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**“Year-to-date,
revenues are
\$7.2 million
above forecast.”**

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on June 24, 2010

Summary



May General Fund revenues totaled \$485.1 million and continued the positive gain in collections that began last month. Excluding revenue sharing and adjustments, base revenues grew by 5.6% above the May 2009 level. The May increase follows a 4.1% increase in April. *See Tables 1 and 5 for more details on May General Fund revenues.*

May revenues exceeded the forecast by \$42.5 million. Year-to-date, revenues are (11.0)% below FY 2009, but are \$7.2 million above the forecast. The last time the State was above the year-to-date forecast in May was FY 2006.

May 2010 General Fund spending was \$257.1 million. May expenditures were higher than the prior year in part due to technical revisions. Without this technical change, spending would have declined \$(95.4) million. Year-to-date spending is \$(1.2) billion less than the prior year.

Fiscal year-to-date, General Fund revenues are \$6.60 billion compared to spending of \$7.68 billion for a shortfall of \$(1.08) billion. This shortfall is less than April's \$(1.30) billion.

Budget News

This Monthly Fiscal Highlight includes information on budget projections, state borrowing, the asset sale/leaseback and a new federal health insurance regulation grant.

Budget Projections – In April, JLBC Staff projected a FY 2010 shortfall of \$(150) million and a FY 2011 shortfall of \$(368) million to \$(1.2) billion. (See the June 3rd [JLBC Staff Budget Status Update](#) for a slideshow presentation of this issue). These estimates will next be updated in July after Fiscal Year-end 2010 revenue numbers become available.

The potential FY 2011 shortfall consisted of approximately 3 different \$400 million elements:

- Revenue shortfall. With the growth in April and May revenues, however, the revenue shortfall seems less likely to occur at this time. The higher revenue growth would also potentially eliminate any FY 2010 shortfall.
- No extended enhanced federal match rate. Contingent upon Congressional approval, these extra federal funds would help pay for the continuation of the Proposition 204 program through the end of FY 2011. As of this writing, Congress has yet to approve these funds. The most recent U.S. House omnibus bill did not include the provision. While the U.S. Senate Majority leadership is supportive of the extension, the bill is still being filibustered in the Senate as concerns grow over the federal deficit. The most recent version of the legislation would potentially reduce the State's share of additional funding by one-third.

Table of Contents

Summary

- Budget News..... 1

May Revenues 3

Economic Indicators 6

JCCR Meeting Summary

- SFB – \$100 Million Lease-Purchase 9
- Game & Fish – Shooting Range 9

Summary of Recent Agency Reports

- AHCCCS – Report on SAVE Program 9
- Economic Estimates Commission - BSF 9

May Spending 10

Summary (continued)

Table 1

	General Fund Revenues (\$ in Millions)		
	FY 2010	Difference From	Difference
	<u>Collections</u>	<u>Budget Forecast</u>	<u>From FY 2009</u>
May	\$ 485.1	\$42.5	\$ 27.3
Year-to-Date	\$6,604.1	\$ 7.2	\$ (234.4)

“In the last week, the operating balance has had a positive balance of over \$600 million.”

- Failure of the November ballot propositions concerning “First Things First” and the Land Conservation Fund. These 2 ballot propositions would: 1) Repeal First Things First and transfer the agencies remaining fund balance to the General Fund and shift the ongoing tobacco tax revenues to the General Fund; 2) Transfer any unexpended monies in the Land Conservation Fund to the General Fund.

Since April, a new potential shortfall issue has developed. The Arizona Department of Education (ADE) recently provided an update regarding its FY 2010 budget status. ADE estimates that it will experience a \$(31) million net funding shortfall for formula programs for FY 2010. That estimate would be \$(80) million, however, apart from a \$49 million adjustment for federal “State Fiscal Stabilization Fund” monies budgeted for FY 2011 that ADE instead used to address a portion of its FY 2010 funding shortfall.

ADE’s FY 2011 General Fund budget was reduced by \$(93) million with the intent that \$93 million of stabilization funds would offset that reduction. With \$49 million being used in FY 2010, only \$44 million will be backfilled in FY 2011. All education related stabilization funds have been allocated.

In FY 2011, ADE’s budget could face a shortfall of up to \$130 million. This shortfall estimate is speculative and will ultimately depend on final FY 2010 student counts and preliminary FY 2011 student counts, which will not be available until this fall. The estimate includes:

- \$31 million carryover shortfall from FY 2010.
- \$49 million stabilization fund shortfall in FY 2011, due to using these funds to address the FY 2010 shortfall.
- \$50 million for incorporating the higher than expected FY 2010 base into the FY 2011 formula. The other \$30 million of the \$80 million FY 2010 shortfall is anticipated to be one-time.

State Borrowing – In the beginning of June, the Treasurer continued daily borrowing in order to pay state obligations. Since then, the overall financial picture has subsequently improved and daily borrowing has not been necessary. The improved cash flow was due to a combination of increased revenues related to cash deposits from the recent lottery securitization and asset sale/leaseback, along with decreased spending due to payments being deferred to the next fiscal year.

In the last week, the operating balance has had a positive balance of over \$600 million. Based on informal discussions with the Treasurer’s Office and the General Accounting Office, the state’s positive operating balance is expected to continue until September. At that time, the state is projected to run a negative balance as \$1.3 billion in rollover payments to K-12, the Universities, and other agencies come due.

On June 9, the State Loan Commission met to discuss 2 items related to overnight borrowing: an extension of the existing borrowing agreement with Bank of America, and setting the interest rate the state would pay on overnight borrowing. The Commission took no action on either item.

Without some action by the Commission, the state will not have the authority for any overnight borrowing after the start of the new fiscal year. In September, there will be at least 3 options to deal with the projected negative operating balance: sign a new commercial lending contract, resume borrowing from internal funds, or issue IOUs.

See the [JLBC Staff Analysis of State Borrowing](#) for additional information.

Asset Sale/Leaseback and Lottery Revenue Bonds – In late May, the State completed the issuance of \$450 million of lottery revenue bonds at a yield of approximately 4.27%. In early June, the state completed the issuance of an additional \$300 million of certificates of

Summary (continued)

participation for the asset sale/ leaseback of state properties at a yield of 4.38%. Funds from these issuances are anticipated to be deposited into the General Fund before the end of FY 2010, as assumed by the budget.

Health Insurance Regulation Grants - The Patient Protection and Affordable Care Act (PPACA) requires states to provide increased oversight of health insurance plans. On June 8th, the federal government announced the availability of \$51.0 million in grants to help states review health insurance premium

increases, provide information to the federal government, and establish centers to analyze and distribute information to the public. The state would receive \$1.0 million if its application is approved and would not have to provide matching funds. In future years, the federal government will make an additional \$199.0 million available to states.

May Revenues

Sales Tax collections were \$277.3 million in May. Collections were down (0.6)% compared to last May and were \$(10.7) million below the forecast. As noted last month, April broke a string of 26 consecutive months of year-over-year reductions. However, April's increase was at least partially due to the collection of sales tax which was due in prior months. Adjusting for the prior months' collections, April revenues were about equal to April of last year. May collections continue that trend, with collections approximately equal to May of the prior year.

Table 2 displays the May growth rates for the largest categories.

Table 2 Sales Tax Growth Rates Compared to Prior Year		
	<u>May</u>	<u>YTD</u>
Retail	(0.1)%	(7.4)%
Contracting	(19.2)%	(38.3)%
Utilities	(2.0)%	0.5%
Use	4.6%	(9.6)%
Restaurant & Bar	4.3%	(1.2)%

As noted in previous months, retail and contracting together account for about 30% of all sales tax revenues. Contracting continued its poor performance, with a (19.2)% decrease compared to May of last year, while the retail category was almost flat compared to last year, decreasing by (0.1)%.

Within the retail category, General Merchandise and Miscellaneous Retail are down (2.5)% through April (the latest available

data) compared to the prior year. The motor vehicle category is down (4.6)% through April. The Motor Vehicle category continues to improve each month from the (33)% decline for all of FY 2009 (see Table 4 below).

Individual Income Tax net revenues were \$160.0 million in May. Collections were \$48.8 million above the forecast. Year-to-date collections are down by (6.2)%.

As indicated in Table 3 below, withholding tax payments increased by 5.1% in May, the fourth consecutive month of increase after 16 months of declines.

Table 3 Individual Income Tax Growth Rates Compared to Prior Year		
	<u>May</u>	<u>YTD</u>
Withholding	5.1%	(2.3)%
Estimated + Final Payments	(53.5)%	(22.5)%
Refunds	(41.1)%	(8.4)%

The May positive variance from the forecast is due primarily to reduced refunds for the month, which were down more than (40)% compared to the prior year. This May gain, combined with the large gain from April noted last month, brings the total gain relative to the forecast for refunds to \$82.7 million for the year.

Year-to-date, for this year's tax filing season, (January through May), estimated and final payments are down over (18)% compared to

"Contracting continued its poor performance, with a (19.2)% decrease compared to May of last year, while the retail category was almost flat compared to last year, decreasing by (0.1)%."

May Revenues (Continued)

Table 4

April Taxable Retail Sales by Subcategory

	% of Total	% Change From '09 YTD
General/Misc. Merchandise	31.2%	(2.5)%
Motor Vehicles/Misc. Auto.	20.0%	(4.6)%
Bldg Materials and Supplies	7.4%	(6.7)%
Food and Liquor Stores	7.5%	(5.7)%
Furniture, Home Furnishings	6.9%	(11.0)%
Clothing and Accessories	5.8%	(6.5)%
Manufacturing	5.5%	(17.4)%
Other Subcategories	15.7%	(20.8)%
Total	100.0%	(8.4)%

the same period in the prior year. However, this decrease is more than offset by a decrease in refunds for the same period of over (11)%.

Corporate Income Tax net collections were \$51.4 million in May. This amount was \$11.3 million above the forecast for the month. Approximately \$10.0 million of May collections were erroneously included in May collections due to a technical error and were removed the first week of June. The \$11.3 positive forecast variance reflects an adjustment for that technical correction. Year-to-date, corporate collections are (34.9)% below last year.

The **Lottery Commission** reports that May ticket sales were \$49.7 million, which is 7.2% above sales last year. Year-to-date, ticket sales are \$60.9 million or 13.7% above last year. While ticket sales have increased, distributions to state beneficiaries are down \$(3.2) million. As we have noted in previous months, it appears that sales have increased as prize payouts have increased (which reduces payments to state beneficiaries).

Non-General Funds

Tobacco Tax revenues were \$29.8 million in May. Collections were up 7.5% compared to the prior year. Year-to-date collections are down by (11.7)%.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services (DHS) to defray the General Fund cost of operating those programs.

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees.

HURF collections of \$99.1 million in May were up \$6.0 million or 6.5% compared to May of last year. However, May 2009 HURF collections were reduced due to a technical correction. Adjusting for this correction, May 2010 collections were approximately equal to May of the prior year. Year-to-date, total HURF collections of \$1.09 billion are down \$(51.5) million or (4.5)% compared to last year.

“Year-to-date, total HURF collections of \$1.09 billion are down \$(51.5) million or (4.5)% compared to last year.”

Table 5

State of Arizona

General Fund Revenue:

Change from Previous Year and Enacted Budget Forecast May 2010

	Current Month					FY 2010 YTD (Eleven Months)				
	Actual May 2010	Change From		Forecast		Actual May 2010	Change from		Forecast	
		May 2009 Amount	Percent	Amount	Percent		May 2009 Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$277,349,504	(\$1,540,274)	(0.6) %	(\$10,706,639)	(3.7) %	\$3,134,813,513	(\$365,861,920)	(10.5) %	(\$24,773,999)	(0.8) %
Income - Individual	159,976,798	61,433,098	62.3	48,841,444	43.9	2,145,750,846	(142,593,300)	(6.2)	23,418,254	1.1
- Corporate	51,427,886	2,495,782	5.1	11,254,127	28.0	322,643,556	(172,976,682)	(34.9)	18,327,535	6.0
Property	2,744,174	334,289	13.9	1,533,174	126.6	16,726,693	1,913,193	12.9	2,149,466	14.7
Luxury - Tobacco	2,605,560	346,211	15.3	(209,440)	(7.4)	23,916,044	(3,384,132)	(12.4)	(2,956,665)	(11.0)
- Liquor	2,342,499	98,141	4.4	32,499	1.4	26,224,466	(325,370)	(1.2)	(983,541)	(3.6)
Insurance Premium	25,947,909	(4,359,806)	(14.4)	(1,887,091)	(6.8)	333,153,455	2,493,653	0.8	4,222,162	1.3
Estate	0	0	--	0	--	358,995	148,623	70.6	25,611	7.7
Other Taxes	20,990	(28,481)	(57.6)	(8,010)	(27.6)	1,415,797	287,538	25.5	813,888	135.2
Sub-Total Taxes	\$522,415,320	\$58,778,960	12.7 %	\$48,850,064	10.3 %	\$6,005,003,365	(\$680,298,397)	(10.2) %	\$20,242,711	0.3 %
<u>Other Revenue</u>										
Lottery	884,800	(2,170,700)	(71.0)	(2,215,200)	(71.5)	31,000,000	(2,007,500)	(6.1)	(37,600)	(0.1)
License, Fees and Permits	1,634,736	(685,380)	(29.5)	234,736	16.8	23,959,990	(6,572,862)	(21.5)	2,116,662	9.7
Interest	(72,977)	(9,323,188)	--	(72,977)	--	464,961	(19,056,070)	(97.6)	(709,576)	(60.4)
Sales and Services	239,785	(3,161,628)	(93.0)	(3,900,215)	(94.2)	24,212,595	(15,763,644)	(39.4)	(5,210,295)	(17.7)
Other Miscellaneous	3,211,212	(2,821,712)	(46.8)	211,212	7.0	31,567,897	(9,961,639)	(24.0)	(4,106,768)	(11.5)
Disproportionate Share	0	0	--	0	--	0	(18,727,942)	(100.0)	0	--
Transfers and Reimbursements	169,713	(3,278,591)	(95.1)	(645,287)	(79.2)	34,250,056	534,775	1.6	(5,071,582)	(12.9)
Sub-Total Other Revenue	6,067,269	(21,441,199)	(77.9) %	(6,387,731)	(51.3) %	145,455,499	(71,554,882)	(33.0) %	(13,019,159)	(8.2) %
TOTAL BASE REVENUE	\$528,482,589	\$37,337,761	7.6 % *	\$42,462,333	8.7 %	\$6,150,458,864	(\$751,853,279)	(10.9) % *	\$7,223,552	0.1 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(52,387,052)	8,252,731	--	0	0.0	(576,257,577)	90,780,039	--	(2)	0.0
Budget Plan Transfers	8,987,236	(18,277,701)	(67.0)	0	0.0	294,475,725	(308,719,295)	(51.2)	0	0.0
Leaseback Proceeds	0	0	--	0	--	735,419,300	735,419,300	--	0	0.0
Sub-Total Other Adjustments	(43,399,816)	(10,024,970)	30.0 %	0	0.0 %	453,637,448	517,480,044	-- %	(2)	(0.0) %
TOTAL GENERAL FUND REVENUE	\$485,082,773	\$27,312,791	6.0 %	\$42,462,333	9.6 %	\$6,604,096,312	(\$234,373,235)	(3.4) %	\$7,223,550	0.1 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$99,106,000	\$6,029,000	6.5 %	(\$4,668,000)	(4.5) %	\$1,091,839,000	(\$51,512,000)	(4.5) %	(\$47,726,000)	(4.2) %
Tobacco Tax (All Funds Total)	\$29,804,808	\$2,083,376	7.5 %	\$5,675,031	23.5 %	\$304,038,476	(\$40,138,860)	(11.7) %	\$10,173,251	3.5 %

* After accounting for a \$10 million technical adjustment in Corporate Income Taxes, the May adjusted growth rate is 5.6%, and the year-to-date decline is (11.0)%.

Economic Indicators

NATIONAL

The Conference Board's **U.S. Index of Leading Economic Indicators** rose by 0.4% in May. The modest increase comes on the heels of an upward revision for April. Most of the small gain was attributable to an increase in money supply and a favorable spread between short- and long-term interest rates. At a reading of 109.9, the index has improved by close to 10% over the last 12 months.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, decreased by (0.2)% in May, following April's (0.1)% decline. The drop in consumer prices was primarily due to falling gasoline prices. The core CPI, which excludes food and energy prices, inched up 0.1% in May and is now 1.0% above last year's level, the lowest rate of core inflation since the mid-1960s.

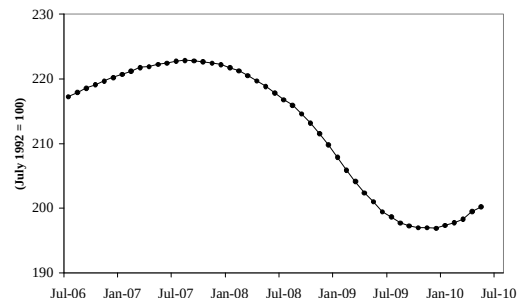
The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the U.S. reached \$3.94 billion in April, a 3.1% improvement from the prior month and a 48.9% increase over April 2009 levels. April experienced the largest amount of semiconductor sales since November 2006.

ARIZONA

The Federal Reserve Bank of Philadelphia's coincident index gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

The **state coincident index** for Arizona advanced for the fifth consecutive month in May with a month-over-month increase of 0.4%. Under the Philadelphia Federal Reserve Bank's rule-of-thumb, 3 consecutive months of increases of the index tend to signal that the economy has turned a corner and is beginning to recover. As seen in the graph, the Arizona coincident index reached a trough in December 2009. See [Tracking Arizona's Recovery](#), for additional historical information.

Arizona Coincident Economic Activity Index



Employment

According to latest release of employment data by Arizona Department of Commerce, the state added 3,400 **nonfarm payroll jobs** in May. However, absent the additional 9,600 federal workers added to the payrolls in May (most of whom were hired for the 2010 Census), the state would have experienced a net job loss of (6,200). The average job loss for the month of May in the prior 10 years was (100).

Six of the 10 industries that comprise private sector employment shed jobs in May, with most of those losses concentrated to professional and business services and the leisure and hospitality industry.

Year-over-year, total nonfarm employment was down by (0.7)%, or (16,600) jobs. This was the slowest rate of decline since February 2008. Year-over-year job losses peaked in June 2009 when there were reportedly (217,200), or (8.4)%, fewer people on the payrolls than in the previous year. Since the onset of the recession in December 2007, the state has lost (287,500) jobs, which constitutes a (10.6)% reduction of the workforce.

While nonfarm employment has yet to reach its trough (on a year-over-year basis), available data suggests that this will occur within the coming few months. See [Tracking Arizona's Recovery](#), for additional historical information.

The **average weekly hours** of production workers in manufacturing industries is a leading indicator since "factory hours" tend to lead the business cycle as employers usually adjust work hours before increasing or decreasing the size of their workforce. According to the Arizona Department of Commerce, preliminary data indicates that the average

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Economic Indicators (Continued)

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work week in May was 40.3 hours, the best reading since December 2008. This leading indicator has improved in each of the last 3 months and was (as of May) 2.8% above last year's level, the largest year-over-year increase since January 2007. This improvement suggests that the manufacturing sector is likely to begin adding people to their payrolls in the coming months.

The state's **unemployment rate** was 9.6% in May, a 0.1% increase over the prior month. This measure has remained essentially unchanged over the last 4 months. The state's jobless rate has more than doubled since it reached a record-low 3.7% during the second quarter of 2007.

The Department of Commerce reported that 27,535 **initial claims for unemployment insurance** were filed in May. At this level, there were (4,271), or (13.4)%, fewer claims than in the prior month. The reduction in claims was mostly attributable to seasonal factors. To provide some perspective, the pre-recession average decline for the month of May was (16.6)%. May marked the seventh consecutive month with a year-over-year decline in claims. Initial jobless claims peaked in April 2009 when more than 41,000 individuals filed for benefits. See [Tracking Arizona's Recovery](#), for additional historical information.

Housing

Foreclosure related data continued to improve in May. In Maricopa County, the number of **foreclosure notices** - the initial step in the foreclosure process – totaled 6,471, a (8.4)% decrease from the prior month and a (24.9)% decrease from a year ago. The number of **pending foreclosures** decreased (3.9)% from the prior month to 44,997. Pending foreclosures peaked at 51,466 in December 2009. At their current levels, initial foreclosure notices and pending foreclosures are at their lowest levels since July 2008 and May 2009, respectively. See [Tracking Arizona's Recovery](#), for additional historical information.

Statewide, an average of 1,153 **single-family residential building permits** were issued per month between March and May. At this level, activity is (4.2)% below the previous period but 16.1% above levels a year ago. Over the last year, a total of 14,268 single-family permits have been issued.

State Agency Data

Participation in income driven programs declined somewhat over the prior month, but still remains significantly above last year.

In June, **AHCCCS caseloads** equaled 1.36 million members, a 0.2% increase over the prior month. AHCCCS caseloads are currently 8.5% above June 2009 levels. Total enrollment has stayed essentially unchanged since December 2009. The FY 2010 budget funded a projected June caseload growth of 14.4%, for a total of 1,435,445 members.

There were 74,187 **TANF recipients** in the state in April, a monthly caseload decrease of (3.0)%. Year-over-year, the number of TANF recipients has declined by (12.1)%. The FY 2010 budget assumed that the June 2010 TANF caseload would be 84,287.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In April, there were a total 1.02 million food stamp recipients in the state, a decrease of (1.9)% over the prior month. Compared to the same month last year, food stamp participation was up by 29.3%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The **Department of Correction's (ADC) inmate population** 3-month average count totaled 40,584 inmates between March and May 2010. During this period, population growth averaged 77 inmates per month. Fiscal year-to-date, however, population growth has increased at an average rate of only 18 inmates per month.

In counties other than Maricopa County (who funds all of their probation programs), the state and counties share the costs of probation programs. Based on **adult and juvenile probation data** from February and April, respectively, the non-Maricopa probation caseload was 19,616 individuals – 122 less probationers than the prior month and 614 probationers less than a year ago. In Maricopa County, there were 28,881 probationers during the period, 51 less than the prior month and 808 less than a year ago.

Economic Indicators (Continued)

Table 6

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	May	9.6%	0.1%	0.4%
- Initial Unemployment Insurance Claims	May	27,535	(13.4)%	(21.0)%
- Unemployment Insurance Claimants	May	84,120	(3.7)%	(20.5)%
- Non-Farm Employment – Total	May	2.43 million	0.1%	(0.7)%
Manufacturing	May	147,800	(0.2)%	(3.7)%
Construction	May	115,000	1.6%	(12.1)%
- Average Weekly Hours, Manufacturing	May	40.3	2.5%	2.8%
- Contracting Tax Receipts (3-month average)	Mar-May	\$29.1 million	7.5%	(29.1)%
- Retail Sales Tax Receipts (3-month average)	Mar-May	\$126.6 million	4.3%	(5.7)%
- Residential Building Permits (3-month moving average)				
Single-unit	Mar-May	1,153	(4.2)%	16.1%
Multi-unit	Mar-May	112	2.1%	167.5%
- Greater Phoenix Existing Home Sales				
Single-Family	May	9,660	(5.8)%	(3.2)%
Townhouse/Condominium	May	1,510	(9.6)%	39.2%
- Greater Phoenix Median Home Sales Price				
Single-Family	May	\$145,000	(2.0)%	7.4%
Townhouse/Condominium	May	\$103,000	1.0%	(10.4)%
- Foreclosure Activity, Maricopa County				
Foreclosure Notices (Notice of Trustee's Sales Recorded)	May	6,471	(8.4)%	(24.9)%
Pending Foreclosures (Active Notices)	May	44,997	(3.9)%	0.5%
S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	March	109.52	(0.5)%	2.5%
- Months Supply of Housing, (ARMLS)	May	6.8 months	0.2 months	0.7 months
- Phoenix Sky Harbor Air Passengers	April	3.31 million	(4.3)%	0.4%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	March	\$7.41	2.3%	(9.5)%
- Arizona Consumer Confidence Index (1985 = 100)	2 nd Quarter 2010	49.6	(1.2)%	NA
- Arizona Coincident Index (July 1992 = 100)	May	200.25	0.4%	(0.4)%
- Arizona Personal Income	1 st Quarter 2010	\$220.0 billion	1.1%	1.0%
- Arizona Population	July 1, 2009	6.60 million	N/A	1.5%
- AHCCCS Recipients	June	1,362,618	0.2%	8.5%
- TANF Recipients	April	74,187	(3.0)%	(12.1)%
- SNAP (Food Stamps) Recipients	April	1,022,647	(1.9)%	29.3%
- ADC Inmate Growth (3-month average)	Mar-May	40,584	77 inmates	404 inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	Feb/Apr	19,616	(122)	(614)
Maricopa County	Feb/Apr	28,881	(51)	(808)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	1st Quarter 2010 (Second Estimate)	\$13.2 trillion	3.0%	2.5%
- Consumer Confidence Index (1985 = 100)	May	63.3	9.7%	15.5%
- Leading Indicators Index (2004 = 100)	May	109.9	0.4%	9.7%
- U.S. Semiconductor Billings (3-month moving average)	Feb-Apr	\$3.94 billion	3.4%	48.9%
- Consumer Price Index, SA (1982-84 = 100)	May	217.2	(0.2)%	2.0%

JCCR Meeting

At its June 16, 2010 meeting, the Joint Committee on Capital Review considered the following issues:

School Facilities Board – Review of \$100 Million Lease-Purchase Issuance – The Committee gave a favorable review of the lease-purchase issuance of \$100 million in Qualified School Construction Bonds. In addition, the Committee gave a favorable review of 9 new school construction projects, with the provision that the School Facilities Board not release funds for the construction of the Laveen Elementary School District and Liberty Elementary School District projects until the Committee reviews the districts' enrollment counts in relation to their capacity.

These 2 districts were projected to be over capacity in FY 2012 and FY 2013, respectively. In order to assess the accuracy of the

enrollment forecasts for these districts, the Committee requested additional student count information once these figures are made available in the fall.

Arizona Game and Fish Department – Review of Remaining Ben Avery Shooting Facility Improvements – The Committee favorably reviewed the department's request to expend \$460,700 in remaining funds for the Ben Avery Shooting Facility project. A total of \$950,000 was appropriated for this project, of which \$489,300 was favorably reviewed by the Committee at its November 2009 meeting.

Summary of Recent Agency Reports

AHCCCS – Report on Systematic Alien Verification for Entitlements Program – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) provided its quarterly report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), verified the immigration status of 36,284 individuals between October 1, 2009 and December 31, 2009. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. (Amy Upston)

Economic Estimates Commission – Report on the Budget Stabilization Fund – Pursuant to A.R.S. § 35-144F, the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a formula that compares the growth rate of real adjusted Arizona personal income in the most recent calendar year to the average in the last 7

calendar years (hereafter referred to as the "trend" growth rate).

The formula recommends a BSF withdrawal whenever the annual adjusted personal income growth rate is both less than the trend growth rate and 2%. According to a EEC report issued May 27, 2010, the calendar year 2009 growth rate was (7.19)% compared to the trend growth rate of 4.68%. Since both requirements for a fund withdrawal were met, the BSF formula recommends that \$768.7 million be transferred to the General Fund in FY 2010. This transfer cannot be implemented, however, since the \$(2.8) million withdrawal authorized by Laws 2010, 7th Special Session, Chapter 1 brought the BSF balance to \$0. (Hans Olofsson)

May Spending

FY 2010 Spending

May 2010 spending of \$257.1 million was \$4.2 million higher than May 2009. For the year-to-date, spending of \$7.7 billion is \$(1.2) billion below 2009 (See Table 7).

- The Arizona Department of Education (ADE) has spent \$3.2 billion year-to-date in 2010, or \$(487.0) million less than 2009. In May, ADE spending was \$(65.6) million lower than the prior year. May expenditures were lower than the prior year due to ADE using \$49.0 million in Fiscal Stabilization Fund monies to offset the General Fund Basic State Aid payment to charter schools. Additionally, ADE did not make \$20 million in payments to school districts because it had exhausted its FY 2010 General Fund appropriation.
- Spending in AHCCCS and DHS is a combined \$(16.3) million less in May than in 2009. This is generally consistent with the FY 2010 budget assumption that caseload growth in Medicaid spending in those agencies would be offset by varying degrees by enhanced federal match from the federal stimulus legislation.
- University spending was \$2.1 million in May. The low expenditure amount

reflects a rollover of the monthly payment, as was done in May of 2009. Year to date University spending is \$785.2 million, or \$(46.8) million below FY 2009.

- SFB spending is \$99.7 million greater in May than in 2009. This is due to the repayment of a temporary General Fund loan being accounted for as negative spending in May of 2009.

Table 7

General Fund Spending (\$ in Millions)

	<u>May 10</u>	<u>Change from May 09</u>	<u>Year to Date</u>	<u>YTD Change from FY 09</u>
Agency				
AHCCCS	\$114.2	\$(28.8)	\$1,190.4	\$(233.5)
Corrections	59.4	(13.2)	779.6	(40.9)
Economic Security	17.4	14.9	527.5	(192.6)
Education	21.9	(65.6)	3,170.1	(486.6)
Health Services	8.5	(3.1)	477.1	(89.7)
Public Safety	1.7	(0.2)	40.4	(13.5)
School Facilities Board	0.1	99.7	104.7	16.5
Universities	2.1	2.8	785.2	(46.8)
Other	<u>31.8</u>	<u>(2.3)</u>	<u>601.2</u>	<u>(111.2)</u>
Total	\$257.1	\$ 4.2	\$7,676.2	\$(1,198.3)

Table 8				
General Fund Spending				
(\$ in Thousands)				
Agency	May 10	Change from May 09	Year-to-Date	YTD Change from FY '09
Department of Administration	1,909.3	1,573.8	17,846.9	(6,004.6)
Office of Administrative Hearings	62.4	3.8	877.3	(176.8)
Department of Agriculture	442.5	(87.2)	7,776.9	(1,778.3)
AHCCCS	114,243.2	(28,764.2)	1,190,480.7	(233,518.8)
Arizona Commission on the Arts	26.8	(54.4)	820.9	(594.3)
Arizona Exposition and State Fair Board	-	-	400.0	400.0
Attorney General	797.4	(273.4)	16,316.6	(2,813.8)
AZ Capital Post Conviction Public Defender	28.3	(10.9)	606.8	(92.3)
State Board of Charter Schools	42.8	8.9	642.1	(139.1)
State Bd. of Chiropractic Exam.	-	-	148.0	148.0
Department of Commerce	753.2	543.4	3,221.4	(23,038.3)
Community Colleges	-	-	132,426.3	(3,309.5)
Corporation Commission	37.3	95.9	522.7	(3,479.9)
Department of Corrections	59,541.6	(13,218.7)	779,662.6	(40,852.1)
AZ Criminal Justice Commission	-	-	(4.6)	(1,190.2)
AZ State Board of Cosmetology	-	-	252.0	252.0
AZ St. Schools for the Deaf & Blind	2,023.3	726.3	20,208.9	(1,832.7)
Dept. of Economic Security	17,405.3	14,861.3	527,486.2	(192,550.6)
Department of Education	21,883.7	(65,594.9)	3,170,102.0	(486,589.0)
DEMA	513.6	(546.9)	8,755.5	(1,764.1)
Dept. of Environmental Quality	328.9	(408.4)	5,069.6	(440.3)
DEQ-WQARF	-	-	7,000.0	(6,000.0)
Office of Equal Opportunity	10.4	(18.2)	180.6	(23.8)
State Board of Equalization	22.3	3.2	603.9	32.7
Board of Executive Clemency	35.8	(24.6)	833.7	(138.0)
Dept. of Financial Institutions	138.3	(21.1)	2,780.7	(339.2)
Department of Fire, Life, Bldg Safety	116.5	(67.8)	2,024.2	(775.4)
State Board of Funeral Directors	-	-	100.0	100.0
Arizona Geological Survey	33.3	(83.0)	699.3	(138.5)
Government Information Tech.	25.0	(16.9)	413.6	(968.1)
Governor	416.1	(27.8)	6,464.5	400.3
Gov. - OSPB	112.8	(40.9)	1,797.5	(134.7)
Department of Health Services	8,547.0	(3,072.9)	477,098.1	(89,720.4)
Arizona Historical Society	159.0	22.6	3,679.4	(197.6)
Prescott Historical Society of AZ	35.7	7.7	610.5	(17.0)
Independent Redistricting Comm.	-	(7.5)	26.1	(201.1)
AZ Commission of Indian Affairs	2.7	2.7	83.0	(108.8)
Department of Insurance	310.7	92.3	5,233.0	(917.9)
Judiciary				
Supreme Court	1,199.2	177.6	15,798.0	1,363.4
Superior Court	10,279.6	(1,128.1)	84,338.9	(3,938.1)
Court of Appeals	926.8	(64.9)	12,956.7	340.7
Dept. of Juvenile Corrections	3,337.4	(956.7)	58,110.5	(7,854.1)
State Land Department	(1,563.6)	(2,198.7)	10,162.1	(5,084.8)
Law Enforcement Merit System	3.6	(1.9)	70.9	(0.7)

Agency	May 10	Change from May 09	Year-to-Date	YTD Change from FY '09
Legislature				
Auditor General	1,145.6	48.5	13,616.4	(2,042.2)
House of Representatives	809.6	(107.4)	11,314.6	(409.6)
Joint Legislative Budget Comm.	135.3	(15.0)	2,082.3	(171.2)
Legislative Council	273.4	(36.4)	4,534.1	(7,474.5)
AZ Library and Archives	396.6	119.6	5,850.4	(340.6)
Senate	594.7	(43.6)	8,025.5	(63.1)
Dpt. of Liquor Licenses	-	(182.9)	747.7	(2,857.8)
Board of Medical Student Loans	-	-	801.9	(199.1)
Mine Inspector	(45.5)	(139.3)	1,022.6	(368.9)
Dpt. of Mines & Mineral Resources	154.2	71.1	785.1	(103.4)
Nav. Streams & Adjudication	6.8	(11.9)	118.8	(144.9)
State Board of Nursing	-	(1.0)	-	(95.4)
OSHA	-	-	14.4	14.4
Arizona State Parks Board	(1,900.0)	(342.3)	20,214.2	(3,122.4)
Personnel Board	-	(17.8)	-	(305.9)
Comm. for Postsecondary Ed.	86.7	(17.1)	3,417.8	(679.7)
State Board of Psychologist Exam.	-	-	300.0	300.0
Department of Public Safety	1,737.6	(211.7)	40,438.2	(13,518.2)
Arizona Department of Racing	163.7	110.8	4,668.9	2,546.5
Radiation Regulatory Agency	66.8	70.3	1,356.2	(245.2)
Arizona Rangers Pension	1.2	-	12.8	0.3
Real Estate Department	141.3	(13.4)	2,828.1	(609.9)
Department of Revenue	2,113.9	(1,267.4)	32,513.2	(28,450.9)
School Facilities Board	70.5	99,671.3	104,701.2	16,455.8
Secretary of State	601.7	406.3	6,580.7	475.0
Tax Appeals Board	15.8	(1.7)	236.6	(9.5)
Office of Tourism	-	-	200.0	(112.2)
Department of Transportation	-	4.1	52.8	(5.2)
State Treasurer	153.4	(7.9)	2,390.3	21.2
Universities				
Board of Regents	321.3	993.7	20,413.6	1,959.1
Arizona State University	-	-	345,234.6	(23,293.1)
Northern Arizona University	491.7	491.7	117,372.9	(6,616.8)
University of Arizona	1,327.8	1,327.8	302,161.2	(18,873.4)
Department of Veteran Services	1,090.2	622.0	8,789.2	2,048.9
AZ State Veterinary Medical Examining Board	-	-	250.0	250.0
Department of Water Resources	780.4	(709.7)	14,799.8	5,138.1
Dept. of Weights & Measures	68.3	(12.8)	1,113.7	(175.6)
Other	2,071.1	2,013.9	22,526.3	(3,535.6)
Grand Total	257,062.3	4,241.3	7,676,170.1	(1,198,300.8)