs 2.6%, or 3,900 more workers than one year ago. All sub-sectors of the industry except for aerospace have expanded their payrolls.

While nonfarm employment has grown, year over year, in the last 8 months, the net gains have been small compared to prior periods of recovery. The average net gain thus far in CY 2011 is 12,000 jobs, or 0.5% over last year. To return to pre-recession employment levels, the state would have to add 327,000 jobs, which would take years to accomplish at the current rate of job gains. See [Tracking Arizona's Recovery](#) for additional historical information.

The state's seasonally adjusted **unemployment rate** fell from 9.4% to 9.3% in August, returning it to the same level as in June. The jobless rate has been largely unchanged in the previous 5 months. August marked the 30th consecutive month with an unemployment rate of 9% or higher. During the deep recession in the early 1980s, the state experienced 17 straight months with a jobless rate at or above 9%. The U.S. unemployment rate remained at 9.1% in August.

The federal Bureau of Labor Statistics (BLS) reported that 25,368 Arizona residents filed **initial claims for unemployment insurance** in August, a decline of (2,591), or (9.3)%, claims over the prior month. This reduction in initial claims was due to seasonal factors. Historically, the month of August has an average decline of (19.9)%.

The average number of claims for August in the 10-year period prior to the start of the last recession was 15,970. Initial claims in August were (7.7)% below last year's level. 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.

Housing

In August, the number of new Maricopa County **foreclosure notices** increased 26.8% from July levels to 5,318. The number of

Maricopa County **pending foreclosures** decreased from 24,393 in July to 23,752 in August. The August total is (53.8)% below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#) for additional historical information.

While pending foreclosures continue their decline from recent highs, they continue to be a major influence on existing home sales and the respective prices. In the Metropolitan Phoenix area in August, there were a total of 9,250 **existing single-family home sales** that resulted in a **median resale home price** of \$122,400. Relative to the prior year, the number of sales is up 5.2%, while prices are (12.3)% lower. Of the existing sales, 30.9%, or 2,860 were foreclosures.

State Agency Data

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

In September, **total AHCCCS caseloads** equaled 1.38 million members, a (0.4)% decrease over the prior month. Overall AHCCCS caseloads are currently 2.0% above September 2010 levels.

In terms of specific categories, the spend down and the KidsCare populations saw significant declines from the prior year of (73.7)% and (42.4)%, respectively. These declines are due to enrollment freezes for the programs, as the spend down program has been frozen since May 2011, while the KidsCare program has had an enrollment freeze since January 2010. The Proposition 204 childless adult category has declined (4.9)% from the prior month as new enrollment under this category stopped in early July. Some of this decline results from members being transferred to other Medicaid categories. Since July 1, AHCCCS reports that 9,100 Proposition 204 childless adult members were transferred to the SSI program.

There were 37,793 **TANF recipients** in the state in August, a monthly caseload decrease of (8.5)%. Year-over-year, the number of TANF recipients has declined by (24.7)%. This

Economic Indicators (Continued)

decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. The FY 2011 budget reduced the lifetime limit to 36 months. The FY 2012 budget further reduces this limit to 24 months. Previously, the maximum had been 60 months. The FY 2012 budget assumed caseloads of approximately 36,000 in FY 2012.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In August, there were a total 1.1 million food stamp recipients in the state, a 1.9% increase over the prior month. Compared to the same month last year, food stamp participation was up by 7.2%. 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 40,146 inmates between July and September 2011. Relative to the prior 3-month period, the population has decreased by (34) inmates. Compared to a year ago the population has declined by (231) inmates.

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 (SA)	August	9.3%	(0.1)%	(0.6)%
- Initial Unemployment Insurance Claims	August	27,959	(9.3)%	(7.7)%
- Unemployment Insurance Claimants	June	69,087	2.1%	(21.3)%
- Non-Farm Employment - Total	August	2.39 million	2.3%	1.7%
Manufacturing	August	151,300	0.1%	2.6%
Construction	August	113,700	0.9%	1.3%
- Average Weekly Hours, Manufacturing	August	40.5	2.8%	2.0%
- Contracting Tax Receipts (3-month average)	Jun-Aug	\$34.5 million	1.2%	11.2%*
- Retail Sales Tax Receipts (3-month average)	Jun-Aug	\$142.1 million	(3.9)%	9.6%*
- Residential Building Permits (3-month moving average)				
Single-family	Jun-Aug	1,004	3.6%	9.7%
Multi-unit	Jun-Aug	368	54.6%	347.0%
- Greater Phoenix Existing Home Sales				
Single-Family	August	9,250	7.2%	5.2%
Townhouse/Condominium	August	1,275	10.4%	(12.1)%
- Greater Phoenix Median Resale Home Price				
Single-Family	August	\$122,400	(3.8)%	(12.3)%
Townhouse/Condominium	August	\$78,825	(1.5)%	(8.2)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	August	5,318	26.8%	(29.6)%
Pending Foreclosures (Active Notices)	August	23,752	(2.6)%	(42.5)%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	100.54	(0.1)%	(8.8)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	26,983	(2.5)%	(39.1)%
- Phoenix Sky Harbor Air Passengers	July	3.63 million	1.7%	9.2%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	June	\$6.24	3.1%	5.1%
- Arizona Consumer Confidence Index (1985 = 100)	3 rd Quarter 2011	54.0	4.0%	10.0%
- Arizona Coincident Index (July 1992 = 100)	August	178.15	0.4%	1.7%
- Arizona Personal Income	1 st Quarter 2011	\$229.9 billion	1.8%	4.3%
- Arizona Population	April 1, 2010	6.39 million	N/A	N/A
- AHCCCS Recipients	September	1,378,004	(0.4)%	2.0%
Acute Care Traditional		892,199	0.7%	5.3%
Spend Down		1,553	(45.3)%	(73.7)%
Prop 204 Childless Adults		206,478	(4.9)%	(5.8)%
Other Prop 204		159,243	0.0%	4.6%
KidsCare		15,752	(5.5)%	(42.4)%
Long-Term Care – Elderly & DD		51,418	0.1%	2.0%
Emergency Services		51,361	3.2%	6.0%
- TANF Recipients	August	37,793	(8.5)%	(24.7)%
- SNAP (Food Stamps) Recipients	August	1,145,189	1.9%	7.2%
- ADC Inmate Growth (3-month average)	July-Sept	40,146	(34) inmates	(231) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	May	18,990	(37)	(936)
Maricopa County	May	26,184	(73)	(1,645)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2nd Quarter 2011 (2nd Estimate)	\$13.3 trillion	1.0%	1.5%
- Consumer Confidence Index (1985 = 100)	August	44.5	(25.2)%	(16.4)%
- Leading Indicators Index (2004 = 100)	August	116.2	0.3%	6.5%
- U.S. Semiconductor Billings (3-month moving average)	Mar-May	\$4.52 billion	0.9%	3.2%
- Consumer Price Index, SA (1982-84 = 100)	August	226.27	0.4%	3.8%

*Adjusted for 1¢ sales tax

JLBC Meeting

At its September 28, 2011 meeting, the Joint Legislative Budget Committee considered the following issues:

AHCCCS/Department of Health Services/ Department of Economic Security - Review of Proposed Capitation Rate Changes – The Committee gave a favorable review of AHCCCS’s proposed capitation rate changes and benefit limitations for the state’s Medicaid system.

Arizona Board of Regents - Review of FY 2012 Tuition Revenues - The Committee approved the Arizona Board of Regents’ plans to use tuition revenue amounts greater than the amount appropriated by the Legislature and all non-appropriated tuition and fee revenue for FY 2012.

Attorney General - Review of Allocation of Settlement Monies - The Committee gave a favorable review of a \$1.4 million settlement resulting from a settlement with GlaxoSmithKline related to substandard drug manufacturing practices by a subsidiary which has since ceased operations. The settlement will be deposited in the Consumer Fraud Revolving Fund.

Department of Health Services - Consider Approval of Nursing Care Facilities Survey - The Committee approved the awarding of a contract of \$400,000 for a contractor to conduct a quality improvement study of statewide nursing care facilities, to be paid for from the Nursing Care Institution Resident Protection Revolving Fund.

JCCR Meeting

At its September 28, 2011 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Review of FY 2012 Building Renewal Allocation Plan – The Committee gave a favorable review of the Department of Administration’s \$6.5 million FY 2012 Building Renewal Allocation Plan, which consists of the following uses: \$905,000 for fire and life safety projects, \$2.7 million for major building services projects, \$736,000 for building shell projects, \$1,128,000 for infrastructure projects, \$28,000 for energy conservation projects, and \$400,000 for building interior projects. The remaining \$624,000 will be allocated for project management, construction insurance, and contingency.

Arizona Department of Administration - Consider Recommending FY 2011 and FY 2012 Rent Exemptions – The Committee recommended, upon request of the Department of Administration, a partial rent exemption for the Department of Economic Security and a corresponding \$1,900 increase for AHCCCS in FY 2011. For FY 2012, the Committee recommended 2 partial rent exemptions for the Commission for the Deaf and Hard of Hearing and the Department of Insurance, totaling \$45,800.

State Department of Corrections – Review of FY 2012 Building Renewal Allocation Plan – The Committee gave a favorable review to the Department of Corrections’ \$4.6 million FY 2012 Building Renewal Allocation Plan to be spent as follows: \$1.7 million for upgrading locking systems, \$2.3 million for perimeter electric security systems, and \$320,000 for well and water systems. The remainder will be allocated for preventative maintenance projects, an emergency contingency reserve, and risk management premiums.

Arizona Department of Transportation – Review of the FY 2012 Building Renewal Allocation Plan – The Committee gave a favorable review to the Department of Transportation’s \$1.1 million FY 2012 Building Renewal Allocation Plan, including \$1.0 million from the State Highway Fund for 68 projects and \$50,000 from the State Aviation Fund for 4 projects.

Arizona Game and Fish Department – Review of FY 2009 Yuma Office and FY 2012 Property and Dam Maintenance Projects – The Committee gave a favorable review of the department’s \$954,000 Yuma Office remodel/expansion expenditures, \$500,000 of spending on property maintenance. The committee also gave approval to expend partial funding of \$100,000 from the FY 2012 appropriation for dam maintenance projects.

Arizona State University – Review of 6 Bond Projects – The Committee gave a favorable review of \$99.7 million in bond issuances. These projects would be supported with student fees, tuition, and lottery proceeds. The largest project is a \$57.1 million expansion of the Business School on the Main campus.

Summary of Recent Agency Reports

AHCCCS – Report on Graduate Medical Education Residency Positions – Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the number of new residency positions funded by local, county, or tribal governments. The agency indicates that these contributions in FY 2010 provided partial funding for an additional 803 residency positions at 5 hospitals. The positions were funded by local contributions of \$20.6 million and a federal match of \$65.1 million, resulting in \$85.8 million total new funding. (Aaron Galeener)

AHCCCS - Report on Healthcare Group - Pursuant to A.R.S. § 36-2912AA, the Arizona Health Care Cost Containment System (AHCCCS) submitted its financial report for Healthcare Group (HCG) for the period January 1, 2011 to March 31, 2011. The agency reports that HCG's net operating income was \$1.8 million for the 3rd quarter of FY 2011. HCG began FY 2011 with total unpaid prior year obligations and other liabilities of \$12.4 million. As of September 30, 2010, total liability was \$10.5 million.

Pursuant to A.R.S. § 36-2912Z, AHCCCS reports that, as of March 2011, total statewide HCG medical plan enrollment was 8,564, with participating members from 3,116 employers. This is a decline of (1,856) participating members (17.8% decline) and (778) employers (20.0% decline) from the start of the fiscal year. AHCCCS believes that the worsening economy and discontinued outreach has contributed to the declining enrollment. (Aaron Galeener)

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 latest 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 10,296 individuals between January 1, 2011 and March 30, 2011. During this period, AHCCCS and DES referred 9 individuals for prosecution for fraudulent schemes, theft, forgery, and selling prescription medicines. (Aaron Galeener)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2011 – 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 remediate contaminated groundwater at specified sites. Based on the report, FY 2011 expenditures were \$9.0 million. Unexpended funds at the end of FY 2011 totaled \$7.2 million.

According to the report, there were 36 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 2012, program expenditures for 26 sites that remain active are projected to be \$6.8 million. (James Alcantar)

Department of Health Services – Report on Prior Year Reconciliation and Penalty Monies as State Match for Medicaid Behavioral Health Services – Pursuant to a FY 2012 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted a report on reconciliation payments and penalty fees that were used to draw down federal monies for Medicaid behavioral health services in FY 2011. DHS reports that revenue from reconciliation payments and penalty fees totaled \$45.3 million, which was deposited into the agency's IGA/ISA Fund. These monies were used as state match for Medicaid behavioral health services and drew down \$112.2 million in federal monies for a total of \$157.6 million in FY 2011. (Art Smith)

Arizona Department of Homeland Security – Report on Homeland Security Funding – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security has

Summary of Recent Agency Reports (continued)

submitted an annual report detailing grant allocations and expenditures for Homeland Security Grants from Federal Fiscal Year (FFY) 2007 through FFY 2010. The report indicates that \$40.6 million of the \$40.8 million FFY 2007 allocation has been expended. Information for FFY 2008 - FFY 2010 is included in *Table 6* below.

The state was allocated and the Arizona Department of Homeland Security awarded \$53.3 million in homeland security grants for FFY 2010. The department reported total expenditures of \$9.6 million, leaving \$43.7 million unexpended. State agencies were awarded \$14.0 million, of which \$6.4 million has been expended. Local governments were awarded \$39.3 million, of which \$3.2 million has been expended. The largest local grantee was the City of Phoenix (\$6.6 million). The largest state grantee was the Department of Emergency and Military Affairs (DEMA) (\$6.6 million). The largest individual grant of \$6.6 million went to DEMA for the personnel costs for those directly involved in emergency management activities and to support related operational costs.

FFY 2010 represented a decrease from the amount received in FFY 2009 but an increase from the amount received in FFY 2008. While Arizona received \$53.3 million in FFY 2010, the state received \$57.8 million in FFY 2009 and \$50.5 million in FFY 2008, respectively. Of the funds received, 73.6% have been expended for FFY 2009, and 88.1% have been expended for FFY 2008. (Eric Billings)

State Parks Board – Report on Reservation Surcharge Fund Revenue – Pursuant to a FY 2012 General Appropriation Act footnote,

the State Parks Board is submitting a report on Reservation Surcharge Fund revenue in excess of its appropriation of \$206,400 and the intended use of these additional monies.

The State Parks Board estimates that the Reservation Surcharge Fund will generate additional receipts of about \$293,600, or \$500,000 in total revenue, due to the implementation of a new electronic reservation system. Since the new system is also creating additional expenses, the Parks Board intends to use the additional revenues for administering and maintaining the reservation system. The Parks Board expects to spend \$395,000 from the fund, plus transfer \$105,000 to the General Fund for a required fund sweep. (Art Smith)

Secretary of State - Report on the Election Systems Improvement Fund – Pursuant to 2011 and 2012 General Appropriation Act footnotes, the Secretary of State submitted a report on the expenditures from the Election Systems Improvement Fund to implement the Help America Vote Act. The expenditures in FY 2010 were \$2.3 million, and in FY 2011 were \$3.6 million and are projected to be \$3.5 million in FY 2012. The Secretary of State reports that expenditures are used as follows: 83% for voter registration, 9% for administration, 5% on poll workers, and 3% for telecommunications purposes. (Ben Beutler)

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 2012 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates

Table 6

Awards and Expenditures by Homeland Security Grant Recipients

	FFY 2008	FFY 2009	FFY 2010
State Awards	\$13,530,300	\$14,025,400	\$13,985,100
Local Government Awards	<u>37,006,000</u>	<u>43,752,200</u>	<u>39,268,600</u>
Total Awards	\$50,536,300	\$57,777,600	\$53,253,700
State Expenditures	\$12,603,200	\$10,392,100	\$6,388,400
Local Government Expenditures	<u>31,937,700</u>	<u>32,157,100</u>	<u>3,245,100</u>
Total Expenditures	\$44,540,900	\$42,549,200	\$ 9,633,500
Percentage of Total Awards Currently Expended	88.1%	73.6%	18.1%

Summary of Recent Agency Reports (continued)

total state automation expenditures in FY 2012 will be approximately \$19.8 million. Of this amount, approximately \$9.1 million, or 46%, will be spent on 5 new projects, \$6.0 million, or 30%, will be spent on shared infrastructure, and \$4.7 million, or 24%, will be spent on ongoing automation support in FY 2012. Of the 5 new projects, the larger projects include:

- Updating the limited jurisdiction case management system for statewide utilization (\$4.0 million)
- Further development of electronic filing (\$3.6 million)
- Updating and enhancing the Juvenile On-Line Tracking System (JOLTS) (\$1.2 million)
(James Alcantar)

August Spending

“August 2011

spending of

\$1.15 billion was

\$67.7 million

higher than

August 2010.”

August 2011 General Fund spending was \$1.15 billion. August expenditures were higher than the prior year in part due to an increase in the state’s share of Medicaid expenses.

FY 2012 Spending

August 2011 spending of \$1.15 billion was \$67.7 million higher than August 2010 (See Table 7).

- AHCCCS spending was \$147.1 million in August, which is an increase of \$41.1 million from the prior year. Federal Medicaid monies decreased, which caused the state’s share of Medicaid services to increase.

- The Department of Health Services spent \$135.7 million in August, which is \$120.0 million more than the previous year. This increase is due to an increase in the state’s share of Medicaid payments as well as the timing of the Medicaid payments.
- School Facilities Board spent \$0.1 million in July, or \$31.9 million less than the prior year, due to the timing of debt service payments.

Table 7

General Fund Spending (\$ in Millions)

Agency	<u>August 11</u>	<u>Change from August 10</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 11</u>
AHCCCS	147.1	41.1	308.0	(0.7)
Corrections	104.8	6.3	180.4	25.5
Economic Security	3.7	11.5	356.2	37.9
Education	665.9	(4.2)	1,328.0	35.5
Health Services	135.7	120.0	236.4	118.9
Public Safety	2.1	0.6	22.7	0.7
School Facilities Board	0.1	(31.9)	132.6	100.0
Universities	47.9	(12.3)	86.5	(28.8)
Leaseback Debt Service	0.0	0.0	52.1	52.1
Other	<u>39.5</u>	<u>(63.4)</u>	<u>113.9</u>	<u>(108.7)</u>
Total	1,146.8	67.7	2,816.8	232.4

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY 11
	August 11	Change from August 10	Year-to-Date	
Department of Administration	2,022.9	(56,617.9)	2,135.9	(58,391.4)
Department of Admin Sale/Leaseback D/S	-	-	52,066.9	52,066.9
Office of Administrative Hearings	68.1	27.6	141.5	(130.6)
Department of Agriculture	966.1	464.7	1,850.8	(1,416.0)
AHCCCS	147,101.3	41,052.5	307,980.0	(790.2)
Arizona Commission on the Arts	-	(36.7)	-	(88.1)
Attorney General	2,131.8	903.7	4,747.9	2,221.7
AZ Capital Post Conviction Public Defender	38.2	(6.7)	99.1	(18.5)
State Board of Charter Schools	49.7	0.0	175.5	(3.9)
Dept. of Comm./AZ Commerce Authority	2,625.0	2,555.9	5,250.0	4,999.3
Community Colleges	-	-	17,144.3	(15,962.3)
Corporation Commission	35.9	(61.1)	88.9	(54.2)
Department of Corrections	104,773.7	6,305.9	180,380.6	25,461.1
AZ State Schools for the Deaf & Blind	2,451.4	969.4	4,975.0	1,436.6
Department of Economic Security	3,710.0	11,467.5	356,249.4	37,922.3
Department of Education	665,908.4	(4,174.9)	1,328,020.9	35,499.3
DEMA	1,440.1	309.4	2,508.8	359.6
Department. of Environmental Quality	-	-	-	-
DEQ – WQARF	-	-	-	-
Office of Equal Opportunity	10.8	(23.0)	28.2	(22.2)
State Board of Equalization	31.6	(6.7)	151.6	64.1
Board of Executive Clemency	59.7	(233.2)	130.3	(215.8)
Department of Financial Institutions	165.8	15.2	612.1	7.7
Department of Fire, Life, Bldg Safety	114.0	17.3	507.7	284.1
Office of the State Forester	336.5	14.8	621.2	(23.5)
Arizona Geological Survey	52.9	21.8	108.5	28.6
Government Information Tech.	-	(46.9)	-	(121.5)
Governor	428.3	(936.9)	1,110.1	(816.0)
Gov. - OSPB	133.2	12.8	338.7	26.3
Department of Health Services	135,684.8	120,035.8	236,364.4	118,878.0
Arizona Historical Society	221.9	(2,615.1)	574.3	(2,549.1)
Prescott Historical Society of AZ	43.7	8.6	109.7	22.7
Independent Redistricting Comm.	385.5	385.5	616.1	616.1
Commission on Indian Affairs	4.6	(5.9)	8.7	(1.8)
Department of Insurance	337.5	(2.7)	1,172.4	(854.9)
Judiciary	--	-	-	-
Supreme Court	313.5	(10,000.9)	3,235.4	(8,086.6)
Superior Court	1,481.8	(203.6)	17,466.6	450.7
Court of Appeals	924.1	(1,165.8)	2,895.1	(2,028.6)
Department of Juvenile Corrections	4,120.8	1,386.7	10,005.4	(7,493.6)
State Land Department	26.3	(113.3)	158.0	(607.8)
Law Enforcement Merit System	4.3	1.4	7.6	(10.3)
Legislature				
Auditor General	1,180.5	(24.1)	3,333.4	(1,697.7)
House of Representatives	838.8	133.6	2,131.6	319.5
Joint Legislative Budget Comm.	184.9	(258.7)	394.6	(247.3)

Agency	August 11	Change from August 10	Year-to-Date	YTD Change from FY 11
Legislative Council	784.0	273.4	1,569.6	(32.2)
Senate	551.5	71.0	1,427.7	(1,009.5)
Board of Medical Student Loans	-	(128.0)	-	(128.0)
Mine Inspector	80.2	(110.0)	288.0	(82.5)
Department of Mines & Mineral Resources	-	(73.7)	-	(111.1)
Nav. Streams & Adjudication	27.4	22.5	48.8	35.8
OSHA	-	-	-	-
Arizona State Parks Board	-	-	-	(20,000.0)
Pioneers' Home	109.6	33.9	655.8	449.5
Comm. for Postsecondary Ed.	-	-	-	-
Department of Public Safety	2,143.2	633.3	22,695.9	719.9
Arizona Department of Racing	262.1	30.2	419.1	(260.3)
Radiation Regulatory Agency	83.1	75.7	391.0	(5.9)
Arizona Rangers Pension	-	(1.2)	-	(2.4)
Real Estate Department	452.2	(215.7)	657.5	(514.8)
Department of Revenue	5,141.1	(333.5)	11,945.2	1,729.9
School Facilities Board	76.4	(31,918.3)	132,551.3	99,790.5
Secretary of State	858.5	(3,076.7)	2,175.1	(2,649.5)
Tax Appeals Board	16.7	5.8	72.7	(5.1)
Department of Transportation	4.3	1.4	7.2	(4.3)
State Treasurer	7,036.1	7,117.5	7,036.1	6,984.6
Universities				
Board of Regents	4,596.7	(716.4)	4,902.2	(586.8)
Arizona State University	19,228.1	(4,966.8)	35,926.7	(12,463.1)
Northern Arizona University	5,947.3	(2,604.7)	11,894.5	(5,209.4)
University of Arizona	18,110.2	(4,024.8)	33,745.1	(10,524.9)
Department of Veteran Services	307.1	(2,066.4)	1,009.8	(2,587.3)
Department of Water Resources	493.2	48.9	1,145.5	(88.5)
Department of Weights & Measures	97.2	28.8	191.4	42.8
Other		-	116.5	116.5
Grand Total	1,146,814.3	67,662.1	2,816,770.2	232,385.9