# ARIZONA
# MONTHLY FISCAL HIGHLIGHTS
## December 2005


**Summary**

General Fund revenue collections were $585.3 million in November, which was $26.8 million above the forecast for the month and 10.4% more than November 2004. Year-to-date collections total $264.6 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 6 months of the fiscal year.

While the 10.4% growth rate over last November is considerable, it is below the 15-20% growth rates of the past several months. Of the 2 largest revenue categories, the November sales tax growth of 15.4% above last year was slightly lower than that of recent months. November's 12.7% individual income tax growth (6.9% after adjusting for this year's higher withholding rates), was substantially below the recent growth rates in that category of 20-25%.

In other fiscal news this month, the Finance Advisory Committee (FAC) met on December 19th *(see page 6)*. The FAC is a panel of 16 leading economists that advises the Legislature 3 times a year on the state's economy. The FAC continued to have an optimistic view of the economy. Based on the FAC's input and 3 other models, the largest revenue categories are forecasted to grow 13.1% in FY 2006 and 7.2% in FY 2007. The FAC generally thought that the forecast was reasonable.

The Joint Legislative Income Tax Credit Review Committee met on December 15th *(see page 6)*. The purpose of the Committee is to evaluate existing state income tax credits on a periodic schedule. This year the Committee reviewed 2 credits after a presentation by JLBC Staff. The Committee recommended no changes to the credit for employing Temporary Assistance for Needy Family (TANF) recipients. Regarding the credit for contributions to charitable organizations that provide assistance to the working poor, the Committee recommended simplifying the credit calculation to remove the baseline year requirement, which currently makes the credit difficult to use and administer.


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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on December 30, 2005 This report can also be found on our Website at http:/www.azleg.gov/jlbc.htm

**Summary (Continued)**

The JLBC and JCCR met on December 20th. The highlights of the agendas included *(see page 6)*:

- A presentation by Arizona State University (ASU) and the City of Phoenix on plans for the ASU Downtown Campus. ASU will house 5 programs at the Downtown Campus, including Nursing, Public Programs, Communications, Extended Education, and Global Health. The City of Phoenix plans to issue $188 million in bonds to finance capital development.

- A favorable review by the JCCR of plans for a 2-story, 124,300 square foot State Archives and History Building. The Legislature appropriated $30 million to Legislative Council over 2 years to construct the building.

The December Monthly Fiscal Highlights also includes an update on the following budget issues:

- Strategic Program Area Review (SPAR) Report: The JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) published a SPAR report for the following program areas – Homeland Security, Ports of Entry, University Financial Assistance, and Workforce Development. The SPAR process is designed to assess the efficiency and effectiveness of selected program areas. To enhance legislative oversight, JLBC Staff recommended the issuance of annual statewide expenditure reports for homeland security, university financial aid, and workforce development. These statewide funding estimates do not currently appear in the annual state budget. Among the other findings, JLBC Staff recommended the Legislature consider creating a Homeland Security Committee. *(See page 7)*

- State Funds Report: As required by statute, JLBC Staff issued its biennial recommendations on 1) the elimination or consolidation of state funds; and 2) the appropriation of state funds currently not subject to legislative appropriation. Currently there are a total of 809 state funds. Of these, JLBC Staff recommended the elimination of 118 inactive funds. To facilitate the Legislature's review of funds outside the budget process, JLBC Staff provided a list of the 32 largest non-appropriated funds. These funds constitute 96% of all non-appropriated spending. *(See page 8)*

The December Monthly Fiscal Highlights includes a summary of recent statutory reports submitted to JLBC, including (see page 8):

- A report by the Arizona Department of Education on existing research related to the academic impact of full-day kindergarten. The report noted that while many studies found short-term academic benefits, more long-term studies need to be conducted to fully assess the impact of full-day kindergarten.

- A report by the Arizona Board of Regents on student enrollment as of the 21st and 45th days of the fall 2005 semester. Full-Time Equivalent (FTE) student enrollment dropped by approximately 1,800 students from the 21st to the 45th day, a decline of (1.7)%. State funding for the universities, which has traditionally been based on 21st day enrollment, would decrease by about $(10) million if 45th day enrollment counts were to be used.

- A report by the Land Department on monies expended from the Fire Suppression Revolving Fund. In FY 2005 the department used monies from the fund to fight 730 fires. The fund incurred a total liability of $15.7 million, of which $6.3 million remains unpaid.

# State of Arizona
## General Fund Revenue: Change from Previous Year and May Forecast
## November 2005

| | Current Month | | | | | FY 2006 YTD (Five Months) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Change From | | | | | Change from | | | |
| | Actual | November 2004 | | Revised Forecast | | Actual | November 2004 | | Revised Forecast | |
| | November 2005 | Amount | Percent | Amount | Percent | November 2005 | Amount | Percent | Amount | Percent |
| **Taxes** | | | | | | | | | | |
| Sales and Use | $334,011,412 | $44,465,170 | 15.4 % | $26,190,712 | 8.5 % | $1,704,206,970 | $244,244,893 | 16.7 % | $142,556,970 | 9.1 % |
| Income - Individual | 246,397,916 | 27,855,312 | 12.7 | (5,294,384) | (2.1) | 1,301,726,969 | 232,988,019 | 21.8 | 80,098,669 | 6.6 |
| - Corporate | 5,855,519 | 62,291 | 1.1 | 79,419 | 1.4 | 263,532,013 | 58,024,090 | 28.2 | 33,134,513 | 14.4 |
| Property | 5,038,083 | (4,257,851) | (45.8) | (1,361,917) | (21.3) | 7,087,135 | (4,543,628) | (39.1) | (2,412,865) | (25.4) |
| Luxury | 5,762,252 | 317,153 | 5.8 | 412,252 | 7.7 | 26,863,512 | 1,171,933 | 4.6 | 113,512 | 0.4 |
| Insurance Premium | 109,106 | 58,539 | 115.8 | 109,106 | -- | 109,566,671 | 8,635,660 | 8.6 | 3,868,871 | 3.7 |
| Estate | 302,444 | (2,960,271) | (90.7) | (1,397,556) | (82.2) | 9,331,256 | (8,952,106) | (49.0) | 831,256 | 9.8 |
| Other Taxes | 57,976 | (318,346) | (84.6) | (174,024) | (75.0) | 275,336 | (1,274,458) | (82.2) | (884,664) | (76.3) |
| **Sub-Total Taxes** | $597,534,708 | $65,221,997 | 12.3 % | $18,563,608 | 3.2 % | $3,422,589,862 | $530,294,403 | 18.3 % | $257,306,262 | 8.1 % |
| **Other Revenue** | | | | | | | | | | |
| Lottery | 10,305,900 | 6,394,800 | 163.5 | 6,305,900 | 157.6 | 18,722,600 | 6,181,400 | 49.3 | 3,522,600 | 23.2 |
| License, Fees and Permits | 2,356,830 | 562,375 | 31.3 | 55,130 | 2.4 | 12,822,819 | 1,903,105 | 17.4 | (1,404,281) | (9.9) |
| Interest | 4,734,316 | 3,070,792 | 184.6 | 3,217,716 | 212.2 | 16,536,114 | 9,529,923 | 136.0 | 8,994,514 | 119.3 |
| Sales and Services | 3,757,634 | 26,164 | 0.7 | 33,734 | 0.9 | 20,403,459 | 5,962,649 | 41.3 | 2,850,359 | 16.2 |
| Other Miscellaneous | 1,888,864 | (5,025) | (0.3) | 673,664 | 55.4 | 7,431,567 | 573,988 | 8.4 | 435,167 | 6.2 |
| Disproportionate Share | 0 | 0 | -- | 0 | -- | 0 | 0 | -- | 0 | -- |
| Transfers and Reimbursements | 130,516 | (1,605,504) | (92.5) | (2,029,484) | (94.0) | 3,674,515 | (12,586,182) | (77.4) | (7,125,485) | (66.0) |
| **Sub-Total Other Revenue** | 23,174,060 | 8,443,602 | 57.3 % | 8,256,660 | 55.3 % | 79,591,074 | 11,564,883 | 17.0 % | 7,272,874 | 10.1 % |
| **TOTAL BASE REVENUE** | **$620,708,768** | **$73,665,599** | **13.5 %** | **$26,820,268** | **4.5 %** | **$3,502,180,936** | **$541,859,286** | **18.3 %** | **$264,579,136** | **8.2 %** |
| **One-Time Revenue** | | | | | | | | | | |
| Urban Revenue Sharing | (35,435,744) | (4,346,362) | 14.0 | 0 | 0.0 | (177,178,720) | (21,731,813) | 14.0 | 0 | 0.0 |
| VLT Transfer | 0 | (13,921,962) | (100.0) | 0 | -- | 0 | (42,183,963) | (100.0) | 0 | -- |
| Judicial Enhancement | 0 | (40,000) | (100.0) | 0 | -- | 0 | (2,146,600) | (100.0) | 0 | -- |
| **Sub-Total Transfers In** | (35,435,744) | (18,308,324) | 106.9 % | 0 | 0.0 % | (177,178,720) | (66,062,376) | 59.5 % | 0 | 0.0 % |
| **TOTAL REVENUE** | **$585,273,024** | **$55,357,275** | **10.4 %** | **$26,820,268** | **4.8 %** | **$3,325,002,216** | **$475,796,910** | **16.7 %** | **$264,579,136** | **8.6 %** |

**Table 1**

## NOVEMBER REVENUES

**Sales Tax** revenue increased by 15.4% on a year-over-year basis in November and was $26.2 million above the forecast for the month. Year-to-date, collections are $142.6 million above the forecast. Based on collections through November:

- **Retail** receipts have increased by 16.2%.
- **Contracting** continues to generate strong returns, with year-to-date growth of 24.6%.
- **Utilities** collections are up 11.6%.
- **Use** tax receipts (all of which are retained by the state) have grown by 18.9%.
- **Restaurant and bar** collections are up 13.4%.

**Individual Income Tax** collections were $246.4 million in November, a 12.7% increase above last November. Compared to the forecast for the month, however, revenues were $(5.3) million below the projected amount. Year-to-date, collections are $80.1 million above the forecast.

November's individual income tax growth rate was lower than the growth rates over the past several months, which have been between 20-25% since the beginning of the fiscal year. The lower growth is largely due a drop in the growth rate of withholding payments. After adjusting for the higher withholding rates implemented in January 2005, November withholding collections grew by 7.2%.

**Corporate Income Tax** collections were $5.9 million in November, a 1.1% increase from a year ago. For the fiscal year to date through November, corporate income tax revenues increased 14.4% from last year and were $33.1 million above the forecast.

The General Fund portion of November **Luxury Tax** collections was 5.8% above November 2004. Year-to-date, revenues are $1.2 million above last year.

**Lottery** collections were $10.3 million in November, which more than doubled collections from last November. Powerball ticket sales were fueled by a record-high jackpot that accumulated in October and November. Year-to-date, Lottery revenues are 49.3% above last year.

**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 |
|---|---|---|---|
| November | $ 585.3 | $ 26.8 | $ 55.4 |
| Year-to-Date | $ 3,325.0 | $ 264.6 | $ 475.8 |

1/ Enacted FY 2006 budget (May)

## RECENT ECONOMIC INDICATORS

The revised statistics for **U.S. Gross Domestic Product (GDP)** growth indicated that the economy was growing faster in 2005's third quarter than previously reported. GDP advanced at a 4.3% annual rate, significantly better than the 3.3% growth rate estimated for the second quarter. The major contributors to the economy's strong results were personal consumption expenditures, equipment and software, residential fixed investment, and federal government spending.

Consumer sentiment continued to improve during the holiday shopping season. The Conference Board's **U.S. Consumer Confidence Index** climbed 5.4% in December after surging 15.4% the prior month. The assessment of current conditions led the increase, while the outlook for business conditions in the next 6 months was slightly better than the previous report.

The **U.S. Consumer Price Index (CPI)** plummeted (0.6)% in November, its largest monthly drop since July 1949. The decline was led by falling petroleum fuel costs, although natural gas and electricity prices were rising. Excluding food and energy prices, the core CPI increased 2.1% on a year-over-year basis in November. Overall, the CPI's 3-month moving average increased 0.2% and was 4.2% higher than a year ago.

The Semiconductor Industry Association (SIA) reported that **U.S. semiconductor billings** (3-month moving average) increased 4.3% in October and were running 2.5% higher than a year ago. Worldwide semiconductor sales surpassed the $20 billion mark for the first time. The SIA reported that production capacity utilization remained in the 90% range, with strong demand for a broad range of consumer devices driving sales and production higher.

Arizona's economy continued to post strong results. The state's **unemployment rate** decreased to 4.8% in November, while **non-farm employment** increased 4.0% on a year-over-year basis to 2.54 million. The state's labor market has generated 97,400 jobs since November 2004, with the construction industry accounting for more than one-fourth of the gain. Manufacturing added just 400 jobs in the last 12 months, while financial services and leisure/hospitality services increased by 8,200 and 11,700, respectively.

**Arizona personal income** increased to an annual rate of $179.6 billion in 2005's third quarter, which was 8.6% above the level from a year ago. Arizona's 1.7% increase from the previous quarter ranked 2nd in the nation. The largest contributors to the state's growth in earnings by place of work were construction, real estate and health care.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home price** bounced back to $263,000 in November, matching the record level posted in September. The November median was 42.2% higher than a year ago. The volume of single family home sales declined for the third consecutive month to 7,125, which was down (14.5)% from October and (24.5)% from last November.

The **Arizona Business Conditions Index**, derived from a monthly survey of purchasing managers, dipped (3.4)% in November to 65.9, which was still well above the benchmark of 50 associated with a growing economy. The employment component posted its strongest reading in 7 months, but the new orders measure dropped to its lowest level since December 2004.

The U.S. Census Bureau reported that **Arizona's estimated July 1, 2005 population** reached 5.94 million, which ranked 17th in the nation. The state's 3.5% increase from 2004 ranked 2nd behind Nevada, while its increase in total headcount – almost 200,000 – ranked 4th behind Florida, Texas and California.

The **Department of Corrections' inmate population** increased by an average of 146 inmates per month from September through November. The total population increased by 808 inmates from a year ago.

**The number of TANF recipients** increased 1.1% to 99,855 in September but remained (10.3)% below the level from September 2004. The **AHCCCS caseload** edged 0.4% higher in November from the prior month and stood 1.3% above the level from a year ago.

**Table 3**

**RECENT ECONOMIC INDICATORS**

| Indicator | Time Period | Current Value | Change From Prior Period | Change From Prior Year |
|---|---|---|---|---|
| **Arizona** | | | | |
| - Unemployment Rate | November | 4.8% | (0.1)% | 0.2% |
| - Jobs | November | 2.54 million | 1.0% | 4.0% |
| - Contracting Tax Receipts (3-month average) | Sep-Nov | $69.2 million | 1.2% | 23.4% |
| - Retail Sales Tax Receipts (3-month average) | Sep-Nov | $152.4 million | (0.7)% | 15.7% |
| - Residential Building Permits - (3-month moving average) | | | | |
| Single-unit | Aug-Oct | 6,672 | (1.9)% | 2.0% |
| Multi-unit | Aug-Oct | 1,347 | 20.7% | 103.6% |
| - Greater Phoenix Existing Home Sales | | | | |
| Single-Family | November | 7,195 | (14.5)% | (24.5)% |
| Townhouse/Condominium | November | 1,600 | (6.7)% | (9.9)% |
| - Greater Phoenix Median Home Sales Price | | | | |
| Single-Family | November | $263,000 | 1.2% | 42.2% |
| Townhouse/Condominium | November | $165,000 | 1.9% | 37.6% |
| - Arizona Tourism Barometer | October | 105.8 | 0.7% | 9.4% |
| - Phoenix Sky Harbor Air Passengers | October | 3.45 million | 10.2% | 1.8% |
| - Arizona Average Natural Gas Price ($ per thousand cubic feet) | September | $8.86 | 8.0% | 69.1% |
| - Leading Indicators Index | September | 120.1 | (0.2)% | 0.0% |
| - Business Conditions Index (>50 signifies expansion) | November | 65.9 | (3.4)% | 5.0% |
| - Consumer Confidence Index | 4th Quarter 2005 | 100.0 | (2.7)% | (1.1)% |
| - Business Leaders Confidence Index | 4th Quarter 2005 | 54.7 | (7.4)% | (16.5)% |
| - Arizona Personal Income | 3rd Quarter 2005 | $179.6 billion | 1.7% | 8.6% |
| - Arizona Population | July 1, 2005 | 5.94 million | 3.5% | 3.5% |
| - AHCCCS Recipients | November | 820,155 | 0.4% | 1.3% |
| - TANF Recipients | September | 99,855 | 1.1% | (10.3)% |
| - DOC Inmate Growth (3-month average) | Sep-Nov | 33,178 | 146 inmates | 808 inmates |
| **United States** | | | | |
| - Gross Domestic Product (seasonally adjusted annual growth rate) | 3rd Quarter 2005 | $11.2 trillion | 4.3% | 3.7% |
| - Consumer Confidence Index | December | 103.6 | 5.4% | 8.8% |
| - Leading Indicators Index | November | 138.8 | 0.5% | 2.1% |
| - U.S. Semiconductor Billings (3-month moving average) | Aug-Oct | $3.59 billion | 4.3% | 2.5% |
| - Consumer Price Index (3-month moving average) | Sep-Nov | 198.5 | 0.2% | 4.2% |

## FAC MEETING

At its December 19th meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund revenue collections, the U.S. economy, and Arizona's real estate market. The FAC is a 16-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

The Committee generally had a positive view of the economy. Rising personal income, employment gains, and low interest rates were among the factors contributing to this view. Though the Committee did not project a downturn in the economic cycle in the near future, they warned that the next such downturn would be severe. The recent explosive growth has resulted in some short-term gains. Once the economy begins to slow, these gains will quickly disappear.

Relative to the local housing market, the Committee believed that prices will moderate, and may even decline in some neighborhoods, over the next 2 years.

The FAC panel members were also asked to provide their FY 2006 – FY 2009 forecasts for the 3 largest revenue categories: sales, individual income and corporate income taxes. The FAC is one of the 4 inputs into the JLBC Staff's 4-sector consensus forecast. The other 3 inputs are:

- The University of Arizona Economic and Business Research (EBR) General Fund baseline model;
- The EBR conservative forecast model; and
- JLBC Staff projections.

Based on the 4-sector consensus, the "Big 3" revenues are forecasted to grow 13.1% in FY 2006 and 7.2% in FY 2007 *(see Table 4)*. The Committee generally expressed its support for these projections. In FY 2005, "Big 3" collections were 20.4% greater than collections in FY 2004.

## JOINT INCOME TAX CREDIT REVIEW COMMITTEE MEETING

Laws 2002, Chapter 238 established the Joint Legislative Income Tax Credit Review Committee and specified a schedule for review of corporate and individual income tax credits. The credits scheduled for review in 2005 included:

- Employment of Temporary Assistance for Needy Family (TANF) Recipients
- Contribution to Charitable Organizations that Provide Assistance to the Working Poor

The Committee is charged with determining the original purpose of each of the existing income tax credits, and establishing a standard for evaluating the success or failure of the credit. Based on statute (A.R.S. § 43-221), the standard for evaluation of the credits may include: 1) the history, rationale and revenue impact; 2) the benefit to the state in various economic terms; and 3) the complexity in the use and administration of the credit.

The Committee met December 14th to hear the JLBC Staff presentation on the tax credits. The TANF employee credit is similar to federal income tax credits that offer more generous incentives. The state credit is not widely used, with no more than 7 corporate taxpayers claiming the credit in any year since it was introduced in 1998. Use of the individual tax credit has been negligible. In 2003, the latest year for which reasonably complete statistics were available, $462,000 was claimed under this tax credit.

The Committee adopted a motion recommending no changes to the tax credit for employing TANF recipients. The Committee also recommended that the credit be added to its review schedule in 2010.

The low income charitable credit is available only to individual taxpayers. In 2004, 19,400 taxpayers claimed $3.6 million in credits. JLBC Staff reported that the credit is unusually cumbersome to use and administer, largely due to the requirement for establishing and documenting a base year from which all subsequent credits are calculated.

The Committee recommended removing the baseline year requirement to qualify for the credit. The Committee also recommended that the definition of "qualifying charitable organization" be amended to include language that requires the Department of Revenue to verify that the charitable organization is qualified based on criteria currently in statute. The Committee recommended that the credit be added to its review schedule in 2010.

## JLBC MEETING

At its December 20th meeting, the Joint Legislative Budget Committee considered the following issues:

**Arizona Health Care Cost Containment System –** <u>Review of Capitation Rate Changes</u> **–** The Committee gave a favorable review to the Arizona Health Care Cost Containment System's (AHCCCS) capitation rate adjustment for the implementation of the Medicare Prescription Drug Program. Individuals that are eligible for both Medicare and Medicaid (dual-eligibles)

**Table 4**
**4-Sector "Big 3" Consensus Forecast: FY 2006 – FY 2009**

| | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|---|---|---|---|---|
| **Sales Tax** | 11.0% | 6.3% | 5.0% | 5.7% |
| **Individual Income Tax** | 14.2% | 8.1% | 6.6% | 7.5% |
| **Corporate Income Tax** | 19.5% | 8.3% | 1.1% | 0.9% |
| **Overall Weighted Growth** | 13.1% | 7.2% | 5.2% | 6.0% |

that currently receive prescription drug benefits under the state plan will now receive their coverage under Medicare. Because this results in a savings to the state, capitation rates decreased by 4.8% in the Acute Care Program and 5.6% in the Long Term Care Program. The Committee deferred discussion, however, on AHCCCS' expenditure plan for Medicare Clawback payments in the Long Term Care budget.

The Committee also gave a favorable review to a 0.6% increase to capitation rates in the Comprehensive Medical and Dental Program. The capitation rate adjustment is expected to cost $35,200 in FY 2006.

**Department of Economic Security –** Review of Long Term Care Capitation Rate Changes **–** The Committee gave a favorable review to the Department of Economic Security's expenditure plan for capitation rate adjustments to the Long Term Care Program. Capitation rate adjustments are due to a legislatively approved provider rate increase as well as to the implementation of the Medicare Prescription Drug Program. Both of the requested rates can be funded from the existing DES budget.

**Department of Economic Security –** Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies – The Committee gave a favorable review to the Department of Economic Security's expenditure plan for Workforce Investment Act (WIA) monies with the provision that the Department of Commerce provide performance measures for the Mature Worker Connection Program by March 1, 2006. The Committee also requested that the Department of Economic Security, in conjunction with the Department of Commerce, provide to the Committee a written explanation for their failure to provide performance measure information as requested for FY 2005 expenditures.

## JCCR MEETING

At its December 20th meeting, the Joint Committee on Capital Review considered the following issues:

**ASU Downtown Campus** – The Committee was briefed by Arizona State University (ASU) and the City of Phoenix on the development plans for the ASU Downtown Campus. ASU stated that between the years 2006 – 2008 it will move the following 5 programs from the Tempe Campus to the Downtown Campus: College of Nursing, College of Public Programs, the Cronkite School of Journalism and Mass Communications, University College, and the School of Global Health.

The cost of these programs will be moved from the ASU Main budget to the ASU Downtown budget and are estimated to be $41.1 million in FY 2007. ASU projects that, other than traditional enrollment growth funding, these cost shifts will have no impact on state funding required to operate ASU.

The City of Phoenix plans to allocate $188 million of bond proceeds for capital development of the Downtown Campus. The bond election is planned for March 2006. In the meantime, the City of Phoenix has obtained $100 million in short-term financing to fund costs until the bond proceeds are available. Interest-only payments on the short-term financing are being split 50/50 between ASU and the City.

**State Archive and History Building** – The Committee gave a favorable review to the scope, purpose and estimated cost, as well as the procurement plan for services, related to a new State Archives and History Building.

Laws 2004, Chapter 194 appropriated $2 million in FY 2005 to the Arizona Department of Administration (ADOA) for design and site preparation. The design is 65% complete. Laws 2005, Chapter 298 appropriated a total of $30 million to Legislative Council for construction of the building.

Consistent with the direction given by Legislative Council, the Director of Legislative Council will work with the current architect to complete design of the building. The scope of the project includes a 2-story, 124,300 square foot building with receiving and processing areas, storage space, public services areas including meeting space, and parking and landscaping.

Also consistent with Legislative Council action, the favorably reviewed procurement plan includes the Director of Legislative Council entering into contracts for project management, construction manager at risk (CM@R) services, and expert assistance on project management and construction activities. The CM@R contract will contain the provision that the construction manager competitively bid subcontracts using a qualified list of contractors. Notwithstanding these contracts, the Legislative Council retains ultimate control and responsibility for the project.

## UPDATES ON BUDGET ISSUES

**Strategic Program Area Review (SPAR) Process** - A.R.S. § 41-1275 establishes the SPAR process, which is intended to review issues that often involve multiple agencies and evaluate the efficiency, effectiveness, and necessity of selected program areas. The JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) have jointly published the SPAR report for 2005-2006. The 4 program areas and associated agencies are identified in *Table 5*.

**Table 5**

**Program Subject to SPAR**

| Program Area | Agencies |
|---|---|
| Homeland Security | Department of Health Services<br>Office of Homeland Security |
| Ports of Entry | Arizona Department of Transportation<br>Arizona Department of Agriculture<br>Department of Public Safety |
| University Financial Assistance | Arizona State University<br>Northern Arizona University<br>University of Arizona<br>Arizona Board of Regents |
| Workforce Development | Department of Economic Security<br>Department of Commerce<br>Community Colleges<br>Arizona Department of Education<br>Governor's Council on Workforce Policy |

Highlights from the SPARs are discussed below.

*Homeland Security* - The state's Office of Homeland Security (OHS) and Department of Health Services (DHS) distribute 3 of the largest federal homeland security grants within Arizona, totaling nearly $70 million yearly. JLBC Staff recommended that both OHS and DHS be required by statute to annually submit a homeland security award and expenditure report to the Legislature. Since this funding is not subject to appropriation, these programs are not accountable to the Legislature. JLBC Staff also recommended that the Legislature consider the creation of a legislative homeland security committee. OSPB found that OHS has accomplished some significant items during its brief existence and that it can make improvements in terms of the transparency of its operations.

*Ports of Entry* - Ports of Entry (POE) operations primarily ensure commercial vehicles are in compliance with federal and state mandates related to vehicle size and weight. They also perform agriculture inspections and enforcement of quarantines. JLBC Staff recommended that the Arizona Department of Transportation (ADOT) should fill existing approved POE FTE Positions before requesting any more POE staff. Despite being appropriated 12 additional POE FTE Positions in FY 2005, ADOT reports they have 20 fewer filled POE FTE Positions in FY 2006 than there were in FY 2004. OSPB found that the POE system performs a useful role in the enforcement of the state's regulations, inspections, and tax collections and that fixed POE inspection stations continue to be the dominant compliance mechanism.

*University Financial Assistance* - The state's 3 universities distributed more than $806 million of financial aid to students in FY 2004. The majority of this financial aid came from federal sources ($442 million) and the universities themselves ($285 million); nearly half was distributed as loans ($392 million), with grants totaling another $277 million.

JLBC Staff found:

- Nearly 2,000 more low-income students and 3,000 middle-income students had additional net costs above their financial aid packages in FY 2004 compared to FY 2003.
- Under 50% of undergraduate students graduate with debt.
- Financial aid data are insufficient for state policy purposes and recommended that ABOR expand the current Student Financial Aid Report.

OSPB found that college affordability can be severely impacted by the lack of investment of state funded financial aid despite rising tuition costs and increased student enrollment and recommended increasing financial aid contributions for needy students and expanding scholarship opportunities through "portable" financial aid.

*Workforce Development* - Workforce Development programs are administered by a wide variety of agencies. The Department of Economic Security (DES) administers a number of federal programs, including the Workforce Investment Act (WIA), Unemployment Insurance, and the JOBS program for TANF recipients. The Departments of Education and Commerce, as well as the Community Colleges, administer job training programs.

JLBC Staff found that coordination among agencies and partners depends on not only the program, but also on the location within the state. JLBC Staff recommended that the Governor's Council on Workforce Policy should coordinate and publish annually a statewide workforce development budget and strategic plan. OSPB found that, based on WIA performance measures, Arizona exceeded standards in all areas in FY 2005.

**State Funds Report** - A.R.S. § 41-1273 requires the JLBC Staff to make recommendations biennially to the Joint Legislative Budget Committee on:

- The elimination of not more than 7% of the total number of state funds.
- The conversion to appropriated status of not more than 7% of the dollar value of all state non-appropriated funds.

Of the 809 separate funds listed on the Arizona Department of Administration (ADOA) accounting system, JLBC Staff recommended eliminating 118 inactive funds.

JLBC Staff did not have a technical recommendation for the appropriation of non-appropriated funds. JLBC Staff suggested that if the Legislature was interested in this policy matter that they start by considering the largest non-appropriated funds. The largest 32 funds, each with annual expenditures greater than $20 million, constitute about 96% of the $12.8 billion in non-appropriated expenditures.

## SUMMARY OF RECENT AGENCY REPORTS

**Arizona Department of Administration (ADOA)** – Quarterly Report on Self Insurance Regarding Health Coverage – As a condition of the favorable review of self insurance pursuant to A.R.S. § 38-651, the Joint Legislative Budget Committee requested that the Arizona Department of Administration (ADOA) provide a quarterly report on its self insured health plans. Open enrollment for the various health plans took place between August 29 and September 16, 2005. This year, employees did not need to enroll except to make changes to their benefits or to continue Medical and Dependent Care Flexible Spending Accounts.

ADOA reports that about 14,000 employees used the online system to make changes to their benefits. Vision and dental plan enrollments remained fairly constant. Flexible Spending Account enrollment decreased by (16)%. In the medical plans, enrollment in the non-integrated plans decreased by (426), with the largest decrease, (226) members, in the Schaller Anderson option. United Healthcare, the integrated option, increased by 1,166 members. Total enrollment in the medical plans increased by 740 members, to 51,671. ADOA also reports that 86% of eligible employees are enrolled in the sponsored health plans.

ADOA projects that administrative fees will cost about $1.9 million per month, or $22.3 million in Plan Year 2006.

On September 1, 2005, the Joint Legislative Budget Committee met with ADOA to review contribution strategies related to the state employee health plans. At that time, the Committee posed several questions to ADOA regarding the health plans. ADOA prepared a response that was sent to members of the Committee, and is also summarized here.

One of the main questions posed by the Committee was whether the first year of the self insured plans bore out the assumption that integrated plans cost $10 more per member per month (PMPM) to operate than the non-integrated plans, as reflected in the higher employee cost for integrated plans. Overall, United Healthcare is the most expensive plan, because it has the highest membership and active members on average incur $156 more in medical expenses per year compared to members in non-integrated plans. Based on the administrative costs, United Healthcare, the integrated plan, was more expensive then 2 of the options but was actually less expensive on a per capita basis than the non-integrated Schaller Anderson option. When considering the Risk Adjusted Expense, ADOA found that United Healthcare is the per capita least expensive option. Eliminating the additional $10 in the premium would cost about $3 million per year; however, this does not consider any potential savings associated with members switching plans as a result of the lower integrated premium. ADOA states that more analysis would be needed to ensure the program is properly funded if the $10 differential were to be removed.

The Committee also asked for a comparison of actual and estimated expenditures for the 2005 plan year. ADOA reported that actual expenditures were $3.6 million higher than estimated. Administrative costs were $(36.2) million less than estimated; however, claims were $39.8 higher than estimated.

The Committee also requested information on Stop Loss insurance for the plans. Stop Loss insurance covers claims in excess of $500,000. During the 2005 plan year, 5 claims were reported over $500,000, averaging $683,522 per claim. Because of the Stop Loss insurance, ADOA reports that $917,611 will be reimbursed to the plan. Total premiums for the Stop Loss insurance in Plan Year 2005 were $2,679,011.

Finally, the Committee requested claims processing information on the plans. Non-integrated plans, which are processed by Harrington Benefits, processed about 76,000 claims and United Healthcare, the integrated plan, processed nearly 79,000. Harrington reported that 92% of claims were processed within 10 days, while United Healthcare reported 96% of claims processed within 10 days.

**AHCCCS** – Report on Hospital Inpatient Outlier Claims – Pursuant to Laws of 2005, Chapter 328, Section 25, AHCCCS has submitted a report to the Committee on the methodology used to reimburse hospitals for outlier inpatient costs. AHCCCS has subdivided all inpatient services into 7 categories. Outlier claims refer to services that exceed the average cost of services across all 7 categories or are extremely more expensive than the average cost within the service's specific category.

AHCCCS reports that the rates for the formulas used to reimburse hospitals have not been updated since 1998. At that time, it was estimated that only approximately 1% of claims would qualify as an outlier. As the rates in the outlier formula have not been updated since 1998, the costs for inpatient services in FY 2006 are compared with the costs for services in FY 1998. The inflation in the cost of medical services over the past 8 years have led to a higher number of claims that exceed the FY 1998 threshold to qualify as an outlier.

In FY 2001, 2.12% of claims qualified as outlier and in FY 2004, that figure rose to 5.08%. Payments made by AHCCCS for outlier reimbursements have also increased. In FY 2001, outlier payments totaled $9,737,100. In FY 2004, that figure rose to $46,992,300, an increase of over 380%. Outlier claims continue to occur for short, more expensive hospital stays.

Outlier payments are varied across counties and specific hospitals. In a number of hospitals, outlier claims represented 0% of total inpatient claims. In FY 2004, outlier claims at Tucson Heart Hospital represented 26.89% of total inpatient claims. Outlier claims by county ranged from 1.28% to 2.91% in urban counties and 0% to 10.27% in rural counties.

There have historically been 3 areas which represent the majority of outlier payments: routine, surgery, and intensive care unit. These categories continue to represent the areas with the greatest number of outlier claims. The ratios of outlier payments to total claims in these areas have remained constant.

**Arizona Community Colleges** – Report on Dual Enrollment and Appointing Ad Hoc Committee – Pursuant to A.R.S. § 15-1821.01 the Arizona Community Colleges are reporting on dual enrollment courses offered in FY 2005 and the subsequent achievements of students dual enrolled in FY 2004. Students in a dual enrollment course can earn both high school and community college credit. The courses are taught at the high schools.

Highlights of the FY 2005 report include:

- 35,982 students were dual enrolled
- 898 courses were offered, of which 329 courses were classified as Academic and 569 were Occupational
- Courses were offered at 209 locations in 9 districts
- 34,995 students, or 97% of those enrolled, completed the course
- 33,453 students earned a C or better, qualifying those students for both high school and community college credit
- 3,502 freshman and sophomore students were dual enrolled

A.R.S. § 15-1821.01 also requires the community colleges to report, every other year, on the subsequent achievement of students enrolled in dual enrollment courses. Currently, however, community college districts cannot track high school students after graduation if they continue their studies at a university or a different community college district. The districts report that they will be able to track high school seniors that attend a university or a community in another district within the next 2 years.

On receipt of this report, statute requires the Joint Legislative Budget Committee to convene an ad hoc committee that includes community college academic officers, faculty, and other experts. The ad hoc committee shall review the manner in which dual enrollment courses are provided and may make recommendations to the full Committee regarding desirable changes to these courses. The ad hoc committee will convene in the summer of 2006.

**Arizona Department of Corrections** – Report on Monthly Bed Plan Update – The Department of Corrections (ADC) has been providing monthly reports to JLBC Staff updating the status of provisional (temporary) 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. In the most recent update, the department also included an update on the status of the Maricopa health care contract. The following points summarize the latest information reported by ADC:

Bed Update

- Arizona inmates currently occupy all of the 2,064 available provisional beds located at out-of-state facilities in Oklahoma and Texas.
- All inmates were moved from the contract beds in Newton County, Texas by November 8. These particular beds were not included in the out-of-state provisional bed count. The department was notified on September 20 that Correctional Services Corporation (CSC), the private firm operating the beds, was canceling its contract to house Arizona inmates at the facility. Of the 536 inmates, 96 were moved to provisional beds in Okalahoma and the remaining 440 inmates were moved back to state-owned facilities.
- ADC awarded the contract for 1,000 new private beds to CSC in late June, and the department reports that the Attorney General's office will review financing documents on January 18, 2006. Following review, the department will issue a notice to proceed to the vendor. Construction is estimated to take 8-12 months after the contract is finalized; the FY 2006 budget assumed these beds would be operational by December 2005, but this opening will now be delayed. These beds will house Level-3 male sex offenders.
- The department met with Management and Training Corporation, the private firm contracted to operate the 1,400-bed facility in Kingman, at the end of October to discuss resolution of the substitution of propane for natural gas within the prison. The department reported that no agreements were reached and that an amendment to the contract would be implemented upon reaching agreements.

Community Accountability Program

- Two bidders submitted best and final offers on December 5 for the Community Accountability Pilot Program. The department reported that an evaluation committee is completing an assessment and will issue a recommendation shortly. The department has reported that a contract is expected to be awarded by the end of December or early January.

Maricopa Health Care Contract

- Two proposals were submitted on November 3 for the Maricopa County health care contract, and an evaluation committee has met to discuss those proposals. According to the ADC, requests for best and final offers will be sought in early January and the department expects to award a contract by the end of January. On December 13, ADC received a protest letter from one of the bidders regarding an unauthorized disclosure of information. The Attorney General's office is currently reviewing the letter and ADC has until January 16 to submit a response.

**Commission for the Deaf and the Hard of Hearing** – Telecommunications Services Excise Tax Revenue – Pursuant to a footnote in the FY 2006 General Appropriation Act (GAA), the Commission for the Deaf and the Hard of Hearing was required to report to the Joint Legislative Budget Committee by November 30, 2005 on the anticipated level of Telecommunications Services Excise Tax collections in FY 2006 and FY 2007.

In response to this requirement, the commission recently reported estimated revenue decreases of (17.2)% in FY 2006, about $(1.1) million, and (17)% in FY 2007, or about $(917,700). Based on these projections, the Telecommunications Excise Tax would receive total collections of about $5.4 million in FY 2006 and about $4.5 million in FY 2007. The Department of Revenue assisted the commission in making their projection by providing data on Telecommunications Services Excise Tax collections.

The Telecommunications Services Excise Tax is a 1.1% surcharge on gross proceeds from land line telephone bills. The tax applies exclusively to wired telephone lines and does not apply to wireless telephones and Voice over Internet Protocol (VoIP) services. Currently, 4 agencies receive funding from the tax. *Table 6* on the following page displays the tax distributions by beneficiary.

**Table 6**
**Telecommunications Services Excise Tax Allocation by Agency**

| | FY 2006 | FY 2007 |
|---|---|---|
| Commission for the Deaf and the Hard of Hearing | 0.68% | 0.68% |
| Poison Control | 0.25% | 0.25% |
| Arizona Schools for the Deaf and the Blind | 0.16% | 0.16% |
| Teratogen Information Program | 0.01% | 0.01% |
| **Total** | 1.10% | 1.10% |

Since FY 2003, revenue from this tax has been decreasing. This is due to the increase in cellular telephone users and users of VoIP, who do not pay the excise tax. The receipts for FY 2005 were 17.4% lower than receipts during FY 2004. FY 2006 gross receipts through October, from the total amount of the Telecommunications Services Excise Tax collections, are 20.1% lower than receipts in FY 2005 for the same period.

Due to the increasing popularity of wireless and VoIP services, revenues from this tax are expected to continue to decline in the near future.

*Table 7* on the following page displays the estimated tax revenues using the commission's currently estimated 17.2% decline in FY 2006 and 17% decline in FY 2007 and estimated cash flows from the Telecommunications Services Excise Tax from FY 2005 to FY 2007 by agency under the current allocation formula shown in *Table 6*. *Table 7* shows projected funding deficits that total to $(403,100) in FY 2006 and $(4,027,700) in FY 2007 under those estimates.

**Department of Economic Security (DES) –** Report on Available State and Federal Domestic Violence Funding **–** Pursuant to a General Appropriation Act footnote, DES is submitting its report to the Committee on available state and federal domestic violence funds. There is a total of $4.2 million state, $12.5 million federal and $1.6 million other funds currently used by 6 state agencies. *(See Table 8.)* The funding provides a variety of services ranging from support services to shelter.

The report also notes that 3 other agencies spend monies on domestic violence issues but do not track how much they spend on the issue. The Office of the Attorney General has $2.3 million in funding for victims of all crimes, the Department of Corrections provides various training and support programs relating to domestic violence issues, and the Supreme Court and Administrative Office of the Courts provide training help related to domestic violence issues for new judges and committees.

**Department of Economic Security** – Report on Arizona Works Pilot Program – 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 July and August 2005. This job placement pilot serves clients in District I-E, which generally covers the eastern part of Maricopa County.

In August 2005, MAXIMUS placed a total of 122 Arizona Works clients in full-time paid employment in District I-E, an increase of 21% from the August 2004 figure of 101. (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, decreased (14)%.) In August 2005, the number of DES JOBS clients placed in full-time paid employment in the rest of Maricopa County decreased by (20)% from the August 2004 figure, to 308 from 386 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 (29)%.) 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 Education** – Full-Day Kindergarten Report – On December 1, ADE submitted the Full-Day Kindergarten (FDK) report required by Section 4 of Laws 2005, Chapter 329. Chapter 329 required the department to conduct a comprehensive review of the existing research on FDK instruction. The review was to emphasize longitudinal studies that assess the long-term academic impact of FDK instruction.

The ADE report reviews 13 academic studies on the effects of FDK. A brief excerpt from the Executive Summary of the ADE report appears on the following page.

**Table 8**
**Available Domestic Violence Funding**

| State Organization | Total Funds | State | Federal | Other |
|---|---|---|---|---|
| Arizona Criminal Justice Commission (ACJC) | $ 523,206 | $ 440,034 | $ 83,172 | $ 0 |
| Department of Housing (DOH) | 601,613 | 601,613 | 0 | 0 |
| Department of Economic Security (DES) | 10,034,711 | 2,504,313 | 5,959,398 | 1,571,000 |
| Department of Health Services (DHS) | 1,646,757 | 0 | 1,646,757 | 0 |
| Department of Public Safety (DPS) | 2,436,403 | 0 | 2,436,403 | 0 |
| Governor's Office for Children, Youth and Families (GOCYF) | 2,991,076 | 617,087 | 2,373,989 | 0 |
| **Total** | **$18,233,766** | **$4,163,047** | **$12,499,719** | **$1,571,000** |

Table 7

| | FY 2005 | | FY 2006 | | FY 2007 | |
|---|---|---|---|---|---|---|
| **Commission for the Deaf and the Hard of Hearing** | | | | | | |
| Telecommunication Fund for the Deaf | | | | | | |
| Beginning Balance | $2,697,000 | 1/ | $1,948,500 | | $ - | |
| Revenues | 4,035,800 | 2/ | 3,341,600 | 3/ | 2,773,500 | 3/ |
| **Total Funds Available** | 6,732,800 | | 5,290,100 | | 2,773,500 | |
| Funds Expended | 4,784,300 | 4/ | 5,315,400 | 5/ | 5,279,700 | 5/ |
| Ending Balance | $1,948,500 | | $(25,300) | | $(2,506,200) | 6/ |
| | | | | | | |
| **Arizona State Schools for the Deaf and the Blind** | | | | | | |
| Telecommunications Excise Tax Fund | | | | | | |
| Beginning Balance | $ 131,700 | 7/ | $96,100 | | $ - | 8/ |
| Revenues | 1,363,200 | 2/ | 785,200 | 3/9/ | 651,700 | 3/9/ |
| **Total Funds Available** | 1,494,900 | | 881,300 | | 651,700 | |
| Funds Expended | 1,398,800 | 4/ | 991,400 | 5/ | 991,400 | 5/ |
| **Ending Balance** | $96,100 | | $(110,100) | 6/ | $(339,700) | 6/ |
| | | | | | | |
| **Poison Control** | | | | | | |
| Poison Control Fund | | | | | | |
| Beginning Balance | $1,751,200 | 7/ | $705,500 | | $ - | 8/ |
| Revenues | 1,066,800 | 2/ | 1,226,800 | 3/10/ | 1,018,200 | 3/10/ |
| **Total Funds Available** | 2,818,000 | | 1,932,300 | | 1,018,200 | |
| Funds Expended | 2,112,500 | 4/ | 2,200,000 | | 2,200,000 | 5/ |
| **Ending Balance** | $705,500 | | $(267,700) | 6/ | $(1,181,800) | 6/ |
| | | | | | | |
| **Teratogen Information Program** | | | | | | |
| Teratogen Information Program Fund | | | | | | |
| Beginning Balance | $ - | 7/ | $ - | 8/ | $ - | |
| Revenues | 53,700 | 2/ | 44,500 | | 36,900 | |
| **Total Funds Available** | 53,700 | | 44,500 | | 36,900 | |
| Funds Expended | 64,500 | 4/ | 44,500 | | 36,900 | |
| **Ending Balance** | $(10,800) | 6/ | $ - | | $ - | |

1/ Actual fund balance as reported by the General Accounting Office.
2/ Actual collections as reported by the Department of Revenue.
3/ Assumes revenues are 10% lower than the previous year.
4/ Actual expenditures as reported by the agency in their FY 2007 budget request.
5/ Budgeted expenditures as approved by the Legislature for FY 2006.
6/ Actual ending balance will not be negative.
7/ Actual fund balance as reported by the agency in their FY 2007 budget request.
8/ Assumes a beginning balance of zero due to a projected negative ending balance in the prior fiscal year.
9/ Allocation of tax changed from 0.23% to 0.16%.
10/ Allocation of tax changed from 0.18% to 0.25%.

"ADE found that there are an insufficient number of well-designed research studies documenting the duration of FDK benefits beyond the 2nd Grade. The lack of sufficient data creates challenges for making sound conclusions related to students' academic outcomes. Many studies describe FDK and its short-term academic benefits, but researchers, advocates and policy makers seem to agree that more longitudinal studies exploring the long-term effects of FDK are needed."

The complete ADE report is available at http://www.ade.az.gov/pio/Press-Releases/2005/Default.asp (12-02-2005 press release).

**Governor's Office of Strategic Planning and Budgeting** – Final Report on Federal Funds Central Clearinghouse Study – Pursuant to a provision in the Budget Procedures Budget Reconciliation Bill (Laws 2005, Chapter 331, Section 17), the Governor's Office of Strategic Planning and Budgeting (OSPB) has provided its final report on its study of a Federal Funds clearinghouse to the Governor, the President of the Senate, and the Speaker of the House of Representatives. OSPB submitted its progress report to the Committee in September as required by Chapter 331.

The final report is similar to the report submitted to the Committee in September. OSPB notes that the Arizona Department of Administration (ADOA) compiles a Schedule of Expenditures of Federal Awards and the Auditor General's annual Single Audit report includes audited expenditure totals for Federal Funds and whether or not they were spent properly. The report also notes that Grants.gov, a federally-run Internet site, coordinates competitive grant opportunities while formula-based award information is available through

Federal Funds Information for the States. OSPB notes that expenditure detail, including balances, is available through AFIS, the state's accounting system, but that the information can be cumbersome to extract and would require at least 1 additional staff person to develop and generate these reports on an ad hoc basis. ADOA estimates that the cost of designing and implementing a data warehouse for easy extraction of the AFIS data would cost $1.5 million over the next 3 years.

OSPB recommends that ADOA establish a website that contains links to the currently available Federal Funds information, including state accounting system data. OSPB does not make a recommendation as to whether the AFIS data access should be via an ADOA staff person or through a data warehouse.

While the final report attempts to address some possible concerns JLBC Staff raised regarding its progress report, it is still unclear whether AFIS data would provide the detail regarding available monies, fund balances, or expenditure detail within agencies by individual Federal Fund.

**Arizona Commission of Indian Affairs –** <u>Report on Uses of Monies in the Arizona Indian Town Hall Fund</u> – Pursuant to A.R.S. § 41-545, the Arizona Commission of Indian Affairs is reporting on Indian Town Hall Fund expenditures for FY 2005. The fund receives fees collected at Indian Town Halls to defray administrative costs. Statute limits expenditures from the fund to $15,000 per fiscal year.

Fund revenues during the 25th Annual Arizona Indian Town Hall totaled $8,749. This amount does not include the $3,031 balance carried forward from the prior year. The Indian Town Hall Fund expenditures totaled $8,764 in FY 2005, leaving a carry-forward balance of $3,015.

In addition to the Indian Town Hall Fund expenditures, the Arizona Office of Homeland Security (AOHS) paid $13,000 for related hotel expenditures. AOHS attended the FY 2005 Town Hall because of the event's focus on homeland security and other emergency management issues.

**State Land Department** – <u>Report on Fire Suppression Revolving Fund</u> – A.R.S. § 37-623.02(E) 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 and any additional monies authorized by the Governor to prepare for periods of extreme fire danger. The Fire Suppression Revolving Fund is a non-appropriated fund consisting of legislative appropriations, reimbursements, and monies authorized through statutory emergency provisions. In FY 2005, there was a total of $15,692,900 in liability incurred to the fund for a variety of authorized purposes. Of the total liability, the department made payments of $9,389,600 in FY 2005.

In terms of fire fighting activity, Fire Suppression Revolving Fund monies were used to fight a total of 730 fires, resulting in a paid liability of $6,160,200 and an unpaid liability of $2,642,300, as shown in the table.

*Table 9* accounts for $6,160,200 of the total $9,389,600 in paid liabilities. The remaining $3,229,400 was expended as follows:

- $2,037,000 for the state's share of costs for 5 fires under the jurisdiction of the Federal Emergency Management Agency (FEMA), including the Cave Creek Complex fire, which burned over 225,480 acres (34% of total liability). A total of 6 other fires merged into the 5 FEMA fires.
- $908,800 to pre-position resources to prepare for potential fires (8% of total liability).
- $252,700 to pay for requested assistance with Hurricanes Frances and Ivan. Also, to respond to winter floods in northern Arizona. A.R.S § 37-623.02 allows the Fire Suppression Revolving Fund to be used for "all risk activities." These activities include assistance with hurricane and flood disasters. (1.6% of total liability)
- $30,900 to respond to 166 false alarms (0.4% of total liability).

Out-of-state fire fighting is part of reciprocity agreements with other western states. When a participating state needs assistance fighting fires, they can request aid from the other states. The liability incurred depends on the needs of other participating states. All out-of-state costs are billed and reimbursed to the department.

Due to the complex billing arrangement created by the interagency cooperative agreements used by the State Land Department's Fire Management Division, not all of a year's liabilities are paid in the current year. These unpaid liabilities are paid in future years with monies remaining in the fund as well as reimbursements to the fund, such as payments from the federal government for fires that occurred on federal land. After subtracting the amount of paid liability from the fund's total liability, a total unpaid liability of $6,303,300 remains.

**Table 9**

**Fire Suppression Activities**

| Location of Fire | Number | Paid Liability | Unpaid Liability |
|---|---|---|---|
| State & Private Land | 544 | $ 2,279,100 | $1,980,300 |
| Federal Land- Out of State | 22 | 750,700 | 2,000 |
| Federal Land - In State | 164 | 3,130,400 | 660,000 |
| Total | 730 | $6,160,200 | $2,642,300 |

**State Land Department** – Quarterly Report on State Trust Land Activities – The FY 2006 General Appropriation Act (GAA) provided the Land Department with $3.1 million in additional monies for the planning and disposition of state trust lands. The GAA also required the department to submit quarterly reports to the JLBC regarding state trust land activities. Information from the department's first report pursuant to this new reporting requirement is summarized below.

During the first quarter of FY 2006, the department sold 900 acres of land for $287.9 million, plus 450 acres for rights of way that generated an additional $8.2 million in revenue. The department also contracted for planning and engineering services on 96,050 acres at a cost of $1.8 million. The department used a total of 23 FTE Positions for land planning, engineering, and sales and leasing activities during this period.

*Table 10* summarizes data presented in the department's report. In the table, the "FTE" and "Contract Services" columns show resources used for each type of reported activity, the "Acres" column shows the number of acres involved for each type of activity and the "Revenues" column shows revenues received from new land sales and leases during the quarter.

Although required by the GAA footnote, the Land Department did not submit an analysis of the volume of trust land entering the market compared with the volume of private and other land entering the market during the quarter. The Land Department has indicated that information regarding the volume of private and other land entering the market is unavailable.

During the first quarter of FY 2006, the majority of the work done in rural areas has been for land planning and engineering studies. While the urban lands are more distributed between planning, engineering, and due diligence studies, the majority of the rural land is in the planning and engineering phases. Except for right of way sales, no rural state trust land was sold or leased in the first quarter. However, the Land Department has indicated plans to sell or lease 3,800 acres of trust land in FY 2006. Of the total 79,350 acres of rural land in the planning and engineering phases, 46,600 acres is located in areas relatively close to the Phoenix Metropolitan area. This is because the definition of a rural area in the GAA footnote is 5 miles of the corporate boundaries of incorporated cities and towns having a population of less than 100,000 persons.

The Land Department did not report on the value added to the trust land as a result of planning and engineering activities. In addition, the Land Department does not appraise land before and after each planning and engineering activity, therefore, they do not have an estimate of the increase in value as a result of specific activities.

The GAA required the Land Department to allocate at least 2 of the new FTE Positions to work on planning and dispositions projects in rural areas. A total of 12 FTE Positions worked on rural projects during the first quarter of FY 2006. The department has indicated that they have hired 11 out of the 12 newly appropriated FTE Positions and made an offer for the remaining position, and at least 2 of the new FTE Positions were dedicated to rural projects during the quarter.

In addition to the information submitted above, during the final quarter of the fiscal year, the Land Department is required to submit information regarding: the total amount of trust land sold, the amount of trust land put under long-term commercial lease, the purchase price of state trust land financed on installment sales, and the principal payoff terms and the anticipated yielded to the trust over the terms of the installment sales. This information will provide an overview of state trust land activities and revenues generated during the fiscal year.

**Table 10**

**Land Department**
**State Trust Land Report**
**July 1, 2005 – September 30, 2005**

| | Urban Areas | | | | Rural Areas | | | |
|---|---|---|---|---|---|---|---|---|
| | FTE | Acres | Contract Services | Revenues | FTE | Acres | Contract Services | Revenues |
| Land Planning | 3 | - | $ - | $ - | 3 | 32,500 | $ 40,000 | $ - |
| Engineering | 3 | 14,500 | 811,600 | | 2 | 46,400 | 618,900 | - |
| Rights of Way | 2 | 100 | - | 5,731,100 | 3 | 350 | - | 2,474,300 |
| **Sales & Leasing** | 3 | - | - | - | 4 | - | - | - |
| Sales | | 900 | - | 287,900,000 | | - | - | - |
| Due Diligence Studies | - | 2,400 | 211,700 | - | - | 250 | 58,900 | - |
| **Grand Total** | 11 | 17,900 | $1,023,300 | $293,631,100 | 12 | 79,500 | $717,800 | $2,474,300 |

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

The beginning balance in the AMSF for FY 2005 was $4,800 and there were no deposits or expenditures made during the year. There have been no expenditures from the fund since FY 2003.

**Department of Revenue (DOR)** – Report on Ladewig Expenditures – DOR reports monthly on the status of the Ladewig litigation. DOR's monthly status report shows expenditures of $19,000 for Ladewig administrative costs in November 2005. Expenditures and accounts forwarded to Unclaimed Property totaled $55.9 million through November 2005, including $47.4 million of expenditures and $8.5 million of accounts forwarded to Unclaimed Property. *Table 11* summarizes these items.

DOR estimates that the FY 2005 refunds included overpayments of $6.3 million to 3,200 of the 306,000 claimants due to clerical and computer matching errors. At a May 26, 2005 hearing, the court agreed to allow the state to hold off mailing FY 2006 refunds to the 3,200 overpaid claimants, until the overpayment issue was resolved. The Joint Legislative Budget Committee at the June 28, 2005 meeting, asked that DOR report back to the Committee after the taxpayer refund overpayment issue had been resolved. The report is to include DOR's updated estimate of the total cost of the Ladewig settlement.

On November 18, 2005, the court ruled that DOR cannot directly collect the first installment overpayments from overpaid taxpayers. However, DOR may offset the amount of the overpayment against any second and/or third installments. The court further ruled that the second installment is due to these taxpayers by March 1, 2006, and that the final installment remains July 21, 2006. DOR is required to notify the affected taxpayers. DOR estimates that they will be able to report back to the Committee regarding the taxpayer refund overpayment issue, including DOR's updated estimate of the total cost of the Ladewig settlement by February 2006, since their programmers are currently working on other year-end tasks.

**Arizona Board of Regents** – Enrollment Counting Day Report – Laws 2005, Chapter 330 required the Arizona Board of Regents (ABOR), by December 1, 2005, to report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on full-time equivalent (FTE) student enrollments as of the 21st day and the 45th day of the fall 2005 semester, delineated by university. Chapter 330 specified the 45th day because A.R.S. § 15-1466.01 requires community colleges to conduct their enrollment counting at that time. Chapter 330 also stipulated that the report analyze advantages and disadvantages of each enrollment count for state funding purposes.

Historically, the universities conduct their enrollment counting on the 21st day. At Northern Arizona University (NAU) and the University of Arizona (UA), the deadline for students to drop classes from their schedules occurs after the 21st day of the semester. Meanwhile, at the campuses of Arizona State University (ASU), this deadline technically occurs before the 21st day. However, according to the ASU academic calendar, students of that university seem to have more flexibility, for an indeterminate amount of time, to drop classes with advisor approval. At all 3 universities, the deadline for students to withdraw from a class occurs around the 60th day of the semester. Unlike dropping, withdrawing from a class is noted on student transcripts.

ABOR reports that, throughout the Arizona University System, enrollment dropped from 107,765 FTE students on the 21st day to 105,964 FTE students on the 45th day, a decline of (1,802) FTE students, or 1.7%. ASU saw the largest decline, (1,121) FTE Students, between the first and second

**Table 11**

**DOR's Ladewig Expenditures in FY 2006**

| | DOR's Estimate 1/ | Through November 2005 |
|---|---|---|
| DOR Administration | $ 1,758,900 2/ | $ 293,200 |
| Plaintiff Attorneys | 4,900,000 | 4,853,300 |
| Taxpayer Payments | 51,600,000 | 42,256,700 |
| Unclaimed Property Accounts 3/ | 0 | 8,478,300 |
| Total Expenditures | $58,258,900 4/ | $55,881,500 |

1/ Reported by DOR at the June 28, 2005 JLBC meeting.
2/ JLBC favorably reviewed $1,424,700 to fully fund DOR's estimated administrative costs in FY 2006 at the June 28, 2005 JLBC meeting. $334,200 was unallocated in DOR's plan.
3/ Taxpayer payment accounts forwarded to Unclaimed Property. Laws 2005, Chapter 333 requires that any unclaimed Ladewig taxpayer payments for FY 2006 be deposited in the General Fund.
4/ Any unused amounts of the $58,258,900 are set aside for future Ladewig payments.

counts. *Table 12* below summarizes the enrollment changes from the 21st day to the 45th day by campus, as well as the fiscal changes that would result from using the 45th day counts for enrollment funding purposes. If the part-statutory, part-conventional student enrollment funding formula used by JLBC Staff were applied to the lower, 45th day enrollment counts, General Fund support for the university system as a whole would decline by $(9.7) million, or (1.1)% of the FY 2006 General Fund appropriation.

ABOR did not identify any advantages to using the 45th day for enrollment counting. For state funding purposes, the board stated that 45th day enrollment data would not be available to incorporate into state budget requests by the customary October 1 university submission deadline. As a result, the universities would have to estimate enrollments for the purposes of their budget submittals.

ABOR also explained that, while community colleges often offer several options for class starting dates, and might, in some cases, have higher enrollments on the 45th day than the 21st day, all university classes start at the same time, with students largely dropping classes between the 21st and 45th days. The board also identified several administrative challenges involved in any contemplated conversion.

Chapter 330 requires ABOR to submit a similar report for the spring 2006 semester on April 15, 2006.

**Table 12**

**Arizona University System**

**Fall 2005 21st Day to 45th Day Enrollment Changes and Associated Funding**

| | FTE Student Change | Student Change % | General Fund Change 1/ | General Fund Change % 2/ |
|---|---|---|---|---|
| ASU-Main | (965) | (2.0)% | $(5,145,400) | (1.7)% |
| ASU-East | (110) | (1.8)% | (245,600) | (1.6)% |
| ASU-West | (46) | (1.6)% | (584,800) | (1.3)% |
| ASU Subtotal | (1,121) | (2.0)% | (5,975,800) | (1.7)% |
| NAU | (203) | (1.2)% | (1,152,500) | (0.9)% |
| UA | (478) | (1.4)% | (2,553,900) | (0.7)% |
| **Total** | **(1,802)** | **(1.7)%** | **$(9,682,200)** | **(1.1)%** |

1/ JLBC Staff calculated General Fund changes by applying the part-statutory, part-conventional student enrollment funding formula to the FTE Student Changes shown.
2/ JLBC Staff calculated General Fund change percentages in comparison to FY 2006 General Fund appropriations.