

ARIZONA

MONTHLY FISCAL HIGHLIGHTS

JANUARY 2002

Based on preliminary data, January General Fund revenues are \$(37.0) million below forecast for the month. We are comparing revenues with the forecast adopted by the Legislature in the fall special session. For the fiscal year-to-date, revenues are estimated to be \$(83.8) million below forecast.

The forecast deficit for the month can be largely traced to the 2 largest revenue sources: the sales tax and the individual income tax. We estimate that sales taxes are \$(10.2) million below forecast in January and individual income tax receipts are \$(24.2) million below projections.

Individual Income Taxes – *Withholding, the largest component of the individual income tax, declined in January. The magnitude of the decline depends on whether collections are compared to the prior month, or the prior January. The state collected \$201.8 million in January withholding, which was \$(7.2) million or (3.4)% less than in December 2001. Compared to January 2001, withholding was (12.1)% less than last year’s \$229.5 million in collections. January 2001 collections, however, were unusually large (see Chart 1 on reverse side). January 2001 collections were the highest of the year by \$53.0 million.*

Besides a weakening in the economy, the decline in January withholding compared to December collections can potentially be explained by 2 factors: 1) Normal reduction in workforce as employees leave temporary holiday season jobs and 2) delays in employers adjusting withholding rates. In December, the state enacted legislation to increase state withholding rates effective January 1 to offset declines in federal rates. All employers may not have been able to adjust their rates in a timely fashion.

The January decline relative to last January may also be explained by a reduction in company bonus payments. Withholding collections spiked in the 1st week of January 2001, which may have reflected bonuses awarded for calendar year 2000. Lower corporate profitability either substantially reduced or eliminated these payments in calendar year 2001.

Sales Taxes – *We roughly estimate that the state collected \$274.7 million in January, which represents December sales. This amount would be (2.3)% less than January 2001. These estimates are subject to revision as we do not yet have the full details on the collections.*

Summary – *Last month, the JLBC and OSPB staffs had estimated that FY 2002 General Fund collections would be \$(119) million less than the fall special session estimates. The January collections now mean that year-to-date, we have lost \$(83.8) million of that \$(119) million, with 5 months remaining. In comparison to the revenue forecast released by the JLBC Staff in January (which includes the \$119 million revenue loss), this month’s revenues are \$(33.3) million below the January forecast.*

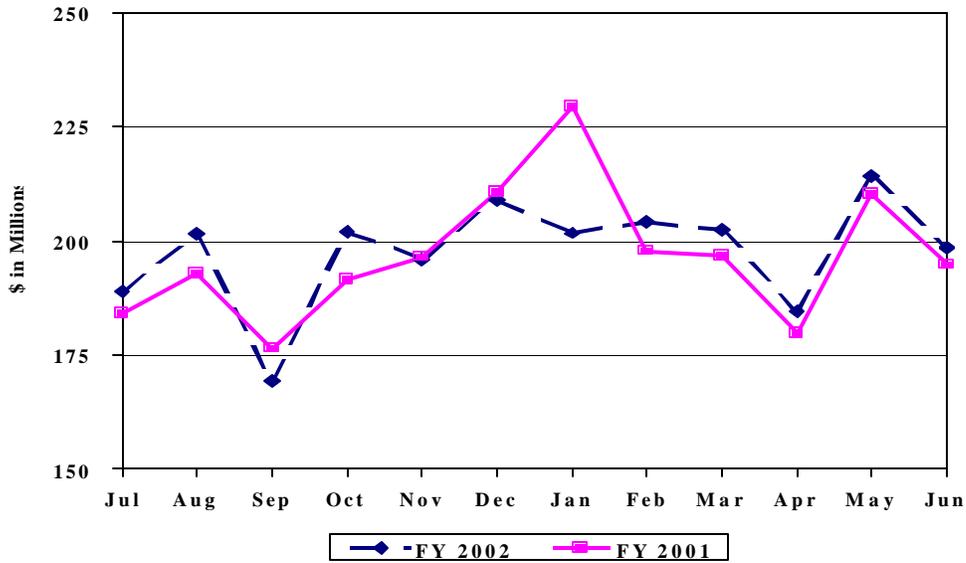
General Fund Revenues			
Compared to Special Session Budget Forecast ^{1/}			
(\$ in Millions)			
<u>FY 2002</u>	<u>Forecast</u>	<u>Actual</u>	<u>Forecast Difference</u>
Preliminary January	\$ 609.0	\$ 572.0	\$ (37.0)
Year-to-Date	\$3,586.8	\$3,503.0	\$ (83.8)

^{1/} Excluding Proposition 301 revenue



Chart 1

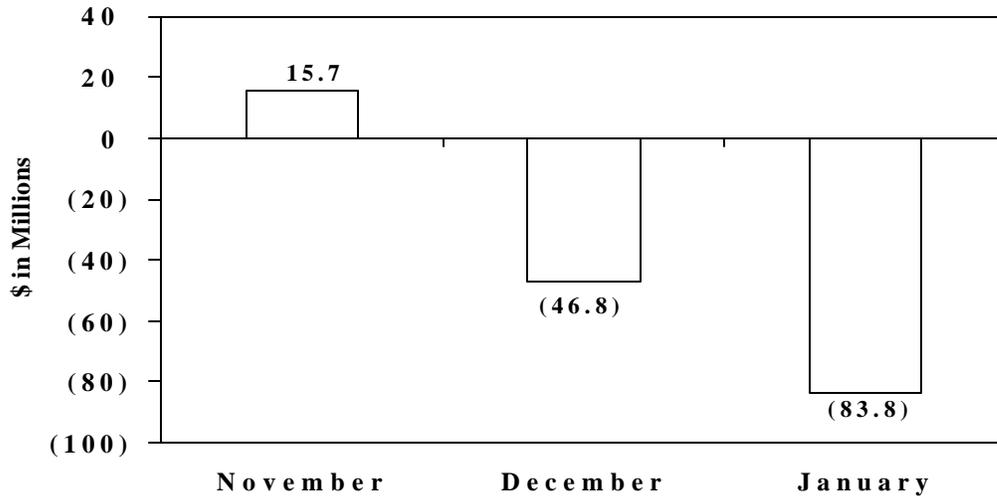
**FY 2001 and FY 2002
Monthly Withholding**



February - June 2002 numbers represent January forecast.

Chart 2

**Cumulative FY 2002 Revenue
Above / Below December Budget Forecast**



JLBC MEETING

At its January 9th meeting, the Joint Legislative Budget Committee considered the following issues:

Department of Administration – The Committee favorably reviewed ADOA's Risk Management deductible amount of \$10,000. There was no change from the previous year. The deductible was implemented in 1997 to provide an incentive for agencies to avoid risk management losses.

The Committee also gave a favorable review of the expenditure plan for the replacement of ADOA's statewide Human Resources/Payroll System. The project will cost \$80.2 million over 12 years. Funding for this project is provided by an assessment on each agency's Personal Services base. The Committee requested quarterly status reports and information on agency budget reductions from the implementation of the new system by February 15th. Agency-specific personnel and payroll systems may be substantially reduced or eliminated as the new statewide project comes on-line.

Department of Corrections – The Committee favorably reviewed ADC's private prison Request for Proposals for the continued operation of 600 beds by a private prison vendor. The current contract expires at the end of September 2002.

Department of Environmental Quality – The Committee did not take action on the review of Amendment #1 to the Vehicle Emissions Inspection contract. The amendment reduces test fees and transfers liability for non-sufficient funds checks to the state. The current contract with Gordon-Darby Arizona Testing covers emissions program operations for a 7-year period beginning January 2, 2002. Given that the department signed the amendment agreement prior to Committee review, the Committee withdrew a motion for favorable review and did not take action on the item.

Department of Transportation – The Committee approved the release of \$161,500 for 3 months of funding to operate the Grand Canyon Airport through March 31, 2002. The Committee also requested that ADOT report back to the Committee by March 1, 2002 on the status of leasing the airport pursuant to Laws 2000, Chapter 99. A total of \$161,500 remains available from the State Aviation Fund for the last 3 months of FY 2002 operations if a proposed airport lease is not executed.

The Committee favorably reviewed ADOT's proposed 40-year lease of the Grand Canyon National Park Airport provided that technical date corrections are made. ADOT expects the contract to be signed soon and the Grand Canyon Airport Authority, Inc. would take operational control of the airport on April 1, 2002.

Other Reports – The Committee received written reports this month on 1) the Department of Administration's use of alternative fuels and clean burning fuels in the State Motor

Vehicle Fleet, 2) Arizona Corporation Commission/Department of Transportation railroad safety activities, 3) Department of Economic Security Children Services Program, 4) Department of Economic Security Arizona Works, 5) Department of Health Services Health Crisis Fund expenditures, 6) State Mine Inspector Abandoned Mines Safety Fund expenditures and contributions, 7) State Mine Inspector mined land reclamation consultant services, 8) Commission for Postsecondary Education fund deposits and expenditures, 9) Supreme Court Adult Probation Services Fund and Juvenile Probation Fund, 10) Office of Tourism revenue and expenditure plan, and 11) Department of Emergency and Military Affairs declared emergencies.