

JLBC **MONTHLY FISCAL HIGHLIGHTS** **March 2007**

February General Fund revenue collections were \$452.5 million, or 5.2% above February 2006. This amount was \$19.6 million above the January JLBC Baseline FY 2007 forecast. For the fiscal year-to-date, collections are \$12.1 million above the JLBC Baseline FY 2007 forecast. (See Table 3 on page 2.)

Among the major tax categories, performance was mixed. Sales tax collections increased at a rate of 8.8%, while individual income tax collections actually decreased (20.4)%, the result of a high level of refunds. For the year-to-date, total collections are 8.4% above last year. (See Table 6 on page 15 for details.)

In other fiscal news this month, the Finance Advisory Committee (FAC) met on March 8th (page 4). The FAC is a panel of 15 leading economists that advises the Legislature 3 times a year on the state's economy. Members' economic outlook for the next year varied, with some projecting slow economic growth, while others forecasted modest growth. With regard to the future of Arizona's construction industry, some members believed the current decline in residential housing permits will be offset by increased commercial construction and population growth. Other members thought that the reduction in residential permits will have a negative impact on Arizona's economy for at least the next 18 months. Based on the FAC's input and 3 other models, the largest revenue categories are forecasted to grow 8.3% in FY 2007 and 4.3% in FY 2008.

The JLBC met on March 29th (page 5). The Committee gave an unfavorable review to AHCCCS' plan to seek additional information from vendors prior to issuing a Request for Proposal (RFP) to privatize its eligibility and redetermination system. Legislation from the 2006 session required AHCCCS, by March 31, 2007, to issue an RFP to solicit bids to privatize its eligibility functions. AHCCCS believes that an initial Request for Information (RFI) will help them design a better RFP.

The Monthly Fiscal Highlights also include a summary of recent statutory reports to JLBC (pages 5 – 9). Of note, AHCCCS, DES, and DHS have submitted preliminary FY 2008 actuarial estimates for Title XIX programs. AHCCCS also submitted a report on potential recipient cost sharing options that are permitted by the federal Deficit Reduction Act. In addition, DES submitted a performance report on the Child Protective Services (CPS) Division.

In national news, the President released a budget proposal for Federal Fiscal Year (FFY) 2008. Excluding increases for Medicaid, federal funding to Arizona increased by 3.2% in FFY 2007, and would decrease by (1.8)% in FFY 2008 under the President's proposal (page 9).

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FEBRUARY REVENUES

Sales Tax collections were \$359.6 million in February, or 8.8% above last year. The table below displays the February and year-to-date growth rates for the major categories.

Table 1**Sales Tax Growth Rates**

	<u>February</u>	<u>Year-to-Date</u>
Retail	6.0%	4.3%
Contracting	12.2%	16.1%
Utilities	27.4%	12.2%
Use	(11.6)%	2.3%
Restaurant & Bar	9.8%	9.5%

Following two months of below average growth, sales tax revenues rebounded to perform at a more healthy level in February. Of the largest sectors, retail collections grew 6% compared to only 1.0% last month. Contracting collections continued to grow at a double digit pace. In addition, utilities collections grew substantially from last year. Use tax collections, however, actually declined. For the month, revenues were \$(0.7) million below the January JLBC Baseline forecast.

Individual Income Tax collections were \$83.5 million in February, or (20.4)% below last year. *Table 2* displays the February and year-to-date growth rates for the individual income tax categories.

Table 2**Individual Income Tax Growth Rates**

	<u>February</u>	<u>Year-to-Date</u>
Withholding	8.6%	9.0%
Estimated + Final Payments	0.2%	25.1%
Refunds	24.5%	44.7%

Withholding collections continued to grow at a healthy pace, but these gains were again offset by a significant increase in refunds. The high level of refunds witnessed to date in FY 2007 is the result of the 5% individual income tax cut enacted last year. It is difficult, however, to assess the changes in payments and refunds in the middle of tax filing season due to the timing of when those collections are actually received. While total collections declined for the month, compared with the January JLBC Baseline forecast, they were \$0.2 million higher than expected.

Corporate Income Tax collections were \$21.1 million in February, or \$18.7 million above last year. The increase was due to a large reduction in refunds, the result of a substantial amount of non-recurring refund activity that occurred in February 2006. For the month, corporate income tax revenues were \$14.7 million above the January JLBC Baseline forecast.

RECENT ECONOMIC INDICATORS

“Final” revised estimates indicated that **U.S. Gross Domestic Product (GDP)** advanced at a 2.5% annual rate in 2006’s 4th quarter. Personal consumption expenditures, exports, and government spending were among the leading sectors contributing to the economy’s performance. The 4th quarter’s growth pace was a modest improvement from the 2.0% annualized GDP increase reported for the 3rd quarter of 2006.

U.S. semiconductor billings dropped (2.5)% in January (3-month moving average), mostly due to seasonal factors. Even so, sales were (0.1)% below the level from a year ago. While worldwide sales were growing at a 9.2% rate on a year-over-year basis, the Semiconductor Industry Association did not indicate why domestic sales were not keeping pace.

The **U.S. Index of Leading Economic Indicators** slipped (0.5)% in February, its 4th decline in the last 5 months. Negative contributions from unemployment insurance claims, building permits, and vendor performance were among the factors pushing the index lower.

After climbing in February to its highest level since August 2001, the **U.S. Consumer Confidence Index** dipped (3.6)% in March. The Conference Board reported that apprehension about the short-term outlook, fueled by rising gasoline prices and the volatile stock market, dampened consumer sentiment. While their assessment of current conditions was mostly unchanged, consumers’ view of the labor market in the months ahead was growing more pessimistic.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) increased 0.3% in February, while the year-over-year increase edged up to 2.3%. Although energy prices climbed at a 14.9% annual rate during the last 3 months, they were down (1.0)% from a year ago. Excluding food and fuel costs, the core CPI increased 2.7% from a year ago.

Table 3

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

	<u>FY 2007 Collections</u>	<u>Difference From June 2006 Forecast</u> ^{1/}	<u>Difference From Jan 2007 Forecast</u> ^{2/}	<u>Difference From FY 2006</u>
February	\$ 452.5	\$ 45.2	\$ 19.6	\$ 22.4
Year-to Date	\$ 6,010.9	\$ 149.5	\$ 12.1	\$ 466.1

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

^{2/} JLBC January Baseline Budget

Revised statistics for 2006 showed that Arizona's **non-farm employment** expanded at a 5.4% annual average growth rate in 2006, which matched the revised 5.4% growth rate posted in 2005. Construction employment soared by 11.9% last year, while manufacturing's previously reported decline was revised upward to reflect a modest 2.7% increase.

The state's job market rebounded in February from January's losses, most of which were due to seasonal factors. More than 90% of the 37,900 jobs added in February were in service-providing sectors, with the hospitality industry among the leading categories. Overall, non-farm employment was 4.3% above its level from a year ago. January's statewide **unemployment rate** fell to 3.9%, which was well below the 4.5% U.S. average.

After dropping sharply in January, the construction industry added 1,900 jobs in February. With the housing boom winding down in recent months, construction employment (which accounts for more than 9% of the state's jobs) will be a key indicator to watch in the months ahead.

Strong job growth in 2006 was reflected in the latest state personal income estimates. **Arizona personal income** totaled \$198.1 billion (seasonally adjusted annual rate) in 2006's 4th quarter, an 8.0% increase from a year ago. The state's income growth averaged 8.5% in 2006 and ranked 5th among the states. Arizona's per capita personal income, which ranked 39th in the nation, was estimated to be \$31,458 in 2006, a 4.8% gain over 2005.

The number of single-family **residential building permits** (3-month moving average) issued in Arizona increased 5.7% in January but remained (43.7)% below the level from a year ago. Multi-family permits decreased (26.4)% from the previous month and fell (59.0)% on a year-over-year basis. In 2006, the total number of residential building permits issued in Arizona fell by (27.6)%, which followed increases of 20.9% and 0.2% in 2004 and 2005, respectively. Last year's decline in housing permits was the first reported since 2001.

The Realty Studies group at Arizona State University reported that the Greater Phoenix **single-family median resale home**

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	February	3.9%	(0.3)%	(0.3)%
- Jobs	February	2.72 million	1.4%	4.3%
- Contracting Tax Receipts (3-month average)	Dec-Feb	\$81.9 million	(1.3)%	10.7%
- Retail Sales Tax Receipts (3-month average)	Dec-Feb	\$180.1 million	13.3%	4.0%
- Residential Building Permits (3-month moving average)				
Single-unit	Nov-Jan	3,138	5.7%	(43.7)%
Multi-unit	Nov-Jan	353	(26.4)%	(59.0)%
- Greater Phoenix Existing Home Sales				
Single-Family	February	4,280	(5.3)%	(21.5)%
Townhouse/Condominium	February	1,050	23.5%	(16.7)%
- Greater Phoenix Median Home Sales Price				
Single-Family	February	\$260,000	0.0%	(1.9)%
Townhouse/Condominium	February	\$175,000	0.0%	0.0%
- Arizona Tourism Barometer	December	107.5	2.1%	2.1%
- Phoenix Sky Harbor Air Passengers	February	3.28 million	(2.9)%	4.2%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	December	\$8.61	(4.9)%	(6.8)%
- Leading Indicators Index	December	118.9	(0.7)%	(1.3)%
- Business Conditions Index (>50 signifies expansion)	February	60.3	12.9%	(1.9)%
- Consumer Confidence Index	1 st Quarter 2007	106.3	0.9%	(3.7)%
- Business Leaders Confidence Index	1 st Quarter 2007	51.9	7.9%	(13.4)%
- Arizona Personal Income	4 th Quarter 2006	\$198.1 billion	1.4%	8.0%
- Arizona Population	July 1, 2006	6.17 million	3.6%	3.6%
- AHCCCS Recipients	March	1,028,568	0.4%	(1.0)%
- TANF Recipients	January	81,334	(3.4)%	(11.6)%
- DOC Inmate Growth (3-month average)	Dec-Feb	35,860	40 inmates	2,299 inmates
United States				
- Gross Domestic Product (seasonally adjusted annual growth rate)	4 th Quarter 2006	\$11.5 trillion	2.5%	3.1%
- Consumer Confidence Index	March	107.2	(3.6)%	(0.3)%
- Leading Indicators Index	February	137.3	(0.5)%	(0.4)%
- U.S. Semiconductor Billings (3-month moving average)	Nov-Jan	\$3.71 billion	(2.5)%	(0.1)%
- Consumer Price Index (3-month moving average)	Dec-Feb	202.6	0.3%	2.3%

price remained unchanged in February at \$260,000, which was (1.9)% below the median price for February 2006. The number of single-family homes sold declined (5.3)% from the prior month and by (21.5)% from a year ago.

The **townhouse-condominium median price** also was unchanged at \$175,000 in February, matching January's median price as well as the price reported for February 2006. The number of units sold increased 23.5% from January to 1,050 in February, which the Realty Studies group attributed to seasonal factors. February's total was (16.7)% fewer than the number sold in February 2006.

The **Arizona Business Conditions Index (BCI)** jumped 12.9% to 60.3 in February, well above the mark of 50 associated with an expanding economy. The improvement was led by surges in new orders and in production, which rebounded from a 2-year low. Overall, the BCI remained (1.9)% lower than its level from a year ago.

Business confidence appears to be rising in the state. The University of Arizona's **Business Leaders Confidence Index (BLCI)** moved up 2.1% to 53.0, based on the survey results for 2007's 2nd quarter. The sales expectations, state outlook, hiring expectations, and capital expenditures components all increased from the 1st quarter. The national outlook component was the only one to fall short of 50, the dividing line between improving and deteriorating economic conditions. The survey report indicated that the BLCI is currently consistent with a regional economy that is growing near its long-term average.

The **Department of Corrections' inmate population** increased by an average of 40 inmates per month from December through February, significantly less than the average increase of 188 inmates during the last 12 months. The total population increased by 2,299 inmates from a year ago.

The number of **TANF** recipients decreased (3.4)% to 81,334 in January and was (11.6)% below the level from last year. The **AHCCCS caseload** increased 0.4% in March from the prior month but was (1.0)% below the level from a year ago.

FINANCE ADVISORY COMMITTEE MEETING

At its March 8th meeting, the Finance Advisory Committee (FAC) heard presentations on General Fund revenue collections, the U.S. economy, and the implications of the housing market on Arizona's economy. The FAC is a 15-member panel comprised of leading economists in the state. The panel meets 3 times a year and advises the Legislature on the state economy.

The Committee expressed a guarded outlook for the economy. Consumer expenditures and housing market activity have slowed from the exceptional levels recorded in the preceding 2 years; however, the declines have not yet appeared to reduce job and personal income growth. Opinions differed over the future course of Arizona's construction sector, which accounts for 20% of overall employment when growth related home furnishings, real estate, and financial activities are included. Some members believed the current decline in residential housing activity would be offset by increased commercial and public works construction, and that population growth would mitigate any long-term housing slow down. Research presented by Arizona Public Service showed that single-family housing vacancy rates were low and customer growth and meter installments continued to be strong, prompting expectations of any housing slowdown to be modest.

Other members thought the reduction in permitting and construction-related employment would result in a prolonged slump with negative impacts on job growth, income, and household consumption. Residential permits have declined for 17 months through December 2006. During past Arizona housing slumps, negative impacts on construction employment occurred after 24-28 months of permitting declines. Arizona construction employment stands at an all-time high of 9.5% of total employment. Past housing downturns caused the proportion to drop to 6% or less.

Members' overall economic outlook varied, with forecasts ranging from slow growth to modest economic growth.

The FAC panel members were also asked to provide their FY 2007 – FY 2010 forecasts for the 3 largest revenue categories: sales, individual income, and corporate income taxes. For FY 2008, the FAC projected that revenues associated with these categories would increase 4.8%. This forecast was more conservative than the prior Committee meeting (December 2006). At that meeting, the FAC forecasted revenue growth of 5.0% for these categories.

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 8.3% in FY 2007 and 4.3% in FY 2008 (see Table 5).

Table 5				
4-Sector "Big 3" Consensus Forecast: FY 2007 – FY 2010				
	FY 2007	FY 2008	FY 2009	FY 2010
Sales Tax	7.8%	3.8%	4.5%	6.3%
Individual Income Tax	7.7%	5.2%	5.9%	7.4%
Corporate Income Tax	13.1%	2.9%	(1.4)%	1.2%
Overall Weighted Growth	8.3%	4.3%	4.5%	6.2%

JLBC MEETING

At its March 29, 2007 meeting, the Joint Legislative Budget Committee considered the following issues:

AHCCCS – Review of Medicaid Eligibility Privatization Request for Proposal – The Committee gave an unfavorable review to the proposal by AHCCCS to issue a Request for Information (RFI) to privatize eligibility for Traditional and Proposition 204 populations.

Laws 2006, Chapter 331 required AHCCCS to issue a Request for Proposal (RFP), rather than an RFI, by March 31, 2007 to privatize its eligibility functions. Whereas the purpose of an RFP would be to solicit actual bids from vendors to perform eligibility services, the purpose of the RFI is strictly to gather additional information. Due to the complexity of the eligibility process, AHCCCS chose to issue an RFI at this time, rather than proceed with an RFP.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave a favorable review of the Attorney General’s allocation plan for the Bayer Corporation consent judgment. The Bayer Corporation settlement stems from an investigation that revealed that the company did not adequately disclose serious risks associated with the cholesterol lowering drug Baycol. Arizona’s Consumer Fraud Revolving Fund will receive \$200,000 from this settlement.

Arizona Pioneers’ Home – Consider Approval of Requested Transfer of Appropriations – The Committee approved a transfer of up to \$325,800 to Employee Related Expenses (ERE) from the Personal Services line and the Prescription Drug Special Line Item (SLI). The Personal Services line and Prescription Drug SLI appear to have sufficient surpluses to cover a shortfall in employee health insurance expenses.

Department of Public Safety – Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission – The Committee gave a favorable review to the proposal to expend \$1.1 million to hire 11 additional officers for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). The Committee has previously given a favorable review of the use of \$5.9 million to fill 37 GIITEM positions.

Department of Public Safety – Quarterly Review of the Arizona Public Safety Communications Advisory Commission – The Committee gave a favorable review of the request from the Department of Public Safety for expenditures related to the Public Safety Communication Advisory Committee (PSCC). The Arizona PSCC was established to develop a statewide system that allows public safety personnel from one agency to communicate with personnel from other agencies. Expenditures in the second quarter of FY 2007 were \$177,700 and targeted both short-term and long-term interoperability solutions.

Department of Transportation – Review of Third Party Progress Report – The Committee gave a favorable review of the third party progress report presented by the Arizona Department of Transportation (ADOT). ADOT has reduced the backlog of third party title transactions from 31 business days in FY 2006 to 21 business days in FY 2007. In addition, ADOT has removed the moratoriums on new title transaction and new vehicle identification third parties.

Arizona State University – Review of Requested Transfer of Appropriations – The Committee gave a favorable review to the request to transfer \$11.1 million from the ASU operating budget to the Downtown Phoenix Campus (DPC) Special Line Item in FY 2007. Of this amount, \$9.3 million represents existing costs associated with the DPC that were not initially captured in the FY 2007 DPC Special Line Item appropriation. The remaining \$1.8 million transfer request represents additional funding to enhance the budgets of DPC academic units.

SUMMARY OF RECENT AGENCY REPORTS

Arizona Department of Administration/State Treasurer – Report on General Fund Balance Reconciliation – Pursuant to A.R.S. § 41-172 and A.R.S. § 35-131, the State Treasurer and the Arizona Department of Administration (ADOA) are required to annually report any differences between the General Fund balance invested with the State Treasurer and the General Fund balance estimated by ADOA. For June 30, 2006, the State Treasurer reported a modified General Fund balance of \$1,908,829,000 and ADOA reported a General Fund balance of \$1,773,058,000. By contrast, the JLBC Baseline includes a General Fund balance of \$1,053,935,000. This amount differs from both the State Treasurer and ADOA because they include the following items that are not considered part of the regular General Fund balance in the JLBC Baseline: a \$651.0 million Budget Stabilization Fund balance, a \$16.8 million School Accountability Fund Balance, and \$58.4 million that is reserved for continuing appropriations.

The difference between the \$1.8 billion General Fund balance reported by ADOA and the \$1.9 General Fund balance reported by the State Treasurer is primarily due to differences in accounting methods. The State Treasurer uses the “Cash Method” of accounting. This method only recognizes revenues and expenditures when cash is received or paid. While ADOA uses cash accounting for most items, it employs the “Accrual Method” of accounting for certain transactions. This method of accounting recognizes revenues only when they are earned, and expenditures are recognized when they occur, not when they are paid. The ADOA balance is \$134.3 million lower than the State Treasurer due to expenses the state has incurred but not yet paid, and \$1.7 million lower due to revenue the state has received but not yet earned.

Arizona Department of Administration – Report on Semi-Annual State Employee Health Insurance – Pursuant to A.R.S. § 38-658, the Arizona Department of Administration (ADOA)

is submitting their required semi-annual report of the health insurance program. Statute requires ADOA to report on performance standards for the program as well as customer satisfaction. ADOA has indicated that customer satisfaction will be addressed in the next report, as the annual survey results are not yet ready. Performance standards are measured by the agency against negotiated goals for each of the vendors. Failure to meet goals by the vendor results in specific penalties. In Plan Year (PY) 2006, nearly \$500,000 in penalties was assessed to vendors, with the largest amounts coming from Harrington (\$286,400) and Schaller Anderson (\$172,000). The largest source of penalties dealt with client satisfaction and response time performance measures.

AHCCCS – Report on Deficit Reduction Act – The Federal Deficit Reduction Act (DRA) of 2005 granted states the ability to require Medicaid recipients to participate in cost sharing for services that were previously prohibited by federal law. A footnote in the General Appropriation Act required AHCCCS to report on the following issues:

1) The fiscal impact associated with enacting the maximum amount of cost sharing allowable by the DRA. Cost sharing in any form is limited to 5% of family income applied to certain households with incomes above 100% of the Federal Poverty Level (FPL).

AHCCCS reported different operational costs and revenues associated with the implementation of premiums vs. co-payments. AHCCCS estimates one-time start-up costs for premiums at \$5.1 million General Fund with ongoing net revenues of \$0.9 million General Fund. AHCCCS estimates one-time start-up costs for co-payments at \$0.5 million General Fund with ongoing net revenues of \$1.6 million General Fund. As AHCCCS did not estimate staff costs for co-payments, net revenues would be lower to the extent that new staff is added. AHCCCS' one-time start up costs involve computer enhancements to expand their premium and co-payment systems.

Subsequent to the report, AHCCCS has indicated that it is unclear whether or not cost-sharing under the DRA would apply to the Transitional Medical Assistance population. As a result, these fiscal impact estimates may be revised.

2) The fiscal impact of cost sharing for non-preferred prescription drugs and non-emergency care provided in a hospital. AHCCCS estimates state revenues of \$375,000 from prescription co-payments. These estimates are included in the figures above. AHCCCS was unable to determine specific state revenues associated with non-emergency care provided in a hospital. The specified allowable co-pay would range from \$3 to \$6 per visit based on income and type of eligibility.

3) The fiscal impact of using an existing health plan as a Medicaid substitute health plan. AHCCCS used the state employee benefit plan as the alternative benefit package for pricing the potential fiscal impact. AHCCCS contracted with an actuary to determine the actuarial value of the AHCCCS plan to the state employee benefit plan. On a per-member/per-

month basis, the AHCCCS benefit plan is between \$0.01 and \$0.12 more expensive than the state employee benefit package. This analysis did not account for the federal requirement that the state provide certain benefits for children under the age of 19. Some benefits not covered under the state plan (prescription lenses for children for example) would still need to be provided if the state plan were implemented. Other services covered under the state plan (chiropractic and speech therapy for example) are already provided to children under the age of 19 in the AHCCCS program.

AHCCCS reports that using the state employee benefit plan for behavioral health services would result in per member per month savings of \$6.46, excluding the costs associated with required EPSDT services for children. AHCCCS states that the results of *Arnold v. Sarn* and *J.K. v. Eden* may limit transfers to the state employee benefit plan.

AHCCCS – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a General Appropriation Act footnote, AHCCCS has submitted preliminary actuarial estimates of the capitation rate increases for the upcoming fiscal year.

Based on a review of historical encounter cost and utilization trend data, capitation rates are estimated to grow approximately 5%-7% for the Acute Care Program and 4.5%-7% in the ALTCS Program beginning October 1, 2007. The FY 2008 JLBC Baseline assumed capitation rate growth of 6.0% for the Acute Care Program and 6.0% in the ALTCS Program.

The growth rates are based on the assumption that the programs will not change prior to the October 1, 2007 date when the new contract begins. Any programmatic changes or expansions most likely would have an impact on the capitation rate growth. Additionally, AHCCCS estimates that the voter-initiated minimum wage increase will impact the ALTCS capitation rates, but believes this impact should be accommodated by the rate increase range noted above.

Department of Economic Security – Semi-Annual Report on CPS Financial and Program Accountability – Pursuant to A.R.S. § 8-818, DES has submitted its semi-annual financial and program accountability report. The report includes 7 measures specifically identified in the Special Session legislation as well as 12 other measures requested by the JLBC. According to the report, out-of-home placements continue to decline, especially in congregate care settings. Caseloads are above the department's goals and turnover increased over the previous report. Employee satisfaction is stable at a 3.6 rating out of 5.0. The highlights of this report, covering the first 6 months of FY 2007, are summarized below.

- The Child Protective Services (CPS) Training Academy enrolled 195 new case managers and graduated 207, while 174 remain in the 22-week program. These numbers are similar to those from 6 months ago.

- As of December 2006, the number of filled positions was 782 of 805 authorized and funded positions, excluding those in training. This figure is 60 higher than last June. Considering only filled positions, caseloads per worker are considerably higher than caseload goals, with investigations at 15 (goal: 10), in-home at 27.3 (goal: 19), and out-of-home at 23.1 (goal: 16). These caseload numbers, however, are slightly better than those in the previous 6 months.
- DES reports that annualized case manager turnover during the first 6 months of FY 2007 was 29%, with 146 case managers leaving the Division of Children, Youth and Families (DCYF). The turnover rate varies by district, from a high of 46.2% in District 4 to a low of 23.9% in the CPS Hotline. For the previous 6-month period, annualized turnover was at 21.4%, losing 102 employees. The report also shows that 176 new case managers were hired over the same time period.
- Employee satisfaction remains steady at an average rating of 4.0 on a scale of 5 for training in the CPS Academy and 3.6 for overall employee satisfaction.
- The percent of CPS dependency cases denied or dismissed in the last 6 months remained at the same level (0.1%) as the previous 6 months, while the percent of Office of Administrative Hearings decisions affirming CPS case findings increased from 82.6% to 91.8%. The percent of complaints validated by the Ombudsman also increased from 3.0% to 3.3% (40 of 1,197 complaints).
- The number of children in out-of-home family placements fell from 7,462 in June to 7,236 in December, while the number of congregate care placements declined from 1,791 to 1,684. DES also reports that from June to December the number of children aged 0-3 in shelter care decreased from 44 to 36, the number of children aged 0-6 in group homes decreased from 49 to 39, and the number of children in shelter care for more than 21 days decreased from 801 to 737. The June numbers are revised from the previous report and the December numbers are labeled as preliminary.
- At its September 28, 2005 meeting, the Committee asked DES to report on the participation of faith-based organizations in providing services. DES reports that they are continuing to encourage the participation of faith-based organizations in recruiting resource families and in the Family to Family Program. The department provided no specific details in this report.

Department of Economic Security – Report on State-Funded Food Distribution – Pursuant to a FY 2007 General Appropriation Act footnote, the Department of Economic Security (DES) is reporting on food distribution efforts funded through the Coordinated Hunger Special Line Item. For the last 6 months of calendar year 2006, the 6 regional food banks distributed 49.6 million pounds of food.

Additionally, the footnote required DES to include letters from each participating regional food bank talking about its satisfaction with the distribution process. All 6 participating

food banks submitted letters indicating they were satisfied with the distribution process.

Department of Economic Security – Report on Preliminary Actuarial Estimates of the Long Term Care Developmental Disabilities Capitation Rate Increases for the Following Fiscal Year – Pursuant to a General Appropriation Act footnote, DES has submitted preliminary actuarial estimates of the capitation rate increases for the upcoming fiscal year for its Long Term Care Developmental Disabilities program.

Based on a review of historical encounter cost and utilization trend data, the Division of Developmental Disabilities capitation rates are estimated by the Arizona Health Care Cost Containment System to grow approximately 3.5%-6.5% beginning July 1, 2007. The FY 2008 figures adopted by the Joint Appropriations Subcommittees on February 19, 2007 assumed capitation rate growth of 3.0%, as recommended in the Executive Budget. The estimated capitation rate increase represents a range of additional funding of \$800,000 to \$7.4 million General Fund.

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 that report, ADE estimates that it will experience an \$8.3 million net funding surplus for FY 2007. ADE had previously reported an estimated surplus of \$10.1 million.

Arizona Department of Emergency and Military Affairs – Report on Request to Conduct Training on the Arizona-Mexico Border – Pursuant to the General Appropriation Act (Laws 2006, Chapter 344), the Arizona Department of Emergency and Military Affairs (DEMA) has submitted a response to a footnote directing the department to request permission from the U.S. Department of Defense (DOD) to conduct training exercising along the State's southern border.

DEMA reports that Arizona National Guard units are currently training at the Arizona-Mexico border under Operation Jump Start. This operation has deployed up to 6,000 members of the National Guard along the U.S.-Mexico Border to support efforts of the U.S. Border Patrol.

The department also responded that training locations for guard units are selected by unit commanders and approved by the Arizona National Guard, not by the DOD. Consequently, DEMA did not request permission from the DOD to conduct training along Arizona's southern border.

Department of Health Services – Report on Arnold v. Sarn – Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) has submitted a quarterly report to the Committee on the department's progress toward settling the Arnold v. Sarn lawsuit. On September 14, 2005, the plaintiffs filed a Motion for Non-Compliance as a result of the Court Monitor's 2005

Independent Review. As a result, the parties agreed to a Joint Stipulation requiring the department to develop a plan that increases service capacity for independent living skills, housing support services, vocational/work supports, and substance abuse services. On December 22, 2006, the department submitted its progress to the Court Monitor. The progress plan is currently under review and the Motion for Non-Compliance will be dismissed if the Court Monitor certifies that the department has met its obligation.

On January 3, 2007, the Court Monitor's 2006 Independent Review was filed with the court. This report was then discussed at a January 12, 2007 status hearing. The report stated that while compliance has improved in some areas, "these findings do not result in improved clinical practice or better quality of care". As was stated by the Auditor General in a September 2006 performance audit, the department is also concerned that the Court Monitor focuses too much on process measures. Another status hearing is expected to take place in the next 60-90 days. If scheduled progress is made, the department is expected to have fulfilled the agreed upon exit criteria by June 2008.

Department of Health Services/Department of Economic Security – Report on Autism Services – Pursuant to Laws 2006, Chapter 331, DHS and the Department of Economic Security (DES) are required to report on the \$2.5 million appropriated for autism services by March 1, 2007.

In February 2007, DHS signed a \$500,000 contract with the Southwest Autism Research and Resource Center (SARRC). With those monies, SARRC will implement a school-based setting toddler classroom for approximately 12-15 autistic children, provide parent education to 24-60 parents, and provide statewide training to 550 providers. The first provider training took place in February with approximately 45 attendees, and the classroom is expected to open around April 2007.

DHS is still in the process of negotiating a \$1.8 M contract with the Center for Autism and Related Disorders, Inc. (CARD) and anticipates its finalization by the end of March or beginning of April. CARD reports that they have now secured a location in Phoenix, hired staff, and initiated review of potential clients. CARD will provide autism services that utilize discrete trial and natural environment intensive behavioral treatment for autistic children.

DES received \$200,000 for (1) training and (2) supervision of autism services. With regard to training, DES reports that 29 workers have completed their recently developed, standardized curriculum training. Two contracted vendors are currently providing the training with 5 other vendor applications pending approval. With regard to supervision, DES is processing 10 vendor applications to provide trained supervision for the delivery of services to autism clients. DES has indicated that as of early 2007, year-to-date spending is \$7,150. DES expects spending to accelerate with more contracts in place.

Department of Health Services – Report on Preliminary Actuarial Estimates of the Capitation Rate Increases for the Following Fiscal Year – Pursuant to a General Appropriation Act footnote, DHS has submitted preliminary actuarial estimates of the capitation rate increases for the upcoming fiscal year. Based on a review of historical encounter cost and utilization trend data, DHS estimates capitation rates growth for the following categories:

Children's Behavioral Health (CBH)	18.4% - 21.4%
Seriously Mentally Ill (SMI)	6.6% - 9.6%
General Mental Health/ Substance Abuse (GMH/SA)	11.5% - 14.5%
Children's Rehab. Services (CRS)	9.4% - 12.4%

The FY 2008 JLBC Baseline assumed capitation rate growth of 8.0% for the CBH, SMI and GMH/SA Programs, and 8.0% for the CRS Program.

State Land Department – Quarterly Report on State Trust Land Activities – The FY 2006 General Appropriation Act (GAA) provided the State Land Department with \$3.1 million in additional monies for the planning and disposition of state trust lands. A GAA footnote also required the department to submit quarterly reports to the JLBC regarding State Trust land activities. During the second quarter of FY 2007, the State Land Department completed 3 sales auctions, selling 1,747 acres of Trust land valued at \$63.2 million. The department also completed 1 lease auction, leasing 11,978 acres which will generate \$54.8 million over the 25-year term of the lease. In addition, the department leased 591 acres of State Trust land for right of way use valued at \$14.1 million and began or continued planning and engineering studies on 545,342 acres.

Fiscal year-to-date, the department has sold 1,804 acres of state trust land valued at \$79.1 million. For comparison, through the first 2 quarters of FY 2006, the Land Department had sold 1,165 acres valued at \$292.7 million. FY 2006 was a particularly strong year for sales.

Arizona State Retirement System – Report on Board Discussion and Actions to Minimize the Contribution Rate – A footnote in the General Appropriation Act requires that the Arizona State Retirement System (ASRS) submit quarterly reports to the Joint Legislative Budget Committee (JLBC) "on the discussions and actions of the ASRS Board regarding their efforts to minimize the retirement contribution rate." ASRS has submitted a report covering the first 2 quarters of FY 2007 as well as the final quarter of FY 2006. This is the first report submitted since May 2006.

In the fall of 2007 ASRS published its current valuation report. The report lists 3 changes that reduce the total contribution rate contained in the current valuation by 0.95%. These changes include 2004 legislative action changing service purchases from normal cost to actuarial present value, a 2005 ASRS Board rule to decrease the interest credited on withdrawn contributions from 8% to 4%, and a restatement of

the permanent benefit increase reserve, made by ASRS' actuary in the 2004 valuation report.

In addition, 4 initiatives are expected to result in a cumulative cost avoidance of 1.44% in future valuations. Passed in the 2006 legislative session, these initiatives include a service purchase interest rate increase on payroll deduction agreements from 0% to 8%, pop-up restrictions, early retirement incentives, and rescinding the modified Deferred Retirement Option Program (DROP).

The report also indicates that proposed design changes to the Long-Term Disability Program would result in cost savings of 0.03% in future valuations. ASRS is pursuing this initiative as a legislative change in the current legislative session (HB 2145). The bill is awaiting action in the Senate.

Department of Revenue – Quarterly Report on Business Re-Engineering/Integrated Tax System (BRITS) – BRITS is the new computer system being implemented by the Department of Revenue (DOR) to integrate their separate tax systems, improve enforcement, and increase revenues to the state.

The BRITS conversion of the individual income tax has been delayed from September 2006 to December 2007. In addition, the contractor estimates that implementation of the BRITS desk audit system will be delayed 3 to 6 months beyond the planned implementation date of February 2008. DOR expects to have a revised completion date and estimate of additional costs, if any, for the additional time to develop and test the BRITS desk audit system before February 2008.

During the last quarter, \$33 million was collected in BRITS revenue. In total, DOR reports \$217.4 million of total cumulative BRITS additional revenue through December 31, 2006. Compared with the projected level \$111.7 million, the project is \$105.7 million ahead of schedule. It is difficult, however, to evaluate how much in additional revenues can be directly attributed to BRITS, as other factors unrelated to BRITS influence the level of collections.

Department of Revenue – Report on General Fund Enforcement Revenue – A footnote in the General Appropriation Act requires the Department of Revenue (DOR) to report quarterly on the effectiveness of the department's overall enforcement and collections program, including a comparison of projected and actual General Fund revenue enforcement collections for FY 2007. DOR had General Fund enforcement revenues of \$204.1 million in the first half of FY 2007, which was \$37.4 million above their goal of \$166.7 million.

Supreme Court – Report on Arizona Lengthy Trial Fund – Pursuant to A.R.S. § 21-222(F), the Supreme Court is required to report annually on the amount of monies collected and expended as well as the number of jurors receiving monies from the Lengthy Trial Fund (LTF). The fund is intended to reimburse jurors who lose their regular employment income while serving as jurors. Eligibility of funding is limited to

jurors serving on trials lasting in excess of 5 days. A \$15 filing fee for civil complaints, answers and requests to intervene is deposited into the LTF.

In FY 2006, LTF revenues totaled \$735,800 and the total amount reimbursed for trials completed in FY 2006 is \$223,100. Throughout FY 2006, 295 jurors serving on 73 trials were paid from the LTF.

OTHER ISSUES

Federal Funds

On February 5, 2007, the President released his budget proposal for Federal Fiscal Year (FFY) 2008. The FFY 2007 budget increased funding for major federal grant-in-aid programs in Arizona by \$414 million, or 6.3%. The President's proposed budget would further increase spending by \$414 million, or 6.0%. As in recent years, Medicaid spending is the primary reason for the higher funding. Without the Medicaid adjustment, total federal funding would have increased by only 3.2% in FFY 2007 and would decline by (1.8%) in FFY 2008.

The President's budget for FFY 2008 proposes increases for defense and homeland security while reducing non-defense and non-security discretionary programs. Several of these program changes have been previously proposed by the President, but not enacted. These include reductions or eliminations to two major justice programs (criminal alien assistance and justice assistance), the Community Services Block Grant, the Clean Water State Revolving Fund, the Commodity Supplemental Food Program and the Preventive Health Block Grant. Under the President's budget, total funding for major federal grant programs in Arizona would increase from \$6.9 billion to \$7.4 billion, or 6.0% from FFY 2007 to FFY 2008. (*Please see attached table and program descriptions.*) The proposed \$414 million increase in FFY 2008 follows another \$414 million increase in FFY 2007.

The information is compiled from Federal Funds Information for States (FFIS) data. FFIS is a joint effort of the National Governors Association and the National Conference of State Legislatures. They report on the largest federal grant-in-aid programs, which reflect the overwhelming share of total federal assistance to state governments. However, the amounts do not include discretionary grants, competitive grants or direct cash assistance to individuals (such as Medicare and Social Security). These grants reflect appropriations rather than actual expenditures. In some cases, state agency estimates for these grants may not match the amounts shown in the table.

For an overview of all federal government expenditures in Arizona, including expenditures from the grants discussed here, please see the Consolidated Federal Funds Report found at <http://www.census.gov/prod/2005pubs/cffr-04.pdf>. The most recent data shows that total federal expenditures in

Arizona, including Social Security, Medicare and military contracts, were \$42 billion in FFY 2004.

Education

Under the President's budget, major grant programs administered through the Department of Education would increase overall by \$3.6 million, or 0.7%, from FFY 2007 to FFY 2008. This continues an increase of \$9.8 million, or 1.8%, in Department of Education programs from FFY 2006 to FFY 2007.

- The President proposes an increase in Title I – Grants to Local Education Agencies of \$22.7 million, or 8.6% from FFY 2007 to FFY 2008.
- As he did previously, the President proposes to greatly reduce Vocational Education grants while increasing other education programs. Thus, the \$(13.8) million decrease from FFY 2007 to FFY 2008 shown in the table is offset by increases elsewhere.

Health and Human Services

Funding across all Health and Human Services programs would increase by \$433 million, or 7.9%, from FFY 2007 to FFY 2008. These programs increased by \$321 million, or 6.2%, from FFY 2006 to FFY 2007. As in previous years, Arizona would show significant gains in Medicaid Vendor Payments. Arizona would receive an increase of \$450 million, or 9.9%, from FFY 2007 to FFY 2008. This follows an increase of \$316 million, or 7.5%, in total Medicaid funding from FFY 2006 to FFY 2007. If Medicaid is excluded, funding for major federal programs in Arizona would decrease by \$(38.8) million, or (1.8)%, from FFY 2007 to FFY 2008. Total funding excluding Medicaid increased by \$66.4 million, or 3.2%, from FFY 2006 to FFY 2007.

- The budget reduces Child Support Enforcement program funding by \$(5.6) million or (10.8%), from FFY 2007 to FFY 2008. Most of the cut is accounted for in reduced state administrative costs. The Deficit Reduction Act of 2005 (DRA) reduced program funding by repealing the authority to use performance incentives as match for federal funding, among other cost saving provisions.
- The budget eliminates the Community Services Block Grant (CSBG), a reduction of \$(5.1) million from FFY 2007 to FFY 2008. Instead of CSBG, the Administration proposes to provide for the needs of the poor through other federal programs specifically targeting employment, housing, nutrition, and health care.
- The budget reduces Social Services Block Grant (SSBG) funding by \$(9.5) million, or (29.4%), from FFY 2007 to FFY 2008.
- The President proposes no increase in funding for Consolidated Health Centers in FFY 2008. Arizona received an increase of \$3.5 million, or 11.6% from FFY 2006 to FFY 2007 for this program.
- The President proposes no increase in funding for the State Children's Health Insurance Program (SCHIP) in FFY 2008. Arizona's KidsCare received an increase of \$20.5 million, or 19.1% in federal funding from FFY 2006 to

FFY 2007 for this program. Although this proposal does not change funding levels, the President also proposes to restrict the use of SCHIP monies to children in families with incomes below 200% of the Federal Poverty Level.

Department of Justice

As in prior years, the President's FFY 2008 budget eliminates funding for the State Criminal Alien Assistance Program and the Byrne Justice Assistance Grants. This would decrease Justice Department funds by \$(30.2) million from FFY 2007 to FFY 2008. The Administration proposes to combine several criminal justice programs that are awarded to states based on a formula into grants that awards funds competitively. Although the President proposed these programs for elimination in FFY 2007, the final budget included an increase of \$4.5 million, or 17.3%, from FFY 2006 to FFY 2007.

Department of Labor

Also following the pattern of previous years, the President's FFY 2008 budget would merge the Department of Labor's Adult Training, Dislocated Workers, Employment Services, and Youth Activities into a single grant program called Career Advancement Accounts. Under the consolidated program, funding would decrease by \$(1.8) million, or (2.2)%, for unemployment services from FFY 2007 to FFY 2008. These proposals were not enacted in the FFY 2007 budget and funding for employment programs increased by \$2.7 million, or 3.2%, from FFY 2006 to FFY 2007.

Other Programs

Base funding for the State Homeland Security Grant Program would decrease by \$(3.5) million, or (88.1%), from FFY 2007 to FFY 2008. This follows a previous decrease of \$(4.7) million, or (54.5%), from FFY 2006 to FFY 2007. Once again, the President proposes to allocate funds to states based on risk with each state receiving a minimum 0.25% base allocation of the grant rather than the current 0.75% base amount. This amount reflects Arizona's base allocation and does not estimate any risk based additional component.

Arizona funds from Community Development Block Grant (CDBG) programs would decrease by \$(8.5) million, or (19.9%), from FFY 2007 to FFY 2008. Funding levels for this program were unchanged from FFY 2006 to FFY 2007. The Administration has proposed to reduce CDBG base funding in order to more effectively direct funds to higher need communities.

Funding for the Clean Water State Revolving Fund (SRF) would decrease by \$(2.7) million, or (36.6%), from FFY 2007 to FFY 2008. These funds increased by \$1.3 million, or 22.2%, from FFY 2006 to FFY 2007.

Department of Transportation programs would increase by \$25.9 million, or 4.3%, from FFY 2007 to FFY 2008 under the President's proposal. These programs increased by \$78.3 million, or 15.1%, from FFY 2006 to FFY 2007.

Amount of Federal Grant-in-aid Money Distributed to Arizona for Major Programs

(Dollars in thousands)

<u>Federal Agency</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY08 \$ above FY07</u>	<u>FY08 % above FY07</u>
Department of Agriculture					
Women, Infants & Children (WIC) Suppl. Feeding Program	95,434	97,220	97,834	614	0.6%
Department of Education					
Title I – Grants to Local Education Agencies	260,348	262,828	285,534	22,706	8.6%
Vocational Rehabilitation – State Grants	51,413	56,407	57,084	677	1.2%
Special Education – Basic State Grant	162,328	164,553	160,852	(3,701)	(2.2%)
State Grants for Improving Teacher Quality	48,147	48,291	46,097	(2,194)	(4.5%)
Vocational Education – State Grants	24,415	24,415	10,566	(13,849)	(56.7%)
Department of Health and Human Services					
Adoption Assistance	37,146	42,030	44,767	2,737	6.5%
CDC: State and Local Capacity	15,469	15,469	13,104	(2,365)	(15.3%)
Child Care and Development Block Grant	49,967	49,967	50,263	296	0.6%
Child Care Entitlement – Mandatory and Matching	56,066	56,006	56,006	0	0.0%
Child Support Enforcement Administration	48,888	51,296	45,739	(5,557)	(10.8%)
Community Services Block Grant <u>1/</u>	5,128	5,128	0	(5,128)	(100.0%)
Consolidated Health Centers	30,453	33,973	33,973	0	0.0%
Foster Care	94,357	97,580	99,867	2,287	2.3%
Head Start	102,352	103,909	102,401	(1,508)	(1.5%)
Low-Income Home Energy Assistance Program (LIHEAP)	15,400	8,110	6,115	(1,995)	(24.6%)
Medicaid – Administration	101,131	112,463	115,063	2,600	2.3%
Medicaid – Vendor Payments	4,233,713	4,549,852	4,999,803	449,951	9.9%
Medicare Part D Clawback	-28,903	-64,422	-63,524	898	(1.4%)
Promoting Safe and Stable Families	6,856	6,856	6,856	0	0.0%
Social Services Block Grant (SSBG)	32,442	32,442	22,900	(9,542)	(29.4%)
State Children's Health Insurance Program (SCHIP)	107,366	127,858	127,858	0	0.0%
Substance Abuse and Prevention Block Grant	31,546	31,546	31,553	7	0.0%
Temporary Assistance for Needy Families (TANF)	226,131	226,131	226,131	0	0.0%
Department of Homeland Security					
Homeland Security Formula Grants	8,660	3,938	468	(3,470)	(88.1%)

Program Descriptions for Major Federal Grants

Department of Agriculture

Women, Infants & Children (WIC) Supplemental Feeding Program

To provide, low-income pregnant, breastfeeding and postpartum women, infants, and children to age five determined to be at nutritional risk, at no cost, supplemental nutritious foods, nutrition education, and referrals to health care providers.

Department of Education

Title I – Grants to Local Education Agencies

To help local education agencies (LEAs) and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic standards.

Vocational Rehabilitation – State Grants

To assist States in operating programs of vocational rehabilitation; to provide vocational rehabilitation services for individuals with disabilities so they may prepare for and engage in competitive employment.

Special Education – Basic State Grant

To provide grants to States to assist them in providing a free appropriate public education to all children with disabilities.

State Grants for Improving Teacher Quality

To provide grants to State Education Agencies (SEAs) on a formula basis to increase student academic achievement through strategies such as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom and highly qualified principals and assistant principals in schools and hold local educational agencies and schools accountable for improvements in student academic achievement.

Vocational Education – State Grants

Basic grants assist States and outlying areas to expand and improve their programs of vocational education and provide equal access in vocational education to special needs populations. The populations assisted by Basic Grants range from secondary students in pre-vocational courses through adults who need retraining to adapt to changing technological and labor market conditions.

Department of Health and Human Services

Adoption Assistance

To provide Federal Financial Participation to States in adoption subsidy costs for the adoption of children with special needs and who meet certain eligibility tests.

Centers for Disease Control and Prevention: State and Local Capacity

To ensure that state and local health departments, hospitals, and other health care entities are able to mount a collective response featuring seamless interaction of their event-specific capabilities in areas related to bioterrorism.

Child Care and Development Block Grant (includes Entitlement – Mandatory and Matching program)

To make grants to States and Tribes to assist low-income families with child care and to: (1) Allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within State; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage States to provide consumer education information to help parents make informed choices about child care; (4) assist States to provide child care to parents trying to achieve independence from public assistance; and (5) assist States in implementing the health, safety, licensing, and registration standards established in State regulations.

Child Support Enforcement Administration

To enforce the support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child, spousal and medical support.

Community Services Block Grant

To provide assistance to States and local communities, working through a network of community action agencies and other neighborhood-based organizations, for the reduction of poverty, the revitalization of low-income communities, and the empowerment of low-income families and individuals in rural and urban areas to become fully self-sufficient.

Consolidated Health Centers

To support the development and operation of health centers which provide preventive and primary health care services, supplemental health and support services and environmental health services to medically underserved areas/populations.

Foster Care

To help States provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering State agency and need temporary placement and care outside their homes; and to provide Federal Financial Participation in costs related to the program.

Head Start

To promote school readiness by enhancing the social and cognitive development of low-income children, including children on federally recognized reservations and children of migratory farm workers, through the provision of comprehensive health, educational, nutritional, social and other services; and to involve parents in their children's learning and to help parents make progress toward their educational, literacy and employment goals.

Low-Income Home Energy Assistance Program (LIHEAP)

To make Low Income Home Energy Assistance Program (LIHEAP) grants available to States and other jurisdictions to assist eligible households to meet the costs of home energy.

Medicaid; Title XIX – Administration

Medicaid; Title XIX – Vendor Payments

To provide financial assistance to States for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and other categorically-eligible groups. Financial assistance is provided to States to pay for Medicare premiums, copayments and deductibles of qualified Medicare beneficiaries meeting certain income requirements. More limited financial assistance is available for certain Medicare beneficiaries with higher incomes.

Medicare; Part D – Clawback

To share program costs for Medicare Part D prescription drug coverage between states and the federal government. The required state payment has become known as the “clawback.”

Promoting Safe and Stable Families

To fund community-based family support services that promote the safety and well-being of children and families by enhancing family functioning and child development; to fund family preservation services that serve families at risk or in crisis, including the following services: reunification and adoption services, preplacement/preventive services, follow-up services after return of a child from foster care, respite care, services designed to improve parenting skills; and infant safe haven programs; to fund time-limited family reunification services to facilitate the reunification of the child safety and appropriately within a timely fashion; and to fund adoption promotion and support services designed to encourage more adoptions out of the foster care system, when adoptions promote the best interests of children.

Social Services Block Grant (SSBG)

To enable each State to furnish social services best suited to the needs of the individuals residing in the State. Federal block grant funds may be used to provide services directed toward one of the following five goals specified in the law: (1) To prevent, reduce, or eliminate dependency; (2) to achieve or maintain self-sufficiency; (3) to prevent neglect, abuse, or exploitation of children and adults; (4) to prevent or reduce inappropriate institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate.

State Children’s Health Insurance Program (SCHIP)

To provide funds to States to enable them to initiate and expand child health assistance to uninsured, low-income children. Assistance should be provided primarily by two methods: (1) Obtain health insurance coverage that meets the requirements relating to the amount, duration, and scope of benefits; or (2) expand eligibility for children under the State’s Medicaid program.

Substance Abuse and Prevention Block Grant

To provide financial assistance to States and Territories to support projects for the development and implementation of prevention, treatment and rehabilitation activities directed to the diseases of alcohol and drug abuse.

Temporary Assistance for Needy Families (TANF)

To provide grants to States, Territories, or Tribes to assist needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.

Department of Homeland Security

Homeland Security Formula Grants

SHSP: The State Homeland Security Program (SHSP) enables states to prepare for and mitigate the effects of attacks from chemical, biological, radiological, nuclear and explosive terrorist attacks. LETPP: The Law Enforcement Terrorism Prevention Program (LETPP) may be used for law enforcement planning, organizational activities and equipment to enable information sharing, reducing vulnerability of potential targets, threat recognition, intervention activities and interoperable communications. The LETPP is similar in structure to the prior Critical Infrastructure Grants.

HUD and Independent Agencies

Community Development Block Grant (CDBG) – Entitlement

To develop viable urban communities, by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for persons of low and moderate income.

Community Development Block Grant (CDBG) – Non-entitlement

This grant has the same basic objective as the previous CDBG. However grant recipients also must demonstrate that each activity funded meets one of the program’s National Objectives by either: benefiting low and moderate income families; aiding in the prevention or elimination of slums or blight; or meeting other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available.

EPA – Clean Water SRF

To create State Revolving Funds (SRFs) through a program of capitalization grants to States which will provide a long term source of State financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

EPA – Drinking Water SRF

To create State Revolving Funds (SRFs) through a program of capitalization grants to make funds available to drinking water systems to finance infrastructure improvements. The program also emphasizes providing funds to small and disadvantaged communities and to programs that encourage pollution prevention as a tool for ensuring safe drinking water.

Department of Justice

State Criminal Alien Assistance Program

The State Criminal Alien Assistance Program (SCAAP) provides Federal assistance to states and units of local government incurring costs of incarcerating illegal aliens convicted of one felony or two misdemeanor offenses and to expedite the transfer of custody for certain deportable aliens.

Justice Assistance Grants

The Byrne Justice Assistance Grant (JAG) Program is a formula grant program created from the merger of the Byrne Formula Grant and the Local Law Enforcement Block Grant. The JAG program is intended to help State and local law enforcement control violent and drug-related crime, as well as improve operations and coordination.

Department of Labor

Workforce Investment Act – Adult Employment and Training Activities

To provide workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by the participants. This program is designed to increase employment, as measured by entry into unsubsidized employment, retention in unsubsidized employment six months after entry into employment, and wage gain.

Workforce Investment Act – Dislocated Workers

This grant has the same basic objective as the prior program with an emphasis on employing dislocated workers.

Employment Service State Grants

To place persons in employment by providing a variety of placement-related services without charge to job seekers and to employers seeking qualified individuals to fill job openings.

Unemployment – State Administration

To administer this program of unemployment insurance for eligible workers through Federal and State cooperation; to administer payment of trade adjustment assistance; disaster unemployment assistance; unemployment compensation for Federal employees and ex-service members.

Workforce Investment Act – Youth Activities

To design, with States and local communities, a revitalized, workforce investment system that will help low income youth between the ages of 14 and 21 acquire the educational and occupational skills, training and support needed to achieve academic and employment success and successfully transition to careers.

Career Advancement Accounts

The program is proposed by the President as a consolidation of Adult Employment and Training Activities, Dislocated Worker Employment and Training Activities, Youth Activities and Employment Services into a single grant program. Career Advancement Accounts (CAAs) would be self-directed accounts that workers could use to purchase education and training.

Department of Transportation

Federal Aid Highways – Bridge R & R

Federal Aid Highways – Interstate Maintenance

Federal Aid Highways – National Highway System

Federal Aid Highways – Equity Bonus

Federal Aid Highways – Surface Transportation Program

To assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System, including the Interstate System; and for transportation improvements to all public roads except those functionally classified as local; to provide aid for the repair of Federal-aid roads following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes. The Federal Lands Highway Program provides assistance to the Federal Land Management Agencies for Federally-owned roads.

State of Arizona

General Fund Revenue: Change from Previous Year and January Baseline Forecast February 2007

	Current Month					FY 2007 YTD (Eight Months)				
	Change From					Change from				
	Actual	February 2006		Revised Forecast		Actual	February2006		Revised Forecast	
	February 2007	Amount	Percent	Amount	Percent	February 2007	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	359,643,938	\$29,061,478	8.8 %	(\$728,862)	(0.2) %	\$3,027,955,909	\$231,031,932	8.3 %	(\$18,777,451)	(0.6) %
Income - Individual	83,536,034	(21,439,630)	(20.4)	175,281	0.2	2,414,878,761	180,377,311	8.1	11,798,897	0.5
- Corporate	21,126,878	18,718,718	777.3	14,700,695	228.8	549,301,157	114,117,972	26.2	12,930,724	2.4
Property	879,244	519,078	144.1	629,244	251.7	14,262,329	(488,040)	(3.3)	522,969	3.8
Luxury	2,968,373	(2,969,291)	(50.0)	(1,988,627)	(40.1)	45,049,270	1,251,919	2.9	(2,625,633)	(5.5)
Insurance Premium	3,958,613	2,603,494	192.1	658,613	20.0	148,251,219	9,547,345	6.9	(3,069,650)	(2.0)
Estate	71,962	(64,432)	(47.2)	71,962	--	(877,996)	(11,905,063)	--	74,677	(7.8)
Other Taxes	49,452	6,276	14.5	(27,673)	(35.9)	437,163	(3,793)	(0.9)	(31,357)	(6.7)
Sub-Total Taxes	\$472,234,494	\$26,435,691	5.9 %	\$13,490,633	2.9 %	\$6,199,257,812	\$523,929,583	9.2 %	\$823,176	0.0 %
<u>Other Revenue</u>										
Lottery	6,086,000	2,577,500	73.5	2,286,000	60.2	25,002,400	(2,907,100)	(10.4)	(622,900)	(2.4)
License, Fees and Permits	1,981,681	(354,298)	(15.2)	(95,619)	(4.6)	27,274,865	6,574,827	31.8	124,159	0.5
Interest	9,890,190	2,373,406	31.6	2,690,190	37.4	63,586,287	28,032,315	78.8	6,174,028	10.8
Sales and Services	4,143,472	502,419	13.8	(282,528)	(6.4)	32,591,858	(2,830,785)	(8.0)	(866,257)	(2.6)
Other Miscellaneous	3,900,031	1,974,622	102.6	2,409,631	161.7	22,609,236	6,743,392	42.5	4,189,097	22.7
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	210,647	(576,926)	(73.3)	(939,353)	(81.7)	8,040,240	(9,453,425)	(54.0)	2,257,343	39.0
Sub-Total Other Revenue	26,212,021	6,496,723	33.0 %	6,068,321	30.1 %	179,104,886	26,159,224	17.1 %	11,255,470	6.7 %
TOTAL BASE REVENUE	\$498,446,515	\$32,932,414	7.1 %	\$19,558,954	4.1 %	\$6,378,362,698	\$550,088,807	9.4 %	\$12,078,646	0.2 %
<u>One-Time Revenue</u>										
Urban Revenue Sharing	(45,935,888)	(10,500,144)	29.6	0	0.0	(367,487,104)	(84,001,153)	29.6	0	0.0
Sub-Total Transfers In	(45,935,888)	(10,500,144)	29.6 %	0	0.0 %	(367,487,104)	(84,001,153)	29.6 %	0	0.0 %
TOTAL REVENUE	\$452,510,627	\$22,432,270	5.2 %	\$19,558,954	4.5 %	\$6,010,875,594	\$466,087,654	8.4 %	\$12,078,646	0.2 %