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*“Year-to-date, revenues are (16.7)% below the prior year, and \$(554.5) million below the budget forecast.”*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on January 29, 2010.

## Summary



In December, state revenues slightly outpaced the rate of spending. General Fund revenues exceeded expenditures by \$43 million for the month. Fiscal year-to-date, however, General Fund revenues are \$3.36 billion compared to spending of \$5.24 billion, for a 6-month deficit of \$(1.88) billion.

December was another poor revenue collection month. December General Fund revenue collections were \$681.0 million. Excluding budgeted transfers and Urban Revenue Sharing, December collections were (12.2)% below the prior year, and \$(90.2) million below the original budget forecast. *(See Table 1 on page 2 and Table 6 on page 6 for more information.)*

Year-to-date, revenues are (16.7)% below the prior year, and \$(554.5) million below the budget forecast. Beginning next month, collections will be gauged against the updated January consensus forecast.

December 2009 General Fund spending was \$638.5 million. December expenditures were lower than the prior year due to the deferral of a (\$73.8) million payment to the Universities. Year-to-date spending is (\$287) million less than FY 2009.

After reaching the high water mark of \$905 million in December, daily borrowing declined somewhat in January. The state pays its bills out of the operating fund balance, which consists of General Fund and certain dedicated funds. To cover last year’s \$(480) million shortfall and this year’s \$(1.9) billion shortfall in the General Fund, the state has

already effectively borrowed all of the state’s approximately \$1.6 billion in dedicated funds in the operating balance. Having exhausted that source, the state literally borrowed as much as \$885 million in January by issuing Treasurer Warrant Notes (TWNs). The average daily borrowing was \$558 million.

With the recent receipt of \$735 million in sale/lease-back proceeds *(see page 3 for more information)*, the state’s financial position has improved in the last few days. As a result, the state did not issue any TWNs for several days. Borrowing is expected to resume, however, in February.

### FY 2010 Revenues

The (12.2)% decline in December revenues reflects the 17<sup>th</sup> consecutive month of double-digit declines in General Fund revenue collections compared to the prior year. Among the major revenue categories:

- December sales tax collections were down (10.0)% compared to December 2008, and were \$(36.5) million below the monthly forecast. Year-to-date, sales tax collections are down (15.4)% from the prior year, and are \$(186.0) million below forecast. As in November, the retail category decrease has improved, while contracting continues its large decline. December retail collections were down (3.1)% compared to the prior year, while contracting was down (36.6)%.
- December individual income tax collections were (6.9)% below December 2008, and were \$(23.4) million below

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## Summary (continued)

	FY 2010 Collections	Difference From Budget Forecast	Difference From FY 2009
December	\$ 681.0	\$ (90.2)	\$ (73.3)
Year-to-Date	\$ 3,357.3	\$ (554.5)	\$ (773.1)

*“The (12.2)% decline in December revenues reflects the 17<sup>th</sup> consecutive month of double-digit declines in General Fund revenue collections compared to the prior year.*

forecast. Withholding tax collections were (7.0)% below last year. Estimated and final payments were down (26.3)% below last year. These decreases were partially offset by refunds, which were (72.3)% less than last year.

- December corporate income tax collections were (43.8)% below last year, and were \$(34.3) million below the forecast for the month. The decrease was due to a (30.7)% decrease in gross corporate collections, plus a 16.7% increase in refunds for the month. Year-to-date, corporate collections are down (63.3)% from the prior year, and are \$(162.3) million below forecast.

### FY 2010 Spending

December 2009 spending of \$638.5 million was \$(141) million below December 2008. For the year-to-date, spending of \$5.2 billion is (\$287) million below 2009 (See Table 2). The highlights are:

- The Arizona Department of Education (ADE) has spent \$2.35 billion year-to-date in 2010, or \$407 million more than 2009. In December, ADE spending was \$7.6 million higher than the prior year. The year-to-date increase over last year is primarily due to ADE having made one more payment to districts in FY 2010.
- Spending in AHCCCS, DES and DHS is a combined (\$22.8) million less in December than in 2009. This is generally consistent with the FY 2010 budget assumption that caseload growth in Medicaid spending in those agencies would be offset by varying degrees by enhanced federal match from the federal stimulus legislation.
- University spending was (\$88.3) million less than in December of the prior year. This decrease was due to an Executive branch decision to defer a December payment of \$73.8 million to a later point in

the year. (The deferred payment was made in January). Year-to-date University spending is \$482.2 million, or (\$60.9) million below FY 2009.

- University spending was (\$88.3) million less than in December of the prior year. This decrease was due to an Executive branch decision to defer a December payment of (\$73.8) million to a later point in the year (The deferred payment was made in January). Year to date University spending is \$482.2 million, or (\$60.9) million below FY 2009.
- Offsetting the decreases is an increase of \$40-\$45 million in payroll. State agency payrolls through December totaled 14 year-to-date, compared to 13 in 2009.

### Baseline and Executive Budget Summary

In mid-January the JLBC released its FY 2011 Baseline budget. The Baseline reflects a consensus economic forecast and statutory funding formula requirements. The Baseline does not represent a budget proposal. In summary:

- The General Fund budget shortfall is projected to be \$(1.5) billion in FY 2010 and \$(2.6) billion in FY 2011.
- FY 2011 General Fund revenues are forecasted to grow by 5.1% and revenues would equal \$6.9 billion. (See Finance Advisory Committee discussion on page 11).
- General Fund spending would grow by \$1.1 billion. Of that amount, \$776 million is to replace the loss of one-time federal assistance. Normal formula growth is \$335 million, or 3.5%. FY 2011 spending would equal \$9.5 billion.

In addition the Executive budget was released, which contained the following assumptions:

- The Executive projects the General Fund budget shortfall to be \$(1.4) billion in

## Summary (continued)

- FY 2010 and \$(3.2) billion in FY 2011.
- FY 2011 General Fund revenues are forecasted by the Executive budget to grow by 4.1% and revenues would equal \$6.8 billion.

The Executive would address the FY 2011 shortfall with the following proposals:

- Budget reductions – \$1.28 billion
- Debt - \$320 million
- Fund transfers - \$204 million
- Revenue proposals - \$1.09 billion
- Other proposals - \$95 million
- FY '10 carry forward - \$230 million

### Sale/Lease-back Provisions

The FY 2010 budget authorized the Arizona Department of Administration (ADOA) to enter into a lease-purchase agreement in FY 2010 for existing state-owned facilities. Any lease-purchase agreements are required to result in proceeds totaling \$735 million to the General Fund in FY 2010.

ADOA was able to sell the entire \$735 million issuance at an average tax-exempt interest rate of 4.57%. The first 2 years will be interest only payments of \$42 million in FY 2011 and \$35 million in FY 2012. The average annual debt service payments for the remaining 18 years will be \$60 million.

The following properties were used as collateral for the agreement: the Eyman and

Florence prisons, the Executive Tower, the Senate and House of Representatives buildings, the State Archives building, the Department of Revenue building and parking structure, the Department of Public Safety Phoenix headquarters, the Arizona State Hospital, the Coliseum and Exposition Center, and the Phoenix Day School for the Deaf.

The debt was issued as a sale/lease-back agreement, which means the state will sell the properties to the trustee, and the trustee will lease the properties back to the state. Since the properties will be sold, the trustee will hold the titles to the properties. The control of the properties will remain with the state, but the trustee literally "holds" the titles until the debt is fully repaid.

If a state uses tax-exempt debt financing to eliminate a budget shortfall, federal regulations require the state to repay the debt early if a state's surplus exceeds 5% in a future year. It is unclear whether the surplus amount would include any future Budget Stabilization Fund deposits.

*"ADOA was able to sell the entire \$735 million issuance at an average tax-exempt interest rate of 4.57%."*

Agency	General Fund Spending (\$ in Millions)			
	Dec	Change from Dec 08	Year to Date	YTD Change from FY 09
AHCCCS	129.5	(22.0)	745.3	(82.9)
Corrections	78.5	(9.3)	420.0	(32.8)
Economic Security	3.7	(0.8)	447.6	(104.4)
Education	383.6	7.6	2,349.5	406.5
Health Services	17.2	-	301.9	(195.4)
Public Safety	1.9	(6.1)	42.0	9.7
School Facilities Board	0.1	(0.1)	82.2	(118.2)
Universities	0.1	(88.3)	482.2	(60.9)
Other	23.9	(22.0)	366.0	(108.6)
<b>Total</b>	<b>638.5</b>	<b>(141.0)</b>	<b>5,236.7</b>	<b>(287.0)</b>

## December Revenues

**Sales Tax** collections were \$272.7 million in December. These revenues were down (10.0)% compared to last December, and were \$(36.5) million below the budget forecast. The December decline marked the 23<sup>rd</sup> consecutive month of year-over-year reductions, and the 14<sup>th</sup> consecutive month of double digit declines compared to the previous year. December collections also marked the lowest collection month in dollar terms since May 2004.

*Table 3* displays the December growth rates for the largest categories.

	<u>Dec</u>	<u>YTD</u>
Retail	(3.1)%	(9.7)%
Contracting	(36.6)%	(40.5)%
Utilities	1.6%	0.2%
Use	(18.6)%	(23.0)%
Restaurant & Bar	(3.7)%	(4.4)%

As noted in previous months, retail and contracting together account for about 30% of all sales tax revenues. The retail sector decreased by only (3.1)% in December. However, contracting continued its poor performance, with a (36.6)% decrease for the month.

Within the retail category, General Merchandise and Miscellaneous Retail was down (5.7)% in November (latest available data). Motor Vehicles was down (12.4)% compared to November of the prior year.

**Individual Income Tax** net revenues were \$317.8 million in December. Collections were down (6.9)% compared to the prior year, and were \$(23.4) million below the budget forecast. Year-to-date collections are down by (12.2)% and are \$(201.7) million below the forecast amount. *Table 5* displays December growth rates for individual categories.

As indicated in *Table 5* below, withholding tax payments declined by (7.0)% in December, the 15<sup>th</sup> consecutive month of year-over-year declines. The state has not suffered that many months of year-over-year declines since at least 1960.

	<u>December</u>	<u>YTD</u>
Withholding	(7.0)%	(6.2)%
Estimated + Final Payments	(26.3)%	(31.0)%
Refunds	(72.3)%	6.0%

December payments in the individual income tax category were (26.3)% below last year, and \$(12.8) million below the forecast for the month. Year-to-date, payments are (31.0)% below last year, and \$(77.5) million below the forecast. While payments are down significantly for the first 6 months of the fiscal year, April final payments are key to individual income tax collections for the year. Approximately 80% of final individual income tax payments are collected after April 15<sup>th</sup>.

December refunds totaled only \$(5.2) million,

"December  
[sales tax]  
collections  
...marked the  
lowest collection  
month in dollar  
terms since May  
2004."

Table 4

### November Taxable Retail Sales by Subcategory

	<u>% of Total Sales</u>	<u>% Change Over FY 2009</u>
General/Misc. Merchandise	30.8%	(5.7)%
Motor Vehicles/Misc. Auto.	20.3%	(12.4)%
Bldg Materials and Supplies	7.5%	(11.7)%
Food and Liquor Stores	7.5%	(6.7)%
Furniture, Home Furnishings	6.8%	(22.2)%
Clothing and Accessories	5.8%	(8.1)%
Manufacturing	5.5%	(20.6)%
Other Subcategories	15.8%	(14.3)%
<b>Total</b>	<b>100.0%</b>	<b>(11.0)%</b>

## December Revenues (Continued)

which was (72.3)% below the prior year. Year-to-date, refunds are 6.0% above the prior year, and \$24.3 million greater than forecast.

**Corporate Income Tax** net collections were \$62.6 million in December, which was \$(34.3) million below forecast for the month. December is one of the 4 large collection months for the corporate income tax category, however gross payments were down (30.7)% compared to the prior year, while refunds were up 16.7%. Year-to-date, corporate collections are (63.3)% below last year, and \$(162.3) million below the budget forecast.

The **Lottery Commission** reports that ticket sales for the month of December were \$46.8 million, which is \$6.4 million above sales in December 2008, an increase of 16.0%. Year-to-date, ticket sales of \$256.6 million are \$40.9 million or 19.0% above last year.

While ticket sales have increased \$40.9 million above last year at this time, distributions to state beneficiaries are down \$(2.7) million. As we have noted in previous months, it appears that sales have increased as prize payouts have increased. Statute requires the Lottery Commission to deposit at least 50% of ticket sales into the fund used for prize payouts. Prior to FY 2009, the percentage used for payouts was about 56%. Currently, prize payouts represent about 61% of ticket sales.

Higher prize payouts, however, result in reduced distributions to state beneficiaries. The percentage of ticket sales distributed to beneficiaries has dropped from 30% prior to FY 2009 to approximately 22% so far in FY 2010. The Lottery Commission notes that by the end of the fiscal year, the percentage of ticket sales distributed to beneficiaries will equal 26%.

**Tobacco Tax** revenues were \$26.9 million in December. Collections were down (16.0)% compared to the prior year, and were \$(6.1) million below the budget estimate for the month. Year-to-date collections are down by (15.2)% and are \$(35.5) million below the budget estimate.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund cost of operating those programs.

### Non-General Funds

**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 \$94.7 million in December were down \$(2.4) million or (2.5)% compared to December of last year. Year-to-date, total HURF collections of \$579.2 million are down \$(46.5) million or (7.4)% compared to the prior year.

*“Year-to-date [tobacco tax] collections are down by (15.2)% and are \$(35.5) million below the budget estimate.”*

## State of Arizona

### General Fund Revenue: Change from Previous Year and Budget Forecast December 2009

	Current Month					FY 2010 YTD (Six Months)				
	Actual December 2009	Change From December 2008		Forecast		Actual December 2009	Change from December 2008		Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$272,663,118	(\$30,158,109)	(10.0) %	(\$36,522,737)	(11.8) %	\$1,692,629,129	(\$308,687,291)	(15.4) %	(\$185,971,002)	(9.9) %
Income - Individual	317,770,210	(23,511,072)	(6.9)	(23,384,631)	(6.9)	1,452,805,928	(201,885,528)	(12.2)	(201,733,093)	(12.2)
- Corporate	62,629,620	(48,831,802)	(43.8)	(34,309,480)	(35.4)	111,832,159	(192,831,466)	(63.3)	(162,281,041)	(59.2)
Property	5,242,882	989,361	23.3	1,615,882	44.6	11,471,227	1,450,841	14.5	2,362,227	25.9
Luxury - Tobacco	1,871,551	(644,458)	(25.6)	(718,449)	(27.7)	13,009,282	(2,480,348)	(16.0)	(2,747,718)	(17.4)
- Liquor	3,265,551	807,000	32.8	705,551	27.6	13,917,960	(194,350)	(1.4)	(622,040)	(4.3)
Insurance Premium	40,837,773	4,577,430	12.6	4,237,773	11.6	173,706,293	10,290,628	6.3	4,381,293	2.6
Estate	0	0	--	0	--	333,384	229,071	219.6	333,384	--
Other Taxes	196,636	154,593	367.7	144,136	274.5	456,909	189,800	71.1	141,909	45.1
<b>Sub-Total Taxes</b>	<b>\$704,477,341</b>	<b>(\$96,617,057)</b>	<b>(12.1) %</b>	<b>(\$88,231,955)</b>	<b>(11.1) %</b>	<b>\$3,470,162,271</b>	<b>(\$693,918,643)</b>	<b>(16.7) %</b>	<b>(\$546,136,081)</b>	<b>(13.6) %</b>
<b>Other Revenue</b>										
Lottery	3,231,300	2,023,600	167.6	131,300	4.2	15,537,600	(8,188,800)	(34.5)	37,600	0.2
License, Fees and Permits	2,454,870	182,338	8.0	(400,130)	(14.0)	13,313,328	(3,613,173)	(21.3)	(5,921,672)	(30.8)
Interest	33,821	(1,088,208)	(97.0)	33,821	--	1,174,537	(7,914,148)	(87.1)	1,174,537	--
Sales and Services	910,181	(2,701,263)	(74.8)	(3,419,819)	(79.0)	11,692,890	(7,308,584)	(38.5)	(9,997,110)	(46.1)
Other Miscellaneous	(125,281)	(2,841,587)	--	(2,125,281)	--	20,674,665	(1,474,197)	(6.7)	(1,325,335)	(6.0)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,456,467	1,624,704	57.4	3,771,467	550.6	32,591,618	8,925,090	37.7	7,701,618	30.9
<b>Sub-Total Other Revenue</b>	<b>10,961,358</b>	<b>(2,800,416)</b>	<b>(20.3) %</b>	<b>(2,008,642)</b>	<b>(15.5) %</b>	<b>94,984,638</b>	<b>(19,573,812)</b>	<b>(17.1) %</b>	<b>(8,330,362)</b>	<b>(8.1) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$715,438,699</b>	<b>(\$99,417,473)</b>	<b>(12.2) %</b>	<b>(\$90,240,597)</b>	<b>(11.2) %</b>	<b>\$3,565,146,909</b>	<b>(\$713,492,455)</b>	<b>(16.7) %</b>	<b>(\$554,466,443)</b>	<b>(13.5) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(52,387,054)	8,252,729	--	0	0.0	(314,322,315)	49,516,385	--	(3)	0.0
Budget Plan Transfers	17,911,666	17,911,666	--	0	0.0	99,268,669	(116,278,123)	(53.9)	0	0.0
Other Revenue	0	0	--	0	--	7,195,100	7,195,100	--	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(34,475,388)</b>	<b>26,164,395</b>	<b>-- %</b>	<b>0</b>	<b>0.0 %</b>	<b>(207,858,546)</b>	<b>(59,566,638)</b>	<b>40.2 %</b>	<b>(3)</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$680,963,311</b>	<b>(\$73,253,078)</b>	<b>(9.7) %</b>	<b>(\$90,240,597)</b>	<b>(11.7) %</b>	<b>\$3,357,288,363</b>	<b>(\$773,059,093)</b>	<b>(18.7) %</b>	<b>(\$554,466,446)</b>	<b>(14.2) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$94,719,000	(\$2,382,000)	(2.5) %	(\$9,631,000)	(9.2) %	\$579,223,000	(\$46,469,000)	(7.4) %	(\$28,885,000)	(4.7) %
Tobacco Tax (All Funds Total)	\$26,921,160	(\$5,116,902)	(16.0) %	(\$6,082,428)	(18.4) %	\$165,341,869	(\$29,613,188)	(15.2) %	(\$35,488,518)	(17.7) %

## Economic Indicators

### NATIONAL

According to the advance estimate of the **U.S. Real Gross Domestic Product (GDP)** for the 4<sup>th</sup> quarter of 2009, the nation's economy grew at an annual rate of 5.7%. While this figure exceeded most analysts' expectations, it bears pointing out that 3.4% of the 5.7% real GDP growth was due to a sharp slowdown in the rate at which businesses drew down inventories. Because so much of the 4<sup>th</sup> quarter real GDP surge can be attributed to the inventory cycle, most analysts expect a more muted growth rate in the 1<sup>st</sup> quarter of 2010. Final sales growth, which excludes the impact of the inventory cycle, and is therefore arguably a better measure of the underlying path of the economy, grew at a more modest rate of 2.2%. This was still an improvement over the 3<sup>rd</sup> quarter final sales growth rate of 1.5%.

A promising aspect of the GDP news release is that business spending on equipment and software grew by 13.3% in the last quarter of 2009, the best performance since the 1<sup>st</sup> quarter of 2006. Increased spending on equipment typically signals that businesses are becoming more confident about the future, which in turn may lead them to start hiring workers again.

In January, the Conference Board's **U.S. Consumer Confidence Index** was 55.9, up 2.3 points from the December level of 53.6. The measure is up 49.5% from the index a year ago and 4.3% above the reading in December 2009. The report suggests the improvement in the reading was an improved view of consumer's present situation as well as expectations. Since January 1978, the index has ranged from 25.3 (February 2009) to 144.7 (January 2000 and May 2000).

In December, the Conference Board's **U.S. Index of Leading Economic Indicators** increased to 106.4, 1.1% above the revised November levels and 7.6% above the index a year ago. The index, designed to anticipate economic activity 3 to 6 months in advance, has now increased for 9 consecutive months—continuing to suggest an economy recovery may be underway. In December, 8 of the 10 components that make up the composite index advanced, relative to November, with interest rate spreads and building permits having the greatest increase. Relative to the prior month, average weekly state unemployment insurance claims was the only

component that declined, while average workweek manufacturing hours remained unchanged.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.1% in December, the 5<sup>th</sup> straight month with rising prices. Compared to the same month in the prior year, the CPI was up by 2.8%. Most of the year-over-year increase can be attributed to an 18.2% increase in energy prices. For the year as a whole, the CPI decreased by (0.4)%, the first such decline since 1955. The core CPI, which excludes food and energy prices, rose by 0.1% in December. The core CPI has increased by 1.8% over the last 12 months.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. increased to \$3.88 billion in November - the ninth consecutive month semiconductor sales increased. Month over month, sales increased 6.0%, while year over year, sales increased by 25.9%. The report and data suggests that November was the first month in 2009 where the aggregate sales of all markets, including the U.S., resulted in a year over year increase. The Semiconductor Industry Association's most recent forecast points towards an increase in worldwide sales of 10.2% in 2010 and 8.4% in 2011.

### ARIZONA

The release of calendar year-end data suggests several trends in job and housing data. The newest round of employment data strongly suggests that job losses peaked in August 2009 and have started to moderate ever since. While the private sector shows some tepid signs of improvement, the government sector, by contrast, is experiencing an acceleration in job losses. These trends are expected to continue in the ensuing months.

ASU's Realty Studies Group reported recently that there were a record 112,725 resale transactions in the Greater Phoenix Area in 2009. This exceeded the previous record set in 2005 with 110,875 resale transactions. However, unlike 2005, the real estate market in 2009 was dominated by foreclosure related activity (about 67% of total resales) and falling home prices. By contrasts, the housing boom in the mid-2000s was fueled by the expectation of ever rising home prices.

*"...any signs of a housing recovery could be hampered by the ongoing weakness in the job market and the prospect of higher future interest rates."*

## Economic Indicators (Continued)

The ASU report cautioned that any signs of a housing recovery could be hampered by the ongoing weakness in the job market and the prospect of higher future interest rates. Additionally, it also remains to be seen how the housing sector will fare once the various federal stimulus programs, such as the housing tax credits, are eliminated.

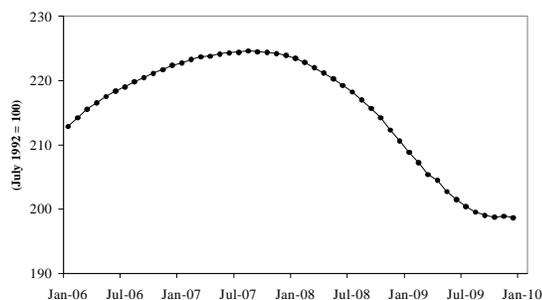
Overall, the latest monthly data continue to show stabilization in the state economy, albeit at low levels.

As reported in recent issues of *Monthly Fiscal Highlights*, the Federal Reserve Bank's coincident index is a relatively new measure designed to gauge current economic activity in the nation's 50 states, including Arizona. The index combines four state-level indicators into a single statistic: nonfarm payroll employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

The December **state coincident index** for Arizona declined by (0.1)% over the prior month. The index was (5.7)% below the reading in December 2008 and (11.5)% below its peak in August 2007. By way of comparison, the national index rose by 0.1% in December and was (2.2)% below last year's level. The Fed reported that the index increased in 3 states, decreased in 40 states, and remained unchanged in the remaining 7 states last month.

The graph below shows the history of the Arizona coincident index.

Arizona Coincident Economic Activity Index



According to new figures released by the Arizona Department of Commerce, the state lost (1,700) **nonfarm payroll jobs** in December. Year over year, total nonfarm employment was down by (4.8)%, which translates into a net

job loss of (123,800), the smallest such loss since October 2008. The state has shed (10.2)% of its workforce, or (276,100) jobs, since the recession started in December 2007.

December marked the third consecutive month with monthly increases in private sector employment. A total of 30,600 private sector jobs were added to the payrolls over this period (October through December). This figure is almost on par with the average increase for the comparable period in the prior 10 years. More than half of the private sector job gains in the last quarter of 2009 were from the trade, transportation, and utilities sector.

**Construction sector** jobs declined by (2,300) in December. The industry now employs (31,100) or (19.1)% fewer workers than a year ago. As of December, the construction sector had 131,800 workers on the payroll, the lowest number since April 1996. During the peak of the housing boom in the summer of 2006, the industry employed close to 250,000 construction workers.

The **manufacturing sector** dropped (700) jobs in December. Year over year, manufacturing employment is down by (6.6)%. The only segment of the manufacturing industry that has expanded its workforce over the last 12 months is the aerospace products and parts sector, which has grown by 3.5%.

The **average weekly hours** of production workers in manufacturing industries is a leading indicator since "factory hours" tends to lead the business cycle as employers usually adjust work hours before increasing or decreasing the size of their workforce. According to the Department of Commerce, the average work week in December was 39.0 hours compared to 39.2 hours in the prior month. The long-run average for the manufacturing industry in Arizona is 40.3 hours. Year over year, the average work week is down by (1.5) hours or (3.7)%.

The state's **unemployment rate** in December was 9.1%, an increase of 0.3% over the prior month. This was still (0.2)% below the unemployment rate recorded for October, the highest rate in the current business cycle. The U.S. unemployment rate in December remained at 10.0%.

*"Year over year, total nonfarm employment was down by (4.8)%, which translates into a net job loss of (123,800), the smallest such loss since October 2008."*

## Economic Indicators (Continued)



*"In January, AHCCCS caseloads equaled 1,361,980 members, which is (0.4)% below the number of recipients in the previous month."*

The Department of Commerce reported that 28,567 **initial claims for unemployment insurance** were filed in December, the lowest level since September 2008. December marked the second straight month with a year-over-year decline in claims. Initial jobless claims peaked in April when more than 41,000 individuals filed for benefits. For the week ending January 16, a total of 94,110 Arizona residents filed for continued claims for jobless benefits. This was (19.3)% below the record-high level reported for the first week of August last year.

According to data released by the U.S. Census Bureau, an average of 1,175 building permits were issued each month for the period between September and November 2009. This amount includes an average of 1,065 **single-family residential building permits** and 110 **multi-family permits**. Compared to the prior 3-month period, the number of single-family permits issued increased 2.9% while the number of multi-family permits increased 90.2%. Compared to the same period in the prior year, activity in the single family segment increased 47.6%, while permits in the multi-family segment was down by (62.7)%.

ASU's December real estate report suggests that in December, the **single-family median resale home price** was \$145,000 while the number of **single-family existing home sales** totaled 9,800. The median sales price was relatively flat from the prior month and the sales price reported a year ago. Relative to its peak in June 2006 (\$267,000), the median resale price is down (45.7)% . The 9,800 transactions are 17.6% above November levels and 32.0% above the number of transactions in a year ago. Sales activity reached a high of 11,820 in June 2009.

In the multi-family segment, ASU's report indicates there were 1,510 **townhouse-condominium median** transactions with a **median sales price** of \$100,000. The total number of units bought and sold has increased 108.0% above December 2008 levels. The median resale price has decreased (5.6)% and (22.9)% relative to prices in the prior month and prior year respectively. The median resale price reached a high of \$189,990 in May 2007.

The **S&P/Case-Shiller Home Price Index** measures housing prices based on repeat sales. Based on the most recent 3-month moving average calculation, the October index for the Phoenix metropolitan area increased on a month-over-month basis for the sixth straight month to a level of 111.96. At its current level, the index increased 1.1% relative to the prior month but was down (14.2)% on a year-over-year basis. The Phoenix index peaked in June 2006 at 227.42. The S&P/Case-Shiller composite index which measures housing prices in 20 metropolitan areas, is down (0.2)% and (5.3)% on a month-over-month and year-over-year basis, respectively.

According to seasonally adjusted MLS data, the **month's supply of housing** indicator decreased by (0.4) months between November and December. The measure currently suggests that it would take 5.2 months to deplete the current inventory of unsold homes. At this level, the supply of housing is (3.5) months less than it was a year ago and (11.4) months below the September 2007 high of 16.6 months.

In January, **AHCCCS caseloads** equaled 1,361,980 members, which is (0.4)% below the number of recipients in the previous month. AHCCCS caseloads are currently 18.2% above January 2008 levels. The FY 2010 budget funded a projected June caseload growth of 10.7%, for a total of 1,388,147 members.

There were a reported 86,216 **TANF recipients** in the state in November, which represented a monthly caseload decrease of (1.7)%. Year-over-year, however, the number of TANF recipients has increased 2.3%. The FY 2010 budget assumed that the June 2010 TANF caseload would be 84,287.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In November, there were a total 1,013,422 food stamp recipients in the state, an increase of 2.7% over the prior month. Compared to the same month last year, food stamp participation was up by 35.3%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

## Economic Indicators (Continued)

The **Department of Correction's (ADC) inmate population** increased to a 3-month average count of 40,667 inmates between October and December 2010. This equates to an average monthly decrease of (19) inmates and a year over year increase of 1,172 inmates. In FY 2010, the department was funded for growth of 1,812 inmates. Fiscal year-to-date, population growth has increased by 22 inmates.

With the exception of Maricopa County (that funds all of their probation programs) the

state and counties share the costs of **adult and juvenile probation programs**. Based on adult and juvenile probation data from September and November, respectively, the non-Maricopa probation caseload was 19,814 individuals - 102 fewer probationers than the prior month and 199 probationers less than a year ago. In Maricopa County, there were 29,254 probationers during the period, 541 fewer than the prior month and 367 more than a year ago.

Table 7

### ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
- Unemployment Rate	December	9.1%	0.2%	2.5%
- Initial Unemployment Insurance Claims	December	28,567	(0.7)%	(17.0)%
- Non-Farm Employment – Total	December	2.44 million	(0.1)%	(4.8)%
Manufacturing	December	159,600	(0.4)%	(6.6)%
Construction	December	131,800	(1.7)%	(19.1)%
- Average Weekly Hours, Manufacturing	December	39.0	(0.5)%	(3.7)%
- Contracting Tax Receipts (3-month average)	Oct-Dec	\$34.8 million	(2.0)%	(41.6)%
- Retail Sales Tax Receipts (3-month average)	Oct-Dec	\$128.3 million	1.2%	(7.0)%
- Residential Building Permits (3-month moving average)				
Single-unit	Oct-Dec	1,065	2.9%	47.6%
Multi-unit	Oct-Dec	110	90.2%	(62.7)%
- Greater Phoenix Existing Home Sales				
Single-Family	December	9,800	17.6%	32.0%
Townhouse/Condominium	December	1,510	29.1%	108.3%
- Greater Phoenix Median Home Sales Price				
Single-Family	December	\$145,000	1.0%	(1.4)%
Townhouse/Condominium	December	\$100,000	(5.6)%	(22.9)%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	November	111.96	1.1%	(14.2)%
- Months Supply of Housing, (ARMLS)	December	5.2 months	(0.4) months	(3.5) months
- Phoenix Sky Harbor Air Passengers	August	3.07 million	3.6%	(3.8)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	October	\$8.37	41.9%	47.6%
- Arizona Consumer Confidence Index (1985 = 100)	3 <sup>rd</sup> Quarter 2009	60.2	26.6%	NA
- Arizona Coincident Index (July 1992 = 100)	December	198.71	(0.1)%	(5.7)%
- Arizona Personal Income	3 <sup>rd</sup> Quarter 2009	\$217.7 billion	0.0%	(2.6)%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	January	1,361,980	(0.4)%	18.2%
- TANF Recipients	November	86,216	(1.7)%	2.3%
- SNAP (Food Stamps) Recipients	November	1,013,422	2.7%	35.3%
- ADC Inmate Growth (3-month average)	Oct-Dec	40,667	(19) inmates	1,172 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	Sep/Nov	19,814	(102)	(199)
Maricopa County	Sep/Nov	29,254	(541)	(367)
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	4th Quarter 2009 (1 <sup>st</sup> Estimate)	\$13.2 trillion	5.7%	0.1%
- Consumer Confidence Index (1985 = 100)	January	55.9	4.3%	49.5%
- Leading Indicators Index (2004 = 100)	December	106.4	1.1%	7.6%
- U.S. Semiconductor Billings (3-month moving average)	Sep-Nov	\$3.88 billion	6.0%	25.9%
- Consumer Price Index, SA (1982-84 = 100)	December	217.54	0.1%	2.8%

## FAC Meeting

At its January 21, 2010 meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund Revenue collections, the U.S. economy, and Arizona employment. The FAC is a 15-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

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.

The 4-sector consensus forecast projects a revenue decline of (8.9)% in FY 2010, prior to any tax law changes. Year to date collections through December are down (16.7)% as compared to the same period last year. Based on the year-to-date decline it was recommended that a (10.8)% decline be used for FY 2010 rather than the consensus forecast.

For FY 2011, each component of the 4-sector consensus showed improvement from FY 2010, with positive growth rates that equated to an estimated growth rate of 5.1%.

The presenters generally believed that the economic contraction had bottomed out and that positive signs of returning growth in the economy were evident. The presenters also agreed the recovery is likely to be gradual and take place over the course of several years.

Beyond FY 2011, the 4-sector consensus projects 6% to 9% growth through FY 2013.



## JCCR Meeting

At its January 26, 2010 meeting, the Joint Committee on Capital Review considered the following issues:

**Arizona Department of Administration/State Department of Corrections -- Review of Prison Concession Agreement Request for Information** – This item was discussed in Executive Session and was given a favorable review including 4 provisions.

**Arizona Department of Administration – Review of FY 2010 Emergency Building Renewal Projects** – The Committee favorably reviewed the department to spend \$222,500 of its \$1,000,000 FY 2010 building renewal appropriation on the following 2 emergency projects: 1) \$22,500 to repair the chimney cap at 1688 W. Adams; and 2) \$200,000 to repair the cooling towers at 15 S. 15<sup>th</sup> Avenue.

**School Facilities Board – Review of FY 2010 New School Construction Report** – The Committee favorably reviewed the School Facilities Board’s FY 2010 New School Construction Report, which included demographic assumptions, proposed construction schedule, and new school construction cost estimates.

## Summary of Recent Agency Reports

**State Department of Corrections/  
Arizona Department of  
Administration – Report on the  
Status of Public and Private Beds** –  
Laws 2007, Chapter 261 authorized  
the Arizona Department of  
Administration (ADOA) to contract  
for 2,000 new private prison beds, as  
well as the construction of 4,000  
new public beds, to be funded via  
a 20-year, \$200 million lease-  
purchase agreement. Highlights of  
this report for the 3-month period  
ending December 31, 2009 are as  
follows:

### 2,000 Private Beds

- Construction of the 2,000 private bed expansions in Kingman is 99% complete. Upon completion of the exercise yard, the facility will be ready for final acceptance. The FY 2010 General Appropriation Act funds the phase-in of 50 beds per week starting January 11. Information from the department, however, suggests the phase-in will occur between April 2010 and July 2010.

### 4,000 State Beds

- Construction of the additional beds at the Yuma, Perryville, and Tucson prisons is 95%, 95%, and 98% complete, respectively. All beds are anticipated to be completed by February 2010.
- As part of expanding the beds at the Perryville prison, modifications to the existing kitchen need to be made. These modifications will begin in February and are anticipated to be completed by June 2010.
- As part of the additional beds at the Yuma prison, an expansion of the wastewater treatment plant was necessary. While that project is nearly complete, concerns regarding water quality have risen. The

State Department of Corrections (ADC) is currently working with the Department of Environmental Quality and the Bureau of Reclamation about these issues.

- Of the lease-purchase proceeds received for these projects, ADOA and ADC indicated the project was \$11.8 million under budget. As a result, Laws 2009, 5<sup>th</sup> Special Session, Chapter 1 reverted \$11 million appropriated for the lease-purchase payment to the General Fund. Legislative intent is that ADOA and ADC use the excess lease-purchase proceeds to fund the FY 2010 payment.

(Martin Lorenzo)

**Department of Emergency and  
Military Affairs - Report on Request  
to Conduct Training on the Arizona-  
Mexico Border** – Pursuant to a  
footnote in the General  
Appropriation Act (Laws 2009,  
Chapter 12), the Arizona  
Department of Emergency and  
Military Affairs (DEMA) was to  
request permission from the U.S.  
Department of Defense (DOD) to  
conduct training exercises along  
the state's southern border. The  
footnote also requires DEMA to  
report to JLBC about the response  
from the DOD.

According to DEMA, DEMA did not and does not plan to request permission from the DOD to conduct training along Arizona's southern border for 2 reasons:

1. Training locations for guard units are selected by unit commanders and approved by the Arizona National Guard, not by the DOD.
2. DEMA does not have a training facility adjacent to the border that is suitable for training.

(Eric Billings)

**State Land Department – Report on  
Fire Suppression Activities** – A.R.S. §  
37-623.02E requires the State Land  
Commissioner to submit a report by  
December 31 of each year on the  
uses of monies authorized to be  
expended from the Fire Suppression  
Revolving Fund. In FY 2009, there  
was a total of \$13.5 million in  
liabilities incurred by the fund. Of  
the liabilities, the department made  
payments of \$11.6 million in FY 2009.

In terms of fire fighting activity, Fire Suppression Revolving Fund monies were used to fight a total of 658 fires, resulting in a total liability of \$12.1 million. (Jay Chilton)

### **Public Programs Eligibility Report** –

As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

Community Colleges – Statewide, the Community Colleges reported a total of 414,666 students classified as in-state. They reported 3,982 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 156,840 students applied for financial aid. Of those who applied, the community colleges reported that 309 were not entitled to any aid because they were not lawfully present in the United States.

Universities – At the 3 universities, 129,612 students registered for the fall 2009 semester. Of the total students registered, the universities were able to verify the legal immigration status of 118,237 students. Additionally, the universities reported that 8,253 of these students did not require verification because they have either not requested, or received in-

## Summary of Recent Agency Reports (Continued)

state tuition or state supported financial aid. The universities reported that a total of 304 students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security – The department reported that 9,557 applications were received for child care assistance during the reporting period of June 1, 2009 to November 30, 2009. Of this number, 39 were denied because criteria for citizenship or legal residency were not met.

Arizona Department of Education – The department reported that 18,488 people applied for instruction in Arizona Adult Education during the reporting period of June 1, 2009 to November 30, 2009. Of this amount, 523 were denied instruction because they failed to provide acceptable evidence of citizenship or legal residence in the United States. Additionally, the Family Literacy Program reported a total of 326 applicants for services in FY 2009. Of this amount, 180 were not eligible for enrollment.  
(Kim Cordes-Sween)

**Department of Transportation –  
Report on Local Transportation  
Assistance Fund II (Mass Transit) –**  
A.R.S. § 28-8103 requires the Arizona Department of Transportation (ADOT) to submit an annual report on the allocation of Local Transportation Assistance Fund II (LTAFF II) monies by January 1 of each year. The statutory maximum annual allocation is \$18,000,000. ADOT reports that they allocated \$9,200,000 of FY 2009 LTAFF II revenue to counties and local governments in December 2009. Of the total amount, \$5,534,300 was distributed to Valley Metro/Regional Public Transportation Authority and \$1,407,200 was distributed to the Pima Association of Governments in matching monies. (Juan Beltran)

Agency	General Fund Spending (\$ in Thousands)			YTD Change from FY '09
	Dec 09	Change from Dec 08	Year-to-Date	
Department of Administration	1,217.5	(745.1)	10,461.1	(10,493.4)
Office of Administrative Hearings	11.4	(41.5)	525.2	(204.9)
Department of Agriculture	644.2	(118.5)	5,532.6	(1,402.6)
AHCCCS	129,454.1	(22,000.8)	745,315.0	(82,910.8)
Arizona Commission on the Arts	24.8	(26.0)	357.1	(268.2)
Attorney General	1,407.3	675.3	11,338.4	(1,851.1)
AZ Capital Post Conviction Public Defender	63.9	8.2	365.7	(62.0)
State Board of Charter Schools	55.0	(12.1)	432.6	(105.8)
State Bd. of Chiropractic Exam.	-	-	148.0	148.0
Department of Commerce	132.2	(215.9)	1,757.7	(23,280.7)
Community Colleges	-	-	66,213.2	(6,404.8)
Corporation Commission	86.1	(138.3)	308.8	(2,394.4)
Department of Corrections	78,473.9	(9,294.2)	419,976.4	(32,793.7)
AZ Criminal Justice Commission	-	(0.2)	(4.6)	(786.2)
AZ State Board of Cosmetology	-	-	252.0	252.0
AZ St. Schools for the Deaf & Blind	183.7	(3,217.5)	9,800.9	(3,877.4)
Dept. of Economic Security	3,741.8	(781.3)	447,616.5	(104,356.6)
Department of Education	383,611.0	7,605.9	2,349,519.5	406,534.4
DEMA	279.2	(1,286.2)	4,347.0	(1,843.0)
Dept. of Environmental Quality	525.4	(205.0)	3,083.8	(278.7)
DEQ-WQARF	-	-	7,000.0	(6,000.0)
Office of Equal Opportunity	(0.8)	(18.2)	109.7	(19.9)
State Board of Equalization	52.0	16.1	388.7	(75.3)
Board of Executive Clemency	70.5	(12.1)	621.0	(50.8)
Dept. of Financial Institutions	285.9	70.3	2,037.0	(134.5)
Department of Fire, Life, Bldg Safety	325.0	78.6	1,541.0	(370.3)
State Board of Funeral Directors	-	-	100.0	100.0
Arizona Geological Survey	52.1	(26.6)	448.6	(9.8)
Government Information Tech.	42.2	(152.4)	262.0	(488.0)
Governor	1,277.3	327.7	6,012.5	558.6
Department of Health Services	17,225.5	24.4	301,902.1	(195,367.1)
Arizona Historical Society	217.5	19.9	2,583.2	(452.9)
Prescott Historical Society of AZ	49.5	(12.6)	313.9	(120.9)
Independent Redistricting Comm.	-	(12.7)	25.5	(111.2)
AZ Commission of Indian Affairs	5.5	(17.8)	63.5	(50.2)
Department of Insurance	457.9	(181.3)	3,514.3	(891.4)
Judiciary				
Supreme/Superior Court	2,222.4	(3,192.2)	52,634.8	(6,153.4)
Court of Appeals	820.6	(615.7)	7,693.2	(146.4)
Dept. of Juvenile Corrections	4,259.2	(1,435.7)	38,524.3	(2,580.3)
State Land Department	3,051.0	1,857.3	10,483.0	117.5
Law Enforcement Merit System	2.5	(4.1)	39.6	(3.0)
Legislature				
Auditor General	1,666.0	(344.0)	8,995.1	(1,288.6)
House of Representatives	1,201.3	(10.0)	7,008.1	215.2

<b>Agency</b>	<b>Dec 09</b>	<b>Change from Dec 08</b>	<b>Year-to-Date</b>	<b>YTD Change from FY '09</b>
Joint Legislative Budget Comm.	217.2	(2.7)	1,344.1	(77.0)
Legislative Council	302.5	(1,323.4)	2,969.9	(6,660.9)
AZ Library and Archives	1,084.0	635.3	3,918.1	(522.6)
Senate	845.9	50.4	4,971.2	271.3
Dpt. of Liquor Licenses	3.9	(315.9)	739.9	(1,830.6)
Board of Medical Student Loans	313.8	38.3	746.0	(139.0)
Mine Inspector	110.2	(40.2)	743.7	(147.9)
Dpt. of Mines & Mineral Resources	34.1	(18.7)	407.0	100.6
Nav. Streams & Adjudication	7.8	(0.5)	87.5	(51.0)
State Board of Nursing	-	(11.5)	-	(73.4)
OSHA	3.8	3.8	7.8	7.8
Board of Osteopathic Examiners	-	-	100.0	100.0
Arizona State Parks Board	-	(679.6)	21,900.3	(2,868.4)
Personnel Board	-	(29.9)	-	(207.3)
Arizona Pioneers Home	-	-	-	(4.0)
Comm. for Postsecondary Ed.	484.2	179.0	1,372.1	(2,288.3)
State Board of Psychologist Exam.	-	-	300.0	300.0
Department of Public Safety	1,917.2	(6,090.2)	42,037.4	9,714.5
Arizona Department of Racing	41.2	(105.2)	3,298.9	1,862.8
Radiation Regulatory Agency	-	-	771.3	(199.0)
Arizona Rangers Pension	1.2	-	7.0	0.1
Real Estate Department	246.5	243.7	2,118.1	(103.7)
Department of Revenue	(2,841.8)	(8,947.5)	15,219.4	(25,083.3)
School Facilities Board	103.2	(120.2)	82,199.4	(118,161.6)
Secretary of State	261.4	(493.5)	1,672.6	(1,196.0)
Tax Appeals Board	13.6	(10.1)	145.7	(17.2)
Office of Tourism	-	(0.7)	200.0	199.3
Department of Transportation	-	(3.5)	32.8	(4.9)
State Treasurer	267.0	109.4	1,563.0	117.9
Universities				
Board of Regents	48.2	19.5	14,303.5	1,231.7
Arizona State University	-	(40,016.5)	211,929.7	(28,169.1)
Northern Arizona University	-	(13,463.3)	71,341.9	(9,438.1)
University of Arizona	-	(34,859.4)	184,667.8	(24,488.8)
Department of Veteran Services	443.1	(131.3)	4,052.6	(113.6)
AZ State Veterinary Medical Examining Board	-	-	250.0	250.0
Department of Water Resources	1,557.7	82.6	9,414.5	2,380.4
Dept. of Weights & Measures	65.6	(61.0)	687.9	(164.6)
Other	(252.8)	(2225.3)	21,570.8	(1,857.1)
<b>Grand Total</b>	<b>638,473.0</b>	<b>(141,021.7)</b>	<b>5,236,740.1</b>	<b>(287,034.1)</b>