

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
July 2005

Summary

General Fund revenue collections were \$607.5 million in July, which was \$30.6 million above the forecast for the month and 15.5% more than July 2004. The forecast comparison is based on projected FY 2006 revenues from the enacted budget.

July collections for the largest revenue categories continued to demonstrate the strong growth rates reported throughout FY 2005. Sales tax revenue was 13% above July of last year and individual income was up 12%, after adjusting for this year's higher withholding rates.

The enacted budget requires any FY 2006 revenues above forecast to be deposited into the Budget Stabilization Fund. The first deposit will not be made until JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) report in February 2006 on revenues for the first six months of the fiscal year.

The July Monthly Fiscal Highlights includes a summary of recent reports submitted to the JLBC, including:

- A State Treasurer report on the Commission on Postsecondary Education's Arizona Family College Savings Plan (AFCSP), which is permitted under IRS Code section 529. These 529 plans allow the earnings on education savings accounts to grow tax free at the federal level. The state has had some of the lowest rated 529 plans in the country. The report concludes that while the plans offer a good variety of investment options, it ranks lower than most states due to high fees and the fact that the plans do not offer state tax deductions or credits for contributions. The Commission has also added a new plan option which compares much more favorably with other states' options.
- A report by the City of Phoenix on the progress of expansion and renovation of Phoenix Civic Plaza. The City is in the second year of this \$600 million project. The state will pay \$300 million of construction bonds while city funds will be used to retire the remaining \$300 million. The last progress report made to the Committee was in February 2005. According to this most recent report (the third in a series), the anticipated completion date for the project has been moved from 2009 to 2008. Bonds for the financing of the project are scheduled to be sold in early fall and the construction of a new downtown hotel is anticipated to begin in early 2006 and completed by the fall of 2008.

There were no JLBC or JCCR Meetings in August. The next meetings are scheduled for September 1, 2005.

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General Fund Revenues Compared to Adopted Forecast and FY 2005 Collections (\$ in Millions)			
	FY 2005 Collections	Difference From Forecast ^{1/}	Difference From FY 2005
July	\$ 607.5	\$ 30.6	\$ 81.5
1/ Enacted FY 2006 budget (May)			

JULY REVENUES

Sales Tax revenue increased 13.4% on a year-over-year basis in July and was \$16.7 million above the forecast for the month.

Individual Income Tax collections for July were 24.2% higher than last July, mostly due to 19% growth in withholding. Of that amount, approximately 7% is due to the higher withholding rates that began in January 2005. Overall, July collections were \$15.6 million above the forecast.

The \$35.3 million in **Corporate Income Tax** revenue was 68.1% above July 2004 collections. While the percentage increase was large, July is one of the smaller corporate collection months. Corporate receipts surpassed the forecast for the month by \$6.8 million.

Among the remaining categories, **Insurance Premium Tax** collections increased 3.1% from a year ago. However, they fell short of the forecast by \$(2.9) million.

RECENT ECONOMIC INDICATORS

The advance estimate for **U.S. Gross Domestic Product (GDP)** growth in 2005's second quarter indicated that the economy continued to perform well. GDP increased at a 3.4% annual rate, slightly slower than the 3.8% growth rate posted during the first quarter of the year. The major contributors to the economy's recent performance were personal consumption expenditures, equipment and software, and residential investment.

On the inflation front, the **U.S. Consumer Price Index (CPI)**, which was unchanged in June, jumped 0.5% in July. Gasoline prices rose in rapid response to soaring crude oil prices. The index's three-month moving average increased 0.1% and was 2.8% higher than a year ago. Excluding food and energy prices, the core CPI increased 2.1% on a year-over-year basis in June.

The **U.S. Index of Leading Economic Indicators** edged up 0.1% in July, which followed a revised 1.2% jump in June. Six of the ten components increased last month, with stock prices, building permits, new orders and consumer expectations among the contributing factors.

U.S. semiconductor billings (three-month moving average) declined (1.1)% in May and fell (3.4)% below the level from a year ago. According to the Semiconductor Industry

Association, worldwide sales were up 6.5% for the year to date through June 2005.

Arizona's job market continued to grow in July. Statewide **non-farm employment** expanded 4.2% on a year-over-year basis, an increase of 98,500 jobs. Manufacturing employment dipped slightly, but construction continued to add jobs at a rapid clip, growing by 12.2% in the last 12 months. The state's seasonally adjusted unemployment rate climbed to 4.9% but remained just below the U.S. average.

According to the Real Estate Center at Arizona State University, the Greater Phoenix **single-family median resale price** jumped to \$255,000 in July, which was 44.9% higher than a year ago. The number of single-family homes sold decreased from the prior month to 10,200 but was still almost 20% more than July 2004.

The **Arizona Business Conditions Index**, derived from a monthly survey of supply chain managers, dropped (5.5)% in July but remained well above the 50% mark associated with a growing economy. Among the components driving the decline were new orders, production, and materials prices. The **average natural gas price in Arizona** increased to \$6.88 in May, up from \$6.28 in April. May's price was 27.6% higher than a year ago.

The number of **TANF recipients** decreased to 97,901 in June, a (0.5)% decline from May and a (15.8)% drop from June 2004. The **Department of Corrections' inmate population** increased by an average of 81 inmates per month from May through July. The total population increased by 761 inmates from a year ago.

State of Arizona

General Fund Revenue: Change from Previous Year and May Forecast

July 2005

	Current Month					FY 2006 YTD (One Month)				
		Change From					Change from			
	Actual	July 2004		Revised Forecast		Actual	July 2004		Revised Forecast	
	July 2005	Amount	Percent	Amount	Percent	July 2005	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$337,652,000	\$39,898,528	13.4 %	\$16,676,300	5.2 %	\$337,652,000	\$39,898,528	13.4 %	\$16,676,300	5.2 %
Income - Individual	223,953,189	43,694,703	24.2	15,630,889	7.5	223,953,189	43,694,703	24.2	15,630,889	7.5
- Corporate	35,278,025	14,285,652	68.1	6,813,425	23.9	35,278,025	14,285,652	68.1	6,813,425	23.9
Property	285,728	(324,937)	(53.2)	65,728	29.9	285,728	(324,937)	(53.2)	65,728	29.9
Luxury	4,439,102	(575,094)	(11.5)	(910,898)	(17.0)	4,439,102	(575,094)	(11.5)	(910,898)	(17.0)
Insurance Premium	35,941,828	1,083,625	3.1	(2,878,072)	(7.4)	35,941,828	1,083,625	3.1	(2,878,072)	(7.4)
Estate	825,498	(3,086,565)	(78.9)	(874,502)	(51.4)	825,498	(3,086,565)	(78.9)	(874,502)	(51.4)
Other Taxes	62,499	(7,240)	(10.4)	(169,501)	(73.1)	62,499	(7,240)	(10.4)	(169,501)	(73.1)
Sub-Total Taxes	\$638,437,869	\$94,968,672	17.5 %	\$34,353,369	5.7 %	\$638,437,869	\$94,968,672	17.5 %	\$34,353,369	5.7 %
<u>Other Revenue</u>										
Lottery	0	(1,177,400)	(100.0)	0	--	0	(1,177,400)	(100.0)	0	--
License, Fees and Permits	1,808,273	(159,268)	(8.1)	(902,827)	(33.3)	1,808,273	(159,268)	(8.1)	(902,827)	(33.3)
Interest	(275,903)	(54,596)	24.7	(174,803)	172.9	(275,903)	(54,596)	24.7	(174,803)	172.9
Sales and Services	1,515,419	(467,679)	(23.6)	(1,288,481)	(46.0)	1,515,419	(467,679)	(23.6)	(1,288,481)	(46.0)
Other Miscellaneous	1,306,457	579,324	79.7	649,057	98.7	1,306,457	579,324	79.7	649,057	98.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	120,529	(6,273,602)	(98.1)	(2,039,471)	(94.4)	120,529	(6,273,602)	(98.1)	(2,039,471)	(94.4)
Sub-Total Other Revenue	4,474,775	(7,553,221)	(62.8) %	(3,756,525)	(45.6) %	4,474,775	(7,553,221)	(62.8) %	(3,756,525)	(45.6) %
TOTAL BASE REVENUE	\$642,912,644	\$87,415,451	15.7 %	\$30,596,844	5.0 %	\$642,912,644	\$87,415,451	15.7 %	\$30,596,844	5.0 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(35,435,744)	(4,346,363)	14.0	(2)	0.0	(35,435,744)	(4,346,363)	14.0	(2)	0.0
Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
VLT Transfer	0	0	--	0	--	0	0	--	0	--
Tax Amnesty	0	0	--	0	--	0	0	--	0	--
Judicial Enhancement	0	(1,589,200)	(100.0)	0	--	0	(1,589,200)	(100.0)	0	--
Sub-Total Transfers In	(35,435,744)	(5,935,563)	20.1 %	(2)	0.0 %	(35,435,744)	(5,935,563)	20.1 %	(2)	0.0 %
TOTAL REVENUE	\$607,476,900	\$81,479,888	15.5 %	\$30,596,842	5.3 %	\$607,476,900	\$81,479,888	15.5 %	\$30,596,842	5.3 %

VP% = Percent change from comparable period in prior year

VF% = Variance from forecast

F% = Forecast percent change for the fiscal year.

R% = Average percent change from comparable period in prior year which must be attained over remaining months to realize the forecast for year.

Table 3**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	July	4.9%	0.5%	(0.1)%
- Jobs	July	2.42 million	(0.7)%	4.2%
- Contracting Tax Receipts (3-month average)	Apr-Jun	\$63.9 million	15.2%	26.9%
- Retail Sales Tax Receipts (3-month average)	Apr-Jun	\$151.9 million	0.6%	10.7%
- Residential Building Permits - (3-month moving average)				
Single-unit	Apr-Jun	7,193	(2.7)%	(5.2)%
Multi-unit	Apr-Jun	708	(21.4)%	9.4%
- Greater Phoenix Existing Home Sales				
Single-Family	July	10,200	(11.7)%	19.6%
Townhouse/Condominium	July	1,905	(11.2)%	27.4%
- Greater Phoenix Median Home Sales Price				
Single-Family	July	\$255,000	2.0%	44.9%
Townhouse/Condominium	July	\$156,125	7.7%	40.0%
- Arizona Tourism Barometer	February	100.4	4.7%	2.8%
- Phoenix Sky Harbor Air Passengers	June	3.57 million	0.6%	4.1%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$6.88	9.6%	27.6%
- Leading Indicators Index	May	119.4	(0.4)%	0.3%
- Business Conditions Index (>50 signifies expansion)	July	62.6	(5.5)%	(5.2)%
- Consumer Confidence Index	3 rd Quarter 2005	102.8	5.5%	1.5%
- Business Leaders Confidence Index	3 rd Quarter 2005	59.1	(5.9)%	(13.5)%
- Arizona Personal Income	1 st Quarter 2005	\$172.5 billion	1.4%	8.5%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients	May	814,378	(0.2)%	12.2%
- TANF Recipients	June	97,369	(0.5)%	(15.8)%
- DOC Inmate Growth (3-month average)	May-Jul	32,731	81 inmates	761 inmates
United States				
Gross Domestic Product	2 st Quarter 2005	\$11.1 trillion	3.4%	3.6%
- (seasonally adjusted annual growth rate)				
- Consumer Confidence Index	July	103.2	(2.8)%	(2.4)%
- Leading Indicators Index	July	138.2	0.1%	0.4%
- U.S. Semiconductor Billings -(3-month moving average)	Apr-Jun	\$3.2 billion	(1.1)%	(3.4)%
- Consumer Price Index - (3-month moving average)	May-Jul	194.8	0.1%	2.8%

SUMMARY OF RECENT AGENCY REPORTS

Attorney General - Report on Incarceration Costs Offset by Monetary Judgments - Pursuant to A.R.S. § 31-238, the Office of the Attorney General is required to report semi-annually on the use of monetary judgments awarded to inmates to offset the costs of incarceration. According to the statute, if an inmate obtains a monetary judgment against the state, the state can offset the cost of incarceration from the total amount of the judgment. Seventy percent of the monies set off are transferred to the General Fund and 30% are transferred to the Attorney General's office to cover the cost of litigation.

From January 1, 2005 to June 30, 2005, the state did not exercise its right to offset the costs of incarcerating inmates under this statute, since no monetary judgments were awarded during this time period. The agency does, however, indicate that it believes the existing statute results in reduced negotiated settlement amounts, which also discourages the filing of frivolous lawsuits.

Department of Economic Security – Bimonthly Report on Arizona Works - Pursuant to A.R.S. § 46-342, DES has provided reports submitted by MAXIMUS, the program contractor for the Arizona Works program, along with comparable DES data, for April and May 2005. This job placement pilot serves clients in District I-E, which generally covers the eastern part of Maricopa County.

In May 2005, MAXIMUS placed a total of 109 Arizona Works clients in full-time paid employment in District I-E, a decrease of 17% from the May 2004 figure of 131. (Over the same time period, the total number of District I-E Arizona Works clients placed by MAXIMUS in all new employment placements, including unpaid work experience and community service positions, increased 13%.) In May 2005, the number of DES JOBS clients placed in full-time paid employment in the rest of Maricopa County decreased by 29% from the May 2004 figure, to 219 from 309 clients. (Over the same time period, total DES JOBS clients placed in all new employment placements in the rest of Maricopa County, including unpaid work experience and community service positions, decreased 30%.) As we have noted previously, because of potential differences in the demographic and economic makeup of both regions, one cannot necessarily draw conclusions about the relative effectiveness of both programs from this data.

Department of Emergency and Military Affairs - Report on Camp Navajo Fund - Pursuant to A.R.S. § 26-152, the Department of Emergency and Military Affairs (DEMA) is required to submit an annual report describing the activity in the Camp Navajo Fund by August 31 of each year. The Camp Navajo Fund was established for the operation, maintenance, capital improvements and Personal Services necessary for the National Guard to operate a regional training site and storage facility located at Bellemont. The fund's revenues consist of monies received from federal and other government sources for storage of government commodities and services provided by the camp. DEMA reports that the Camp Navajo Fund received revenues of \$6,702,000 and had expenditures of

\$7,863,000 in FY 2005. This left a fund balance of \$2,914,000 at the end of the fiscal year. In FY 2004, the Camp Navajo Fund received revenues of \$6,706,000 and had expenditures of \$7,558,000.

Department of Health Services - Report on Expenditure Plan to Reduce Licensing Backlogs - Pursuant to a footnote in the General Appropriation Act, the Department of Health Services submitted an expenditure plan on how the department plans on using a one-time \$200,000 appropriation intended to reduce licensing backlogs. According to the expenditure plan, the department will hire seasonal employees and 2 limited employees who will be used as Surveyor Assistants. These additional employees will allow fully trained Surveyors to work on the current backlog. The offices that will be included in this effort include 1) the Office of Assisted Living; 2) the Office of Behavioral Health; and 3) the Office of Medical Facilities (Outpatient Treatment Centers). As of January 2004, the agency reported backlogs of 361 for Assisted Living Facilities, 74 for Behavioral Health Facilities and 80 for Medical Facilities. The \$200,000 appropriation will be allocated as follows:

Department of Health Services Expenditure Plan to Reduce Licensing Backlogs	
Personal Services	\$125,500
Employee Related Expenditures	29,000
In State Travel	4,500
Equipment	7,000
Indirect Costs	34,000
Total	\$200,000

The department reports that it will re-evaluate the expenditure plan in January 2006 and make any changes necessary to improve the progress on reducing the backlogs. JLBC Staff has asked the department to report on the expected progress to be made on licensure backlogs as a result of the \$200,000 appropriation. This will be compared to the June 30, 2006 report (also required by a General Appropriation Act footnote) on the agency's success in reducing licensure backlogs to determine if the agency's goals were met.

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 annually on the expenditures from the Health Crisis Fund during the prior fiscal year. The Health Crisis Fund receives up to \$1,000,000 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.

As seen in the following table, the Executive declared three health crises in FY 2005. The Executive Orders were intended to solve the following incidents:

Department of Health Services Health Crisis Fund FY 2005 Expenditures				
Executive Order	Date	Agency and Purpose	Authorized Expenditures	Actual Expenditure \$
2004-26	10/25/2004	DHS – Influenza Vaccine Shortage	\$250,000	\$240,000
2005-10	4/8/2005	DHS – Emerging Rocky Mountain Spotted Fever	50,000	10,000
2005-12	5/20/2005	DHS – Pertussis Vaccine	500,000	329,300
Total			\$800,000	\$579,300

- Influenza Vaccine Shortage - \$250,000 was authorized (and approximately \$240,000 expended) to purchase influenza vaccines due to a shortage in Arizona. According to the Executive Order, 22,500 additional influenza vaccines were purchased with the funding.
- Emerging Rocky Mountain Spotted Fever - \$50,000 was authorized (and \$10,000 expended) to institute measures to reduce the threat posed by Rocky Mountain spotted fever, which has grown from 7 cases in 10 years (1994-2003) to 14 cases in 2004 alone.
- Pertussis Vaccine - \$500,000 was authorized (and approximately \$330,000 expended) on measures to reduce the threat of pertussis (whooping cough) in Arizona. According to the Executive Order, the number of cases of whooping cough has increased every quarter over the last 4 quarters. Monies were used to purchase a new vaccine for immunizing adolescents.

Arizona Historical Society - Report on Non-Appropriated Expenditures - Pursuant to A.R.S. § 41-821E, the Arizona Historical Society is required to report on non-appropriated fund expenditures for the society. The table below summarizes FY 2005 expenditures by fund source. Non-appropriated expenditures for FY 2005 were \$934,100. Expenditures for FY 2004 totaled \$945,900, or \$11,800 less than FY 2005. In addition to the non-appropriated fund expenditures, the Arizona Historical Society had appropriated expenditures of \$3,655,800 in FY 2005.

Arizona Historical Society Non-Appropriated Expenditures	
Fund Name	FY 2005
Grants	\$ 22,500
Permanent Arizona Historical Society Revolving	4,200
Preservation and Restoration	15,500
Private	586,300
Restricted	295,300
Trust	10,300
TOTAL	\$934,100

Department of Juvenile Corrections - Report on Restitution Fund - Pursuant to A.R.S. § 41-2826(F), the Arizona Department of Juvenile Corrections (DJC) is required to submit an annual report detailing all revenues and expenditures made from the department's Restitution Fund. The DJC submitted its latest report on August 12, 2005.

These monies are used to pay restitution and monetary assessments on behalf of youth working in the Committed Youth Work Program who were unable to make these court ordered payments when they were originally sentenced to DJC. Working DJC youth are compensated with monies received from the department's Work Incentive Pay Program. One-third of their earnings go into a Non-Restitution Account created for each youth. The other two-thirds of their earnings go towards Room and Board and a Restitution Fund Account created for each youth. Priority is given to the Restitution Fund Account, which is used to pay the county where the victim is domiciled. The county then distributes the funds to the victim. After restitution has been paid, the remaining money goes toward DJC Room and Board expenses. As of August 12, 2005, the DJC reports that Restitution Fund revenues and expenditures for FY 2005 totaled \$32,000. This amount represents a 10% decrease from the FY 2004 Restitution Fund revenues and expenditures amount, which totaled \$35,400. According to DJC, the decrease in revenue is due to a lower juvenile population held in DJC facilities and restructuring of youth opportunity programs for work force development. Restitution revenues and expenditures are expected to increase in FY 2006 once the new work programs are implemented.

Naturopathic Physicians Board of Medical Examiners - Report on Inspection and Evaluation SLI - Pursuant to a General Appropriation Act footnote (Laws 2004, Chapter 275), the Naturopathic Board is required to submit a report of expenditures for the prior fiscal year for the Inspection and Evaluation Special Line Item by August 1, 2005. Of the total appropriation of \$19,500 the Board reports expenditures of \$19,200 from the Naturopathic Physicians Board of Medical Examiners Fund for inspections and evaluations of medical and educational programs in FY 2005. The expenditures funded 0.5 FTE and related office costs. The expenditures appear to be consistent with the Board's requirement to oversee Naturopathic education programs in the state. The General Appropriation Act (Laws 2005, Chapter 286), transfers all funding from the Inspection and Evaluation Special Line to the operating budget in FY 2006 and FY 2007 and eliminates future reporting requirements.

Arizona State Parks Board - Report on Park Operating Expenditures - Pursuant to Laws 2004, Chapter 275 the Arizona State Parks Board is providing the park operating expenditure report for all four quarters of FY 2005.

Operating expenditures for the 28 state parks and 3 regional offices totaled \$11,539,300 in FY 2005. Of this amount, \$9,158,100, or 79%, was spent on Personal Services and Employee Related Expenditures. Kartchner Caverns State Park represented approximately 20% of the total operating expenditures, with no other park representing more than 6.4%. The State Parks Enhancement Fund provided \$9,576,300, or 83% of the total operating expenditures.

Commission for Postsecondary Education - Report on Postsecondary Education Fund - A.R.S. § 15-1853 requires the Commission for Postsecondary Education to report quarterly on its Postsecondary Education Fund.

Total revenues to the fund in FY 2005 were \$2,148,800. A large portion of this amount comes from intergovernmental revenue, a combination of federal Leveraging Educational Assistance Partnership (LEAP) funding and institutional matching funds, which totals \$1,626,300.

Total expenditures from the fund in FY 2005 were \$2,127,500. Of that total, the Commission allocated \$335,400 to its operating budget. The remaining \$1,792,100 was allocated to the programs administered by the Commission. Of these remaining monies, the Commission spent \$1,626,300 on LEAP, a program which provides financial aid to students at an Arizona postsecondary educational institution.

State Treasurer - Report on Arizona 529 College Savings Plan - Pursuant to a footnote in the General Appropriation Act (Laws 2005, Chapter 286), the Arizona State Treasurer's Office is submitting a report on the Arizona 529 College Savings Plan. The report provides details on the Arizona 529 plan and compares it to other states' plans as of August 1, 2005.

The Arizona Family College Savings Plan (AFCSP) is Arizona's version of the savings plans permitted under IRS code section 529. These plans are designed to encourage individuals to save for future education expenses. The AFCSP was established on the premise of a free market model, where families have different investment choices offered from multiple investment providers. These providers offer investments such as certificates of deposit, and a variety of mutual fund alternatives. The 529 savings plans allow a donor to invest any amount of money up to the preset limit. The earnings from these investments grow tax-free and are not

taxed upon withdrawal as long as the funds are used on educational costs, such as tuition, or room and board. The Arizona Commission for Postsecondary Education oversees the program. In general, states structure 529 plans to offer benefits to residents; however, investors can utilize out-of-state 529 plans that offer additional incentives. Most of the investors in the Arizona plans are from other states.

Table 1 is a summary of each AFCSP provider. The providers manage a total of 36,890 active accounts with an average account balance of about \$6,942. A total of approximately \$256 million dollars is under management.

The report concludes that the Arizona 529 Plan is ranked lower than most states. The plan has higher fees and does not offer a tax deduction or tax credit for contributions. The report gives a few reasons for the high fees. The structure of the original procurement process did not allow for flexibility in negotiating the level of fees before awarding the contracts to providers. Also, the small amount of assets under management in the plan does not allow for spreading fixed costs across a large asset base.

Arizona providers, however, do offer a wide variety of investment alternatives to their investors, many of which are not available to participants in other state's plans. College Savings Bank provides certificates of deposits, a unique investment alternative that only one other state, Montana, has implemented. Additionally, Arizona providers offer Advisor-sold mutual funds, Direct-sold mutual funds, passively and actively managed accounts, and age-based portfolios. Fidelity, which recently began offering a plan in Arizona, has relatively low fees. Additionally, some of the providers in the Arizona plan have voluntarily reduced or waived some fees.

Table 2 illustrates Morningstar's ratings of the plans, as provided in the report. Three of Arizona's providers are located in the bottom 10 of 61 total providers nationwide. The Arizona College Savings Banks was not considered in the comparison because it only offers certificates of deposits indexed to college costs.

Table 1		Summary of Findings ^{1/}			
	College Savings Bank	SM&R	Waddell & Reed	Pacific Life	Total
Total Active Accounts	3,248	2,067	28,530	3,045	36,890
Dollars Under Management	\$65,973,232	\$7,468,879	\$161,028,338	\$21,637,724	\$256,108,173
Average Account Balance	\$20,312	\$3,613	\$5,644	\$7,106	\$6,942
Source: ASTO Report on 529 Plans					
^{1/} Fidelity is not listed in this table, as the provider recently signed on in May, 2005.					

Table 2					
Program Manager	529 Plans Total Points				Rank (out of 61)
	Low Fees (Highest rating 5)	Investment Options (Highest rating 3)	Incentives ^{1/} (Highest rating 4)	Total Points ^{2/} (Highest rating 12)	
Fidelity Investments	4	2	4	10	17
Pacific Life	2	2	2	6	54
SM&R	2	1	2	5	59
Waddell & Reed	1	2	2	5	60
Source: Morningstar					
^{1/} Incentives for investment, including: deductions, tax-free withdrawals, and matching contributions.					
^{2/} For Total Points: 12=Best 1=Worst					

The report concludes that due to the lack of a tax incentive, high fees, and a lack of marketing, few Arizonans participate in the state's 529 plan. While there are approximately 34,500 out-of-state active accounts, there are only about 2,700 in-state accounts. The vast majority of total accounts are held by Waddell & Reed, which manages about 28,000 accounts.

The report suggests that the state increase the financial incentives to Arizona residents by providing a tax deduction or credit for contributions to the state's 529 plan. The report indicates that this would increase Arizona's ranking. The report also recommends lower fees. Coupled with a tax deduction, this would increase both the number of state participants and the size of assets held under management, which in turn could reduce the fixed fees paid by each account holder.

A final recommendation is to encourage the Arizona Family College Savings Program Oversight Committee to continue the process already started to develop and implement a provider review process. This should include the ability to negotiate fees and an evaluation of providers' viability to generate real benefits to Arizona taxpayers.

City of Phoenix - Semi-Annual Report on Civic Plaza Expansion Project - Laws 2003, Chapter 266 established the Arizona Convention Center Development Fund, and authorized the state to participate financially in projects that qualify under the terms of the legislation. Based on this legislation, the City of Phoenix (City) began a project in late 2003 to expand and renovate the Phoenix Civic Plaza. One of the requirements for the qualified projects under Chapter 266 is that the progress of the project be reported twice annually to the Committee. The City has previously reported on the project in August 2004 and February 2005. The City has issued its third progress report (copies available upon request). Among the highlights, the report noted:

- Construction to date continues to be on schedule. However, Phase 3 of the project, which includes the renovation of the South Building, has been accelerated, and will be included as part of Phase 2. This will move the anticipated Certification of Completion date from 2009 to 2008.
- Bonds for the project are currently scheduled to be sold in early fall.

- Construction of a new downtown hotel is anticipated to begin in early 2006, with completion in the Fall of 2008.

The City is completing the second year of the \$600 million project to expand and renovate the Phoenix Civic Plaza. As noted in prior reports, the project will more than triple the rentable space to approximately 900,000 square feet. The financing plan for the project provides that the state will pay debt service on \$300 million of construction bonds, and city funds will be used to retire the remaining \$300 million of indebtedness. The state's obligation will begin at \$5 million the first year after construction is completed, increase to \$10 million the second year, \$15 million the third year, \$20 the fourth year, then increase by an additional \$500,000 per year up to a maximum of \$30 million. Construction was originally scheduled to be completed in 2009, but as noted above, the renovation of the South Building, which was the final stage of the project, has been moved up to coincide with Phase 2 construction. As a result, the estimated completion date is one year earlier, or 2008.

The state's obligation for this project is to pay the debt service and related costs on \$300 million of construction bonds. The total state funded amount will ultimately depend on when the bonds are sold, and the interest rates on the bonds. In June 2003, during the discussion of this legislation, the City's consultant indicated that there may be a total state payment amount of approximately \$625 million, including principal and interest. The City will provide an updated analysis of this amount in their next report to the Committee, after the bonds have been issued.

The initial financing plan for the Civic Plaza project assumed the addition of 1,000 hotel rooms to the downtown Phoenix area by the time the project was completed. The additional hotel rooms were viewed as an integral part of the financial viability of the project.

As noted in previous reports, the City has formed a nonprofit Downtown Phoenix Hotel Corporation to oversee the financing and development of the new hotel. The publicly financed hotel will be located at 3rd Street and Van Buren. The conceptual design of the hotel was begun in February 2005. The hotel will consist of a 27 story tower, with a 2-level parking garage beneath the hotel.