



This Month

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"For the first 5 months of FY 2008, General Fund collections are down (0.6)% when compared to last year, and are \$(310.1) million less than forecast".

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on December 31, 2007.

Total November General Fund revenue collections were \$570.3 million, or (6.4)% below November of last year. This amount was \$(83.5) million below the forecast based on the enacted state budget.

For the first 5 months of FY 2008, General Fund collections are down (0.6)% when compared to last year, and are \$(310.1) million less than forecast. When factoring in Urban Revenue Sharing, year-to-date collections are (2.2)% below last year. *(See page 14 for detail information).*

Each of the three major revenue categories was below the forecast in November:

- Sales tax collections increased by only 0.2% compared to November 2006, and were \$(31.4) million short of the monthly forecast.
- Individual income tax collections were down (5.6)%, which was \$(34.3) million below forecast.
- Corporate income tax collections were (125)% below last year, and \$(10.1) million below the forecast.

Finance Advisory Committee (FAC) – The FAC met on December 10th (*page 6*). The FAC is a panel of 16 leading economists that advises the Legislature 3 times a year on the state's economy. Based on the FAC's input and 3 other models, the largest General Fund revenue categories are forecasted to grow by 1.5% in FY 2008 and 1.0% in FY 2009, prior to tax law adjustments.

The FAC panel members' economic outlook for the next year is not favorable. As was the case when the FAC last met in September, the primary concern continues to be the real estate market, including the oversupply of housing, and the high level of loan defaults, mainly associated with the subprime mortgage market. Members expect economic growth to bottom out in FY 2008 or FY 2009, followed by a gradual recovery.

At the consensus revenue levels, the projected budget shortfall would be \$(970) million in FY 2008 and \$(1.7) billion in FY 2009.

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This Month (continued)



JLBC/JCCR Meetings - The Monthly Fiscal Highlights include a summary of the December JCCR meeting (*page 7*). There was no JLBC meeting in December. The JCCR reviewed items including State Lake Improvement Fund (SLIF) grants and projects and a request for \$1 million State Parks Enhancement Fund (SPEF) monies. The JCCR favorably reviewed the SLIF proposal for \$7.1 million and approved the SPEF request for 2 State Parks capital projects.

The JCCR also gave a favorable review to the Arizona Department of Administration (ADOA) to issue \$239 million worth of Certificates of Participation for 4,000 prison beds, prison water and wastewater projects, and a new forensic unit at the Arizona State Hospital. These projects were authorized by the Legislature in the last session.

Recent Reports – The Highlights also include a summary of recent statutory reports submitted to the JLBC (*pages 8-13*). Among the submitted items:

- The Department of Education reported that it estimates a net FY 2008 General Fund surplus of \$61.1 million. Most of that amount, \$48.6 million, is for lower-than-budgeted FY 2007 enrollment growth (which affects FY 2008 formula funding).
- AHCCCS reported in its semi-annual report that total statewide Healthcare Group enrollment has declined by 930 people to 25,984 people as of October 13, 2007. AHCCCS also reported it made other changes to the program including increased premiums, copayments, and deductibles.
- The Department of Health Services (DHS) submitted a quarterly report to the Committee on the department’s progress toward settling the *Arnold v. Sarn* lawsuit. DHS believes they have met 20 of 23 of their obligations to the court due by June 2007. The report does not indicate their planned timetable for the other 3 requirements.

November Revenues

“In the first 5 months of FY 2008, sales tax revenues are flat compared to last year.”

Sales Tax collections were \$366.1 million in November. This amount was 0.2% above last year, and \$(31.4) million below forecast. In the first 5 months of FY 2008, sales tax revenues are flat compared to last year. *Table 1* displays the November and year-to-date growth rates for the major sales tax categories.

	November	Year-to-Date
Retail	1.0%	(1.2)%
Contracting	(4.9)%	(5.1)%
Utilities	11.0%	6.9%
Use	9.3%	8.4%
Restaurant & Bar	(8.9)%	1.6%

Retail and contracting collections together account for two-thirds of all sales tax revenues. While the retail category was up slightly in November, year-to-date it remains (1.2)% below last year. Contracting continues to be negative, and is (5.1)% below the first 5 months of last fiscal year.

Individual Income Tax collections were \$235.5

million, or (5.6)% below last year. Year-to-date, income tax collections are (1.2)% below last year. November collections were \$(34.3) million less than forecast. *Table 2* displays individual category growth rates.

	November	Year-to-Date
Withholding	3.1%	5.7%
Estimated + Final Payments	(43.9)%	(5.3)%
Refunds	19.5%	61.0%

November withholding was 3.1% above last year. After some volatility in the first 2 months of the fiscal year, year-to-date withholding collections have leveled off at slightly below 6% growth.

Estimated and final payments decreased to approximately half of last years’ amount. Payments for the month were under \$18 million, which is a decrease of (43.9)%. Year-to-date, payments are (5.3)% below the first 5 months of last fiscal year. While payments are running below last year’s level, it is difficult to

“Year to date, income tax collections are (1.2)% below last year.”

November Revenues (continued)

determine if this is a trend, as approximately 80% of payments are made during the January – April tax season.

Refunds of almost \$(50) million were up 19.5% over refunds made in November 2006. After 5 months, refunds are 61.0% over the first 5 months of last fiscal year. This level of refunds may be partially a timing issue, as December refunds are significantly below last year.

Corporate Income Tax collections were 125% below November of last year, and \$(10.1) million below the forecast for the month. November is not a large collection month for corporate, however the decrease brings the category to \$(38.0) million below forecast for the first 5 months of the fiscal year.

Table 3

**General Fund Revenues
Compared to Enacted Forecast and FY 2007 Collections**
(\$ in Millions)

	<u>FY 2008 Collections</u>	<u>Difference From Forecast</u> ^{1/}	<u>Difference From FY 2007</u>
November	\$ 570.3	\$ (83.5)	\$ (38.9)
Year-to-Date	\$ 3,554.9	\$ (310.1)	\$ (80.6)

^{1/} Enacted FY 2008 budget (June 2007).



Recent Economic Indicators

NATIONAL

According to the Bureau of Economic Analysis' final 2007 3rd quarter estimate of **U.S. Real Gross Domestic Product (GDP)**, the economy expanded at an annualized rate of 4.9%. Significant increases in personal consumption (consumer spending) and exports outweighed negative contributions from residential investment and imports.

U.S. semiconductor billings increased 1.6% in October (3-month moving average) to \$3.87 billion. Year over year chip sales were down (3.0%). While the number of units sold in key sectors of the semiconductor industry has increased rapidly in the past year, sales growth remains modest. The Semiconductor Industry Association (SIA) attributes this to rapid price declines in these sectors due to the introduction of new semiconductor technologies that have driven down production costs.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) increased by 0.4% in November. The year over year increase was 3.5%. All sub-indices of the CPI increased

slightly in November, with the exception of the transportation and energy indices, which increased by 2.9% and 5.7%, respectively. Excluding the impact of food and energy prices, the core CPI increased 0.3% in November and was 2.3% higher than a year ago.

ARIZONA

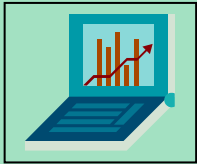
November total statewide **non-farm employment** increased, year over year, by 0.5%. By comparison, the November year-over-year average growth rate in the prior 10 years was 3.3%. Arizona's **unemployment rate** increased from 3.5% in October to 4.1% in November. The unemployment rate is at the same level as 1 year ago and below the national unemployment rate of 4.7%.

Construction employment decreased by (8.2)% compared to November 2006 as the slowdown in the residential market continued. The average year-over-year growth rate for November in the past 10 years was 6.4%.

Economic uncertainty, turmoil in the

"November total statewide non-farm employment increased, year over year, by 0.5%. By comparison, the November year-over-year average growth rate in the prior 10 years was 3.3%."

Recent Economic Indicators (continued)



mortgage markets, and a traditionally slow period continue to drive the Greater Phoenix real estate market lower. Based on data released by the Real Estate Center at Arizona State University, the number of existing **single-family homes sold** plummeted (9.1)% from October levels and (34.9)% from November 2006 levels, to 3,280 homes. Following suit, the **single-family median resale home price** continued to decline in November, reaching \$240,000, or (7.3)% below the sales price last November. Despite resale home price decreases in the single-family segment, the **townhouse-condominium median price** increased 4.8% on a year-over-year basis to \$180,200.

Statewide, the number of **single-family residential building permits** (3-month moving average) fell by (35.3)% on a year-over-year basis, to 2,286 - reaching levels not seen since 1993. The comparable number of **multi-family building permits** authorized slightly increased to 789 in November, resulting in a year-over-year increase of 48.6%. Permitting activity in the multi-family segment continues to have significant volatility.

The **Arizona Business Conditions Index** (BCI) signified some improvement in the economy, as it increased by 11.6% to 53.8 in November after dipping below 50 in October. A reading of over 50 corresponds to local economic growth, while a reading below 50 suggests a slowdown in the overall level of economic activity in the near term. This index has displayed significant volatility recently. The recovery of the index in the month of November was primarily attributable to an increase in new orders, production, and prices.

The BEA reported that **Arizona personal income** reached an annualized total of \$210.9 billion in the 3rd quarter of 2007. Compared to last year, personal income is up 5.9%.

In December, the **AHCCCS caseload** totaled 1,079,917 members. This represents a decrease of (1,638), or (0.2)% below November 2007 caseload levels. Year-over-year, December caseload increased by 5.2%, or 53,367 members.

The number of TANF recipients increased to 84,524 in October, which is 1.0% above September and (2.4)% below the level

reported in October 2006. This amount is just slightly under the state budget projection of 84,700 recipients in FY 2008.

The **Department of Corrections' inmate population** increased by an average of 45 inmates per month from September through November. The total population grew by 2,015 inmates from a year ago. The budget for FY 2008 anticipates inmate population growth of 1,920, or a net increase of 160 inmates per month.

Recent Economic Indicators (Continued)

Table 5

RECENT 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	November	4.1%	17.1%	0.0%
- Non-Farm Employment – Total	November	2.75 million	0.5%	1.5%
Manufacturing	November	186,000	(0.1)%	(0.1)%
Construction	November	232,700	(1.3)%	(8.2)%
- Contracting Tax Receipts (3-month average)	Sep-Nov	\$76.5 million	(0.7)%	(7.8)%
- Retail Sales Tax Receipts (3-month average)	Sep-Nov	\$156.2 million	(0.0)%	(1.7)%
- Residential Building Permits (3-month moving average)				
Single-unit	Aug-Oct	2,286	(17.3)%	(35.3)%
Multi-unit	Aug-Oct	789	(0.3)%	48.6%
- Greater Phoenix Existing Home Sales				
Single-Family	November	3,280	(9.1)%	(34.9)%
Townhouse/Condominium	November	670	(5.6)%	(27.2)%
- Greater Phoenix Median Home Sales Price				
Single-Family	November	\$240,000	(0.8)%	(7.3)%
Townhouse/Condominium	November	\$180,200	6.0%	4.8%
- Phoenix Sky Harbor Air Passengers	October	3.5 million	7.2%	4.0%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	September	\$6.96	(2.1)%	2.8%
- Leading Indicators Index	September	120.4	(0.9)%	0.8%
- Business Conditions Index (>50 signifies expansion)	November	53.8	11.6%	(16.1)%
- Consumer Confidence Index	3 rd Quarter 2007	101.9	(4.1)%	(0.8)%
- Business Leaders Confidence Index	4 th Quarter 2007	42.5	(15.8)%	(11.6)%
- Arizona Personal Income	3 rd Quarter 2007	\$210.9 billion	1.4%	5.9%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	December	1,079,917	(0.2)%	5.2%
- TANF Recipients	October	84,524	1.0%	(2.4)%
- DOC Inmate Growth (3-month average)	Sep-Nov	37,629	45 inmates	2,015 inmates
United States				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	3 rd Quarter 2007	\$11.7 trillion	4.9%	2.7%
- Consumer Confidence Index	December	88.6	1.5%	(19.5)%
- Leading Indicators Index	November	136.3	(0.4)%	(1.9)%
- U.S. Semiconductor Billings (3-month moving average)	Aug-Oct	\$3.87 billion	1.6%	(3.0)%
- Consumer Price Index (3-month moving average)	Sep-Nov	209.2	0.4%	3.5%

FAC Meeting

At its December 10, 2007 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and implications of the slumping housing market and the resultant credit crunch. The FAC is a 16-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

JLBC staff provided members with the latest 4-sector consensus estimates for “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.

Based on the 4-sector consensus, revenues are projected to grow 1.5% in FY 2008, prior to any tax law changes. This is down from the September FAC meeting, at which time the 4-sector consensus projected a FY 2008 growth rate of 3.5%.

The enacted FY 2008 budget was based on the Executive projected growth rate of 6.0% (prior to tax law changes). Since FY 2007 revenues were less than expected, FY 2008 would instead have to grow by 8.4% to generate the same level of revenues included in the enacted budget.

In FY 2009, the 4-sector consensus predicts growth will be 1.0%. The FAC panel projects a higher rate of growth in FY 2009 compared to FY 2008, while the University of Arizona models were both predicting lower growth rates in FY 2009.

Panel members also heard formal presentations from Elliott Pollack and Jay Butler in addition to comments from other panel members.

Committee members had an unfavorable outlook with regard to economic and revenue growth going forward. Members cited the downturn in the real estate market, and the resulting excess supply of housing currently on the market, as the primary reason for concern. In addition, Committee members stated that high levels of loan defaults and delinquencies, mainly associated with the subprime mortgage

market, have resulted in higher lending standards, which may exacerbate the housing slump by limiting the pool of potential borrowers.

The Committee expects economic growth to bottom out sometime in FY 2008 or FY 2009, but was divided on the exact timing of when this would occur. With regard to the duration of the slowdown, most members believe it will last several years, and be followed by a gradual recovery.

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JCCR Meeting

At its December 18, 2007 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Prison Bed, Prison Water, and Arizona State Forensic Unit Projects – The Committee gave a favorable review and approval for the Arizona Department of Administration (ADOA) to issue \$239 million worth of Certificates of Participation for the 3 projects authorized by Laws 2007, Chapters 257 and 261. These 3 projects are: 4,000 prison beds, prison water and wastewater projects, and a new forensic unit at the Arizona State Hospital. This includes the provision that ADOA report back to the Committee prior to the beginning of construction on the estimated scope and cost of the projects.

Arizona Department of Administration/Legislative Council – Land Purchase – The Committee gave a favorable review and approval for the ADOA to purchase 9,900 square feet of land adjacent to the new Polly Rosenbaum State Archives and History Building for \$130,000. The amount is less than the property's appraisal and will not require a new appropriation of monies. Laws 2007, Chapter 44 authorized ADOA to purchase this land with a prior appropriation (Laws 2004, Chapter 194).

Arizona State Parks Board – SLIF and SPEF Projects – The Committee gave a favorable review to the proposal for 25 State Lake Improvement Fund (SLIF) grants and projects totaling \$7,104,400 with the condition that the favorable review does not constitute an endorsement of General Fund support of these projects in the future. The Committee also approved the Parks Board request for \$1 million in State Parks Enhancement Fund (SPEF) monies for 2 State Parks capital projects, as the project expenditures comply with statute.

Arizona State University – Memorial Union Fire Renovations – The Committee gave a favorable review with the 3 standard university bonding provisions to the \$40 million Memorial Union Fire Renovations bond project. This project will repair, renovate, and upgrade the 255,000 square foot Memorial Union, which underwent extensive fire damage on November 1, 2007. Arizona State

University (ASU) will finance this project with a total new revenue bond issuance of \$13 million, which will be repaid with tuition collections and local funds, and \$27 million from insurance reimbursements.

Arizona State University – Indoor Basketball Practice Facility – The Committee gave a favorable review with the 3 standard university bonding provisions to the \$22 million indoor basketball practice facility (Weatherup Center). The approximately 50,000 gross square foot Weatherup Center facility will include basketball courts, offices, meeting spaces, and locker room facilities. For a fee of \$2.5 million ASU has acquired an existing facility, the Athletes' Performance Institute, in support of the Weatherup Center. ASU will finance this project with a total new revenue bond issuance of \$19.8 million, which will be repaid with cash gifts and \$2.2 million from up-front cash gifts. The Weatherup Center Construction will begin in April 2008 and conclude in March 2009.

University of Arizona – Cooling Tower – The Committee gave a favorable review with the 3 standard university bonding provisions to \$4.1 million to replace an aging cooling tower on the main campus. Because the replacement tower is more energy efficient and would not require ongoing maintenance, the University of Arizona (UA) estimates that it will result in savings equal to \$578,700 annually. In total, the tower will cost \$7.1 million to replace. UA will finance the remaining \$3 million with operating funds.

Summary of Recent Agency Reports



Arizona Department of Administration

– Report on the Use of Alternative Fuels and Clean Burning Fuels in the State Motor Vehicle Fleet. – Pursuant to A.R.S. § 41-803R, the Arizona Department of Administration reported on the FY 2007 year-end inventory of state-owned alternative fuel vehicles. Of the 12,390 state vehicles, 5,400 or 43.6% are subject to the alternative fuel vehicle requirements found in A.R.S. § 41-803. The vehicles exempt from these requirements fulfill 1 or more of the following criteria: weigh over 8,500 pounds; are law enforcement vehicles, motorcycles, ambulances, fire suppression apparatus; or are all-terrain (4x4) vehicles.

Of the 5,400 state vehicles subject to the alternative fuel vehicle requirements, 3,223 or 59.7% are alternative fuel vehicles. This is an increase of 2.5% from the prior year and exceeds the 40% target established by statute.

A.R.S. § 41-803K, which applies to state fleets operating primarily in counties with populations exceeding 1.2 million, requires 90% of the vehicles to be capable of using alternative fuels and clean burning fuels. The state reports that of its 2,821 vehicles operating primarily within Maricopa County, 2,210 or 78.3% are alternative fuel vehicles. This is an increase of 3.4% from the prior year but falls below the statutory requirement of 90%.

Notwithstanding the quantity of vehicles capable of using alternative fuel, a relatively small percent of users actually utilize a vehicle's alternative fuel capabilities. Of the \$9,054,781 spent on fuel in the 6 largest state agency fleets during FY 2007, only \$396,857 or 4.4% was for alternative fuels.

Arizona Department of Administration/ Department of Public Safety – Report on Capitol Police Transfer to DPS – Pursuant to Laws 2007, Chapter 261, the Department of Administration

(ADOA) and the Department of Public Safety (DPS) are required to jointly report to the JLBC on the feasibility of transferring Capitol Police personnel to the Department of Public Safety.

The report provides 2 possible options for this transfer. The first option includes transferring Capitol Police to DPS with a minimal impact to current operations and procedures. This change would involve only DPS administration with no changes to current Capitol Police mission, policy, uniforms, vehicles or facilities. According to the report, legal challenges could occur if discrepancies exist between salary and benefits provided to DPS and the Capitol Police, if DPS serves an administrative function only. The estimated cost associated with this option is \$331,900 in starting costs and \$351,900 annually for recruiting efforts and changing from ADOA to PSPRS retirement plans.

The second option includes transferring Capitol Police to DPS with full integration including classification of these personnel as sworn officers. Under this option, all Capitol Police fleet, policies, uniforms, salaries and training would conform to current DPS protocol. The estimated cost associated with this option is \$3.9 million in starting costs for police cars and maintenance (to conform to DPS 24-hour emergency response availability), radios, police communication services, uniforms, vests, fuel, ammunition and other supplies or equipment, and changing to both DPS salary schedules and the PSPRS retirement plan. The ongoing cost is \$1.7 million for continued maintenance, replacement equipment, and salary and benefits packages. In either scenario, DPS administration only or full integration, an additional fiscal impact may occur with salaries and other requirements due to DPS renegotiation of current Capitol Police contracts with 6 other state agencies.

As a result of these challenges, different agency missions, and fiscal implications, ADOA and DPS recommend that the Capitol Police remain as a division under ADOA. However, 2 areas of possible improvement were identified if ADOA continues to oversee the Capitol Police: 1) providing a more competitive salary to Capitol Police to better recruit and retain its workforce, and 2) upgrading police equipment to more closely match DPS standards.

Arizona Community Colleges – Report on Workforce Development Expenditures

– The Arizona Community Colleges are reporting on their previous year's workforce development plan activities and expenditures. A.R.S. § 15-1472 requires each community college district to establish a workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training. Total revenues in FY 2007 were \$17,971,700 and total expenditures in the same year were \$15,690,600.

Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) is required to provide an annual report by December 1 on the receipt and expenditures of Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures imposed and collected by the courts. CJEF monies are statutorily distributed to various agencies for criminal justice related activities. In FY 2007, CJEF revenues totaled \$46.1 million and the total funds available (including the beginning balance and adjustments)

Summary of Recent Agency Reports (Continued)

for the fiscal year was \$65.0 million. Total CJEF expenditures were \$43.9 million in FY 2007, leaving an ending balance of \$21.1 million. In FY 2007, CJEF revenues grew by 8.7%, expenditures increased by 10.1%, and the overall ending balance increased by 12.6%.

Arizona Criminal Justice Commission – Report on Statewide Methamphetamine Interdiction Efforts – Pursuant to Laws 2006, Chapter 337, the Arizona Criminal Justice Commission (ACJC) is required to report quarterly on the use of \$3 million appropriated in FY 2007 for increased methamphetamine interdiction efforts by the counties.

All monies have been allocated to counties based on the formula in Chapter 337, which appropriates \$50,000 to each county and distributes the remaining monies based on county population. ACJC reported that as of September 30, 2007, \$2.5 million has been spent by the counties. Of this amount, 9 counties have spent a total of \$2.0 million on the Arizona Meth Project, a prevention program, modeled after the Montana Meth Project, whose goal is to reduce first-time methamphetamine use among Arizona youth. Maricopa County has taken on the role of project coordinator and has

finalized intergovernmental agreements with other counties to use Chapter 337 funding for the project.

The remaining \$503,400 was spent on meth education programs, drug task forces, prosecution costs, and treatment programs. The remaining unspent funds total \$502,700 and are unencumbered as of the end of the first quarter of FY 2008.

Department of Economic Security – Report on Available State and Federal Domestic Violence Funding – Pursuant to a General Appropriation Act Footnote, the Department of Economic Security (DES) is submitting its annual report on available state and federal domestic violence funds and the fiscal agents receiving those monies. There is a total of \$23.2 million currently used by 6 state entities for domestic violence services, an increase of \$2.7 million (13%) from FY 2006. Table 1 summarizes the funding sources and the agencies that used domestic violence monies in FY 2006 and FY 2007. The primary recipient of increased monies was DES.

Arizona Department of Education – Report on K-12 Excess Utilities – Pursuant to A.R.S. § 15-910.03, the Arizona Department of Education (ADE) recently submitted a report

on school district “excess utilities.” That law requires all school districts to submit to ADE by July 18 each year a report on their actual utility expenditures since FY 2000 and on their budgeted utility expenditures for the current fiscal year. It also requires school districts that budget for excess utilities to include data on excess utilities expenditures in their reports. In addition, A.R.S. § 15-910.03 requires the department to submit a summary report on this information to the Joint Legislative Budget Committee by December 1 each year.

ADE recently submitted its FY 2007 report on this topic. It shows total statewide school district utility costs of \$254 million for FY 2007, of which \$73 million was funded through excess utilities. These data are incomplete, however, as 41 school districts did not submit reports to ADE for FY 2007. A total of 197 school districts submitted reports, including 96 that budgeted for excess utilities for FY 2007 and 101 that did not. The ADE excess utilities report can be viewed in its entirety at <http://www.ade.az.gov/schoolfinance/>.

State Board of Education – Fiscal Impact of Proposed Increase in Graduation Requirements – The State Board of Education (SBE) recently submitted a report regarding

Table 1

Available Domestic Violence Funding in FY 2006 and FY 2007

<u>Sources</u>	<u>FY 2006</u>	<u>FY 2007</u>
General Fund	\$ 4,465,800	\$ 6,927,800
Federal Funds	14,387,800	14,595,800
Other	<u>1,700,000</u>	<u>1,700,000</u>
Total	\$20,553,600	\$23,223,600
<u>Agency</u>	<u>FY 2006</u>	<u>FY 2007</u>
Criminal Justice Commission	\$ 603,800	\$ 611,200
Department of Housing	1,532,500	985,900
Department of Economic Security	10,892,900	13,722,200
Department of Health Services	1,665,300	1,407,600
Department of Public Safety	3,106,200	3,505,300
Governor's Office of Children, Youth and Families	<u>2,752,900</u>	<u>2,991,400</u>
Total	\$20,553,600	\$23,223,600

Summary of Recent Agency Reports (Continued)

increases in high school graduation requirements that it is currently proposing for mathematics, science and social studies. The report was submitted pursuant to A.R.S. § 15-203(A)(13), which prohibits the SBE from adopting any changes to state graduation requirements that will increase state K-12 capital costs. It indicates that the SBE believes that the proposed changes would not affect K-12 capital costs.

Under the proposed changes, students in the Class of 2012 would need 3 credits of math and 3 credits of social studies in order to graduate. Starting with the Class of 2013, students would need 4 credits of math and 3 credits of science in order to graduate. These changes were approved by the SBE at its December 12 meeting.

The SBE acknowledges in the report that the School Facilities Board (SFB) is required to adopt rules establishing minimum adequacy guidelines for equipment needed to teach science courses, which might be expected to increase under the proposal. It notes, however, that current SFB rules allocate science facilities and equipment based on overall school district enrollments, rather than on the number of science credits that students need for graduation. Only the latter would change under the SBE's current proposal. The report also notes, based on survey data that it collected for this issue, that school districts currently are able to meet instructional requirements for science without having laboratory classrooms or equipment.

State Board of Education – Update on Math or Science Achievement Grant Program – The State Board of Education (SBE) recently notified the JLBC Staff that it will not be submitting at this time a statutorily-required report on the effectiveness of the Math or Science Achievement Grant Program, as the program is in its inaugural year and first-year grants have not yet been awarded. A.R.S. §

15-720.01(C) requires the SBE to submit a report annually by December 15 that evaluates the effectiveness of the program and compares the academic achievement of students participating in it to that of non-participants in comparable schools. SBE staff indicate that they are currently working to coordinate distribution of first-year grant monies with monies for similar initiatives.

The Math or Science Achievement Grant program was established by the K-12 Education Budget Reconciliation Bill (BRB) for FY 2008. Its purpose is to promote improved pupil programs achievement in math or science by providing supplemental funding for innovative programs pursuant to A.R.S. § 15-720.01(A).

Department of Health Services – Report on Arnold v. Sarn – Pursuant to a footnote in the FY 2008 General Appropriation Act, the Department of Health Services (DHS) has submitted a quarterly report to the Committee on the department's progress toward settling the *Arnold v. Sarn* lawsuit.

On October 16, 2007, a status hearing was held allowing parties involved in the case and the Court Monitor to comment on the transition of the Maricopa County Regional Behavioral Health Authority (RBHA) from ValueOptions to Magellan that occurred on September 1, 2007. DHS reports that the Court Monitor and the Plaintiffs agreed that the transition went well.

In October 2007, the Office of the Court Monitor began conducting its annual Case Review. Although the final report is not anticipated to be released until February 2008, the Court Monitor contacted DHS in the beginning of November 2007 alerting them to some pre-transition incidents that occurred involving service delivery disruption.

DHS' quarterly report also provided an update on the Good Shepherd Properties. The Superior Court had

previously ruled that seriously mentally ill (SMI) persons could not occupy more than 25% of the units in the Good Shepherd Properties. Over the past quarter, DHS decided that units in the Good Shepherd Properties not occupied by SMI individuals would be available for General Mental Health and Substance Abuse populations.

Along with the report, DHS submitted a matrix of obligations that DHS needs to complete before exiting the lawsuit. Of the 23 items that DHS was to complete by June 2007, DHS states they have completed 20 and are waiting for the Plaintiffs to agree with their assessment. DHS is regularly meeting with the Plaintiffs on this matter. The 3 items which DHS states they have not completed relate to the client's Individual Service Plans, developing functional clinical teams with enhanced clinical leadership, and ensuring that the RBHA develops proper standards. DHS' matrix does not indicate when DHS plans to meet these obligations.

Department of Health Services – Report on Expenditures from the Health Crisis Fund – Pursuant to A.R.S. § 36-797, the Department of Health Services (DHS) is required to report expenditures from the Health Crisis Fund. The Health Crisis Fund receives up to \$1,000,000 annually from the Medically Needy Account of the Tobacco Tax and Health Care Fund. The Governor may declare a health crisis or a significant potential for a health crisis and authorize monies from the Health Crisis Fund for the emergency.

On December 18, 2007, the Governor signed Executive Order 2007-29 authorizing the transfer of \$100,000 from the Health Crisis Fund to DHS. The money will be used to educate providers and the public about the risks of syphilis, increase the number of Arizonans that are tested for syphilis and other sexually transmitted diseases, and control current syphilis outbreaks. According to the Executive Order, the number of

Summary of Recent Agency Reports (Continued)

syphilis outbreaks have increased in communities throughout Arizona, and there has been a 25-fold increase in syphilis cases in Maricopa County over the previous 6 months compared to the same time-period in 2000.

Arizona Commission of Indian Affairs – Report on Uses of Monies in the Arizona Indian Town Hall Fund – Pursuant to A.R.S. § 41-545, the Arizona Commission of Indian Affairs is providing the annual Indian Town Hall Fund expenditure report for FY 2007. The fund receives monies collected or received at Indian Town Halls as fees for Commission administration. The purpose of the fund is to defray administrative costs related to Indian town halls. Statute limits expenditures from the fund to \$15,000 per fiscal year.

New fund revenues during the 27th Annual Indian Town Hall totaled \$1,910. As the Town Hall was held July 16 - 18, 2007, some revenues and expenditures will be reported in the FY 2008 annual report. This amount does not include the \$5,773 balance carried forward the prior year. For FY 2007, the commission had \$5,062 in disbursements.

Judiciary – Report on Probation Services – Pursuant to Laws 2007, Chapter 255, the Administrative Office of the Courts (AOC) is required to report to the JLBC on several probation items:

Case Carrying and Non-Case Carrying Positions – Adult Standard and Adult Intensive Probation maintained 237.75 and 133.5 case carrying positions, and 410.4 and 68.68 non-case carrying positions, respectively. Between 91.1% and 96.8% of these positions were filled.

Juvenile Standard and Juvenile Intensive Probation maintained 108.5 and 88.5 case carrying positions, and 394.37 and 41.78 non-case carrying positions, respectively. Between 87.7% and 92.8% of these positions were filled.

Total Receipts and Expenditures – Total spending from all funds for Adult Probation Services was \$127.6 million, including \$27.8 million of state funding.

Total spending from all funds for Juvenile Probation Services was \$156.8 million, including \$15.1 million of state funding.

Retained Funding – The AOC retained a total of \$7.7 million in FY 2007 to support local probation departments and the state level probation staff through training, certification, and research.

State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions – The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to locate, inventory, classify, and eliminate public safety hazards at abandoned mines; A.R.S. § 27-131 created the Abandoned Mines Safety (AMSF) to fund the program. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the AMSF and the expenditures by the fund during the preceding fiscal year.

The State Mine Inspector reported that Freeport-McMoran Copper & Gold, Inc., formerly Phelps Dodge, contributed \$50,000 to the Abandoned Mine Safety Fund in May 2007. There was no appropriation or other donations in FY 2007. Preliminary planning has been conducted on 35 projects covering 4 mine sites for FY 2008; however, no disbursements were made from AMSF in FY 2007.

Arizona Radiation Regulatory Agency – Fee Increases to make the Radiation Regulatory Agency Self-Sufficient – Pursuant to Laws 2007, Chapter 255, the Radiation Regulatory Agency is required to submit a plan to increase fees to a level that would allow the agency to

become self-supporting. The agency has proposed 4 options which are listed below:

- Option A – Raise radioactive material license fees by 3.7 times the current rate, and enact legislation to allow Radiation Regulatory to retain fees, which would make the agency self-funding.
- Option B – Raise radioactive material licenses to 4.07 times the current level, not to exceed 77.7% of the U.S. Nuclear Regulatory Commission fees, and make the agency into a 90-10.
- Option C – The same as Option A except the state also signs an agreement with the U.S. Nuclear Regulatory Commission to transfer uranium milling and leachate authority to Arizona.
- Option D – The same as Option C except the agency would become a 90-10.

All of these options would require statutory changes and would provide \$264,000 in additional revenue above the current appropriated levels to help address difficulties in the retention of qualified individuals and the low number of staff relative to the agency's current responsibilities. Options C and D would also provide a further revenue gain of \$275,000 for the transfer of the uranium milling and leachate authority to Arizona from the U.S. Nuclear Regulatory Commission.

All options would allow for the reversion of the Radiation Regulatory Agency's FY 2009 General Fund appropriation of \$1.6 million. Currently, approximately \$1.1 million in fees are estimated to be collected in FY 2009. As a result, the 4 options result in a net benefit to the General Fund of at least \$567,000. This gain to the General Fund would be about \$800,000 under Options B and D, where the agency is transformed into a 90-10.

Summary of Recent Agency Reports (Continued)

School Facilities Board – Report on Funding Estimates – Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to report the estimated amounts necessary in FY 2009 for the New School Facilities, Building Renewal, and Emergency Deficiencies Correction Programs. The board is also reporting the estimated amounts necessary for these programs for FY 2010.

In FY 2009, SFB estimates a total funding requirement of \$676.5 million, including \$460.0 million for the New School Facilities Program and \$216.5 million for the Building Renewal Program. The Building Renewal amount is based on the current statutory formula.

For FY 2010, the board estimates it will need funding in the amount of \$732.2 million. Of this total, \$494.0 million is for the New School Facilities Program and \$238.2 million is for the Building Renewal Program. SFB did not request to transfer any monies from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2009 or FY 2010 due to a sufficient cash balance.

Arizona Department of Transportation – Quarterly Report on Motor Vehicle Division Wait Times – A FY 2008

General Appropriation Act footnote requires the Arizona Department of Transportation (ADOT) to report to the Legislature quarterly on customer wait times in Motor Vehicle Division (MVD) field offices and vehicle registration renewal by mail turn-around times. Customer wait time from receiving a ticket until arriving at the counter decreased from 14.3 minutes in the 4th quarter of FY 2007 to 14 minutes in the 1st quarter of FY 2008. Customer wait times in metropolitan areas ranged from just under 5 minutes in the Mesa East office to more than 24 minutes in the Central Phoenix office.

For FY 2008, the footnote also required ADOT to report the amount of time it takes to receive a

numbered ticket. ADOT reports that they have been unable to reliably document the wait time to get a numbered ticket from an MVD employee, despite trying several different methods.

In the metropolitan areas, including all of Maricopa County, Apache Junction, Tucson and Flagstaff, MVD field offices handled 1.15 million transactions, or 57.5%, of the total 2 million transactions in the 1st quarter of FY 2008, and third parties handled 851,200 transactions, or 42.5%. Total transactions include both primary transactions (driver licenses, titles, and vehicle registrations) and secondary transactions (all others). In the nonmetropolitan areas, MVD field offices handled 432,700 transactions, or 94.1%, of the total 460,000 transactions in the 1st quarter of FY 2008, and third parties handled 27,300 transactions, or 5.9%.

Arizona Board of Regents/Arizona Community Colleges – Report on Articulation and Transfer for Arizona Public Postsecondary Education – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents and the community colleges are required to submit an annual report of their progress on both articulation and meeting statewide postsecondary education needs by December 15.

In response to this mandate, both the universities and the community colleges continue to move toward the goal of seamless course transfer and statewide access to higher education.

This year's progress in implementing the transfer model and support systems include:

- The percentage of students transferring from a community college to one of the 3 state universities has increased 300% in 6 years, from 12% in 2002 to 36% in 2007.
- An external evaluation of the

transfer articulation system found that students who complete the Arizona General Education Curriculum (AGEC) at a community college are more successful when they transfer to a university than other transfer students with respect to retention, graduation rates, and credits completed at graduation. AGEC satisfies lower division general education requirements at the universities.

- The evaluation also found that over a 5-year period, the number of credits completed for a baccalaureate degree by transfer students dropped by an average of 12 credits, the equivalent of one semester of course work.

Arizona Board of Regents – Mathematics, Science, and Special Education Teacher Loan Forgiveness Program – Pursuant to A.R.S. § 15-1782, the Arizona Board of Regents (ABOR) recently reported on the progress of the Mathematics, Science, and Special Education Teacher Loan Forgiveness Program. The program allows ABOR to grant up to 5-year loans to eligible in-state students pursuing a teaching degree in mathematics, science, and special education at a public state university and who agree to a service commitment to teach in a public school. If a student fulfills the loan's service requirement, the loan may be forgiven.

In September 2007, ABOR adopted policies for screening applicants based on ability, character, and financial need. Ability is measured by students' progress toward degree and coursework completed. Character is measured by their list of activities and their letter of recommendation. Financial need is verified by their financial aid office.

ABOR has notified 76 qualified applicants that they are eligible to participate in the program beginning in spring 2008. Only one applicant was ineligible to participate due to academic probation. Arizona State

Summary of Recent Agency Reports (Continued)

University has the largest share of eligible applicants with 47 students, while Northern Arizona University has 21 eligible applicants and the University of Arizona has 8.

Statute also requires ABOR to report the name of the school at which each loan recipient is employed, loan forgiveness information and teacher retention data. However, this information was not reported because the program is not scheduled to begin until spring 2008.

Arizona Board of Regents – Student Retention Report – Pursuant to Laws 2007, Chapter 255, the Arizona Board of Regents (ABOR) is providing a student retention report. In FY 2008, the 3 state universities were appropriated \$29,800,000 to improve student and faculty retention at their respective institutions.

Arizona State University (ASU) reports 2,189 existing FTE Positions supporting student retention in FY 2007 and has hired 136 additional FTE Positions for student retention efforts in FY 2008. The university reports that the retention rate for freshman who entered the Tempe campus in fall 2006 is expected to be 77% in FY 2008. The retention rate for sophomores is expected to be 83%. ASU received \$15.1 million of the total student retention appropriation and has allocated this amount to the following retention activities:

- \$1.4 million for academic advisors;
- \$1.6 million for tutoring and other student support services;
- \$0.2 million for increased Faculty Associate and Teaching Assistant stipends;
- \$7.5 million for additional faculty;
- \$3.6 million for an eAdvisor online degree tracking system for students and other learning technology;
- \$0.8 million on other activities.

Northern Arizona University (NAU) did not report existing FTE Positions dedicated to student retention in FY 2007 and the totality of additional FTE Positions hired in FY 2008 for student retention efforts, as required by Laws 2007, Chapter 255. The university reports that the retention rate for freshman was 71% in FY 2007 and is estimated to be 73% in FY 2008. The retention rate for sophomores was 61% in FY 2007 and is expected to be 63% in FY 2008. NAU received \$4.7 million of the total student retention appropriation and has allocated this amount to the following retention activities:

- \$2.2 million for additional faculty to provide smaller class sizes for freshman;
- \$1.5 million for academic advisors, software, and educational support programming;
- \$1.0 million for high cost or high growth academic programs.

The University of Arizona (UA) reports 472.9 existing FTE Positions dedicated to student retention in FY 2007 and has hired 111 additional FTE Positions for student retention efforts in FY 2008. The university reports that the retention rate for freshman who entered in fall 2006 is expected to be 80% in FY 2008. The retention rate for sophomores who began in fall 2005 is 87%. UA received \$10.0 million of the total student retention appropriation and has allocated this amount to the following retention activities:

- \$7.1 million for Teaching Assistant and Faculty stipends;
- \$1.3 million for instructional faculty;
- \$1.0 million for outreach to outlying communities and for high demand academic areas;
- \$0.6 million for various student support activities, such as tutoring, counseling, academic advisors, and teaching teams;

State of Arizona

General Fund Revenue

Change from Previous Year and Enacted Forecast November 2007

	Current Month					FY 2008 YTD (Five Months)				
	Actual November 2007	Change From				Actual November 2007	Change from			
		November 2006		Forecast			November 2006		Forecast	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent		
Taxes										
Sales and Use	366,084,157	\$711,820	0.2 %	(\$31,440,943)	(7.9) %	\$1,866,275,904	\$196,734	0.0 %	(\$152,364,596)	(7.5) %
Income - Individual	235,450,207	(14,076,747)	(5.6)	(34,338,393)	(12.7)	1,408,871,564	(17,734,826)	(1.2)	(138,684,236)	(9.0)
- Corporate	(2,643,214)	(7,808,275)	--	(10,058,514)	--	293,978,608	(27,337,964)	(8.5)	(37,953,692)	(11.4)
Property	3,839,795	(3,001,307)	(43.9)	(4,160,205)	(52.0)	5,781,035	(2,386,905)	(29.2)	(5,718,965)	(49.7)
Luxury	4,289,663	(3,406,076)	(44.3)	(1,625,337)	(27.5)	23,753,153	(7,547,553)	(24.1)	(5,821,847)	(19.7)
Insurance Premium	(377,697)	(581,689)	--	(377,697)	--	120,566,640	6,049,980	5.3	4,466,640	3.8
Estate	26,016	1,101,696	--	26,016	--	260,778	1,257,907	--	260,778	--
Other Taxes	44,275	(7,693)	(14.8)	(20,850)	(32.0)	241,946	(22,719)	(8.6)	(83,679)	(25.7)
Sub-Total Taxes	\$606,713,202	(\$27,068,271)	(4.3) %	(\$81,995,923)	(11.9) %	\$3,719,729,628	(\$47,525,346)	(1.3) %	(\$335,899,597)	(8.3) %
Other Revenue										
Lottery	2,207,700	(383,200)	(14.8)	(2,841,900)	(56.3)	13,734,519	336,119	2.5	(103,381)	(0.7)
License, Fees and Permits	3,293,175	431,045	15.1	477,075	16.9	15,592,638	(3,532,759)	(18.5)	(2,209,562)	(12.4)
Interest	7,636,613	(1,618,940)	(17.5)	(503,987)	(6.2)	47,070,984	12,246,864	35.2	14,325,084	43.7
Sales and Services	3,877,562	249,924	6.9	(311,038)	(7.4)	17,164,258	368,668	2.2	(3,302,242)	(16.1)
Other Miscellaneous	1,398,685	(1,524,929)	(52.2)	(354,415)	(20.2)	11,068,850	(1,702,306)	(13.3)	2,791,150	33.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,233,964	2,076,861	--	2,023,964	--	15,810,887	14,717,688	--	14,260,887	--
Sub-Total Other Revenue	20,647,699	(769,239)	(3.6) %	(1,510,301)	(6.8) %	120,442,136	22,434,274	22.9 %	25,761,936	27.2 %
TOTAL BASE REVENUE	\$627,360,901	(\$27,837,510)	(4.2) %	(\$83,506,224)	(11.7) %	\$3,840,171,764	(\$25,091,072)	(0.6) %	(\$310,137,661)	(7.5) %
One-Time Revenue										
Urban Revenue Sharing	(57,044,911)	(11,109,023)	24.2	0	0.0	(285,224,553)	(55,545,111)	24.2	0	0.0
Sub-Total One-Time Revenue	(57,044,911)	(11,109,023)	24.2 %	0	0.0 %	(285,224,553)	(55,545,111)	24.2 %	0	0.0 %
TOTAL REVENUE	\$570,315,990	(\$38,946,533)	(6.4) %	(\$83,506,224)	(12.8) %	\$3,554,947,211	(\$80,636,183)	(2.2) %	(\$310,137,661)	(8.0) %