

ARIZONA
MONTHLY FISCAL HIGHLIGHTS
November 2005

Summary

General Fund revenue collections were \$605.0 million in October, which was \$32.1 million above the forecast for the month and 10.8% more than October 2004. Year-to-date collections total \$237.8 million over the budgeted forecast. The forecast comparison is based on projected FY 2006 revenues from the enacted budget.

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.

October collections for the 2 largest revenue categories continue to grow at a high rate. Sales tax revenue was 17.1% above October of last year, and individual income tax was up 21.5% after adjusting for this year's higher withholding rates, and the October BRITS payment.

While the 10.8% growth rate over last October is substantial, it is below the 15-20% growth rates of the past several months. After closer review, however, the lower October growth rate is due to unusually high payments for BRITS, the Department of Revenue's automation project. BRITS is funded from additional tax revenues generated from the automation project. The BRITS' contractor was paid \$30.1 million in October.

Without this payment, October revenues would have been \$62.2 million above forecast and 16.3% above last October. After accounting for this factor, the underlying October revenue growth appears consistent with prior months.

The size of the BRITS payment raises questions as to whether the contractor's payment was related to the automation improvements or was due to other factors. Prior to October, BRITS had not generated as much revenue as had been anticipated. (See October Revenues section for additional information.) In addition, the BRITS contract cost is expected to grow by \$6.4 million. These contract expansions do not currently require any legislative oversight.

The November Monthly Fiscal Highlights also includes an update on the Classroom Site Fund distribution to schools from the 0.6% sales tax (see page 6). Projected FY 2006 distributions will be \$376 million, an increase of 27% over FY 2005 levels. The \$376 million projection has been revised downward, however, by \$(22) million from the March estimate. The state is not required to offset lower than estimated CSF revenues.

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Summary (Continued)

The November Monthly Fiscal Highlights includes a summary of recent statutory reports submitted to the JLBC, including (see page 7):

- A report by ADOA on the use of alternative fuel vehicles in the state motor vehicle fleet. According to the report, 53% of the relevant fleet statewide have alternative fuel capability. This exceeds the statutory requirement of 40% for the statewide fleet. The report indicates, however, that of the 4 agencies with the largest fleets, only 6.4% of the amount spent on fuel is for alternative fuels. In Maricopa County, approximately 73% of the fleet is alternative fuel vehicles, an increase of 5% from prior year levels, but still far below the statutory requirement of 90% for state vehicles in Maricopa County.
- A report by the Department of Education (ADE) on the agency's shortfall estimate for FY 2006. According to the report, ADE estimates that it will experience a \$(61.4) million shortfall in FY 2006, up from an earlier \$(47) million shortfall estimate. JLBC Staff's shortfall projection continues to be \$(32) million.
- A report on performance measures for adult probation by Maricopa County. In FY 2004, Maricopa County agreed to assume the state's share of its adult probation costs and to at least maintain capacity levels. According to the performance measure report, Maricopa County experienced:
 - An increase of 510 Adult Probation Slots. Maricopa County has an Adult Standard caseload ratio of 61.2 probationers per probation officer, compared to the statewide ratio of 60.
 - No net change in Adult Intensive or Interstate Compact capacity. Maricopa County has an Adult Intensive caseload ratio of 19 probationers per 2 officer team, compared to the statewide ratio of 25.
- A report by AHCCCS on total statewide Health Care Group enrollment, which totaled was 17,291 as of November 8, 2005, with participating members from 5,965 private employers and 10 political subdivisions. AHCCCS reports that since October 2004, enrollment has increased by 4,645 people, or 38.8%. In last year's budget, AHCCCS had projected that HCG enrollment would reach 40,000 by June 2006. Health Care Group became totally premium funded as of June 30, 2005 with the elimination of the state General Fund subsidy. In August and September 2005, HCG raised premiums by 4%, 5%, and 12% for its 3 health plans.

The JLBC and JCCR met on November 29th. A summary of the meetings appears on page 6.

State of Arizona

General Fund Revenue: Change from Previous Year and May Forecast

October 2005

	Current Month					FY 2006 YTD (Four Months)				
	Actual October 2005	Change From				Actual October 2005	Change from			
		October 2004		Revised Forecast			October 2004		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$344,584,769	\$50,438,546	17.1 %	\$30,291,969	9.6 %	\$1,370,195,559	\$199,779,724	17.1 %	\$116,366,259	9.3 %
Income - Individual	244,717,144	41,094,834	20.2	13,628,044	5.9	1,055,329,053	205,132,707	24.1	85,393,053	8.8
- Corporate	28,588,309	(6,521,634)	(18.6)	(9,005,291)	(24.0)	257,676,494	57,961,799	29.0	33,055,094	14.7
Property	1,589,374	(417,403)	(20.8)	(310,626)	(16.3)	2,049,052	(285,777)	(12.2)	(1,050,948)	(33.9)
Luxury	5,076,713	15,728	0.3	(273,287)	(5.1)	21,101,261	854,781	4.2	(298,739)	(1.4)
Insurance Premium	239,894	(204,533)	(46.0)	239,894	--	109,457,565	8,577,122	8.5	3,759,765	3.6
Estate	98,144	(2,168,012)	(95.7)	(1,601,856)	(94.2)	9,028,813	(5,991,834)	(39.9)	2,228,813	32.8
Other Taxes	65,225	(959,756)	(93.6)	(166,775)	(71.9)	217,360	(956,112)	(81.5)	(710,640)	(76.6)
Sub-Total Taxes	\$624,959,572	\$81,277,770	14.9 %	\$32,802,072	5.5 %	\$2,825,055,157	\$465,072,410	19.7 %	\$238,742,657	9.2 %
<u>Other Revenue</u>										
Lottery	3,558,900	520,000	17.1	458,900	14.8	8,416,700	(213,400)	(2.5)	(2,783,300)	(24.9)
License, Fees and Permits	2,431,325	369,400	17.9	(860,875)	(26.1)	10,465,989	1,340,730	14.7	(1,459,411)	(12.2)
Interest	4,178,012	2,608,630	166.2	2,624,112	168.9	11,801,799	6,459,129	120.9	5,776,799	95.9
Sales and Services	3,323,016	1,179,629	55.0	(836,884)	(20.1)	16,645,826	5,936,486	55.4	2,816,626	20.4
Other Miscellaneous	1,798,519	(158,058)	(8.1)	(46,881)	(2.5)	5,542,704	579,014	11.7	(238,496)	(4.1)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	143,865	(7,870,350)	(98.2)	(2,016,135)	(93.3)	3,544,000	(10,980,677)	(75.6)	(5,096,000)	(59.0)
Sub-Total Other Revenue	15,433,637	(3,350,749)	(17.8) %	(677,763)	(4.2) %	56,417,018	3,121,282	5.9 %	(983,782)	(1.7) %
TOTAL BASE REVENUE	\$640,393,209	\$77,927,021	13.9 %	\$32,124,309	5.3 %	\$2,881,472,175	\$468,193,692	19.4 %	\$237,758,875	9.0 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	0	0.0	(141,742,976)	(17,385,451)	14.0	0	0.0
VLT Transfer	0	(14,660,802)	(100.0)	0	--	0	(28,262,001)	(100.0)	0	--
Judicial Enhancement	0	(20,100)	(100.0)	0	--	0	(2,106,600)	(100.0)	0	--
Sub-Total Transfers In	(35,435,744)	(19,027,264)	116.0 %	0	0.0 %	(141,742,976)	(47,754,052)	50.8 %	0	0.0 %
TOTAL REVENUE	\$604,957,465	\$58,899,757	10.8 %	\$32,124,309	5.6 %	\$2,739,729,199	\$420,439,640	18.1 %	\$237,758,875	9.5 %

OCTOBER REVENUES

Sales Tax revenue increased by 17.1% on a year-over-year basis in October and was \$30.3 million above the forecast for the month. Year-to-date, collections are \$116.4 million above the forecast. Based on collections through October:

- **Retail** receipts have increased by 16.8%.
- **Contracting** continues to generate strong returns, with year-to-date growth of 25.7%.
- **Utilities** collections are up 10.8%.
- **Use** tax receipts (all of which are retained by the state) have grown by 19.0%.
- **Restaurant and bar** collections are up 13.7%.

Individual Income Tax collections were \$244.7 million in October, a 20.2% increase above last October and \$13.6 million above the forecast for the month. Year-to-date, collections are \$85.4 million above the forecast.

October's real individual income tax growth rate was probably closer to 21.5%, after adjusting for two factors. One factor overstated real growth while the other served to understate growth. Withholding collections were higher than they otherwise would have been due to the higher withholding rates implemented in January 2005. In the opposite direction, the DOR automation project received \$18 million of individual income tax revenues in October (see below).

Corporate Income Tax collections were \$28.6 million in October, an (18.6)% decrease from a year ago, and \$(9.0) million below forecast. Adjusting for the BRITS payment of \$9.6 million (see below), collections would have been 8.9% above the previous year.

For the fiscal year to date through October, corporate income tax revenue increased 29.0% from last year and was \$33.1 million above the forecast.

The Business Reengineering Integrated Tax System (BRITS) is the computer system being implemented by DOR to integrate their separate tax systems, improve enforcement, and ultimately increase revenues to the state. The system was implemented in FY 2003. The cost of BRITS is being financed by the contractor who in turn is paid from the increased revenues generated by BRITS. The overall cost of BRITS is approximately \$133 million.

Prior to October, BRITS had not generated as much revenue as anticipated. The contractor had been paid \$44.2 million through September 30, 2005 for increased collections, which was \$8.4 million below the projected payment at that point in the contract. The state/county/city had received \$7.8 million, \$1.5 million less than projected.

The October BRITS payment of \$30.1 million to the contractor was the largest payment made to date. The payment included \$2.5 million from sales tax receipts, \$9.6

million from corporate income tax, and \$18.0 million from individual income tax. The payment represented collections from May 2005 through September 2005. Payments are made to the contractor based on 85% of the difference between actual collections and "baseline" tax enforcement collections. Enforcement revenue represents collections received through the tax audit process.

The October payment brings total BRITS payments to approximately \$74.6 million, representing slightly more than half of the estimated cost of the project. The \$74.6 million paid to the contractor is \$20.6 million above the projected payment at this point in the contract. The state/county/city have received \$13.2 million, \$3.6 million more than projected.

As noted above, BRITS payments are made based on tax enforcement revenues above an established baseline amount. These payments are not dependent on the enforcement revenue being directly related to the automation project. BRITS' role in generating the excess May through September revenues is particularly unclear. DOR implemented a Voluntary Compliance Initiative (VCI) in February 2005 to provide taxpayers that had previously participated in "abusive tax shelters" the opportunity to voluntarily come forward and pay taxes owed plus interest. Abusive tax shelters involve the use of inflated deductions and artificial losses in order to reduce tax liability. Increased tax enforcement revenues during April and May 2005 included payments made under the VCI, and contributed to the higher level of collections.

An Auditor General performance audit recently reported that DOR is seeking to increase the cost of the BRITS contract by \$6.4 million for the vendor to continue to operate a data center (BRITS servers and network hardware). By this action, DOR is belatedly addressing the cost of a 4-year data center agreement with the contractor which was executed in December 2003. The contract extension would allow DOR to use additional General Fund resources on this project without a legislative appropriation. Given the General Fund impact, JLBC Staff is exploring the means to increase oversight of these cost overruns.

Table 2

**General Fund Revenues
Compared to Adopted Forecast and FY 2005 Collections**
(\$ in Millions)

	FY 2006 Collections	Difference From Forecast ^{1/}	Difference From FY 2005
October	\$ 605.0	\$ 32.1	\$ 58.9
Year-to-Date	\$ 2,739.7	\$ 237.8	\$ 420.4

^{1/} Enacted FY 2006 budget (May)

RECENT ECONOMIC INDICATORS

The “advance” report on **U.S. Gross Domestic Product (GDP)** growth indicated that the economy continued to post strong results in 2005’s third quarter. GDP increased at a 3.8% annual rate, somewhat faster than the 3.3% growth rate estimated for the second quarter. The major contributors to the economy’s recent results were personal consumption expenditures, nonresidential fixed investment, and federal government expenditures.

The **U.S. Leading Economic Indicators Index** signaled that the economy should keep growing in the months ahead. The leading index jumped 0.9% in October, reversing September’s (0.8)% decline. The increase was broadly based, with average hours worked in manufacturing, vendor performance, new orders for capital goods and consumer goods, and declining unemployment insurance claims among the positive contributors.

The Semiconductor Industry Association (SIA) reported that **U.S. semiconductor billings** (3-month moving average) rose 6.4% in September and stood 0.8% higher than a year ago.

The SIA’s latest forecast, released November 16th, projected that global semiconductor sales will grow at a compound annual growth rate of nearly 10% through 2008. The industry’s growth drivers are expected to continue shifting from information technology products to consumer products such as multi-purpose cellular phones, MP3 players, and digital televisions.

The **U.S. Consumer Price Index (CPI)** increased 0.2% in October as prices for motor fuels receded from record levels. However, prices for “household fuels” (natural gas and heating oil) kept climbing. Excluding food and energy costs, the core CPI increased 2.1% on a year-over-year basis in October. Overall, the CPI’s 3-month moving average increased 0.6% and was 4.2% higher than a year ago.

Arizona’s economy continued to move forward at a solid pace. While the **unemployment rate** edged down to 4.9% in October, **non-farm employment** rose to 2.52 million, a 4.2% increase from a year ago. More than 100,000 jobs were added in the last 12 months, with the private sector accounting for more than 95% of the increase. While manufacturing was flat, construction added almost 25,000 jobs since last year. Financial services, professional services, health care, and the

Table 3

RECENT ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate	October	4.9%	(0.1)%	0.2%
- Jobs	October	2.52 million	1.1%	4.2%
- Contracting Tax Receipts (3-month average)	Aug-Oct	\$69.0 million	2.9%	24.3%
- Retail Sales Tax Receipts (3-month average)	Aug-Oct	\$152.9 million	0.4%	16.6%
- Residential Building Permits - (3-month moving average)				
Single-unit	Jul-Sep	6,802	(5.6)%	(6.7)%
Multi-unit	Jul-Sep	1,116	13.1%	47.9%
- Greater Phoenix Existing Home Sales				
Single-Family	October	8,420	(14.2)%	(3.8)%
Townhouse/Condominium	October	1,715	(3.1)%	11.4%
- Greater Phoenix Median Home Sales Price				
Single-Family	October	\$259,900	(1.2)%	44.4%
Townhouse/Condominium	October	\$162,000	1.3%	38.5%
- Arizona Tourism Barometer	August	107.0	1.3%	15.9%
- Phoenix Sky Harbor Air Passengers	September	3.13 million	(10.6)%	3.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	August	\$8.20	16.0%	48.3%
- Leading Indicators Index	July	119.3	(0.8)%	(0.6)%
- Business Conditions Index	October	69.6	7.0%	11.2%
(>50 signifies expansion)				
- Consumer Confidence Index	4 th Quarter 2005	100.0	(2.7)%	(1.1)%
- Business Leaders Confidence Index	4 th Quarter 2005	54.7	(7.4)%	(16.5)%
- Arizona Personal Income	2 nd Quarter 2005	\$176.3 billion	1.9%	8.6%
- Arizona Population	July 1, 2004	5.74 million	3.0%	3.0%
- AHCCCS Recipients	October	816,822	0.0%	2.4%
- TANF Recipients	August	98,729	(0.0)%	(14.0)%
- DOC Inmate Growth (3-month average)	Aug-Oct	33,032	115 inmates	831 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	3 rd Quarter 2005	\$11.2 trillion	3.8%	3.6%
- Consumer Confidence Index	October	85.0	(2.9)%	(8.5)%
- Leading Indicators Index	October	137.9	0.9%	2.0%
- U.S. Semiconductor Billings (3-month moving average)	Jul-Sep	\$3.45 billion	6.4%	0.8%
- Consumer Price Index (3-month moving average)	Aug-Oct	198.1	0.6%	4.2%

leisure and hospitality sectors all reported sizable gains.

According to the Real Estate Center at Arizona State University, the Greater Phoenix housing market slowed slightly in October. The **single-family median resale price** slipped to \$259,900, the first decline reported since December 2003. Even so, it was still 44.4% higher than a year ago. The volume of single family home sales dropped (14.2)% from the prior month and was also (3.8)% lower than October 2004.

The **Arizona Business Conditions Index**, derived from a monthly survey of purchasing managers, rose 7% in October to 69.6 and remained well above the benchmark of 50 associated with a growing economy. While all the components of the index advanced, the production component reached its highest level since the end of the last recession.

The state's consumers remained reasonably optimistic relative to recent reports of waning confidence at the national level. The Behavior Research Center's **Arizona Consumer Confidence Index** dipped (2.8)% in 2005's fourth quarter. While sentiment regarding job market remained sound, expectations softened for business conditions during the next 6 months.

The **Department of Corrections' inmate population** increased by an average of 115 inmates per month from August through October. The total population increased by 831 inmates from a year ago.

The **number of TANF recipients** edged down by less than (0.1)% to 98,279 in August and was (14)% below the level from August 2004. The **AHCCCS caseload** was virtually unchanged in October and was 2.4% higher than the enrollment total from a year ago.

JLBC MEETING

At its November 29 meeting, the Joint Committee on Capital Review considered the following issues:

Department of Public Safety – Quarterly Review of the Arizona Public Safety Advisory Commission – The Committee received the Department of Public Safety's (DPS) quarterly report detailing FY 2006 first quarter expenditures and progress for the statewide interoperability design project. In the first quarter, the PSCC filled 1 of 3 anticipated telecommunication engineer positions and expended approximately \$160,200. To date, the PSCC has filled 6 of 9 positions.

According to the report, first quarter activities included the approval of the Concept of Operations report, which was developed to be the initial planning document that can be updated and revised as the project progresses

During the Committee's last review of this item, it requested information on the Department of Emergency and Military Affairs (DEMA) "short-term" interoperability solution, a program in which the PSCC is providing technical oversight and direction. The PSCC and DEMA have engineered a pilot

project and anticipate deployment in Coconino County in late 2005.

JCCR MEETING

At its November 29 meeting, the Joint Committee on Capital Review considered the following issues:

DEMA Building Conversion – The Committee approved the use of up to \$1,366,000 from the State Armory Property Fund to renovate a Tempe fire station that DEMA will acquire from the City of Tempe through an exchange for the current Tempe armory. The updated scope and cost of the project was submitted in response to the Committee's request from the July 21 meeting.

ADOA Building Renewal Allocation – The Committee gave a favorable review to the remaining \$236,000 of the FY 2006 building renewal appropriation. The final allocation includes \$229,200 to repair water leaks at the 15 S. 15th Avenue building. Of the total \$3.4 million appropriation, \$2.9 million has been allocated to 18 projects, \$262,800 is allocated as an emergency contingency and \$275,000 is allocated for ADOA project management.

ADOT Payson Equipment Shop – The Committee gave a favorable review to the scope and estimated cost for construction of a new equipment services shop in Payson. The department received a \$1.5 million appropriation to demolish a 2,635 square foot wooden garage and construct a 9,600 square foot building with 3 work bays, office space, storage, changing rooms and restrooms.

UPDATES ON BUDGET ISSUES

Classroom Site Fund Update – Based on updated data, the projected FY 2006 Proposition 301 K-12 Classroom Site Fund (CSF) distribution will be \$376 million. In comparison, the FY 2005 distribution was \$296 million. The revised projection is \$22 million less than the March estimate, after adjusting for unanticipated year-end distributions.

The potential \$22 million distribution difference is primarily due to the following factors: 1) state trust land earnings provided about \$15 million less than expected for FY 2005 (which reduced FY 2006 carry forward monies) and will generate an estimated \$16 million less than expected for FY 2006 and 2) the Arizona Department of Education (ADE) was required to transfer about \$6 million in prior year carry forward monies for Proposition 301 additional school days out of the CSF (where they had been deposited) and into ADE's Permanent State School Fund, which helps fund additional school days and other K-12 formula costs. (The state General Accounting Office originally instructed ADE to deposit the \$6 million into the CSF, but later reversed that decision.)

These two factors are offset by \$15 million in higher than projected growth in Proposition 301 sales tax revenues for FY 2006. The March 2005 CSF estimate assumed 6.6% sales tax

growth for FY 2006, whereas the revised estimate assumes 10.5% growth.

State Trust Land earnings can underperform either because of lower than expected inflation-adjusted investment returns from the State Treasurer (who invests monies from past trust land sales) or because recent buyers of state trust lands pay off their purchases early, which reduces the amount of interest paid into the CSF by the State Land Department. (“Early pay offs” increase the amount of land trust monies available for investment by the Treasurer, but those investments do not immediately generate cash to replace lost Land Department interest.) For FY 2005, the \$15 million shortfall in state trust land earnings for the CSF included a \$9.5 Treasurer shortfall and \$5.5 million Land Department shortfall.

As a technical note, ADE distributed 13 rather than 12 CSF payments for FY 2005. Enough CSF revenues existed to make 2 “back payments” for FY 2004 plus 11 (rather than 10) “current year” payments for FY 2006. (Cash flows into the CSF started off 2 months “late” when Proposition 301 programs began in FY 2002, requiring CSF “back payments” to be made every year since that time.) To the extent that schools did not spend their “13th payment” monies during FY 2005 (which is likely since they were received late in the year), they should remain available for use during FY 2006.

Apart from those monies, schools are expected to receive about \$318 per pupil from the state CSF for FY 2006 under the revised figures. Of the \$318, \$35 is one-time in nature.

The JLBC Staff noted in the March 2005 memo on this topic that the original \$353 per pupil estimate did not include adjustments for contingencies “such as underperforming revenues, higher than expected enrollment growth, or monies being deposited too late into the CSF to be distributed in FY 2006... because current law does not make provision for such adjustments.” It also noted that \$70 of the original \$353 amount was due to carryforward monies that should be viewed as one-time in nature.

Any lowering of CSF revenues reduces per pupil allocations out of the fund. The state is not required to offset lower than estimated CSF revenues pursuant to A.R.S. § 15-977(F).

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 is reporting on the FY 2005 year-end inventory of state-owned alternative fuel vehicles. Of the 10,411 state vehicles 51.1%, or 5,323, are subject to the alternative fuel vehicle requirements found in A.R.S. § 41-803. The vehicles excused from these requirements fulfill one or more of the following exemptions: weigh over 8,500 pounds, are law enforcement vehicles, motorcycles, ambulances, fire suppression apparatus, or are all-terrain (4x4) vehicles.

Of the 5,323 state vehicles subject to the alternative fuel vehicle requirements, 52.7%, or 2,807, are alternative fuel vehicles. This is an increase of 8.3% from the prior year, and exceeds the 40% target established by statute. Excluding the universities and community colleges, the 4 largest fleets covered by the alternative fuel vehicle requirements are those of the Arizona Department of Administration (ADOA), the Arizona Department of Transportation (ADOT), the Department of Economic Security (DES), and the Department of Corrections (DOC). The fleets of these 4 departments combined represent 71.4%, or 3,801, of the aforementioned 5,323 vehicles subject to the alternative fuel vehicle requirements. In addition, the fleets of these 4 departments represent 83.3%, or 2,338, of the total 2,807 alternative fuel state vehicles.

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 2,752 vehicles operating primarily within Maricopa County 2,001, or 72.7%, are alternative fuel vehicles. This is an increase of 5% from the prior year, but falls well 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. Using the example of the 4 agencies with the largest fleets (ADOA, ADOT, DES, DOC), *Table 1* illustrates that 2,338 of the 4,681, or 49.9%, of the light duty vehicles are capable of using alternative fuels. Nevertheless, only \$321,009 of the \$5,042,081, or 6.4%, of the amount spent on fuel is for alternative fuels. To a small extent, this discrepancy may be explained by the relatively cheaper cost of alternative fuels.

AHCCCS – Semi-Annual Report on Healthcare Group – Pursuant to A.R.S. § 36-2912, AHCCCS is submitting its semi-annual report to the Committee on the number and types

Table 4						
	<u># Light Duty Vehicles</u>	<u># Vehicles Alternative</u>	<u>Total Fuel Costs</u>	<u>Alternative Fuel Costs</u>	<u>% Vehicles Alternative</u>	<u>% Fuel Cost Alternative</u>
ADOA	1,669	1,104	\$2,069,710	\$174,051	66.1%	8.4%
ADOT	1,179	468	1,317,836	73,179	39.7%	5.6%
DES	769	462	807,101	30,788	60.1%	3.8%
DOC	<u>1,064</u>	<u>304</u>	<u>847,434</u>	<u>42,991</u>	<u>28.6%</u>	<u>5.1%</u>
Totals	4,681	2,338	5,042,081	\$321,009	49.9%	6.4%

of businesses participating in Healthcare Group (HCG). This report also provides a description of HCG activities since its last semi-annual report submitted June 2005.

AHCCCS reports that, as of November 8, 2005 total statewide HCG enrollment was 17,291, with participating members from 5,969 private employers and 10 political subdivisions. AHCCCS reports that since October 2004, enrollment has increased by 5,312 people, or 44.3%. The FY 2006 budget assumed June 2006 enrollment to come in at 40,000. In order to reach 40,000, enrollment would need to grow by 12.7% every month through June 2006. Last month, from October 8 to November 11, 2005, enrollment grew by 4.0%.

AHCCCS reports that HCG became totally premium funded as of June 30, 2005 with the elimination of the state General Fund subsidy. In August and September 2005, HCG raised premiums by 4%, 5%, and 12% for its 3 health plans.

The AHCCCS submission also includes an update on the marketing activities. In September 2005, AHCCCS began 2 new Preferred Provider Organization (PPO) products. As of November 8, 2005 the PPO plans have 149 members. HCG recently received a \$149,915 grant from the Robert Wood Johnson State Coverage Initiative which will help HCG fund outreach efforts in Yuma and Cochise Counties. The first \$108,000 will be available in FY 2006 with the remainder available in FY 2007. In July and September, HCG held training meetings for brokers on new HCG products in Pima County and will continue to hold monthly broker training meetings in Pima and Maricopa Counties.

Department of Corrections – Report on Community Accountability Pilot Program – Laws 2004, Chapter 204 required the Arizona Department of Corrections (DOC) to establish a Community Accountability Pilot Program. Chapter 204 authorized the department to contract with a private or non-profit entity to provide supervision and treatment services for eligible offenders who have violated the terms and conditions of community supervision.

The pilot program allows an inmate to remain out of prison and be monitored by a private or non-profit entity that also provides programming and counseling services. After an eligible inmate has been in the program for 60 days or more, the department may require the inmate to pay a supervision fee, with proceeds deposited into the Community Accountability Fund. Program participation is capped at 1,000 inmates the first year and 2,000 inmates the second year.

According to ADC, the department awarded the contract to Compass Health Care Inc. The program began on August 5 and, as of September, had 9 program participants. The contract provisions included housing of program participants. Laws 2005, Chapter 119 amended statute to prohibit the contractor from providing housing. As a result of this legislative change, ADC issued a new RFP with bids due by November 10. Based on the latest information provided by the department, ADC began evaluation of the received bids on

November 18. The legislative change will not affect current programming with Compass; however, the original contract will be terminated when a new bid is accepted. Since this is a new RFP process, Compass and other treatment providers will be able to bid. Currently, no date has been set for award of a new contract.

Arizona Department of Corrections – Report on Monthly Bed Plan Update – The Department of Corrections (ADC) has been providing monthly reports updating the status of provisional private beds, new public beds, and new private beds. The JLBC also had requested that the department provide information on the status of Inmate Store Privatization and the Community Accountability Pilot Program contracts in the ADC monthly reports. The following points summarize the latest information reported by ADC:

- Arizona inmates currently occupy 2,003 of the 2,064 available provisional beds located at out-of-state facilities in Oklahoma and Texas.
- Correctional Services Corp. (CSC), the private firm operating 645 contract beds in Newton County, Texas, was purchased by another company earlier this year. These particular beds are not included in the out of state provisional bed count. The department was subsequently notified on September 20 that CSC was canceling its contract to house inmates at the Newton County facility. The department was given 60 days to relocate those inmates, and all inmates were moved from the facility earlier this month. The department did not indicate to which facilities these inmates were relocated.
- ADC awarded the contract for 1,000 new private beds to CSC in late June, and the department reports that the contract is being reviewed by the Attorney General's Office. Vendors have estimated an 8-12 month construction timeline after the contract is finalized; the FY 2006 budget assumed these beds would be operational by December 2005. These beds will house level-3 male sex offenders.
- The department awarded a contract to privatize inmate stores in June to Keefe Commissary Network, but delays have prevented full implementation within 90 days as originally intended. The previous deadline for implementation was September 15, but the department reported that certain problems with implementation have prevented the department from reassigning staff from store assignments to other security posts. The department has met with the vendor in an effort to resolve these issues.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2006 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status. In that report, ADE estimates that it will experience a \$(61.4) million shortfall for FY 2006. That total includes a \$(62.6) million shortfall for Basic State Aid, a \$3.1 million surplus for the "Homeowner's Rebate" program, a \$(0.5) million shortfall for other formula programs and a \$(1.4) million shortfall for Achievement Testing. ADE had earlier estimated a \$(48) million shortfall.

The Basic State Aid shortfall estimate is based mostly on reported FY 2005 Average Daily Membership (ADM) counts for school districts, since FY 2006 ADM counts are not yet available. Basic State Aid costs in FY 2006 will depend on both FY 2005 and FY2006 ADM counts, since that funding is based on current year counts for growing districts and prior year counts for non-growing ones. ADE's \$(62.6) million estimate therefore is subject to considerable change once FY 2006 ADM counts become available. This is not expected to occur until at least February 2006.

The JLBC Staff continues to project a Basic State Aid shortfall of roughly \$(32) million for FY 2006.

The detailed breakdown of the department's current \$(1.4) million FY 2006 shortfall estimate for Achievement Testing is not yet available. Preliminary information, however, indicates that it is due to higher than expected numbers of high schools pupils taking or retaking the AIMS test, higher than expected costs for the Terra Nova test (the "norm referenced" test administered to Grades 2 and 9 only) and modifications of the current AIMS contract.

State Board of Equalization – Report on Computer Conversion Project – Pursuant to a General Appropriation Act footnote, the State Board of Equalization (SBOE) was required to report to the Joint Legislative Budget Committee by October 31, 2005 with a variety of options for conversion of its existing computer system, including an assessment of the options by the Information Technology Authorization Committee. The board has had some difficulty using and maintaining its current computer system.

The report submitted by SBOE indicated that they had explored the option of using the State's web portal vendor,

Arizona@YourService, and had determined that this option would not be more cost effective than SBOE's current computer conversion proposal. SBOE has requested \$320,300 for this conversion. A private consultant report done in December 2004 provided a general IT strategy for the board, but did not provide a detailed solution.

Despite the requirements of the footnote, ITAC did not review SBOE computer conversion options. Representatives from GITA indicated that Information Technology Authorization Committee (ITAC) review of the SBOE project was not appropriate, since the estimated total cost of the SBOE project is less than \$1 million. No ITAC review has been conducted, and none is planned.

Maricopa County – Report on Performance Measures for Adult Probation – During the 2003 Legislative Session, Maricopa County agreed to assume the state's share of its adult probation costs (approximately \$22.3 million) and at least maintain the capacity levels as of December 2002. Pursuant to Laws 2005, Chapter 300, that agreement has continued through FY 2006 along with the requirement that Maricopa County submit a monthly report to JLBC and the Maricopa County Board of Supervisors on 10 performance measures for its adult probation programs.

Maricopa County has submitted data for all 10 performance measures through September 2005, including caseload comparisons relative to capacity levels from December 2002. Relative to the December 2002 capacity levels, Maricopa County reports:

- An increase of 510 Adult Standard Probation slots
- No net change in Adult Intensive or Interstate Compact capacity

Table 5				
Maricopa County Adult Probation Performance Measures – September 2005				
	Adult Standard	Adult Intensive	Interstate Compact	Community Punishment
Total Caseload Capacity	19,560	1,750	660	2,880
Total Number of Active Cases	19,947	1,330	662	2,779
Current Capacity vs. Dec 1, 2002 (positive # - above 12/02 capacity; negative # - below 12/02 capacity)	510	0	0	240
Average Number of Offenders Supervised by each Probation Officer/P.O. Team	61	19	60	1/
Number of Officers Supervising Offenders	326	70 teams	11	54
Average Supervision Cost per Probationer	\$3.31/day	\$19.02/day	\$3.31/day	2/
Number of Offenders Receiving Treatment	1,293 (total for all categories)			
Average Treatment Cost per Probationer	\$12.80/day (average for all categories)			
Number of Probation Violators				
Recommended to be Committed to Prison	280 (total for all categories)			
Number of Probation Violators Committed to State Prison	236 (total for all categories)			

1/ Average number of offenders supervised by each probation officer/p.o. team in Community Punishment is broken out by type of Offender. The average caseloads in Community Punishment are as follows: 65 sex offenders per officer; 48 domestic violence offenders per officer; 36 seriously mentally ill offenders per officer; and 39 transferred youths per officer/p.o. team.

2/ Average supervision cost per probationer in Community Punishment is broken out by type of offender. These costs are: \$4.66/day for sex offenders; \$4.24/day for domestic violence offenders; \$5.53/day for seriously mentally ill offenders; and \$4.40/day for transferred youth.

- An increase of 240 Community Punishment slots

Relative to the latest caseload capacity information available, Maricopa County reports:

- An Adult Standard caseload of 19,947 probationers, which is 387 probationers, or 2%, over current capacity. The Adult Standard overcapacity results in a caseload ratio of 61.2 probationers per probation officer. The statewide standard is 60 probationers per officer.
- An Adult Intensive caseload of 1,330 probationers, which is (420) probationers, or (24)%, under capacity. The Adult Intensive undercapacity results in a caseload ratio of 19 probationers per team (2 officers). The statewide standard is 25 per team.
- An Adult Interstate Compact caseload of 662 probationers, which is 2 probationers, or 0.3%, over capacity. The Adult Interstate Compact overcapacity results in a caseload ratio of 60.2 probationers per officer. The statewide standard is 60 per officer.
- An Adult Community Punishment caseload of 2,779 probationers, which is (101) probationers, or 3.5%, under capacity. The Adult Community Punishment undercapacity results in a caseload ratio of
 - o 64.9 sex offender probationers per team. The standard is 60 per team,
 - o 57.1 domestic violence probationers per team. The standard is 60 per team.
 - o 35.9 seriously mentally ill probationers per officer. The standard is 40 per officer.
 - o 39 transferred youth per officer. The standard is 40 per officer.

According to the most recent statewide Adult Probation Services report on receipts and expenditures, Maricopa County's actual expenditures increased by \$3,451,400 from FY 2004 to FY 2005. Maricopa County also reduced the number of county-funded FTE Positions by 5, but Maricopa County Probation reports that this was due to a consolidation of courier services between the department and the Maricopa County Clerk's Office. The change in county funding is also due to salary increases for probation officers and other employees.

The information provided by Maricopa County for September 2005 is summarized in Table 5 on page 9. Maricopa County will continue to provide JLBC Staff with these performance measures through June of FY 2006.

Supreme Court – Report on Adult Probation Services Fund and the Juvenile Probation Fund – Pursuant to a footnote in the General Appropriation Act, the Administrative Office of the Courts (AOC) is required to report annually to the JLBC on the total receipts and expenditures in each account of the Adult Probation Services Fund (A.R.S. § 12-267) and the Juvenile Probation Fund (A.R.S. § 12-268). The report is to present the information by county and include the amount of Personal Services expended from each revenue source of each account.

The AOC reports statewide Adult Probation Services Fund total expenditures of \$104,622,000 in FY 2005. Of this expenditure amount, county funds represent 58.4% of all expenditures, state funds represent 24.9%, Federal Funds represent 2%, and other sources of revenue such as probation fees represent 14.7%. Of the statewide expenditure total, \$90,192,400 (86%) was spent on Personal Services and Employee Related Expenditures (ERE). As part of the FY 2004 budget solution, Maricopa County agreed to assume the state's share of its adult probation costs in FY 2004. The agreement resulted in shifting \$24,533,900 in state adult probation costs to Maricopa County in FY 2004. This cost shift was continued in FY 2005.

The total funding for Adult Probation Services increased by \$6,647,000, or 6.8%, in FY 2005. Although state funding decreased as a percent of total funding by 1.4%, state monies increased by \$344,100 in FY 2005. County funds increased by \$5,029,800, or 9.0%, in FY 2005. Increases occurred in 9 counties, ranging from 0.3% to 2.6%. The largest percentage increase was in Pima County, at 2.6%, or \$665,800. The largest dollar increase was in Maricopa County, at \$3,451,400, or 0.8%.

Total FY 2005 expenditures for the Juvenile Probation Fund were \$137,199,700. Of this expenditure amount, county funds represent 54% of all expenditures, state funds represent approximately 41%, Federal Funds represent 3%, and other sources of revenue such as probation fees represent approximately 2%. Of the statewide expenditure total, \$98,302,600 (72%) was spent on Personal Services and ERE. The report contains detailed information by county, by fund, and by budget line item. Copies of the report are available upon request.

The total funding for Juvenile Probation Services increased by \$8,323,200, or 6.5%, in FY 2005. State funding was relatively stable, increasing by \$181,500, or 0.3% in FY 2005. County funding increased by \$8,293,500, or 12.7%, in FY 2005. Increases occurred in 11 counties, ranging from 1% to 7%. The largest percentage increase in county funding occurred in Mohave County, at 7%, or \$271,000. The largest dollar increase was in Maricopa County, at \$5,574,600, or 6%.

The following tables display expenditures and funding sources for Adult and Juvenile Probation for FY 2004 and FY 2005:

Table 6

Adult Probation

	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures		
Personal Services & ERE	\$84,330,200	\$ 90,192,400
All Other Operating Expenses	<u>13,644,800</u>	<u>14,429,600</u>
Total	\$97,975,000	\$104,622,000
Funding Sources		
State Funds	\$25,739,800	\$ 26,083,900
County Funds	56,120,400	61,150,200
Federal Funds	2,069,900	2,052,900
Fee and Other Revenue	<u>14,044,900</u>	<u>15,335,000</u>
Total	\$97,975,000	\$104,622,000

Table 7

Juvenile Probation

	<u>FY 2004</u>	<u>FY 2005</u>
Expenditures		
Personal Services & ERE	\$ 90,149,200	\$ 98,302,600
All Other Operating Expenses	<u>38,727,300</u>	<u>38,897,100</u>
Total	\$128,876,500	\$137,199,700
Funding Sources		
State Funds	\$ 56,388,900	\$ 56,570,400
County Funds	65,544,400	73,837,900
Federal Funds	4,822,000	3,968,900
Fee and Other Revenue	<u>2,121,200</u>	<u>2,822,500</u>
Total	\$128,876,500	\$137,199,700