



Summary

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

“August General Fund collections were \$(30.2) million below the enacted May budget forecast.”

In August, monthly base revenue collections declined for only the second time since the beginning of FY 2011. General Fund revenue collections totaled \$691.7 million. Excluding one-time revenue adjustments, August collections were \$(3.3) million or (0.5)% below the prior year.

The decline in August revenues was primarily due to Corporate Income Tax collections. The \$22.4 million of Corporate collections was relatively normal. Due to a large one-time payment in August 2011, however, Corporate collections were \$(10.0) million less than the prior year.

August General Fund collections were \$(30.2) million below the enacted May budget forecast. Year-to-date, revenues are 2.9% higher than last year and are \$(13.2) million below the budget forecast.

In comparison to revenue of \$691.7 million, August 2012 General Fund spending was \$943.7 million, or \$(203.1) million below last year. August expenditures were lower than last year primarily due to technical timing issues related to Medicaid spending in AHCCCS and the Department of Health Services.

Fiscal year-to-date, General Fund revenues of \$1.4 billion have been offset by \$3.1 billion in spending.

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The mid-September 2012 balance is \$1.8 billion, including \$450 million in Budget Stabilization Fund reserves.

FY 2012 Ending Balance Update

ADOA is required to provide a preliminary FY 2012 ending balance estimate by September 15. ADOA reported a preliminary estimate of \$427 million, up from the \$401 million estimate discussed in last month’s *Monthly Fiscal Highlights*. This estimate is still being reviewed and will likely change again prior to ADOA’s final estimate later this year.

This month’s *MFH* also provides information on 3 other issues of potential interest: 1) a nationwide summary of state budgets for FY 2013; 2) an updated estimate of potential proceeds from an internet sales tax; and 3) a summary of AHCCCS’ \$143 million information technology project.

NCSL State Budget Update

Several times a year, the National Conference of State Legislatures (NCSL) releases a State Budget Update which summarizes and compares various budget issues across states. Among the highlights of the latest NCSL report:

- In terms of a “Rainy Day Fund,” 47 states reported on their FY 2013 rainy day funds and 43 have funds available. Of these states:

Table of Contents

Summary	1	Economic Indicators	5
• FY 2012 Ending Balance Update.....	1	Summary of Recent Agency Reports	
• NCSL State Budget Update	1	• Arizona Department of Administration	8
• NCSL Report on Internet Sales	2	• Department of Economic Security	8
• AHCCCS/Health Exchange IT Project	2	• Department of Education.....	8
• Tax Handbook	2	• Department of Environmental Quality.....	8
August Revenues	3	• School Facilities Board	9
		August Spending	9

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on September 20, 2012.

Summary (Continued)

- Arizona ranks 15th in the total amount of Rainy Day Funds available with \$450 million. The average amount of funds available is \$880.6 million.
- Arizona’s Rainy Day Fund (officially the Budget Stabilization Fund) is 5.2% of General Fund spending in FY 2013, which is the 17th highest percentage in the nation. The national average is 11.8%.
- Of the 41 states with an increase in appropriations in FY 2013, Arizona ranks 39th in total growth, with a 0.6% increase. The national average increase is 2.7%.
- In FY 2013, 47 states, including Arizona, project an increase in total tax revenue. In terms of its percentage change in revenue growth, Arizona’s forecast ranges between 8th-12th place for 3 large tax categories:

Tax	Arizona Growth	Arizona Ranking	Avg State Growth
Individual Income	5.6%	11	4.3%
Sales	4.7%	12	3.7%
Corporate Income	9.7%	8	6.7%

NCSL Report on Internet Sales

The National Conference of State Legislatures (NCSL) recently released a report estimating the cost of online sales nationwide (in terms of lost sales tax revenues) at \$23 billion in 2012. This represents an increase from previously published estimates of a nationwide cost of \$11.4 billion. Instead of only considering the impact of online sales from business to consumer, the higher estimate also included other consumer commerce (such as mail and telephone orders) and deliveries across state lines among businesses. In particular, the business-to-business aspect of remote sales is a significant component of online sales which are currently not taxed.

Once all remote sales are taken into account, the total nationwide sales tax revenue loss is estimated to be \$23 billion. This estimate corresponds with a recent federal legislative proposal, which would use this broader definition of remote commerce.

For Arizona, JLBC Staff has estimated that in 2012 the state’s portion of the overall sales tax revenue loss is \$185 million under the more limited definition of remote sales. Using the expanded definition, this annual loss would increase to \$354 million.

In terms of both Arizona state and local sales tax combined, the annual estimated loss would be \$370 million in 2012 under the limited definition of remote sales and \$709 million using the expanded definition.

AHCCCS/Health Exchange IT Project

On August 22, the Information Technology Authorization Committee (ITAC) approved an increase from \$75 million to \$143 million for numerous projects to establish a state based health insurance exchange and make upgrades to DES and AHCCCS technology. AHCCCS estimates that approximately \$4 million of the \$143 million total would be state funding. The remainder would be funded by the Federal government. AHCCCS states that the primary drivers of the \$68 million cost increase are as follows:

- \$33 million for Medicaid changes
- \$20 million for data warehouse and master data management components
- \$10 million for exchange system modifications
- \$4 million for exchange staff

The Federal government requires states to have an operational health insurance exchange by October 1, 2013. States may choose to run the health insurance exchange, allow the Federal government to do so, or partner with the Federal government for the operation of the exchange. According to the Executive, no final decisions have been made on whether Arizona will have a state run or federally run exchange. The Executive also states that the Request for Proposals (RFPs) includes language which would allow the contract to be cancelled if it is decided that the Federal government will run the exchange.

Federal health care legislation also requires numerous eligibility changes for AHCCCS and some DES programs, including the way in which financial eligibility for programs is calculated. The exchange must also have the capability of determining whether an individual is eligible for Medicaid.

ITAC consists of public and private business information technology (IT) leaders. The committee meets periodically to review IT projects and other strategic IT issues. Any IT project valued over \$1 million must be approved by ITAC.

Tax Handbook

The JLBC Staff has published its annual Tax Handbook on our [website](#). For each state tax category, the Tax Handbook provides information on the tax rate, who pays the tax, how the tax proceeds are distributed and a brief history.

August Revenues

	FY 2013 Collections	Difference From Budget Forecast	Difference From FY 2011
August	\$ 691.7	\$ (30.2)	\$ (75.5)
Year-to-Date	\$ 1,440.2	\$ (13.2)	\$ (57.1)

Sales Tax collections were \$378.2 million, or 3.5% above August 2011 and \$(2.0) million below the budget forecast for the month.

Year-to-date, sales tax collections are 4.4% above the prior year and are \$7.7 million above forecast.

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

	August	YTD
Retail	5.9%	6.4%
Contracting	7.5%	6.5%
Utilities	20.6%	11.0%
Use	(17.1)%	(9.6)%
Restaurant & Bar	1.0%	4.8%

Retail and contracting together account for about 60% of all sales tax revenues. August retail, which reflects July sales, increased by 5.9%. As we have noted in prior reports, the retail category began to grow in December 2010. Retail growth continued through the first part of last fiscal year, but slowed during the last quarter of FY 2012 due primarily to the exceptionally high growth rates in the last quarter of FY 2011.

Overall, the retail category grew by 5.0% in FY 2012 compared to the prior year. Growth through the first two months of the current fiscal year is above that level, at 6.4%. Contracting collections have been more volatile than retail and increased by 7.5% this month.

Individual Income Tax net revenues were \$274.9 million in August, or (1.7)% less than the prior year. Collections were \$(13.5) million below the budget forecast. Year-to-date, revenues have grown 4.7% and are \$7.1 million above forecast. The August decline relative to the forecast was the result of less than expected withholding tax collections and final payments, partially offset by lower than anticipated refunds.

As indicated in Table 3, withholding decreased by (3.0)% in August. This comes after a 9.8% increase in July. The August decrease may be partially due to the timing of withholding

payments. For the first two months of the fiscal year, withholding is up 3.1%.

Total estimated and final payments were \$17.1 million in August, compared to \$16.6 million in August of last year.

Refunds of \$(13.9) million were \$(3.3) million less than last year's amount.

	August	YTD
Withholding	(3.0)%	3.1%
Estimated + Final Payments	3.2%	5.0%
Refunds	(19.2)%	(36.7)%

Corporate Income Tax net collections were \$22.4 million in August, which is (30.8)% below the prior year. Collections were down compared to the prior year due to an extraordinarily large one-time payment in August 2011. Collections for the month were \$(10.0) million below the forecast. Year-to-date, collections are down (25.5)% and are \$(21.8) million below forecast. July and August are relatively small collection months for corporate income tax, with September being the first of four larger collection months.

The **Lottery Commission** reports that August ticket sales were \$54.0 million, which is \$5.8 million, or 12.1%, above sales in the prior year. Year-to-date ticket sales are \$103.1 million, which is 9.6% above last year's sales. While sales increased, net General Fund revenues actually declined due to the payment of debt service for the Lottery Revenue Bonds issued in FY 2010.

Non-General Fund

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 \$101.2 million in August were up \$3.5 million, or 3.6%, compared to August of last year. Year-to-date revenues are 0.1% greater than the prior year.

“Year-to-date, sales tax collections are 4.4% above the prior year and are \$7.7 million above forecast.”

Table 4

General Fund Revenue: Change from Previous Year and Enacted May Budget Forecast August 2012

	Current Month					FY 2013 YTD (Two Months)				
	Actual August 2012	Change From August 2011		Budget Forecast		Actual August 2012	Change from August 2011		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$302,649,584	\$9,166,953	3.1 %	(\$4,903,029)	(1.6) %	\$624,538,766	\$24,126,963	4.0 %	\$411,355	0.1 %
- 1¢ Increase*	75,514,267	3,771,069	5.3	2,889,278	4.0	156,166,024	8,954,795	6.1	7,282,263	4.9
Income - Individual	274,914,436	(4,678,292)	(1.7)	(13,471,120)	(4.7)	562,769,955	25,074,062	4.7	7,130,646	1.3
- Corporate	22,407,426	(9,965,992)	(30.8)	(9,998,430)	(30.9)	43,192,978	(14,820,964)	(25.5)	(21,780,736)	(33.5)
Property	59,105	(11,112)	(15.8)	(15,895)	(21.2)	258,020	(38,415)	(13.0)	(66,980)	(20.6)
Luxury - Tobacco	2,169,748	540,825	33.2	0	0.0	4,131,906	(253,434)	(5.8)	(265,955)	(6.0)
- Liquor	2,018,811	(776,971)	(27.8)	0	0.0	5,547,861	(386,416)	(6.5)	995,678	21.9
Insurance Premium	41,802,963	4,046,135	10.7	1,802,963	4.5	79,311,641	3,936,848	5.2	(688,359)	(0.9)
Estate	0	0	--	0	--	0	(200,652)	(100.0)	0	--
Other Taxes	40,549	(16,129)	(28.5)	(19,451)	(32.4)	88,122	(16,956)	(16.1)	(31,878)	(26.6)
Sub-Total Taxes	\$721,576,889	\$2,076,486	0.3 %	(\$23,715,684)	(3.2) %	\$1,476,005,273	\$46,375,831	3.2 %	(\$7,013,966)	(0.5) %
Other Revenue										
Lottery	2,909,940	(2,096,100)	(41.9)	(2,090,060)	(41.8)	2,909,940	(2,096,100)	(41.9)	(2,090,060)	(41.8)
License, Fees and Permits	2,680,601	(307,783)	(10.3)	(319,399)	(10.6)	5,505,917	818,047	17.5	505,917	10.1
Interest	2,148	(400)	(15.7)	(7,852)	(78.5)	2,763	(556)	(16.8)	(17,237)	(86.2)
Sales and Services	1,451,013	358,396	32.8	(1,048,987)	(42.0)	1,977,325	128,771	7.0	(2,022,675)	(50.6)
Other Miscellaneous	744,461	(2,061,672)	(73.5)	(1,255,539)	(62.8)	3,365,801	(646,987)	(16.1)	(634,199)	(15.9)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(1,238,802)	(1,309,270)	--	(1,738,802)	--	(948,992)	(3,286,206)	--	(1,948,992)	--
Sub-Total Other Revenue	\$6,549,361	(\$5,416,829)	(45.3) %	(\$6,460,639)	(49.7) %	\$12,812,754	(\$5,083,031)	(28.4) %	(\$6,207,246)	(32.6) %
TOTAL BASE REVENUE	\$728,126,250	(\$3,340,343)	(0.5) %	(\$30,176,323)	(4.0) %	\$1,488,818,027	\$41,292,800	2.9 %	(\$13,221,212)	(0.9) %
Other Adjustments										
Urban Revenue Sharing	(42,798,670)	(7,430,050)	21.0	0	0.0	(85,597,340)	(14,860,100)	21.0	0	0.0
Budget Plan Transfers	6,326,907	(64,773,508)	(91.1)	0	0.0	36,954,713	(83,488,188)	(69.3)	0	0.0
Sub-Total Other Adjustments	(36,471,763)	(72,203,558)	-- %	0	0.0 %	(48,642,627)	(98,348,288)	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$691,654,487	(\$75,543,901)	(9.8) %	(\$30,176,323)	(4.2) %	\$1,440,175,400	(\$57,055,488)	(3.8) %	(\$13,221,212)	(0.9) %
Non-General Funds										
Highway User Revenue Fund	\$101,150,684	\$3,546,085	3.6 %	\$2,374,829	2.4 %	\$198,727,209	\$125,938	0.1 %	(\$2,257,278)	(1.1) %

* Total August collections including the temporary 1¢ increase approved by the voters in May 2010 were \$378.2 million. This amount is \$12.9 million, or 3.5%, above August 2011 and \$(2.0) million, or (0.5)%, below forecast.

Economic Indicators

NATIONAL

Following its first increase in five months, the Conference Board’s **U.S. Consumer Confidence Index** fell (7.3)% in August to 60.6. While the reading was still 34.1% above that in August 2011, the prior measure was taken against the backdrop of the debt-ceiling crisis in 2011. The monthly decrease was the largest since that crisis. A worsening outlook on job prospects, the economy, and gas prices lead to the index’s large monthly decrease.

The Conference Board’s **U.S. Leading Economic Index** increased by 0.4% in July to a reading of 95.8 (1.5% over July 2011). This growth was led by improvement in 7 of the index’s 10 components. The greatest improvements were from building permit gains and reductions in unemployment insurance claims.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, grew by 0.6% in August and by 1.7% above the prior year. This sharp monthly increase is the first since March and the largest since June 2009. The majority of the growth was caused by a 9.0% rise in gasoline prices. Food prices increased 0.2% during this time.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the Americas decreased (3.9)% in July to \$4.15 billion. July’s reading was the lowest since April 2010 and marked the 13th consecutive period of year over year decreases.

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.

In July, 22 out of 50 states had increases in their coincident indexes. Arizona’s coincident index was unchanged compared to the prior month. Year-over-year, the Arizona index is 2.5% above last year, which is the 17th highest growth rate in the country. While this is a significant improvement, Arizona’s index is still (11.8)% below its peak, which occurred in

August 2007. See [Tracking Arizona’s Recovery](#) for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona’s leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national delivery times from a manufacturing survey, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona’s leading index projects that state GDP will grow at an annualized rate of 2.1% over the next 6 months. This is lower than the revised 2.4% growth projection in June, and higher than the 1.5% projection in July 2011.

Housing

The number of Maricopa County **pending foreclosures** decreased from 16,578 in July to 16,370 in August. This represents the third consecutive monthly decrease in this measure. The August total is substantially below the peak in December 2009 (51,466). See [Tracking Arizona’s Recovery](#) for additional historical information.

The total housing inventory in the Greater Phoenix area decreased from 26,983 in August 2011 to 20,934 in August 2012, a (22.4)% decrease. In the Metropolitan Phoenix area, the **median price of a single family home** was \$149,000 in July. This represents a decrease of (0.7)% from June, and a 17.1% increase from July of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through July, a total of 1,639 **single-family building permits** had been issued statewide, a 69.2% increase from last year. This is the highest 3-month average since August 2008 when there were 1,740 permits issued. Even so, this is far below a more normal 3-month average of 3,000 to 4,000 permits. See [Tracking Arizona’s Recovery](#) for additional historical information.

While the performance of the single-family housing sector has continued to improve, the multi-family housing sector is showing mixed signals. For the 3-month period ending in July, a total of 236 **multi-family building permits**

“[The] Conference Board’s U.S. Consumer Confidence Index fell (7.3)% in August... The monthly decrease was the largest since [the debt-ceiling crisis of 2011].”

Economic Indicators (Continued)

had been issued in the state. This figure represents a large increase from the prior month, but is (0.8)% below the prior year. Multi-family permitting activity still remains (83.7)% below the peak of activity in April 2007.

See [Tracking Arizona's Recovery](#) for additional historical information.

State Agency Data

At the beginning of September, total **AHCCCS** caseloads equaled 1.29 million members, a 0.5% increase from the prior month. Overall AHCCCS caseloads are currently (6.0)% below September 2011 levels. The traditional AHCCCS population, which consists primarily of lower-income children and their parents, increased 0.4% from August and increased 0.6% from a year ago. The total population in this program is almost 900,000.

The Proposition 204 childless adult program has not allowed new participants since July 2011 and this population has declined (124,295) since July 2011 to 100,197. Of the decline, (11,524) is attributed to members who were transferred to the SSI program. As a whole, the Proposition 204 program has declined (2.0)% compared to the prior month, and (31.1)% from the prior year.

KidsCare provides coverage for children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (3.2)% compared to the prior month and (42.0)% from the prior year. Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II, which provides coverage for children up to 175% of the Federal Poverty Level. The state match is provided by voluntary payments from political subdivisions. As of the beginning of September, 19,037 children were enrolled in KidsCare II.

The 3-month average count of the **Department of Correction's (ADC) inmate population** decreased to 39,850 inmates between June 2012 and August 2012. Relative to the prior 3-month period, the population has decreased by (28) inmates. Compared to a year ago, the population has declined by (296) 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)	July	8.3%	0.1 %	(1.3)%
- Initial Unemployment Insurance Claims	July	27,564	17.0%	(1.4)%
- Unemployment Insurance Recipients	July	63,863	9.9%	(11.4)%
- Non-Farm Employment - Total	July	2.39 million	(0.9)%	2.4%
Manufacturing	July	152,300	0.7%	1.6%
Construction	July	121,100	0.8%	7.3%
- Average Weekly Hours, Manufacturing	July	40.8	(3.3)%	3.6%
- Contracting Tax Receipts (3-month average)	Jun-Aug	\$36.8 million	2.2%	6.8%*
- Retail Sales Tax Receipts (3-month average)	Jun-Aug	\$146.6 million	(2.9)%	3.2%*
- Residential Building Permits (3-month moving average)				
Single-family	May-Jul	1,639	1.3%	69.2%
Multi-unit	May-Jul	236	48.1%	(0.8)%
- Greater Phoenix Home Sales				
Single-Family	July	8,753	(5.4)%	1.5%
Townhouse/Condominium	July	1,365	1.9%	18.2%
- Greater Phoenix Median Home Price				
Single-Family	July	\$149,000	(0.7)%	17.1%
Townhouse/Condominium	July	\$82,000	(8.9)%	2.5%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	114.68	2.5%	13.9%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	August	16,370	(1.3)%	(31.1)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	20,934	2.7%	(22.4)%
- Phoenix Sky Harbor Air Passengers	July	3.58 million	0.9%	(1.4)%
- Revenue Per Available Hotel Room	July	\$43.51	(10.9)%	(1.4)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	June	\$3.97	10.0%	(36.4)%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2012	68.6	(1.3)%	32.2%
- Arizona Coincident Index (July 1992 = 100)	July	179.08	0.0%	2.5%
- Arizona Leading Index -- 6 month projected growth rate	May-July	2.1%	(0.3)%	0.6%
- Arizona Personal Income	1st Quarter 2012	\$237.1 billion	0.5%	3.3%
- Arizona Population	July 1, 2011	6.48 million	N/A	1.1%
- AHCCCS Recipients	September	1,294,756	0.5%	(6.0)%
Acute Care Traditional		897,636	0.4%	0.6%
Spend Down		-	-	(100.0)%
Prop 204 Childless Adults		100,197	(4.9)%	(51.5)%
Other Prop 204		151,683	0.0%	(4.7)%
Kids Care		9,133	(3.2)%	(42.0)%
Kids Care II		19,037	52.0%	-
Long-Term Care – Elderly & DD		52,835	0.5%	2.8%
Emergency Services		64,235	2.5%	25.1%
- TANF Recipients	July	40,266	1.0%	(2.5)%
- SNAP (Food Stamps) Recipients	July	1,138,407	0.3%	1.5%
- ADC Inmate Growth (3-month average)	Jun - Aug	39,850	(28) inmates	(296) inmates
- Probation Caseload				
Non-Maricopa	May	18,183	19	(807)
Maricopa County	May	25,581	(48)	(603)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2nd Quarter 2012 (2 nd Estimate)	\$13.6 trillion	1.7%	2.3%
- Consumer Confidence Index (1985 = 100)	August	60.6	(7.3)%	34.1%
- Leading Indicators Index (2004 = 100)	July	95.8	0.4%	1.5%
- U.S. Semiconductor Billings (3-month moving average)	May-July	\$4.15 billion	(3.9)%	(10.4)%
- Consumer Price Index, SA (1982-84 = 100)	August	230.1	0.6%	1.7%

*Adjusted for 1¢ sales tax

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Federal Financial Participation Repayment – Pursuant to the FY 2013 General Appropriation Act, \$10.4 million is appropriated to the Department of Administration (ADOA) from the Risk Management Revolving Fund in FY 2012 for the settlement of debts incurred in FY 2010 and FY 2011 when monies were transferred to the General Fund from funds containing federal monies or when federal monies were expended on program activities beyond the permitted amounts. The Risk Management Fund was designated for the repayment of Federal Funds. Prior to expending these monies, the bill requires ADOA to report to the Joint Legislative Budget Committee regarding the final agreement with the federal government.

In August, the state used \$3 million of the \$10.4 million appropriation to repay the federal government for \$2.1 million in transfers to the General Fund and \$898,000 in expenses associated with the Information Technology and Attorney General pro rata charges. In combination with earlier repayments, a total of \$8.9 million has been sent to the federal government. (Brett Searle)

Department of Economic Security (DES) - Semi-Annual Report on CPS - Pursuant to A.R.S. § 8-818, DES has submitted its semi-annual financial and program accountability report. According to the report, out-of-home placements increased from 11,502 in December to 13,497 in June. Caseloads are above the department's goals and turnover for Child Protective Services (CPS) case managers was approximately 31.2%. Employee satisfaction has declined from a 3.6 rating out of 5.0 in the February report to 3.4 in this the August report. The highlights of this report, covering the last 6 months of FY 2012, are summarized below.

- The CPS Training Academy had 214 new case managers in training as of June 2012.
- As of June 2012, the number of filled positions was 856 of 1,043 authorized and funded positions, excluding those in training. This figure is 1 higher than last December. Considering only filled positions, caseloads per worker remain considerably higher than caseload goals, with investigations at 15 (goal: 10), in-home at 37 (goal: 19), and out-of-home at 32 (goal: 16).
- DES reports that annualized case manager turnover during January - June 2012 was 31.2%, up from a 26.3% annualized rate in the last report.
- The percent of CPS dependency cases denied or dismissed in the last 6 months increased to 0.3% from 0.0% in the previous 6 months, while the percent of Office of Administrative Hearing's decisions affirming CPS case findings declined from 89.0% to 86.4%. The percent of complaints validated by the Ombudsman decreased from 2.1% to 1.4% (4 of 280 complaints).

- The number of children in out-of-home family placements increased from 9,262 in December to 10,798 in June, while the number of congregate care placements increased from 1,592 to 1,876. DES also reports that from December to June the number of children aged 0-3 in shelter care increased from 20 to 36, the number of children aged 0-6 in group homes increased from 27 to 66, and the number of children in shelter care for more than 21 days declined from 747 to 736. The June numbers are labeled as preliminary.

(Ben Beutler)

Department of Education - Report on Short-Term Capital Items Purchased with Unencumbered Public School Contributions – Laws 2011, Chapter 195 allows public schools to purchase “short term capital items” with up to 50% of unencumbered extracurricular “tax credit” contributions received prior to FY 2011. Chapter 195 requires public schools to report such expenditures to the JLBC at the end of each fiscal year. In response to this requirement, 45 school districts and charter schools have reported \$1.6 million in short-term capital expenditures under Chapter 195 for FY 2012. The total includes \$752,600 for technology (47%), \$462,400 for furniture and equipment (29%), \$211,800 for instructional aids (13%), \$143,700 for textbooks (9%) and \$42,700 for library resources (3%). Reporting districts and charters also indicate that they collectively had approximately \$7.1 million in total unencumbered pre-FY 2011 “tax credit” contributions available as of July 1, 2011, which was the first day of the reporting period. (Steve Schimpp)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2012 – 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 and is designed to remediate contaminated groundwater at specified sites. The report lists FY 2012 expenditures at \$11.0 million, including a fund sweep of \$536,300. Unexpended funds at the end of FY 2012 totaled \$8.3 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.

Summary of Recent Agency Reports (Continued)

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 2013, program expenditures for 26 sites that remain active are projected to be \$6.8 million. (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 \$1.0 million FY 2014 and \$1.1 million in FY 2015. SFB also estimates new construction costs totaling \$19.1 million for ASDB to meet minimum space requirements through FY 2015. The latter cost pertains to a space deficiency at the ASDB Phoenix campus, which has capacity for 169 students and a current enrollment of 317 students. The ASDB Tucson campus does not have a space deficiency, as it has capacity for 397 students and a current enrollment of 184 students. (Steve Schimpp)

August Spending

August 2012 General Fund spending was \$943.7 million. August expenditures were \$(203.1) million lower than the prior year due to technical timing differences.

FY 2013 Spending

August 2012 spending of \$943.7 million was \$(203.1) million lower than August 2011 (See Tables 6 and 7).

- The Medicaid agencies of AHCCCS and the Department of Health Services spent \$(42.0) million and \$(119.5) million less than August 2011, respectively.
- Department of Corrections spending in August was \$(38.7) million less than the prior year. This difference is due to technical timing issues regarding the payment of lease purchase and risk management obligations.

Agency	August 12	Change from August 11	Year to Date	YTD Change from FY 12
AHCCCS	105.1	(42.0)	216.2	(91.8)
Corrections	66.1	(38.7)	144.5	(35.9)
Economic Security	3.9	0.2	390.9	34.6
Education	672.1	6.2	1,286.7	(41.3)
Health Services	16.2	(119.5)	437.5	201.2
Public Safety	1.7	(0.5)	8.9	(13.8)
School Facilities Board	0.1	0.0	140.8	8.3
Universities	37.3	(10.6)	74.1	(12.4)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	<u>108.2</u>	<u>72.1</u>	<u>108.2</u>	<u>188.5</u>
Total	943.7	(203.1)	2,891.6	74.8
Budget Stabilization Fund Deposit	0.0	0.0	200.0	200.0
Grand Total	943.7	(203.1)	3,091.6	274.8

Table 7				
General Fund Spending				
(\$ in Thousands)				
Agency	August 12	Change from August 11	Year-to-Date	YTD Change from FY 12
Department of Administration	4,956.3	2,933.5	6,176.1	1,024.0
Department of Admin Sale/Leaseback D/S	-	-	84,119.8	35,069.1
Office of Administrative Hearings	75.2	7.1	137.2	(4.3)
Department of Agriculture	529.1	(437.0)	1,469.7	(381.1)
AHCCCS	105,144.1	(41,957.3)	216,194.7	(91,785.3)
Arts, AZ Commission on the	-	(10.5)	-	(10.5)
Attorney General	2,676.0	544.2	4,157.0	(590.9)
AZ Capital Post Conviction Public Defender	4.1	(34.1)	4.1	(95.0)
State Board of Charter Schools	55.7	6.0	157.0	(18.6)
Department of Commerce/AZ Commerce Authority	2,625.0	-	5,250.0	-
Community Colleges	453.5	453.5	16,048.2	(1,329.1)
Corporation Commission	42.8	6.9	79.8	(9.1)
Department of Corrections	66,072.1	(38,701.6)	144,450.4	(35,930.2)
AZ State Schools for the Deaf & Blind	2,991.2	539.8	4,541.9	(433.1)
Department of Economic Security	3,865.7	155.7	390,874.8	34,625.5
Department of Education	672,065.5	6,157.1	1,286,696.6	(41,324.4)
DEMA	308.1	(1,131.9)	785.4	(1,723.3)
Department of Environmental Quality	-	-	-	-
DEQ – WQARF	7,000.0	-	7,000.0	-
Office of Equal Opportunity	10.8	0.1	37.8	9.6
State Board of Equalization	44.0	12.4	151.8	0.2
Board of Executive Clemency	46.7	(13.0)	174.1	43.7
Department of Financial Institutions	178.4	12.6	454.0	(158.2)
Department of Fire, Life, Bldg Safety	124.1	10.1	489.1	(18.5)
Office of the State Forester	211.3	(125.2)	780.4	159.2
Arizona Geological Survey	68.8	15.9	110.7	2.3
Government Information Tech.	-	-	-	-
Governor/OSPB	513.9	(47.6)	1,227.4	(221.4)
Department of Health Services	16,217.2	(119,467.6)	437,541.8	201,177.3
Arizona Historical Society	211.5	(10.3)	819.4	245.1
Prescott Historical Society of AZ	46.3	2.6	86.7	(23.0)
Independent Redistricting Comm.	46.2	(339.3)	162.2	(453.9)
Commission on Indian Affairs	1.9	(2.7)	15.3	6.6
Department of Insurance	356.9	19.4	965.2	(207.2)
Judiciary	-	-	-	-
Supreme/Superior Court	1,861.8	66.4	20,480.2	(221.7)
Court of Appeals	939.9	15.8	2,335.6	(559.5)
Department of Juvenile Corrections	3,124.9	(995.9)	7,143.9	(2,861.4)
State Land Department	40.8	14.5	60.1	(97.8)
Law Enforcement Merit System	5.4	1.0	9.9	2.4
Legislature	-	-	-	-
Auditor General	1,199.6	19.1	2,696.2	(637.2)
House of Representatives	727.1	(111.7)	1,482.7	(648.9)
Joint Legislative Budget Comm.	152.4	(32.5)	286.0	(108.6)
Legislative Council	444.3	(339.7)	1,037.7	(532.0)
Senate	501.5	(50.0)	1,050.8	(377.0)

Agency	August 12	Change from August 11	Year-to-Date	YTD Change from FY 12
Board of Medical Student Loans	-	-	-	-
Mine Inspector	78.9	(1.3)	253.8	(34.3)
Department of Mines & Mineral Resources	-	-	-	-
Nav. Streams & Adjudication	6.5	(20.9)	25.4	(23.4)
OSHA	-	-	-	-
Arizona State Parks Board	-	-	-	-
Pioneers' Home	32.7	(77.0)	482.6	(173.2)
Comm. for Postsecondary Ed.	88.0	88.0	88.0	88.0
Department of Public Safety	1,665.2	(478.0)	8,853.9	(13,841.9)
Arizona Department of Racing	-	(262.1)	1,779.5	1,360.4
Radiation Regulatory Agency	62.1	(20.9)	287.7	(103.3)
Arizona Rangers Pension	-	-	-	-
Real Estate Department	141.7	(310.5)	310.1	(347.4)
Department of Revenue	3,794.9	(1,346.2)	9,959.9	(1,985.3)
School Facilities Board	94.7	18.3	140,823.5	8,272.1
Secretary of State	2,922.6	2,064.1	3,690.7	1,515.6
Tax Appeals Board	16.4	(0.2)	65.1	(7.6)
Office of Tourism	295.1	295.1	629.7	629.7
Department of Transportation	5.8	1.5	9.3	2.0
Universities	-	-	-	-
Board of Regents	185.7	(4,411.1)	508.9	(4,393.3)
Arizona State University	16,310.9	(2,917.1)	32,350.4	(3,576.3)
Northern Arizona University	5,974.0	26.7	11,851.7	(42.8)
University of Arizona	14,798.4	(3,311.8)	29,366.0	(4,379.1)
Department of Veteran Services	462.5	155.5	879.8	(130.0)
Department of Water Resources	669.3	176.0	1,367.2	221.7
Department of Weights & Measures	80.1	(17.0)	168.5	(22.9)
Other	108.2	72.1	108.2	188.5
Total	943,734.0	(203,090.7)	2,891,601.7	74,821.0
Budget Stabilization Fund Deposit	-	-	200,000.0	200,000.0
Grand Total	943,734.0	(203,090.7)	3,091,601.7	274,821.0