

JLBC **MONTHLY FISCAL HIGHLIGHTS** **January 2007**

December General Fund revenue collections were \$910.7 million, or 4.9% above December 2005. This amount was \$(9.8) million below the forecast for the month. The forecast comparison is based on projected FY 2007 revenues from the enacted budget. For the fiscal year-to-date, collections are \$77.3 million above the forecast. (See Table 3 on page 2.) These surplus revenues have already been accounted for in the JLBC Baseline revenue calculations for FY 2007

Collections continued to slow in December. Of the major tax categories, December sales tax grew at a rate of only 6.0%, while individual income collections actually decreased by (1.6)%. Corporate collections continued to be strong, however, with growth of 25.4% above December 2005. For the year-to-date, total collections are 8.4% above last year. (See Table 8 on page 10 for details.)

The decline in individual income tax collections seems to be due to a timing issue related to when individual estimated tax payments are received. As evidence of this, January collections in this category appear to have offset the December losses.

In other fiscal news this month, the JCCR met on January 23rd (page 4). Highlights included:

- The Committee unfavorably reviewed Arizona State University's proposal to enter into an agreement with a private firm to develop housing for 1,200 students at the Downtown Phoenix Campus. The private developer would finance and operate the project, generating revenue from dorm fees. The Committee unfavorably reviewed the request since the full Legislature has not approved the Downtown Phoenix Campus.
- The Committee favorably reviewed Maricopa County Community College District's proposal to issue \$240 million in General Obligation (GO) bonds for capital projects. At the November 2004 election, Maricopa County voters authorized the district to issue a total of \$951 million in GO bonds over 10 years. The current issuance represents the second installment. The district previously issued \$191 million in 2005.

The Monthly Fiscal Highlights also include a summary of recent statutory reports to JLBC (pages 4 – 9). Of note, the Arizona Department of Education (ADE) is now reporting a net FY 2007 surplus of \$9 million. Previously, the department had reported a shortfall of \$(9.7) million.

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DECEMBER REVENUES

Sales Tax collections were \$362.2 million in December, or 6.0% above last December. The following table displays the December and year-to-date growth rates for the major categories.

Table 1

Sales Tax Growth Rates

	<u>December</u>	<u>Year-to-Date</u>
Retail	6.2%	4.8%
Contracting	5.0%	17.0%
Utilities	12.9%	11.8%
Use	(6.9)%	4.7%
Restaurant & Bar	7.2%	9.6%

Overall, sales collections grew at a slower rate than prior months in FY 2007. The slower growth was largely due to weak contracting collections for the month and a reduction in year-over-year use tax collections. For the month, revenues were \$(1.3) million below the forecast.

Individual Income Tax collections were \$360.5 million in December, or (1.6)% below last year. *Table 2* displays the December and year-to-date growth rates for the individual income tax categories.

Table 2

Individual Income Tax Growth Rates

	<u>December</u>	<u>Year-to-Date</u>
Withholding	12.1%	7.4%
Estimated + Final Payments	(19.0)%	22.9%
Refunds	84.3%	60.9%

Following a weak November, withholding tax collections rebounded in December. The gains in withholding were offset, however, by a significant reduction in estimated tax payments and the continued high growth in refunds. Monthly revenues were \$(43.4) million below the forecast.

With regard to the reduction in estimated tax payments, the decrease is likely the result of when those payments are received. So far in January, increased collections for estimated tax payments have offset the decline in December.

Corporate Income Tax collections were \$169.6 million in December, or 25.4% above last year. For the month, corporate income tax revenues were \$19.9 million above the forecast.

RECENT ECONOMIC INDICATORS

The Conference Board's **U.S. Consumer Confidence Index** climbed 3.5% in December, reflecting a better outlook across the board. Consumers' assessment of current conditions improved, while sentiment about the job market and expectations for the next 6 months also were rising.

The **U.S. Index of Leading Economic Indicators** increased 0.3% in December. The advance was led by positive contributions from building permits, stock prices, manufacturers' new orders, vendor performance, and declining unemployment insurance claims. The recent pattern of the leading index suggests that slow to moderate economic growth is likely to continue in the months ahead.

Semiconductor sales remained at relatively high levels. The Semiconductor Industry Association (SIA) announced that **U.S. semiconductor billings** (3-month moving average) edged (0.5)% lower in November but remained 6.5% above the level from a year ago. The SIA reported that unit sales of consumer electronic products such as digital cameras (up more than 40% in the U.S. market for the first 11 months of 2006) and flat panel displays were ahead of forecasts, resulting in strong revenue growth.

Retail price inflation moderated toward the end of 2006. The **U.S. Consumer Price Index (CPI)** (3-month moving average) dipped (0.2)% in December, while the corresponding year-over-year increase was 1.9%. For all of 2006, the CPI increased at a 3.2% average annual rate. Excluding food and fuel costs, the core CPI increased 2.6% during 2006.

Preliminary estimates showed that Arizona's **non-farm employment** increased by 4.5% on a year-over-year basis in December 2006. The job count totaled 2.72 million, an increase of 116,000 from the prior year. Although manufacturing employment was shrinking in recent months, the other goods-producing sectors – construction and mining – posted steady gains. The construction industry directly accounted for 20% of all the jobs created in 2006. The state finished the year with a 4.1% **unemployment rate**, an improvement from the 4.7% rate reported a year ago.

The residential real estate market continued its downward trend. The Realty Studies group at Arizona State University estimated that the Greater Phoenix **single-family median resale home price** dropped (1.2)% to \$255,900 in December,

Table 3

**General Fund Revenues
Compared to Enacted Forecast and FY 2006 Collections**
(\$ in Millions)

	<u>FY 2007 Collections</u>	<u>Difference From Forecast</u> ^{1/}	<u>Difference From FY 2006</u>
December	\$ 910.7	\$ (9.8)	\$ 42.6
Year-to-Date	\$ 4,546.2	\$ 77.3	\$ 353.2

^{1/} Enacted FY 2007 budget (June 2006)

well below the record \$267,000 median price reported for June 2006. A total of 67,035 existing single-family homes were sold in 2006, which was (40.0)% less than the 110,835 units sold in 2005 and the fewest sold since 2002.

The **townhouse-condominium median price** increased to \$175,000 in December but remained below the \$179,000 record median price posted in July 2006. A total of 13,995 existing units were sold in 2006, down from 2005's total of 21,290.

The **Arizona Business Conditions Index**, based on a survey of supply chain managers and produced by Arizona State University, decreased (14.5)% to 54.5 in December, slightly higher than the mark of 50 associated with an expanding economy. The new orders component was among the factors leading December's decline, with production and delivery times also posting losses. The employment and materials inventory components made small positive contributions.

A different measure of statewide business sentiment moved into positive territory. The University of Arizona's **Business Leaders Confidence Index (BLCI)** for 2007's 1st quarter rose 7.9% to 51.9, slightly above the neutral 50 reading. All 6 components moved higher, with the capital expenditures and hiring categories registering the biggest increases from the prior quarter. The sales expectations component continued to post the highest results as it has consistently in recent surveys.

The **Department of Corrections' inmate population** increased by an average of 169 inmates per month from October through December. The total population increased by 2,438 inmates from a year ago.

The number of **TANF** recipients decreased (2.7)% to 84,228 in November and was (13.1)% below the level from November 2005. The **AHCCCS caseload** increased 0.3% in January from the prior month but was (2.0)% below the level from a year ago.

Table 4

RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate	December	4.1%	0.0%	(0.6)%
- Jobs	December	2.72 million	0.6%	4.5%
- Contracting Tax Receipts (3-month average)	Oct-Dec	\$81.6 million	(0.3)%	16.1%
- Retail Sales Tax Receipts (3-month average)	Oct-Dec	\$160.1 million	(1.9)%	4.5%
- Residential Building Permits - (3-month moving average)				
Single-unit	Sep-Nov	3,030	(14.2)%	(49.9)%
Multi-unit	Sep-Nov	500	(5.9)%	(51.1)%
- Greater Phoenix Existing Home Sales				
Single-Family	December	4,620	(8.3)%	(28.7)%
Townhouse/Condominium	December	880	(4.3)%	(37.1)%
- Greater Phoenix Median Home Sales Price				
Single-Family	December	\$255,900	(1.2)%	(1.6)%
Townhouse/Condominium	December	\$175,000	1.7%	6.7%
- Arizona Tourism Barometer	August	102.8	(1.2)%	(0.8)%
- Phoenix Sky Harbor Air Passengers	October	3.4 million	10.7%	(2.4)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	October	\$6.20	(8.4)%	(29.9)%
- Leading Indicators Index	October	119.2	0.2%	(0.5)%
- Business Conditions Index (>50 signifies expansion)	December	54.9	(14.5)%	(20.5)%
- Consumer Confidence Index	4 th Quarter 2006	105.3	2.5%	7.3%
- Business Leaders Confidence Index	1 st Quarter 2007	51.9	7.9%	(13.4)%
- Arizona Personal Income	3 rd Quarter 2006	\$195.4 billion	1.8%	7.1%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	January	1,029,702	0.3%	(2.0)%
- TANF Recipients	November	84,228	(2.7)%	(13.1)%
- DOC Inmate Growth (3-month average)	Oct-Dec	35,783	169 inmates	2,438 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	3 rd Quarter 2006	\$11.4 trillion	2.0%	3.0%
- Consumer Confidence Index	December	109.0	3.5%	5.0%
- Leading Indicators Index	December	138.0	0.3%	(0.4)%
- U.S. Semiconductor Billings (3-month moving average)	Sep-Nov	\$3.97 billion	(0.5)%	6.5%
- Consumer Price Index (3-month moving average)	Oct-Dec	201.7	(0.2)%	1.9%

JCCR MEETING

At its January 23, 2007 meeting, the Joint Committee on Capital Review (JCCR) considered the following issues:

Arizona State University Downtown Campus Student Housing – The Committee gave an unfavorable review to the downtown campus student housing project given that the campus was not established by the Legislature.

The project would build student housing for approximately 1,200 students by August 2009. A private developer would enter into a 30-year land lease with the City of Phoenix to construct the completed project. The developer would finance the project and collect student housing fees, thereby eliminating the need for state financing. When the financing is paid off in 23 to 30 years, the facilities and land would become ASU property. In exchange, ASU would: 1) guarantee limited funding to reach a 99% occupancy level in the first 4 years of operation (would not exceed \$1.2 million), 2) not solicit student housing from other developers, provided performance levels are met, and 3) provide land for future housing projects.

Other than the rent guarantees in the first 4 years, the state would have no financial obligation.

Arizona State University FY 2007 Building Renewal – The Committee gave a favorable review to the FY 2007 building renewal plan. For FY 2007, the university was allocated \$6.5 million of a \$20 million appropriation to the Arizona Board of Regents for building renewal. The plan allocates the \$6.5 million among 10 projects.

Arizona State University Academic Renovations & Deferred Maintenance and Revised Instructional/Research Laboratory Renovations – The Committee gave a favorable review to the issuance of \$10 million in system revenue bonds for phase IIB of academic renovations and deferred maintenance. Of the \$10 million, \$6 million is allocated for 3 projects and \$4 million remains unallocated. The issuance will be repaid over 15 years with tuition and rent revenues. The annual debt payment is estimated to be \$963,400.

Maricopa Community College District General Obligation Bond Issuance – The Committee gave a favorable review to the issuance of \$240 million in general obligation bonds, with the provision that the college report to the Committee the actual cost of the bond issuance when the district returns for review of its next issuance. At the June 22, 2004 meeting the Committee gave a favorable review to the entire \$951.4 million bond proposal, with the provision that the Maricopa Community College District (MCCD) return for Committee review prior to each issuance. The voters of Maricopa County subsequently approved the district's bond program in November 2004. After an initial \$190.3 million issuance in 2005, the district plans to issue an additional \$240 million in 2007.

Of the \$240 million, \$152.7 million would be allocated for capital projects, \$17.7 million for district wide maintenance and regulatory compliance, \$26.7 million for district wide occupation programs, and \$42.9 million would be used to purchase and upgrade technology and equipment. The bond will be repaid over 14 years by increasing the secondary property tax rate, as approved by the voters in 2004. For the entire \$951.4 million voter-approved package, the district estimates that the average annual tax increase would be \$14 for every \$100,000 of property value.

Department of Economic Security Prescott Property Conveyance – The Committee gave a favorable review to the conveyance of the 4,500 square foot property to the City of Prescott for the appraised value of \$530,000. The favorable review included a provision that the department report to the Committee regarding the planned use of the proceeds from the sale of the building prior to its expenditure. The department will relocate to a leased building that will provide consolidated services to the area. After purchasing the building, the City of Prescott will transfer the property to Prescott College.

SUMMARY OF RECENT AGENCY REPORTS

ADOA / GITA – Quarterly Report on AZNet Implementation – In December 2004, the Joint Committee on Capital Review requested the Arizona Department of Administration (ADOA) and the Government Information Technology Agency (GITA) to report quarterly on the Arizona Network (AZNet), as created by the Statewide Telecommunications Management Contract. In the last quarterly report the agency reported that the primary contractor had completed the migration of all state users to the new network. This statement has been revised to exclude the Exposition and State Fair Board (70 seats), the Public Safety Personnel Retirement System (17 seats), and the Power Authority (17 seats).

In addition to requiring the migration of all state agencies onto AzNet, the contract also requires state agencies to install 22,000 new internet phones by April 2010. As of October 1, ADOA reported 7,182 installations complete, of which 601 were completed during the 1st quarter of FY 2007. Also during the 1st quarter of FY 2007, state agencies invested \$1.1 million in 29 capital projects, of which 8 are still active in the 2nd quarter of FY 2007.

AHCCCS – Report on Interstate Agreement with Hawaii – Pursuant to A.R.S. § 36-2925H and a General Appropriation Act footnote, AHCCCS is submitting its annual report on the status of an Interstate Agreement with the State of Hawaii.

This report summarizes the continued activities associated with the agreement between AHCCCS and Hawaii for data processing with the AHCCCS Prepaid Medicaid Management Information System (PMMIS). Cost savings to AHCCCS resulting from this agreement are deposited into a special fund. This fund had an ending FY 2006 balance of \$1,615,600, including \$156,500 deposited in FY 2006. As per

A.R.S. § 36-2926, these funds are limited to technology projects and IT staff recruitment.

Arizona Criminal Justice Commission – Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditures of monies in the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8, 2007.

In FY 2006, the State Aid to County Attorneys Fund allocated \$1,005,500, of which \$157,700 was the General Fund appropriation and the remaining \$847,800 was from fines and penalties collected by the Supreme Court and Court of Appeals. The State Aid for Indigent Defense Fund allocated \$955,100, of which \$150,100 was from the General Fund and \$805,000 was from fines and penalties collected by the Supreme Court and Court of Appeals.

ACJC reports that counties used the monies in three main areas: additional staffing to process more cases, technological purchases to improve case management, and specialized courts such as DUI/drug courts and early disposition courts. The specialty courts were funded to increase the speed in handling cases that warranted treatment or plea bargains.

The legislation establishing the funds and the reporting requirement included a legislative intent section that set timelines for criminal case processing. The ACJC report states that although Fill the Gap funding increased, case processing times have not met the Supreme Court guidelines. In addition to the growth in criminal case filings, many counties cited a lack of qualified attorneys along with high staff turnover as reasons for not meeting timelines.

Department of Economic Security – Report on Implementation of Child Care Subsidy Reforms – The FY 2007 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2006, Chapter 331) granted the Department of Economic Security (DES) an exemption from the rulemaking process in order to implement the child care subsidy reforms included in the FY 2006 Health and Welfare BRB (Laws 2005, Chapter 328). Also included was a requirement that these reforms be implemented by January 1, 2007. Failure to implement these reforms on time would result in a reversion of \$800,000 to the General Fund from the Division of Employment and Rehabilitation Services operating budget. DES reports that the rules implementing these reforms were filed with the Secretary of State on December 28, 2006 and became effective on December 31, 2006. All of the required reforms have now been implemented.

Department of Economic Security – Quarterly Report on Progress in Meeting Federal Work Participation Requirements – A footnote in the FY 2007 General Appropriation Act requires the Department of Economic Security to report quarterly on progress made in meeting federal Temporary

Assistance for Needy Families (TANF) work participation requirements.

The federal Deficit Reduction Act (DRA) of 2005 changed the calculation that determines a state's required work participation rate for clients receiving cash assistance under TANF. Prior to Federal Fiscal Year (FFY) 2007, the required work rate was reduced based on caseload decline since 1995. With the implementation of the DRA, the reduction is based on caseload decline since 2005. For FFY 2006, DES had a work participation rate of 29.1% and a minimum required rate of 20%. For FFY 2007, it is expected that the minimum required rate will be between 40% and 45%. Failure to meet the required rate will result in a federal corrective action plan, and eventually in fines up to 5% of the total Federal TANF Block Grant, about \$10 million.

DES states that the privatization of the JOBS program, which assists TANF clients in finding employment, creates a challenge in meeting the participation requirements. This is mainly due to increased turnover in the existing staff. The report did not address how DES will respond to these difficulties.

Department of Education – AIMS Contract Changes – A General Appropriation Act footnote states that "Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the JLBC." This footnote requirement has not been met in recent years. The Arizona Department of Education (ADE), however, recently sent a letter to the JLBC Staff with information regarding changes in its current 5-year (FY 2005 – FY 2009) AIMS contract with the vendor for that test. In that letter, ADE indicates that the vendor plans to charge ADE almost \$8 million more in FY 2008 than the \$9,831,800 amount that ADE believes AIMS testing should cost that year under the current contract.

ADE's assumed \$9,831,800 cost for FY 2008 equals the original contract cost of \$8,023,500 for that year plus \$1,808,300 for subsequent caseload and policy changes for the program. The current vendor instead contends that those changes would add \$9,432,700 to FY 2008 contract costs, resulting in a total cost of \$17,456,200. The JLBC Staff has requested additional detail from ADE regarding costs of individual caseload and policy changes for the program since the start of the current 5-year contract and will provide an update on this topic after that information is received.

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2007 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2007. In a previous report, ADE reported a shortfall of \$(9.7) million. ADE now reports a \$9.0 million net funding surplus for FY 2007, which includes an estimated \$13.6 million surplus for Basic State Aid and other formula programs combined and an estimated \$(4.6) million shortfall

for achievement testing. The estimated \$13.6 million formula surplus is based mostly on reported FY 2006 Average Daily Membership (ADM) counts for school districts, since FY 2007 counts are not yet available. Basic State Aid costs in FY 2007 will depend on both FY 2006 and FY 2007 ADM counts, since that funding is based on current year counts for growing districts and prior year counts for non-growing ones. ADE's \$9.0 million net surplus estimate therefore is subject to considerable change once FY 2007 ADM counts become available. This is not expected to occur until at least February 2007.

Arizona Department of Homeland Security – Quarterly Report on Homeland Security Funding – The Arizona Department of Homeland Security (DHLS), in response to a request by the Joint Legislative Budget Committee, has submitted a quarterly expenditure and allocation report for homeland security grant monies.

In FFY 2004, approximately \$55.7 million of homeland security funding was awarded to Arizona. Of this amount, \$53.7 million was reported as obligated or expended, leaving a balance of \$2.1 million which has yet to be spent. In the August report, the total amount of funds which were reported as obligated or expended was \$32.5 million, which represents an overall increase of \$21.2 million.

In FFY 2005, Arizona received \$41.7 million in homeland security grants, of which \$41.6 million was reported as either obligated or expended. The amount reported as obligated or expended in the August report was \$15.6 million, representing an increase of \$26.0 million.

In FFY 2006, Arizona received a total of \$20.2 million in homeland security funds. Pending federal approval, DHLS has already allocated these monies. Final FFY 2006 projects and awards will be included in the future quarterly reports as they become available.

Intel Corporation – Status Report on the Fab 32 Construction Project – Laws 2005, Chapter 289 provides that corporations that meet the conditions of Chapter 289 may use an enhanced sales factor in the calculation of business income for corporate income tax purposes beginning in Tax Year 2007. Chapter 289 requires that corporations that have made capital investment commitments on a project under the terms of Chapter 289 are required to file a status report on the project by December 31 of each year through 2008.

The Intel Corporation's Fab 32 project, located at Intel's Ocotillo Campus in Chandler, is the only project that has met the conditions of Chapter 289. The Intel Corporation's annual status report on their Fab 32 project was received by JLBC on December 26, 2006. When completed, the Fab 32 building will be approximately 1 million square feet, and will house an estimated 184,000 square feet of clean room space. Intel reports that the project is currently on schedule, and is expected to be completed in the second half of 2007. The project is expected to cost approximately \$3 billion to

complete. The report notes that approximately \$812 million has been spent on the completion of the project through the end of 2006, and that construction-related employment reached a peak of 3,000 on-site workers during the year.

JLBC Staff – FY 2006 Reports on Credit Card Transactions – A.R.S. § 35-142, requires agencies that accept credit cards to annually report the number and dollar amount of those transactions, compared to the number and dollar amount of all transactions. Statute also requires information on the total dollar amounts of any discount, processing, or convenience fees paid. Lastly, each agency must issue a cost benefit report when its percentage of electronic transactions exceeds 30%. The state universities, the Legislature, and the Office of the Governor are exempt from this requirement.

Transaction volumes vary widely among the various departments. For FY 2006, 23 agencies reported accepting payment cards. *Table 1* shows that most of the state's electronic transactions are attributable to the Arizona Department of Transportation (ADOT).

Table 5

	<u>ADOT</u>	<u>Total Including Other Agencies</u>
# of Electronic Transactions	1,719,436	1,934,870
\$ of Electronic Transactions	1,078,557,698	1,096,565,970
Total \$ Transaction Fees	(4,454,451)	(4,760,841)

During FY 2006, agency transaction fee percentages ranged from 0.4% to 7.0%, with an average of 2.0%.

State Land Department – Report on Fire Suppression Activities – 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 2006, there was a total of \$16,867,100 in liability incurred by the fund for a variety of authorized purposes. Of the liability, the department made payments of \$15,014,500 in FY 2006.

In terms of fire fighting activity, Fire Suppression Revolving Fund monies were used to fight a total of 1,894 fires, resulting in a paid liability of \$10,574,300 and an unpaid liability of \$470,300, as shown in *Table 1*.

Table 6

FY 2006 Fire Suppression Activities

<u>Location of Fire</u>	<u>Number</u>	<u>Paid Liability</u>	<u>Unpaid Liability</u>	<u>Total Liability</u>
State & Private Land	854	\$ 6,112,800	\$296,200	\$ 6,409,000
Federal Land - In State	277	3,987,200	149,500	4,136,600
Federal Land - Out of State	47	474,300	24,600	498,900
Total	1,178	\$10,574,300	\$470,300	\$11,044,500 ^{1/}

^{1/} Numbers do not add due to rounding.

Table 1 accounts for \$11,044,500 of the total \$16,867,100 in total liabilities. The remaining \$5,822,600 was expended as follows:

- \$2,544,200 for the state's share of costs for 5 fires under the jurisdiction of the Federal Emergency Management Agency (FEMA) (15% of total liability).
- \$1,300,000 to preposition resources to prepare for potential fires (8% of total liability).
- \$1,625,700 to pay for requested assistance with Hurricanes Katrina and Rita. 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 (10% of total liability).
- \$352,800 to respond to 685 false alarms (2% 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 to and reimbursed by 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 FY 2006 unpaid liability of \$1,852,600 remains.

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

In December 2006, the State Mine Inspector reported that there were no deposits or expenditures made during FY 2006. There have been no expenditures from the AMSF since FY 2003.

Arizona Board of Regents - Report on University System's Financial Aid – Pursuant to A.R.S. § 15-1650, the Arizona Board of Regents is required to submit an annual report on financial aid, which includes information from all 3 universities, comparisons to peer institutions, and summary information for the entire university system.

Highlights from the FY 2006 report include:

- Approximately \$932.9 million in total financial aid dollars were provided to students.
- Of this amount, \$435.5 million (46.7%) came from federal sources, \$333.5 million (35.7%) came from state institutional sources, \$161.8 million (17.3%) came from private sources, and \$2.1 million (0.2%) came from state scholarships/grants and loans.
- A total of 90,170 students received aid.
- Of these students, 4,529 students were awarded non need-based gift aid, and 30,269 students were awarded need-based gift aid.
- 62% of students who applied for need-based aid were awarded need-based gift aid.
- The average aid package was \$8,019, which includes both need and non need-based aid.
- 51.9% of undergraduate students and 48% of graduate students have debt.
- Upon graduation, the average undergraduate student debt was \$17,173, while the average graduate student debt was \$33,806.

Arizona State Retirement System – Semi-Annual Report on the ASRS Information Technology Plan – Pursuant to a footnote in the General Appropriation Act, the Arizona State Retirement System (ASRS) is submitting its semi-annual report on the ASRS Information Technology (IT) project. ASRS received appropriations from FY 2002 to FY 2006 totaling \$42,554,100, and through June 30, 2006 ASRS spent a total of \$32,146,600. Therefore, as of June 30, 2006, ASRS has \$10,407,500 in unspent appropriations from FY 2002 through FY 2006 for ASRS IT Plan development. Of the remaining amount, \$5,600,000 will be spent in FY 2007 and \$4,807,500 will be spent in FY 2008.

In FY 2005, there were some concerns as to the progress of the IT plan. These concerns caused the Government Information Technology Agency (GITA) to change the project status from "green," indicating the project is expected to be completed as planned, to "red," indicating a serious risk to project phase completion by the planned date. The status was subsequently upgraded to "yellow." The Joint Legislative Budget Committee asked ASRS to provide a semi-annual report on progress in returning to "green" status.

An independent assessment conducted by the Independent Advisory Consultant (IAC) in July of 2006 discussed concerns regarding the timeline for the transition to a new financial management system and the staffing level for IT resources. In the IAC assessment of October 2006, the transition to the new financial management system was no longer a concern as it had been completed in September 2006, but the concern regarding the staffing level for IT resources remained. The reason for this concern is that demand for staffing in this field is high, and so the probability for future turnover is also high. Turnover is currently lower than expected, however. Overall, the IAC reports that the ASRS IT Plan remains on budget and on schedule for completion by June 30, 2008. The project status from GITA is still "yellow".

School Facilities Board – Report on Funding Estimates – Pursuant to A.R.S. § 15-2002, the School Facilities Board (SFB) is required to report the estimated amounts necessary in FY 2008 for the New School Facilities, Building Renewal, and Emergency Deficiencies Correction Programs. The board is also reporting the estimated amounts necessary for these programs for FY 2009.

In FY 2008, SFB estimates a total funding requirement of \$589.2 million, including \$399.0 million for the New School Facilities Program and \$190.2 million for the Building Renewal Program. The Building Renewal amount is based on the current statutory formula.

For FY 2009, the board estimates it will need funding in the amount \$635.0 million. Of this total, \$425.8 million is for the New School Facilities Program and \$209.2 million is for the Building Renewal Program. SFB did not request to transfer any monies from the New School Facilities Fund to the Emergency Deficiencies Correction Fund in FY 2008 or FY 2009 due to a sufficient cash balance.

Secretary of State – Report on Election Systems Improvement Fund Expenditures – Pursuant to a footnote in the FY 2007 General Appropriation Act, the Secretary of State is reporting on actual expenditures from the Election Systems Improvement Fund in FY 2006 as well as estimated expenditures from the fund in FY 2007 and FY 2008.

Monies in the fund are to be used to implement the provisions of the Help America Vote Act (HAVA). HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections.

In FY 2006 the Secretary of State's office spent a total of \$9,866,500 from the Election Systems Improvement Fund, including \$9,588,700 provided from federal funding and \$277,800 provided from the state General Fund. Expenditures included \$2,362,200 for acquisition, maintenance, and support of the voter registration system and \$7,051,100 to reimburse counties for making voting locations more accessible.

The Secretary of State's office currently estimates spending approximately \$15 million in FY 2007 and FY 2008. Approximately \$10 million will be used to purchase accessible voting systems, most of which will be spent in FY 2007, with any remainder spent in FY 2008. Approximately \$5 million in FY 2007 will be spent on the finalization and ongoing costs of a statewide voter registration system. Any remaining funding will be spent in FY 2007 and FY 2008 on voter education, making election sites more accessible, improvements to the telephonic grievance system, administration, consulting, poll worker and election official training, and telecommunications.

Supreme Court – Report on Adult Probation Services Fund and the Juvenile Probation Fund – Pursuant to A.R.S. § 12-262C, the Administrative Office of the Courts (AOC) is required to report 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. AOC submitted the report for FY 2006 on November 2, 2006.

Adult Probations

AOC reports statewide Adult Probation Services Fund total expenditures of \$112,532,900 in FY 2006. Of this amount, county funds represent 58.4% of all expenditures, state funds represent 24.6%, Federal Funds represent 1.3%, and other sources of revenue, such as probation fees and local fees, represent 15.8%.

Juvenile Probation

Total FY 2006 expenditures for the Juvenile Probation Fund were \$141,712,600. Of this amount, county funds represent 57.6% of all expenditures, state funds represent 38.1%, Federal Funds represent 2.4%, and other sources of revenue, such as probation fees and local fee, represent 1.9%.

Supreme Court – Report on Case and Cash Management System – Pursuant to a footnote in the General Appropriation Act (Laws 2006, Chapter 344), the Administrative Office of the Courts (AOC) is required to report to the JLBC on the monies expended from the Case and Cash Management System (CMS) Special Line Item (SLI) and progress related to the development and deployment of the system. The report also shall include a timeline and expenditure plan for the project and identify the courts involved and their financial and non-financial contributions.

Funding and Expenditure Plan

The Case and Cash Management SLI was established with monies from the Supreme Court's operating budget and Automation SLI. Monies are to be used for the replacement of the aging case management systems in the larger-volume Superior and limited jurisdiction courts within Maricopa and Pima Counties, as well as in 145 of the 180 state, county and municipal courts throughout the state. AOC has estimated that the upgrade of these systems will continue through FY 2010. As of December 31, 2006, the report listed current expenditures of \$182,100 and planned expenditures of \$8,785,400.

Progress

AOC reports that Pima County released the first version of the new general jurisdiction (Superior courts) CMS, called AGAVE, in mid-2006. The program was limited to 3 court functions: case initiation, document imaging, and receipt of non-criminal cases.

Supreme Court – Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund – The Supreme Court is required to report on the Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund annually by January 8, pursuant to A.R.S. § 12-102.01 and 12-102.02. The report includes an evaluation of statewide court collection

efforts and the progress of criminal case processing projects in each Arizona county.

Court Collections

In FY 2006, statewide court revenue collections increased by \$39 million, or 13.7%, to \$323.2 million. Total case filings increased by 0.5%.

The Fines/Fees and Restitution Enforcement (FARE) program contributed nearly 10% of the overall collections amounts. Focusing on backlog cases, FARE recovered \$30.5 million, with an average payment of \$207, with many cases dating to the mid-1980s.

Case Processing

In FY 2006, a total of 59,941 criminal cases were filed in Superior Courts throughout the state, which represents an increase of 6.4% over FY 2005.

The report provides an overview of case processing performance in the 14 counties that received monies from the State Aid to the Courts Fund in FY 2006. In the FY 2003 report, the Supreme Court established performance goals for criminal case dispositions of 90% of cases within 100 days and 99% within 180 days. In FY 2005, no county met either performance measure. However, no statistics relating to this measure were provided for Maricopa County, despite having received State Aid to the Courts Fund monies.

Department of Transportation – Report on Local Transportation Assistance Fund II (Mass Transit) – A.R.S. § 28-8103 requires the Arizona Department of Transportation (ADOT) to submit an annual report on the allocation of Local Transportation Assistance Fund II (LTAF II) monies by January 1st of each year. The statutory maximum annual allocation is \$18,000,000. ADOT reports that they allocated \$18,000,000 of FY 2006 LTAF II revenue to counties and local governments. ADOT distributed the \$18,000,000 of FY 2006 revenues the following fiscal year on November 7, 2006.

OTHER ISSUES

Emergency Transfers

The Governor is authorized by A.R.S. §35-192 to declare emergencies in response to major disasters. This section also allocates \$4 million from the General Fund to the Governor's Emergency Fund every fiscal year for liabilities, expenses, and reimbursements arising from these disasters. In December 2006, funding was approved for 4 emergency proclamations, as described below:

Table 7

December 2006 Activity and Descriptions

<u>Transfer</u>	<u>Amount</u>
January 2005 Northern AZ Winter Storm	\$ 500,000
February 2005 Winter Storm & Flooding	1,200,000
August 2005 LaPaz County Summer Monsoon	300,000
Summer 2006 Monsoons & Flooding	<u>300,000</u>
TOTAL	\$2,300,000

Of the \$4 million allocated to the Governor's Emergency Fund in FY 2007, including the amounts above, a total of \$3 million has already been allocated. This leaves \$1 million in the fund for FY 2007 emergencies.

State of Arizona

General Fund Revenue: Change from Previous Year and June Forecast

December 2006

	Current Month					FY 2007 YTD (Six Months)				
	Change From					Change from				
	Actual	December 2005		Forecast		Actual	December 2005		Forecast	
	December 2006	Amount	Percent	Amount	Percent	December 2006	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	362,236,390	\$20,384,171	6.0 %	(\$1,344,610)	(0.4) %	\$2,228,315,560	\$182,256,370	8.9 %	\$30,560,060	1.4 %
Income - Individual	360,467,690	(5,761,180)	(1.6)	(43,390,010)	(10.7)	1,787,074,079	119,118,240	7.1	(41,858,921)	(2.3)
- Corporate	169,590,795	34,354,067	25.4	19,932,695	13.3	490,907,366	92,138,625	23.1	57,761,266	13.3
Property	5,321,421	(1,376,472)	(20.6)	1,021,421	23.8	13,489,360	(295,668)	(2.1)	(410,640)	(3.0)
Luxury	6,460,197	1,517,785	30.7	835,197	14.8	37,760,903	5,954,978	18.7	4,010,903	11.9
Insurance Premium	29,248,209	1,579,821	5.7	9,248,209	46.2	143,764,869	6,529,810	4.8	12,464,869	9.5
Estate	44,456	(1,000,871)	(95.7)	44,456	--	(952,673)	(11,329,257)	--	(1,152,673)	--
Other Taxes	49,605	5,238	11.8	(15,520)	(23.8)	314,270	(5,433)	(1.7)	(76,480)	(19.6)
Sub-Total Taxes	\$933,418,763	\$49,702,559	5.6 %	(\$13,668,162)	(1.4) %	\$4,700,673,734	\$394,367,665	9.2 %	\$61,298,384	1.3 %
<u>Other Revenue</u>										
Lottery	2,626,900	106,700	4.2	(573,100)	(17.9)	16,025,300	(5,217,500)	(24.6)	(6,774,700)	(29.7)
License, Fees and Permits	3,274,308	582,580	21.6	259,208	8.6	22,399,706	6,885,159	44.4	3,980,906	21.6
Interest	8,788,139	3,606,024	69.6	3,288,139	59.8	43,612,259	21,894,030	100.8	15,612,259	55.8
Sales and Services	3,813,125	(64,718)	(1.7)	(573,075)	(13.1)	20,608,715	(3,672,587)	(15.1)	(2,712,585)	(11.6)
Other Miscellaneous	2,837,083	(1,969,345)	(41.0)	295,483	11.6	15,608,239	3,370,244	27.5	8,164,239	109.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,839,698	1,168,106	173.9	1,139,698	162.8	2,932,897	(1,413,210)	(32.5)	(2,267,103)	(43.6)
Sub-Total Other Revenue	23,179,253	3,429,347	17.4 %	3,836,353	19.8 %	121,187,116	21,846,136	22.0 %	16,003,016	15.2 %
TOTAL BASE REVENUE	\$956,598,016	\$53,131,906	5.9 %	(\$9,831,809)	(1.0) %	\$4,821,860,850	\$416,213,801	9.4 %	\$77,301,400	1.6 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(45,935,888)	(10,500,144)	29.6	0	0.0	(275,615,328)	(63,000,865)	29.6	0	0.0
'05 Budget Balancing Transfers	0	0	--	0	--	0	0	--	0	--
'07 Disproportionate Share	0	0	--	0	--	0	0	--	0	--
'06 In-Lieu Transfer	0	0	--	0	--	0	0	--	0	--
Sub-Total Transfers In	(45,935,888)	(10,500,144)	29.6 %	0	0.0 %	(275,615,328)	(63,000,865)	29.6 %	0	0.0 %
TOTAL REVENUE	\$910,662,128	\$42,631,762	4.9 %	(\$9,831,809)	(1.1) %	\$4,546,245,522	\$353,212,936	8.4 %	\$77,301,400	1.7 %