

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491
Fax:
(602) 926-5416



www.azleg.gov/jlbc.htm

“We currently project that the FY 2012 ending balance will be \$257 million higher than budgeted. This translates into a projected FY 2012 ending balance of \$379 million.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on July 23, 2012.

Summary



The state's fiscal year ended on June 30th. However, the state continues to process transactions into July before closing the books. While the General Accounting Office issues its preliminary report on FY 2012 in mid-September, data received so far allows us to draw several preliminary conclusions on the fiscal year overall:

- General Fund ongoing base revenues grew by 6.3% during FY 2012. In June alone, General Fund base revenues were 7.9% higher than June 2011.
- Total FY 2012 revenues (including base and one-time collections) equaled \$9.04 billion, or 7.8% above FY 2011.
- At this time, year to date General Fund revenues are \$145 million above the enacted budget forecast.
- Total FY 2012 General Fund spending is estimated to be \$8.66 billion, including a \$250 million deposit to the Budget Stabilization Fund (BSF). Excluding the BSF deposit, FY 2012 spending grew by 0.6%.
- Year to date General Fund spending is estimated to be \$(112) million below budgeted levels. This is primarily due to lower than expected spending in “formula-driven” agencies such as AHCCCS and the Department of Education (ADE).
- The enacted May budget assumed a FY 2012 ending balance of \$122 million. Given \$145 million in unanticipated revenue and an estimated \$112 million in lower than expected spending, we currently project that the FY 2012 ending balance will be \$257 million higher than budgeted. This

translates into a projected FY 2012 ending balance of \$379 million. This estimate is likely to be revised as the state closes its books.

- Higher than expected FY 2012 revenues may serve as a base for increased collections in the current budget year (FY 2013). In addition, lower than budgeted FY 2012 caseload spending may result in revised FY 2013 formula spending.
- The enacted budget included a 3-year budget projection. The budget assumed a FY 2013 ending balance of \$249 million, which declined to a \$(486) million shortfall in FY 2015. The unbudgeted FY 2012 gain of \$257 million would help reduce that long-term shortfall.
- The status of the FY 2013-2015 budget projections will be updated at the next Finance Advisory Committee (FAC) meeting this fall. While any additional FY 2012 resources may impact the end result of FY 2013 – FY 2015, major uncertainties remain about economic growth, federal budget negotiations, and federal health care changes.

FY 2012 Revenues

FY 2012 continued the state's growth in General Fund base revenue from FY 2011 after several years of decline. Based on preliminary information, FY 2012 base revenues grew by 6.3%. Base revenues exclude the balance forward and changes such as one-time revenues and urban revenue sharing.

Including all one-time adjustments, FY 2012 General Fund revenues totaled \$9.04 billion,

Table of Contents

Summary	1
• FY 2012 Revenues.....	1
• FY 2012 Spending	2
• FY 2012 Ending Balance	2
• Long-Term Implications	2
• Ballot Proposition Fiscal Notes.....	2
June Revenues	3
Economic Indicators	5
JLBC/JCCR Meetings	8

Summary of Recent Agency Reports

• ADOA – Premium Holiday Report	8
• DES – Training Program at Coolidge	8
• ADE – Federal Monies for English Learners.....	9
• DPS – Pinal Immigration Enforcement	9
• Public Program Eligibility Report	9
• Parks – Report on Out-of-State Travel.....	9
• Universities – Performance Funding Report ...	9
June Spending	10

Summary (Continued)

which is \$145 million above the budgeted forecast (see page 3 for more detail). Even with substantial growth in FY 2012, however, revenues remain below their peak levels in FY 2007.

The revenue growth in FY 2012 was broad based across the state's major "Big 3" tax categories. As displayed in Table 1, these major categories all posted growth rates of at least 6% and exceeded the budget forecast.

Table 1		
Growth Rates Compared to Prior Year By Revenue Category		
	<u>Budgeted</u>	<u>Prelim. Actual</u>
Sales*	4.8%	6.0%
Ind. Income	6.8%	7.8%
Corp. Income	10.3%	14.9%

* Without 1-cent

FY 2012 Spending

FY 2012 projected General Fund spending totaled \$8.66 billion. Based on available data, this spending level is projected to be \$(112) million below the budgeted level. This lower amount is largely based on 3 factors:

- AHCCCS – The state's Medicaid program, particularly coverage for childless adults, has fewer program participants than forecasted
- ADE – The state's preliminary student count growth of 0.7% was slower than expected in FY 2012
- Dept. of Corrections (ADC) – The decline in inmates during the year may have resulted in some efficiencies although ADC may still be adjusting its final spending level during FY 2013

The exact magnitude of savings related to lower expenditures will not be known until the end of July – the state continues to process spending transactions into the "13th month" before closing the books.

FY 2012 Ending Balance

After the end of the "13 month" period, the state's books are officially closed. After that period it will take several months to confirm year-end adjustments and to officially determine the state's fiscal year ending balance. The General Appropriation Act requires the Executive Branch to provide a preliminary estimate of the FY 2012 ending balance by September 15, 2012. By law, the Department of Administration is required to publish its final FY 2012 accounting by December 1, 2012.

With \$145 million in "above forecast" revenue and \$112 million in lower spending, there is an additional \$257 million in available resources. The enacted May budget assumed that the state's General Fund year-end FY 2012 cash balance would be \$122 million, excluding any monies set aside in the BSF. The divergence of revenue and spending figures from budgeted levels results in a projected FY 2012 ending balance of \$379 million.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. During the recession in December 2009, the state borrowed as much as \$900 million from internal state funds and an outside bank in order to pay its bills. Since then, the operating balance is no longer negative and had grown to \$1.5 billion at the end of FY 2011. By the end of FY 2012, this balance had grown to \$2.4 billion. Due to several rollover payments at the beginning of the fiscal year, the operating balance has declined to \$1.6 billion as of July 19.

Long-Term Implications

Since the FY 2012 ending balance is projected to be approximately \$257 million greater than previously estimated, these monies will be available to a varying extent in FY 2013 – FY 2015. The budget assumed a FY 2013 ending balance of \$249 million, which declined to a \$(486) million shortfall in FY 2015.

These projected estimates, however, will depend on several issues:

- Future General Fund revenues could be higher than budgeted in light of the greater FY 2012 revenue base. This higher base, however, could be offset by changing economic conditions and the outcome of federal budget negotiations. Several major federal tax provisions may expire and automatic federal spending reductions could occur in January 2013 (see the [August 2011 Monthly Fiscal Highlights](#) for more information).
- George Mason University recently studied the impact of these potential federal spending reductions. The study estimated that those reductions could reduce Arizona Gross State Product (GSP) by \$2.5 billion. Since Arizona's General Fund tax revenues are approximately 2.9% of GSP, a \$2.5 billion loss could reduce state tax collections by an estimated \$70 million annually.
- It is unclear whether FY 2012's lower than expected funding formula spending will carry into future years. A significant component of the greater than expected FY 2012 reversionment is associated with declining Proposition 204 childless adult coverage and the future status of this population under federal health care is yet to be determined. K-12's lower than budgeted cost is more likely to continue in subsequent years.
- Any future ending balances may be affected by decisions on continuation of existing funding formula suspensions, which total \$700 million in spending.

Ballot Proposition Fiscal Notes

During July, JLBC Staff also published its estimated fiscal impacts of ballot measures for voter initiatives. Please see [2012 Ballot Initiative Fiscal Notes](#) for more information.

June Revenues

Table 2

General Fund Revenues (\$ in Millions)			
	FY 2012 Collections	Difference From Budget Forecast	Difference From FY 2011
June	\$ 1,084.5	\$ 79.4	\$ 98.8
Year-to-Date	\$ 9,039.5	\$ 145.5	\$ 655.8

Sales Tax collections were \$387.0 million, or 5.0% above June 2011 and \$33.3 million above the budget forecast for the month. Excluding the \$79.9 million from the temporary 1-cent sales tax increase, collections were \$307.2 million, or 14.5% above June 2011.

A large portion of the 14.5% increase for June was due to the use tax category. Use tax is assessed on items purchased in other states and brought into Arizona for which no tax (or tax at a lesser rate) has been paid in another state. There was almost no use tax collected in June of last year, compared to collections of almost \$19 million this year. Adjusting for use tax, the June sales tax increase would have been reduced to a more modest 6.5%

Year-to-date, base sales tax collections are 6.0% above the prior year and are \$41.0 million above forecast.

Table 3 displays the June growth rates for the largest categories.

Table 3

Sales Tax Growth Rates Compared to Prior Year		
	June	YTD
Retail	(2.5)%	5.0%
Contracting	7.5%	7.5%
Utilities	(1.9)%	0.9%
Use	N/A	15.0%
Restaurant & Bar	4.0%	7.4%

Retail and contracting together account for about 60% of all sales tax revenues. June retail, which reflects May sales, decreased by (2.5)%. As we have noted in prior reports, the retail category began to grow in December 2010.

In recent months, retail growth has continued, but at a slower rate, due in part to the stronger base in the prior year. This trend culminated with a decrease of (2.5)% in June compared to June of last year. Contracting collections have been more volatile than retail and increased by 7.5% this month.

Individual Income Tax net revenues were \$328.3 million in June, or 5.0% greater than the prior year. Collections were \$(4.9) million below the budget forecast. Year-to-date, revenues have grown 7.8% and are \$27.9 million above forecast.

The June decline relative to the forecast was the result of slightly less than expected withholding tax collections and final payments, as well as higher than anticipated refunds.

As indicated in Table 4, withholding increased by 2.5% in June. June reflects the second month of modest collections after an 11.8% increase in April.

Total estimated and final payments were \$87.7 million in June, compared to \$81.5 million in June of last year.

Refunds of \$(18.2) million were \$3.3 million less than last year's amount.

Table 4

Individual Income Tax Growth Rates Compared to Prior Year

	June	YTD
Withholding	2.5%	3.3%
Estimated +		
Final Payments	7.7%	17.9%
Refunds	(15.3)%	2.8%

Corporate Income Tax net collections were \$110.1 million in June, which is 0.7% above the prior year. Collections were \$12.0 million above the forecast. Year-to-date, collections have grown 14.9% and are \$26.1 million above forecast.

The **Lottery Commission** reports that June ticket sales were \$51.8 million, which is \$5.5 million, or 12.0%, above sales in the prior year. Year-to-date ticket sales are \$646.7 million, which is 10.8% above last year's sales. While sales increased, net General Fund revenues actually declined due to the payment of debt service for the Lottery Revenue Bonds issued in FY 2010.

Non-General Fund

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 \$105.4 million in June were up \$3.2 million, or 3.1%, compared to June of last year. Year-to-date revenues are 0.5% greater than the prior year.

“Year-to-date, base sales tax collections are 6.0% above the prior year and are \$41.0 million above forecast.”

Table 5

General Fund Revenue: Change from Previous Year and January Baseline Forecast June 2012

	Current Month					FY 2012 YTD (Twelve Months)				
	Actual June 2012	Change From				Actual June 2012	Change from			
		June 2011	January Forecast				June 2011	January Forecast		
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$307,175,602	38,914,385	14.5 %	26,530,064	9.5 %	\$3,654,934,348	\$206,917,362	6.0 %	\$41,049,848	1.1 %
- 1¢ Increase*	\$79,866,342	(20,657,487)	(20.5)	6,780,961	9.3	915,835,542	51,333,933	5.9	21,502,842	2.4
Income - Individual	328,290,025	15,779,561	5.0	(4,943,053)	(1.5)	3,086,137,360	222,479,382	7.8	27,875,060	0.9
- Corporate	110,131,308	727,139	0.7	11,976,716	12.2	643,771,756	83,536,103	14.9	26,082,456	4.2
Property	2,377,871	(1,803,100)	(43.1)	(2,484,008)	(51.1)	15,887,896	(4,445,607)	(21.9)	(4,112,104)	(20.6)
Luxury - Tobacco	1,986,624	(186,159)	(8.6)	0	0.0	23,781,294	(1,285,599)	(5.1)	(884,506)	(3.6)
- Liquor	799,598	59,005	8.0	0	0.0	30,419,552	1,886,917	6.6	1,424,652	4.9
Insurance Premium	67,297,021	(4,766,325)	(6.6)	(6,679,610)	(9.0)	394,027,085	(19,715,456)	(4.8)	(5,972,915)	(1.5)
Estate	0	0	--	0	--	200,825	(236,547)	(54.1)	25	0.0
Other Taxes	123,762	81,339	191.7	(2,914,449)	(95.9)	1,781,731	(2,415,551)	(57.6)	(2,718,269)	(60.4)
Sub-Total Taxes	\$898,048,153	\$28,148,358	3.2 %	\$28,266,621	3.2 %	\$8,766,777,390	\$538,054,937	6.5 %	\$104,247,090	1.2 %
Other Revenue										
Lottery	21,765,400	(8,624,640)	(28.4)	11,532,894	112.7	80,140,360	(1,299,670)	(1.6)	4,709,960	6.2
License, Fees and Permits	2,531,474	(727,462)	(22.3)	(542,916)	(17.7)	27,707,460	(521,428)	(1.8)	(1,264,541)	(4.4)
Interest	(12,029)	(2,677,834)	--	(2,870,179)	--	4,557,734	257	0.0	(442,266)	(8.8)
Sales and Services	1,703,724	(9,848,634)	(85.3)	(9,596,817)	(84.9)	25,900,280	(11,411,282)	(30.6)	(12,099,720)	(31.8)
Other Miscellaneous	54,719,201	3,303,042	6.4	39,268,523	254.2	85,498,730	13,925,167	19.5	44,498,730	108.5
Disproportionate Share	77,818,600	77,818,600	--	20,239,282	35.2	95,688,282	8,109,691	9.3	20,239,282	26.8
Transfers and Reimbursements	357,767	(10,327,354)	(96.7)	(6,886,381)	(95.1)	18,799,551	(7,716,982)	(29.1)	(14,414,249)	(43.4)
Sub-Total Other Revenue	158,884,137	48,915,718	44.5 %	51,144,406	47.5 %	338,292,398	1,085,755	0.3 %	41,227,197	13.9 %
TOTAL BASE REVENUE	\$1,056,932,290	\$77,064,076	7.9 %	\$79,411,027	8.1 %	\$9,105,069,787	\$539,140,692	6.3 %	\$145,474,287	1.6 %
Other Adjustments										
Urban Revenue Sharing	(35,368,620)	4,131,923	--	0	0.0	(424,423,440)	49,583,076	--	0	0.0
Budget Plan Transfers	24,315,998	13,571,478	126.3	0	0.0	306,403,500	49,222,396	19.1	0	0.0
Tax Amnesty	0	0	--	0	--	13,867,400	13,867,400	--	0	0.0
County Contributions	38,600,000	4,000,000	11.6	0	0.0	38,600,000	4,000,000	11.6	0	0.0
Sub-Total Other Adjustments	27,547,378	21,703,401	371.4 %	0	0.0 %	(65,552,540)	116,672,872	-- %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$1,084,479,668	\$98,767,477	10.0 %	\$79,411,027	7.9 %	\$9,039,517,248	\$655,813,565	7.8 %	\$145,474,287	1.6 %
Non-General Funds										
Highway User Revenue Fund	\$105,350,190	\$3,178,404	3.1 %	\$2,258,878	2.2 %	\$1,210,586,447	\$5,513,329	0.5 %	(\$5,332,334)	(0.4) %

* Total June collections including the temporary 1¢ increase approved by the voters in May 2010 were \$387.0 million. This amount is \$18.3 million, or 5.0%, above June 2011 and \$33.3 million, or 9.4%, above forecast. Year-to-date, total collections including the 1¢ increase were \$4,570.8 million. This amount is \$258.3 million, or 6.0%, above June 2011 and \$62.6 million above forecast.

Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** declined by (3.7)% in June to 62.0. The reading represents the index's fourth consecutive month of decreases, though the June value was still 7.6% above June 2011. Concerns over a looming European debt crisis and worsening expectations of employment and growth outweighed optimism from reduced gasoline prices.

The Conference Board's **U.S. Leading Economic Index** increase of 0.3% in May followed a (0.1)% drop in April. The index's increase in May was largely driven by growth in building permits and the Institute For Supply Management's New Orders Index. Growth in the index was restrained though, by a decrease in the length of the average work week.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, remained flat in June and increased by 1.7% over last June. This flat monthly growth in June followed the index's first monthly price decrease in two years in May. In June, a third month of decreases in energy prices helped to offset price increases of 0.2% in food and all other items.

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.

In May, 34 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.1% compared to the prior month. Year-over-year, the Arizona index is 2.7% above last year, which is the 22th highest growth in the country. While this is a significant improvement, Arizona's index is still (11.7)% below its peak, which occurred in August 2007. See [Tracking Arizona's Recovery](#) for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6

months. In addition to the coincident index, Arizona's leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national delivery times from a manufacturing survey, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona's leading index projects that state GDP will grow at an annualized rate of 3.3% over the next 6 months. This is lower than the revised 3.8% growth projection in April, and higher than the 1.7% projection in May 2011.

Employment

According to the Arizona Department of Administration's employment report for June, the state lost a total of (39,800) **nonfarm jobs** between May and June. The state typically loses jobs in June with the end of the school year. More than 85% of those losses, or (34,100) jobs, occurred in the government sector, primarily state and local education. The average net loss of government jobs for June in the prior 10 years is (36,000) jobs. It should be noted, however, that June's government net job losses would have been higher if not for the fact that some of the losses that typically occur in June occurred in May this year due to school scheduling changes.

The private sector shed (5,700) jobs between May and June, which was slightly higher than the 10-year average of (3,500) job losses. On the positive side, however, the month-over-month net job loss in the private sector in June was the smallest in 5 years. The private sector job losses were primarily concentrated to 3 industries: professional and business services (-2,500 jobs), educational and health services (-3,500 jobs) and leisure and hospitality (-4,000) jobs.

The **construction** sector added 1,400 jobs in June, which also marked the 4th consecutive month with month-over-month net job gains in this industry. The **manufacturing** industry expanded its payrolls in June by adding 700 net new jobs. Most of these gains occurred in the higher-paying durable goods sector of the manufacturing industry.

Compared to June of last year, nonfarm employment was up by 2.4%, or 57,300 net

"Consumer prices, as measured by the U.S. Consumer Price Index (CPI), remained flat in June and increased by 1.7% over last June."

Economic Indicators (Continued)

new jobs, the largest year-over-year increase since March 2007. More than 10,000 of these job gains have come from the health care and social assistance sector. The construction sector has also been a large contributor with more than 9,200 jobs added to the payrolls between June 2011 and June 2012. For the first time since September 2009, construction employment made up more than 5% of total nonfarm jobs.

Total nonfarm employment remains (11.0)%, or (299,100) jobs, below peak employment in December 2007. Some of this “job deficit” is due to seasonal variations. Even so, the latest employment report does not change the fact that Arizona appears to remain years away from returning to the employment levels of 2007.

See [Tracking Arizona's Recovery](#) for additional historical information.

The state's **unemployment rate** remained unchanged at 8.2% in June. The same jobless rate was reported for April and May as well. The state's jobless rate matched the U.S. unemployment rate for the second month in a row. Arizona's unemployment rate in June 2011 was 9.6% compared to 9.1% for the nation as a whole.

Housing

The number of Maricopa County **pending foreclosures** decreased from 18,596 in May to 17,910 in June. This represents the first monthly decrease in this measure after 3 consecutive months of increases in pending foreclosures. The June total is substantially below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#) for additional historical information.

The total housing inventory in the Greater Phoenix area decreased from 29,203 in June 2011 to 19,857 in June 2012, a (32.0)% decrease. In the Metropolitan Phoenix area, the **median price of a single family home** was \$147,000 in May. This represents an increase of 5.0% from April, and a 14.0% increase from May of last year.

Another measure of the health of the Arizona real estate market is permitting activity. Single-family housing permits increased in May 2012. For the 3-month period through May, a total of 1,515 **single-family building permits** had been issued statewide, a 54.4% increase from last year. This is the highest 3-month average since August 2008 when there were 1,740 permits issued. Even so, this is far below a more normal 3-month average of 3,000 to 4,000 permits. See [Tracking Arizona's Recovery](#) for additional historical information.

The performance of the single-family housing sector has continued to improve. However, multi-family housing is still the stronger of the two sectors. For the 3-month

period ending in May, a total of 160 **multi-family building permits** had been issued in the state, a 93.1% increase from the prior year. Even with this growth, multi-family permitting activity still remains (69.5)% below the peak of activity in April 2007.

See [Tracking Arizona's Recovery](#) for additional historical information.

State Agency Data

At the beginning of July, total AHCCCS caseloads equaled 1.28 million members, virtually no change from the prior month. Overall AHCCCS caseloads are currently (6.5)% below July 2011 levels.

The traditional AHCCCS population, which consists primarily of lower-income children and their parents, increased 0.3% from May and increased 2.0% from a year ago. The total population in this program is almost 900,000. The Proposition 204 childless adult program has not allowed new participants since July 2011 and this population has declined (114,347) since a year ago to 110,145. Of the decline, (11,386) is attributed to members who were transferred to the SSI program. As a whole, the Proposition 204 program has declined (2.5)% compared to the prior month, and (30.6)% from the prior year.

KidsCare provides coverage for children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (4.3)% compared to the prior month and (44.0)% from the prior year. Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II. KidsCare II provides coverage for children up to 175% of the Federal Poverty Level. The state match is provided by voluntary payments from political subdivisions. As of the beginning of July, 5,444 children were enrolled in KidsCare II.

There were 39,866 **TANF recipients** in the state in June, a monthly caseload increase of 0.7%. Year-over-year, the number of TANF recipients has declined by (3.1)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. The FY 2011 budget reduced the lifetime limit to 36 months. The FY 2012 budget further reduces this limit to 24 months. Previously, the maximum had been 60 months. The FY 2012 budget assumed caseloads of approximately 36,000 in FY 2012.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June, there were a total 1.1 million food stamp recipients in the

Economic Indicators (Continued)

state, a 0.5% increase over the prior month. Compared to the same month last year, food stamp participation was up by 3.0%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Correction's (ADC) inmate population** decreased to 39,959 inmates between April 2012 and June 2012. Relative to the prior 3-month period, the population has decreased by (41) inmates. Compared to a year ago, the population has declined by (245) inmates.

Table 6

ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate (SA)	June	8.2%	0.0 %	(1.4)%
- Initial Unemployment Insurance Claims	June	23,562	(7.0)%	(15.7)%
- Unemployment Insurance Recipients	June	58,115	2.3%	(15.9)%
- Non-Farm Employment - Total	June	2.42 million	(1.6)%	2.4%
Manufacturing	June	151,900	0.5%	1.3%
Construction	June	121,600	1.2%	8.2%
- Average Weekly Hours, Manufacturing	May	41.9	2.4%	3.7%
- Contracting Tax Receipts (3-month average)	Apr-Jun	\$34.2 million	6.7%	4.2%*
- Retail Sales Tax Receipts (3-month average)	Apr-Jun	\$155.1 million	0.1%	0.7%*
- Residential Building Permits (3-month moving average)				
Single-family	Mar-May	1,515	13.1%	54.4%
Multi-unit	Mar-May	160	(61.5)%	93.1%
- Greater Phoenix Home Sales				
Single-Family	May	9,707	9.2%	(3.7)%
Townhouse/Condominium	May	1,530	(3.4)%	(2.5)%
- Greater Phoenix Median Home Price				
Single-Family	May	\$147,000	5.0%	14.0%
Townhouse/Condominium	May	\$96,000	7.8%	17.2%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	April	109.01	2.5%	8.6%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	June	17,910	(3.7)%	(32.3)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	June	19,857	(1.5)%	(32.0)%
- Phoenix Sky Harbor Air Passengers	May	3.41 million	0.2%	(2.0)%
- Revenue Per Available Hotel Room	May	\$55.48	(13.7)%	3.0%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	April	\$3.26	(33.2)%	(43.2)%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2012	68.6	(1.3)%	32.2%
- Arizona Coincident Index (July 1992 = 100)	May	179.11	0.1%	2.7%
- Arizona Leading Index -- 6 month projected growth rate	Mar-May	3.3%	(0.5)%	1.6%
- Arizona Personal Income	1st Quarter 2012	\$237.1 billion	0.5%	3.3%
- Arizona Population	July 1, 2011	6.48 million	N/A	1.1%
- AHCCCS Recipients	July	1,280,521	0.0%	(6.5)%
Acute Care Traditional		890,003	0.3%	2.0%
Spend Down		-	-	(100.0)%
Prop 204 Childless Adults		110,145	(5.4)%	(49.4)%
Other Prop 204		151,047	(0.2)%	(4.7)%
Kids Care		9,886	(4.3)%	(44.0)%
Kids Care II		5,444	185.5%	-
Long-Term Care – Elderly & DD		52,459	0.3%	2.3%
Emergency Services		61,537	1.2%	28.6%
- TANF Recipients	June	39,866	0.7%	(3.1)%
- SNAP (Food Stamps) Recipients	June	1,135,831	0.5%	3.0%
- ADC Inmate Growth (3-month average)	April - June	39,959	(41) inmates	(245) inmates
- Probation Caseload (Adult/Juvenile)				
Non-Maricopa	April	18,164	(62)	(863)
Maricopa County	April	25,629	76	(628)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	1st Quarter 2012 (3rd Estimate)	\$13.5 trillion	1.9%	2.0%
- Consumer Confidence Index (1985 = 100)	June	62.0	(3.7)%	7.6%
- Leading Indicators Index (2004 = 100)	May	95.8	0.3%	0.5%
- U.S. Semiconductor Billings (3-month moving average)	Mar.-May	\$4.48 billion	(1.8)%	(3.2)%
- Consumer Price Index, SA (1982-84 = 100)	June	228.6	(0.0)%	1.7%

*Adjusted for 1¢ sales tax

JLBC Meeting

At its June 26, 2012 meeting, the Joint Legislative Budget Committee considered the following issues:

Review of Requested Exchanges of Fund Transfers – The Committee favorably reviewed the request of 3 agencies to replace the fund source for 5 of their enacted budget fund transfers.

Department of Administration – Review of Automation Projects Fund – The Committee gave a favorable review of \$16.4 million in proposed FY 2013 expenditures for a variety of automation and information technology projects. This included the stipulation that ADOA submit a quarterly report regarding implementation of the funded projects.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave a favorable review of a total of \$2.4 million resulting from 2 settlements: 1) \$395,000 from American Residential Services; and 2) \$2.0 million from Abbott Laboratories.

Attorney General – Review of Uncollectible Debts – The Committee gave a favorable review of the Attorney General's FY 2007 and FY 2008 listing of uncollectible state debts. As a result of the favorable review, the State Comptroller is authorized to remove \$10.2 million of FY 2007 uncollectible debts and \$15.9 million of FY 2008 uncollectible debts from the state accounting system.

JCCR Meeting

At its June 26, 2012 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Consider Recommending FY 2012 Rent Exemption – The Committee recommended a technical rent exemption

Arizona Department of Administration – Review of FY 2013 Building Renewal Allocation Plan – The Committee gave a favorable review of the safety-related projects included in the plan as agreed to by the Chairman. The remaining items in the allocation plan will be considered subsequent to receipt of additional information that addresses the Job Order Contract process.

Department of Corrections – Review of FY 2013 Building Renewal Allocation Plan – The Committee gave a favorable review of the Department's \$6.4 million FY 2013 Building Renewal Allocation Plan, which consists of \$4.4 million for perimeter electronic security systems and \$223,600 for maintenance and contingencies.

State Parks Board – Review of FY 2013 State Lake Improvement Fund Capitol Expenditures – The Committee gave a favorable review of the Parks Board's \$1.5 million plan, mostly for electricity at Lake Havasu Park campsites.

Summary of Recent Agency Reports

Arizona Department of Administration - Report on Implementing the State Employee Premium Holiday - Pursuant to the FY 2013 General Appropriation Act, the Arizona Department of Administration (ADOA) has submitted its plan for implementing the state employee health insurance premium holiday. The FY 2013 General Appropriation Act required ADOA to implement a premium holiday which would generate \$25 million in General Fund savings. Based on current premium collections, ADOA reports this would be equivalent to 2.24 bi-weekly pay periods or 2.07 pay periods for organizations with 24 pay periods. The schedule is indicated below. With the exception of Arizona State University (ASU) the last pay period indicated will only have a partial reduction; for ASU, the partial reduction will occur in the first pay period.

- State Agencies – July 26, August 9, August 23
- Arizona State University – November 16, November 30, December 14

- Northern Arizona University – November 2, November 16, November 30
- University of Arizona – November 2, November 16, December 14
- Arizona Power Authority – July 31, August 15, August 31
- Maricopa County Superior Court Judges – August 1, August 15, August 29

ADOA is still working with the Arizona Retirement System and the Public Personnel Retirement System to determine the dates for the premium holiday for retirees. Since retirees are paid monthly, the holiday would be for 1.03 months. (Amy Upston)

Department of Economic Security - Report on Arizona Training Program at Coolidge (ATP-C) Campus and Other Placements - A footnote in the FY 2012 General Appropriation Act requires the Department of Economic Security (DES) to report on placements of developmentally-disabled (DD) clients into state-owned Intermediate Care Facilities for the Mentally Retarded

Summary of Recent Agency Reports (Continued)

(ICF-MR) or at the ATP-C campus in FY 2012. DES reports that there were no new permanent placements at the ATP-C campus, but that there were 3 new placements into a state-operated ICF-MR in Phoenix in FY 2012. Two of the placements were deemed to be appropriate because private facilities declined to accept placement of either individual. The other placement was deemed to be appropriate because the person, a former resident of the Arizona Training Program at Phoenix in 1987, required a higher level of medical attention and the guardian of the client chose to return the client to the state-owned ICF-MR. (Amy Upston)

Department of Education – Report on Federal Monies for English Learners – Pursuant to A.R.S. § 15-756.10, paragraph 3, the Department of Education (ADE) recently submitted a report that includes an itemized list of all federal monies received by the department for English language learners in FY 2012. ADE received \$22.4 million in federal Title III (Language Instruction for Limited English Proficient and Immigrant Students) funding for FY 2012. Of that amount, approximately \$21.1 million was distributed directly to school districts and charter schools. The remaining \$1.3 million was used for state administration, technical assistance, and to meet federal set-aside requirements for immigrant education. (Steve Schimpp)

Department of Public Safety – Report on Expenditures for Pinal County Immigration Enforcement – Pursuant to Laws 2011, Chapter 308, the Department of Public Safety (DPS) is required to report on the expenditure of \$1,000,000 in General Fund monies transferred to the Pinal County Sheriff's Office (PCSO) in FY 2012. DPS reports that, as of May 30, 2012, PCSO has expended \$983,384 and encumbered \$14,276 to purchase and support a used McDonnell Douglas 500E helicopter. The helicopter has been used to support PCSO anti-smuggling, search and rescue, and criminal investigation units. PCSO reported to DPS that they intend to expend the remaining \$2,340 by June 30, 2012 for helicopter maintenance and training costs. (Eric Billings)

Public Programs Eligibility Report – As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, and other persons lawfully present in the United States and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

Community Colleges – Statewide for the spring 2012 semester, the Community Colleges reported a total of 250,099 students classified as in-state. They reported 882 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 100,247 students applied for financial aid. Of those who applied, the Community Colleges reported

that 234 were not entitled to any aid because they were not lawfully present in the United States.

Universities – At the 3 universities, 126,288 students registered for the spring 2012 semester. Of the total students registered, the universities were able to verify the legal immigration status of 119,688 students. Additionally, the universities reported that 6,600 of these students did not require verification because they had either not requested or received in-state tuition or state supported financial aid. The universities reported that a total of 13 students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security – The department reported that 5,665 applications were received for child care assistance during the reporting period of December 1, 2011 to May 31, 2012. Of this number, 13 were denied because criteria for citizenship or legal residency were not met.

Department of Education – Previously, the Department of Education reported the number of applicants and applicants ineligible for enrollment for the Family Literacy Program and the Arizona Adult Education Program. Funding for these programs was discontinued as of December 1, 2009 and July 1, 2010, respectively, resulting in no information to report. (James Alcantar)

State Parks Board – Annual Report on Out-of-State Travel – Pursuant to a FY 2012 General Appropriation Act footnote, the State Parks Board submitted a report on out-of-state travel expenses in FY 2012. The footnote requires a report and also stipulates that during FY 2012, out-of-state travel expenses by State Parks Board staff shall not exceed \$5,000 from appropriated or non-appropriated monies. The Parks Board spent \$200 for out-of-state travel expenses in FY 2012. (Art Smith)

Universities – Performance Funding Report – Pursuant to a footnote in the FY 2013 General Appropriation Act (Laws 2012, Chapter 294, Section 96), the Arizona Board of Regents (ABOR) is to report to JLBC by July 1, 2012 on the final allocation of performance funding for each university. ABOR received \$5.0 million in FY 2013 for a performance-based funding model. According to ABOR, they allocated \$2.6 million to Arizona State University, \$1.0 million to Northern Arizona University, and \$1.4 million to the University of Arizona. These allocations are based on a performance funding model recently adopted by ABOR, which includes the following: 1) incremental degrees awarded, 2) incremental completed student credit hours, and 3) incremental external research and public service dollars brought into the university system. (Leatta McLaughlin)

June Spending

June 2012 General Fund spending was \$952.4 million. June expenditures were greater than the prior year primarily due to the timing of Education formula payments and a deposit to the BSF. Year to date, FY 2012 spending was \$8.66 billion. This amount is \$297.5 million above the prior year, largely due to the deposit of monies into the BSF.

For a more detail discussion of FY 2012 spending, please see page 2.

Table 7

General Fund Spending (\$ in Millions)

	<u>June 12</u>	<u>Change from June 11</u>	<u>Year to Date</u>	<u>YTD Change from FY 11</u>
Agency				
AHCCCS	113.0	23.4	1,414.4	48.6
Corrections	81.1	9.8	937.3	57.3
Economic Security	33.3	27.5	590.0	47.2
Education	339.0	90.6	3,411.5	(87.2)
Health Services	10.2	1.2	507.1	79.6
Public Safety	3.6	0.9	47.5	5.6
School Facilities	0.1	0.1	175.5	108.1
Board				
Universities	46.4	(9.9)	730.3	(160.0)
Leaseback Debt	0.0	0.0	49.1	3.0
Service				
Other	<u>25.7</u>	<u>2.3</u>	<u>499.7</u>	<u>(84.4)</u>
Total	652.4	145.9	8,362.4	17.8
Budget Stabilization				
Fund Deposit	250.0	250.0	250.0	250.0
Other Adjustments	--	--	--	(20.3)
Estimated "13				
Month" Expend.	20.0	--	20.0	20.0
Statutory Reversions	<u>30.0</u>	--	<u>30.0</u>	<u>30.0</u>
Grand Total	952.4	395.9	8,662.4	297.5

Table 8

General Fund Spending (\$ in Thousands)				
Agency	June 12	Change from June 11	Year-to-Date	YTD Change from FY 11
Department of Administration	1,204.9	(99.6)	14,846.5	(4,386.4)
Department of Admin Sale/Leaseback D/S	-	-	49,050.7	(3,016.2)
Office of Administrative Hearings	64.4	14.6	839.6	(65.5)
Department of Agriculture	668.6	64.4	8,001.8	(263.6)
AHCCCS	113,049.9	23,413.3	1,414,356.6	48,581.8
Attorney General	2,212.3	886.5	17,406.5	608.8
AZ Capital Post Conviction Public Defender	99.6	101.4	694.7	60.3
State Board of Charter Schools	59.8	31.8	740.0	72.6
Department of Commerce/AZ Commerce Authority	2,625.0	2,294.6	31,500.0	28,061.1
Community Colleges	-	-	68,577.3	(63,849.0)
Corporation Commission	118.9	50.1	587.8	(28.7)
Department of Corrections	81,128.7	9,796.9	937,259.7	57,293.4
AZ State Schools for the Deaf & Blind	474.5	403.5	20,346.8	(385.6)
Department of Economic Security	32,969.8	27,450.1	589,988.4	47,239.8
Department of Education	338,950.1	90,629.0	3,411,517.6	(87,196.7)
DEMA	259.3	(711.7)	6,890.4	(4,012.9)
Department. of Environmental Quality	-	-	-	(0.6)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	18.7	(13.9)	191.2	2.1
State Board of Equalization	35.5	(14.6)	528.4	(29.0)
Board of Executive Clemency	66.6	5.9	799.9	(46.2)
Department of Financial Institutions	278.4	(45.8)	2,734.0	(20.8)
Department of Fire, Life, Bldg Safety	113.3	10.3	1,748.5	(212.2)
Office of the State Forester	485.7	(1,484.1)	6,141.0	470.6
Arizona Geological Survey	17.2	(162.0)	862.9	74.0
Government Information Tech.	-	(67.1)	(3.1)	(514.5)
Governor	233.1	97.3	4,792.6	(1,092.5)
Gov. - OSPB	113.5	(0.2)	1,789.7	(27.2)
Department of Health Services	10,174.2	1,225.3	507,126.8	79,552.9
Arizona Historical Society	211.5	52.0	4,228.8	(1,035.7)
Prescott Historical Society of AZ	47.5	10.4	669.5	(16.5)
Independent Redistricting Comm.	266.4	200.0	4,055.6	3,952.7
Commission on Indian Affairs	4.2	(5.1)	55.1	(7.3)
Department of Insurance	338.9	21.6	5,171.5	(238.0)
Judiciary				
Supreme/Superior Court	2,563.0	306.0	94,999.6	(2,561.3)
Court of Appeals	1,221.8	201.0	14,041.8	(489.9)
Department of Juvenile Corrections	3,871.2	212.7	46,262.4	(4,687.0)
State Land Department	99.7	(51.0)	1,230.3	(2,045.8)
Law Enforcement Merit System	7.7	4.9	62.6	(5.5)
Legislature				
Auditor General	(767.8)	(716.6)	15,411.2	(223.8)
House of Representatives	820.1	1.9	12,283.6	553.6
Joint Legislative Budget Comm.	140.9	24.6	1,968.8	12.2
Legislative Council	282.1	(84.9)	4,975.7	390.7
Senate	568.0	194.0	8,457.8	353.5

Agency	June 12	Change from June 11	Year-to-Date	YTD Change from FY 11
Board of Medical Student Loans	-	-	41.1	(319.7)
Mine Inspector	89.9	(32.3)	1,148.4	61.7
Department of Mines & Mineral Resources	-	1.5	-	(814.3)
Nav. Streams & Adjudication	6.3	1.3	135.6	13.1
OSHA	-	-	-	-
Arizona State Parks Board	-	-	-	(20,000.0)
Pioneers' Home	42.6	36.9	1,611.0	44.9
Comm. for Postsecondary Ed.	-	-	1,396.8	176.0
Department of Public Safety	3,608.0	882.7	47,470.3	5,618.4
Arizona Department of Racing	4.7	(382.3)	2,818.7	(1,362.4)
Radiation Regulatory Agency	70.4	55.5	1,436.6	44.0
Arizona Rangers Pension	-	-	-	(8.3)
Real Estate Department	391.8	199.6	2,587.9	(80.0)
Department of Revenue	3,554.3	(841.1)	44,438.4	1,468.1
School Facilities Board	126.1	101.1	175,501.4	108,070.7
Secretary of State	1,540.1	956.5	12,698.9	(2,281.4)
Tax Appeals Board	16.5	(0.0)	256.8	8.6
Department of Transportation	(1.3)	4.5	50.0	5.3
Universities				
Board of Regents	331.0	159.1	16,986.9	(264.3)
Arizona State University	20,798.1	(4,602.8)	322,236.5	(73,151.8)
Northern Arizona University	7,009.2	(1,542.7)	108,251.9	(24,864.8)
University of Arizona	18,257.5	(3,877.6)	282,785.6	(61,763.9)
Department of Veteran Services	491.9	618.0	8,338.5	(3,241.3)
Department of Water Resources	533.4	(156.6)	5,781.6	(861.6)
Department of Weights & Measures	134.1	(49.1)	1,161.4	(8.7)
Other	289.3	81.7	5,118.0	458.5
Total	652,390.8	145,861.4	8,362,442.7	17,768.7
Budget Stabilization Fund Deposit	250,000.0	250,000.0	250,000.0	250,000.0
Other Adjustments	--	--	--	(20,278.7)
Estimated "13th Month" Expenditures	20,000.0	--	20,000.0	20,000.0
Statutory Reversions	30,000.0	--	30,000.0	30,000.0
Grand Total	952,390.8	395,861.4	8,662,442.7	297,490.0