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***“Year-to-date,
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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on September 20, 2013.

Summary

August General Fund revenue collections totaled \$634.5 million. Base revenues, which exclude one-time adjustments, were 3.7% above August 2012. This year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

The August revenue growth was driven largely by Sales Tax collections in the contracting category, which have increased 18% during the current fiscal year.

August revenues were largely in line with the enacted forecast, with collections falling below the budgeted amount by \$(2.8) million during the month.

Year-to-date, General Fund revenues are 4.6% above the prior year and are \$7.6 million above forecast.

In comparison to revenue of \$634.5 million, August 2013 spending was \$779.9 million which represents a decline of \$(164.1) million from the prior year. August 2013 spending was lower due to the timing of deferred payments to school districts as part of the on-going \$931 million K-12 rollover.

Fiscal year-to-date, General Fund revenues of \$1.39 billion have been offset by \$3.01 billion of expenditures.

The state's fiscal health can also be measured by the operating fund balance. The state pays

its bill outs of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-September 2013 is \$2.0 billion. In addition, the state's Budget Stabilization Fund has a balance of \$454.5 million.

FY 2013 Ending Balance Update

The General Appropriation Act requires that the Executive Branch provide their own initial estimate of the FY 2013 ending balance by September 15, 2013. The Department of Administration has reported a preliminary ending balance estimate of \$895.5 million, an amount which is virtually the same as JLBC's estimate in last month's *Monthly Fiscal Highlights*.

This estimate is being reviewed and will likely change as ADOA continues the year-end reconciliation process. By law, the Department of Administration is required to publish its final FY 2013 accounting by December 1, 2013.

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August Revenues

Table 1

General Fund Revenues (\$ in Millions)			
	<u>FY 2014 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2013</u>
August	\$ 634.5	\$ (2.8)	\$ (57.2)
Year-to-Date	\$ 1,389.8	\$ 7.6	\$ (50.5)

Sales Tax collections of \$330.5 million were 9.2% above August 2012 and \$7.7 million above the forecast for the month. The year-over-year change amounts exclude the temporary 1-cent sales tax which expired at the end of May 2013.

Year-to-date, sales tax collections are 7.2% above the prior year and are \$10.9 million above forecast.

Table 2 displays the August growth rates for the largest sales tax categories.

Retail and contracting together account for about 60% of all sales tax revenues. August retail, which reflects July sales, increased by 8.2%. This is the third relatively strong month in a row for the retail category, with growth rates exceeding 8%.

Contracting collections have generally been much more volatile than retail. However, the August increase of 20.0% represents the fourth consecutive month of double-digit increases compared to the same month in the prior year.

Table 2

Sales Tax Growth Rates Compared to Prior Year		
	<u>August</u>	<u>YTD</u>
Retail	8.2%	8.5%
Contracting	20.0%	18.1%
Utilities	3.7%	2.7%
Use	10.1%	5.0%
Restaurant & Bar	3.0%	2.3%

Individual Income Tax net revenues were \$274.6 million in August, which was (0.1)% or \$(0.3) million less than the prior year. Collections were \$(14.9) million below the forecast for the month. Year-to-date, revenue has grown 3.3% over the prior year, and is \$(13.2) million below the budget forecast.

As indicated in Table 3, withholding was down (1.4)% in August. The August decrease brings

withholding tax collections for the fiscal year to 3.3% over the prior year. This amount is \$(28.5) million below the budget forecast.

August estimated and final payments were 12.5% above last year, and were \$0.9 million above forecast. Year-to-date, payments are \$1.2 million above the forecast.

August refunds were (9.2)% below last year, and were \$8.8 million below forecast. Year-to-date, refunds are \$14.1 million below forecast.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year

	<u>August</u>	<u>YTD</u>
Withholding	(1.4)%	3.3%
Estimated +		
Final Payments	12.5%	19.3%
Refunds	(9.2)%	24.4%

Corporate Income Tax net collections were \$10.5 million in August, which is \$(11.9) million less than August of the prior year. Collections were \$(6.0) million below the forecast. Year-to-date, collections are down (17.5)% compared to the prior year, and are \$(5.7) million below the budget forecast.

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 \$99.3 million in August were down \$(1.9) million, or (1.9)%, compared to August of last year. Year-to-date revenues are 2.7% above collections in the prior year, and are \$3.4 million above the budget forecast.

"This is the third relatively strong month in a row for the retail category, with growth rates exceeding 8%."

Table 4

General Fund Revenue:

Change from Previous Year and FY 2014 Enacted Budget Forecast August 2013

	Current Month					FY 2014 YTD (Two Months)				
	Actual August 2013	Change From		Enacted Forecast		Actual August 2013	Change from		Enacted Forecast	
		August 2012		Amount	Percent		August 2012		Amount	Percent
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$330,453,883	\$27,804,299	9.2 %	\$7,673,158	2.4 %	\$669,672,672	\$45,133,904	7.2 %	\$8,305,917	1.3 %
Income - Individual	274,573,097	(341,339)	(0.1)	(14,946,355)	(5.2)	581,157,958	18,388,003	3.3	(13,245,121)	(2.2)
- Corporate	10,543,529	(11,863,897)	(52.9)	(6,021,841)	(36.4)	35,625,037	(7,567,941)	(17.5)	(5,698,627)	(13.8)
Property	40,478	(18,627)	(31.5)	(59,522)	(59.5)	208,342	(49,678)	(19.3)	(91,658)	(30.6)
Luxury - Tobacco	2,040,000	(296,573)	(12.7)	0	0.0	3,899,472	(399,259)	(9.3)	(190,528)	(4.7)
- Liquor	2,110,000	167,845	8.6	0	0.0	5,779,985	308,780	5.6	839,985	17.0
Insurance Premium	46,319,857	4,516,894	10.8	7,964,157	20.8	82,924,464	3,612,823	4.6	6,225,364	8.1
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	200,613	160,064	394.7	125,613	167.5	252,217	164,095	186.2	102,217	68.1
Sub-Total Taxes	\$666,281,457	\$20,128,666	3.1 %	(\$5,264,790)	(0.8) %	\$1,379,520,147	\$59,590,727	4.5 %	(\$3,752,451)	(0.3) %
<u>Other Revenue</u>										
Lottery	3,318,025	408,085	14.0	318,025	10.6	3,318,025	408,085	14.0	318,025	10.6
License, Fees and Permits	2,846,582	165,981	6.2	246,582	9.5	5,215,877	(290,040)	(5.3)	(184,123)	(3.4)
Interest	7	(2,141)	(99.7)	7	--	1,035	(1,728)	(62.5)	1,035	--
Sales and Services	1,227,387	(223,626)	(15.4)	(272,613)	(18.2)	2,062,686	85,361	4.3	(437,314)	(17.5)
Other Miscellaneous	3,081,806	2,337,345	314.0	2,381,806	340.3	3,816,560	450,759	13.4	1,616,560	73.5
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	676,167	1,588,063	--	176,167	35.2	1,330,661	1,324,941	--	330,661	33.1
Sub-Total Other Revenue	\$11,149,974	\$4,273,707	62.2 %	\$2,849,974	34.3 %	\$15,744,844	\$1,977,378	14.4 %	\$1,644,844	11.7 %
TOTAL BASE REVENUE	\$677,431,431	\$24,402,373	3.7 %	(\$2,414,816)	(0.4) %	\$1,395,264,990	\$61,568,104	4.6 %	(\$2,107,608)	(0.2) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(47,157,793)	(4,359,123)	10.2	(407,693)	0.9	(93,907,893)	(8,310,553)	9.7	(407,693)	0.4
Budget Plan Transfers	4,245,325	(1,754,675)	(29.2)	(0)	(0.0)	85,786,473	49,786,473	138.3	7,541,148	9.6
Sales Tax - 1¢ Increase	0	(75,514,267)	(100.0)	0	--	2,611,367	(153,554,657)	(98.3)	2,611,367	--
Sub-Total Other Adjustments	(42,912,468)	(81,628,065)	-- %	(407,693)	1.0 %	(5,510,054)	(112,078,738)	-- %	9,744,821	(63.9) %
TOTAL GENERAL FUND REVENUE	\$634,518,963	(\$57,225,692)	(8.3) %	(\$2,822,509)	(0.4) %	\$1,389,754,937	(\$50,510,633)	(3.5) %	\$7,637,214	0.6 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$99,276,879	(\$1,873,805)	(1.9) %	(\$2,885,312)	(2.8) %	\$204,075,796	\$5,348,587	2.7 %	\$3,361,314	1.7 %

Recent Economic Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 2.5% in the second quarter of 2013. This estimate represents a significant upward revision to the initial 1.7% estimate. The primary reason for the increase was improvement in export figures for the quarter.

“U.S. Real Gross Domestic Product (GDP) increased at an annual rate of 2.5% ... a significant upward revision to the initial 1.7% estimate.”

The Conference Board’s **U.S. Consumer Confidence Index** increased 0.6% in August, returning to growth after experiencing a decrease in July. Year over year growth of the index rose to 33.0%, the highest reading in 2013. Consumers still remain cautious, evidenced by a slight drop in the sixth month outlook of major purchases.

The Conference Board’s **U.S. Leading Economic Index** grew by 0.6% in July and by 3.1% above the reading in July 2012. This improvement was widespread as 8 of the index’s 10 components grew. Financial market conditions contributed the largest portion of growth over the prior month.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the Americas increased 5.4% in July, to \$5.02 billion. This reading was 21.5% above that in July 2012, the largest year over year percentage increase since February 2011. Semiconductors are Arizona’s largest international export industry.

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 July, 34 out of 50 states had increases in their coincident indexes. Arizona’s coincident index increased by 0.3% compared to the prior month. Year-over-year, the Arizona index is 2.5% above last year, which is the twenty-sixth highest growth rate in the country. While this is a significant improvement, Arizona’s index is still (10.0)% below its peak, which occurred in August 2007. See *Appendix A – 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 manufacturing delivery times, 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 higher than the revised 2.9% growth projection in June and higher than the 2.4% projection in July 2012.

Housing

The number of Maricopa County **pending foreclosures** decreased from 7,191 in July to 6,881 in August. The August total is significantly below the peak in December 2009 (51,466). See *Appendix A – Tracking Arizona’s Recovery*.

The total housing inventory in the greater Phoenix area increased from 20,934 in August 2012 to 21,382 in August 2013, a 2.1% increase.

In the Metropolitan Phoenix area, the **median price of a single family home** was \$190,000 in June. This represents a 2.7% increase from May, and a 26.7% increase from June of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through July, a total of 1,785 **single-family building permits** had been issued statewide, an 8.9% increase from last year. While permitting activity has seen gains, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. See *Appendix A – Tracking Arizona’s Recovery*.

The multi-family housing sector has also seen gains, with the 3-month period ending in July resulting in a total of 580 **multi-family building permits** being issued in the state. However, this figure remains well below the peak of activity in April 2007.

Recent Economic Indicators *(Continued)*

Employment

“The state’s unemployment rate increased from 8.0% in July to 8.3% in August. This brought the jobless rate back to the same level as in August 2012.”

According to the Arizona Department of Administration’s employment report for August, the state added 39,800 **nonfarm jobs** between July and August. This was significantly less than the corresponding net job gain of 59,000 in August 2012 and 55,000 in August 2011. Job gains are typical in August when most schools start up their new academic year. Close to 83% of August’s employment increase (or 32,900 jobs) was attributable to state and local education. The private sector added 7,800 jobs between July and August, the smallest such gain since August 2010.

Compared to August 2012, nonfarm employment in August 2013 was up by 2.0% or 48,100 jobs. The year-over-year growth rate has remained around 2% for most of the last 24 months. The largest contributors to August’s year-over-year net job gains were the following sectors of the economy: education and health services (+11,000), leisure and hospitality (+10,900), and trade, transportation and utilities (+10,000).

The average job growth rate for the first 8 months of CY 2013 was 2.1%. The corresponding figure in August 2012 was 1.9%. As of August, total nonfarm employment remained (8.3%), or (226,000) jobs, below peak employment in December 2007. *See Appendix A – Tracking Arizona’s Recovery.*

The state’s **unemployment rate** increased from 8.0% in July to 8.3% in August. This brought the jobless rate back to the same level as in August 2012. The U.S. unemployment rate declined from 7.4% in July to 7.3% in August. In August 2012, the national unemployment rate was 8.1%.

State Agency Data

At the beginning of September, total **AHCCCS** caseloads equaled 1.29 million members, a 0.7% increase from the prior month. Overall, AHCCCS caseloads are currently (0.8)% below September 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, increased by 0.7% since last month while decreasing (0.2)% from a year ago. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011 but will allow new participants again beginning on January 1, 2014. Since July 2011, the population has declined (152,459) to 72,033. As a whole, the Proposition 204 program has declined (0.1)% compared to the prior month, and (12.3)% from the prior year.

KidsCare I provides coverage for 6,773 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (2.9)% compared to the prior month and (25.8)% from the prior year.

Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II. The state match is provided by voluntary payments from political subdivisions. As of the beginning of September, 39,303 children were enrolled in KidsCare II. KidsCare II expires on December 31, 2013. At that time, children in both KidsCare I and KidsCare II up to 133% of the Federal Poverty Level will transfer to the traditional acute care program.

There were 36,599 **TANF recipients** in the state in July, a monthly caseload increase of 1.9%. Year-over-year, the number of TANF recipients has declined by (9.1)%. The statutory lifetime limit on cash assistance is 24 months. The appropriation for TANF cash assistance in the FY 2014 budget funds a caseload of approximately 34,346 recipients in FY 2014.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In July, there were a total 1.1 million food stamp recipients in the state, a 0.2% increase over the prior month. Compared to the same month last year, food stamp participation was down by (0.9)%. The number of SNAP 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 Corrections (ADC) inmate population** increased to 40,677 inmates in August 2013. Relative to the prior 3-month period, the population has increased by 70 inmates. Compared to a year ago, the population has increased by 827 inmates.

Recent Economic Indicators (Continued)

Table 5

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 (SA)	August	8.3%	0.3 %	0.0%
- Initial Unemployment Insurance Claims	July	25,052	13.0%	(9.1)%
- Unemployment Insurance Recipients	July	46,248	11.6%	(27.6)%
- Non-Farm Employment - Total	August	2.49 million	1.6%	2.0%
Manufacturing	August	154,900	(1.1)%	(0.8)%
Construction	August	125,200	(1.5)%	4.7%
- Average Weekly Hours, Manufacturing	July	41.2	(1.4)%	0.2%
- Contracting Tax Receipts (3-month average)	Jun-Aug	\$44.2 million	4.0%	20.0%*
- Retail Sales Tax Receipts (3-month average)	Jun-Aug	\$160.0 million	(1.5)%	9.1%*
- Residential Building Permits (3-month moving average)				
Single-family	May-July	1,785	(1.9)%	8.9%
Multi-unit	May-July	580	(2.1)%	145.8%
- Greater Phoenix Home Sales				
Single-Family	June	8,594	(12.7)%	(7.1)%
Townhouse/Condominium	June	1,261	(21.6)%	(5.8)%
- Greater Phoenix Median Home Price				
Single-Family	June	\$190,000	2.7%	26.7%
Townhouse/Condominium	June	\$125,000	2.5%	38.9%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	June	137.36	1.8%	19.8%
- Foreclosure Activity, Maricopa County	August	6,881	(4.3)%	(58.0)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	21,382	6.6%	2.1%
- Phoenix Sky Harbor Air Passengers	June	3.49 million	(0.7)%	(0.2)%
- Revenue Per Available Hotel Room	July	\$45.58	(7.1)%	4.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	June	\$4.88	6.6%	17.9%
- Arizona Consumer Confidence Index (1985 = 100)	3rd Quarter 2013	72.5	4.2%	N/A
- Arizona Coincident Index (July 1992 = 100)	July	182.15	0.3%	2.5%
- Arizona Leading Index -- 6 month projected growth rate	May-Jul	3.3%	0.4%	0.9%
- Arizona Personal Income	1st Quarter 2013	\$238.0 billion	(1.5)%	2.5%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	September	1,285,017	0.7%	(0.8)%
Acute Care Traditional		885,667	0.7%	(0.2)%
Prop 204 Childless Adults		72,033	(1.5)%	(28.1)%
Other Prop 204		148,881	(0.9)%	(1.8)%
Kids Care I		6,773	(2.9)%	(25.8)%
Kids Care II		39,303	4.1%	106.5%
Long-Term Care – Elderly & DD		54,087	0.4%	2.4%
Emergency Services		68,273	0.6%	6.3%
- TANF Recipients	July	36,599	1.9%	(9.1)%
- SNAP (Food Stamps) Recipients	July	1,109,095	0.2%	(0.9)%
- ADC Inmate Growth (3-month average)	Jun-Aug	40,677	70 inmates	827 inmates
- Probation Caseload				
Non-Maricopa	June	17,718	(30)	(467)
Maricopa County	June	25,343	15	(277)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2 nd Quarter 2013 (2 nd Estimate)	\$15.7 trillion	2.5%	1.6%
- Consumer Confidence Index (1985 = 100)	August	81.5	0.6%	33.0%
- Leading Indicators Index (2004 = 100)	July	96.0	0.6%	3.1%
- U.S. Semiconductor Billings (3-month moving average)	May-July	\$5.02 billion	5.4%	21.5%
- Consumer Price Index, SA (1982-84 = 100)	August	233.5	0.1%	1.5%

* Excludes the temporary 1¢ increase that expired at the end of May 2013.

JLBC Meeting

At its August 20, 2013 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Review of Automation Projects Fund – The Committee gave a favorable review of expenditure plans from the Automation Projects Fund for 3 information technology (IT) projects:

- 1) \$3.5 million for the Arizona Strategic Enterprise Technology (ASET) Office in the Arizona Department of Administration;
- 2) \$8.0 million to replace the Adult Inmate Management System at the Arizona Department of Corrections (ADC); and
- 3) \$3.4 million for projects related to the Arizona Learning and Accountability System (AELAS) at the Arizona Department of Education (ADE).

The Committee added technical provisions to its favorable review.

Arizona Department of Corrections – Review of FY 2013 Bed Capacity Report – The Committee gave a favorable review of the Department of Corrections' FY 2013 bed capacity report, which outlined the state's prison bed surplus/shortfall by classification level under various methodologies.

During FY 2013, the department reduced its total operating capacity by (179) beds, from 41,989 to 41,810. During the fiscal year, the inmate population increased by 809 from 39,877 to 40,686. The medium and close custody populations represented the majority of the increased population, and the department shifted resources from minimum custody units to meet the needs of the medium and close custody populations.

Attorney General – Review of FY 2011 and FY 2012 Uncollectible Debts – The Committee gave a favorable review of the Attorney General's (AG) FY 2011 and FY 2012 listings of uncollectible debts referred to the AG by state agencies for collection. The uncollectible debt listings total \$17.2 million for FY 2011 and \$30.4 million for FY 2012.

Arizona Board of Regents – Review of FY 2014 Tuition Revenues – The Committee gave a favorable review of the Arizona Board of Regents' expenditure plan to use tuition revenue amounts greater than the amounts appropriated by the Legislature and all non-appropriated tuition and fee revenue for FY 2014.

Arizona Department of Environmental Quality – Review of Vehicle Emissions Contract Modification – The Committee gave a favorable review to proposed technical changes in the Department of Environmental Quality's Vehicle Emissions Inspection contract with a private vendor.

JCCR Meeting

At its August 20, 2013 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Administration – Review of FY 2014 Building Allocation Plan – The Committee gave a favorable review to the Arizona Department of Administration's (ADOA) proposed Building Renewal Allocation Plan totaling \$9.0 million. The plan will fund a variety of projects including fire alarm repairs, HVAC and elevator replacements and new roofing.

Arizona Department of Corrections – Review of the Arizona State Prison Complex (ASPC) – Yuma Cheyenne Building Repair Plan – The Committee gave a favorable review to the Arizona Department of Correction's (ADC) proposed \$8.0 million building repair project plan for the Cheyenne unit in Yuma

The plan will permit ADC to reopen 2 buildings that had water damage.

Arizona Department of Corrections – Review of the FY 2014 Building Renewal Allocation Plan – The Committee gave a favorable review to the \$5.0 million FY 2014 Building Renewal Allocation Plan, which funds perimeter electronic

security systems and replaces obsolete locking and control systems.

Arizona State Schools for the Deaf and the Blind – Review of FY 2014 Residential Dormitory Renovation Plan – The Committee gave a favorable review to the \$1.0 million FY 2014 plan that will fund the renovation of residential halls on the Tucson campus.

Arizona State Parks Board – Review of FY 2014 States Parks Revenue Fund and State Lake Improvement Fund Capital Expenditures – The Committee gave a favorable review of the \$2.9 million FY 2014 Capital Expenditure Plan. Of that amount, \$1.8 million provides for new construction and building renewal, \$730,000 funds compliance measures mandated by the Arizona Department of Environmental Quality, and \$325,000, which is designated as an emergency contingency allocation, pays for miscellaneous repairs and replacements at parks that allow the use of motorized boats. The favorable review included other technical provisions for the emergency contingency allocation.

Northern Arizona University – Review of Housing Indirect Financing Projects Addendum – The Committee gave a

JCCR Meeting (Continued)

favorable review to Northern Arizona University's (NAU) addendum to a ground lease agreement with American Campus Communities that the Committee previously reviewed in 2011. The initial agreement provided new student housing facilities on the Flagstaff campus for a total of \$68.0 million. The addendum allows for 2 additional residence wings on the Flagstaff campus for an extra \$24.7 million. These costs are funded by a private vendor who operates the facilities and collects rent.

Arizona State University – Review of 3 Bond Projects – The Committee gave a favorable review to Arizona State University's (ASU) request of \$33.3 million in University Lottery revenue bond issuances to fund the following 3 projects at all ASU campuses: building renewal and campus infrastructure, classroom renovations, and research laboratory renovations. The favorable review included standard university financing provisions.

Summary of Recent Agency Reports

Arizona Board of Regents – Report on University Retention and Graduation Rates – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to submit an annual report on retention and graduation rates at each university campus. Prior to 2013, ABOR reported retention and graduation rates based on the federal government's definition, which tracks the outcomes of first-time, full-time, degree-seeking students after 1 year for retention rates and after 6 years for graduation rates.

ABOR reports that this methodology captures less than half of Arizona students who are making progress toward a degree. The federal definition excludes outcomes of students who begin at an Arizona university, but transfer to another in-state or out-of-state institution to continue their education. ABOR also states that the federal metric does not include students who are still enrolled in a higher education institution, but have not yet received their degree. Under the federal definition:

- Fall 2012 retention rate reflect the percentage of first-time, full-time, degree-seeking students who initially enrolled in fall 2011 and who re-enrolled in the same university in fall 2012.
 - o Arizona State University (ASU) 80%; Northern Arizona University (NAU) 76%; and the University of Arizona (UA) 80%.
- Six-year graduation rates reflect the percentage of first-time, full-time, degree-seeking students who received their degree within 6 years of their initial fall enrollment at the same university. The 2013 report shows the percentage of students who enrolled in fall 2006 who graduated from the same university within 6 years.
 - o ASU 57%; NAU 49%; UA 61%.

Rather than using the federal definition, ABOR utilizes a metric entitled the Success and Progress Rate, which shows the outcomes of the same cohort of students who graduated at any higher education institution, in addition to those students who are still enrolled in higher education after 6 years. The 2013 report shows the percentage of students who enrolled in an Arizona

University in fall 2006 who either graduated from the same university within 6 years, graduated from another university within 6 years, or are still enrolled in higher education, as shown below:

- ASU 83%; NAU 72%; UA 83%.
(Art Smith)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2013 – Pursuant to a General Appropriation Act footnote, the Department of Environmental Quality (DEQ) is required to report annually by September 1 to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists FY 2013 expenditures at \$11.2 million. Unexpended funds at the end of FY 2013 totaled \$9.0 million.

At the end of FY 2013, there were 34 sites on the WQARF Registry. During FY 2013, DEQ removed its first site from the registry after completing its remedy. The department conducted remediation pilot studies at 2 sites, and initial results at one site showed promise of reduced cleanup times.

DEQ prioritized sites where treatment systems were actively operating and curtailed other WQARF activities (groundwater monitoring, feasibility studies, design and construction of remediation systems). In FY 2014, program expenditures for the 37 listed WQARF site budgets that remain active are projected to be \$8.0 million. (Micaela Larkin)

Arizona Department of Homeland Security – Report on Homeland Security Funding – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security has submitted an annual report detailing grant allocations and expenditures for Homeland Security grants from Federal Fiscal Year (FFY) 2009 through FFY 2012. The report indicates that 18.9% of the FFY 2012 allocation has been expended. Information for FFY 2010 - FFY 2012 is included in *Table 6* below.

Summary of Recent Agency Reports (Continued)

Table 6

Awards and Expenditures by Homeland Security Grant Recipients

	FFY 2010	FFY 2011	FFY 2012
State Awards	\$ 5,123,100	\$ 3,591,700	\$ 1,897,000
Local Government Awards	<u>30,629,200</u>	<u>29,588,200</u>	<u>14,738,900</u>
Total Awards	\$35,752,300	\$33,179,900	\$16,635,900
State Expenditures	\$ 4,639,900	\$ 2,424,600	\$ 432,400
Local Government Expenditures	<u>30,071,600</u>	<u>21,445,700</u>	<u>2,719,000</u>
Total Expenditures	\$34,711,500	\$23,870,300	\$ 3,151,400
Percentage of Total Awards Currently Expended	97.1%	71.9%	18.9%

The state was allocated and the Arizona Department of Homeland Security awarded \$16.6 million in Homeland Security grants for FFY 2012. The department reported total expenditures of \$3.2 million, leaving \$13.4 million unexpended. State agencies were awarded \$1.9 million, of which \$432,400 has been expended. Local governments were awarded \$14.7 million, of which \$2.7 million has been expended. The largest local grantee was the Pima County Sheriff's Department (\$1.2 million). The largest state grantee was the Department of Public Safety (\$1.7 million). The largest individual grant of \$974,600 went to the Pima County Sheriff's Department for overtime and mileage payments while working in support of U.S. Customs and Border Protection border security efforts.

FFY 2012 represented a decrease from the amount received in both FFY 2010 and FFY 2011. While Arizona received \$16.6 million in FFY 2012, the state received \$35.8 million in FFY 2010 and \$33.2 million in FFY 2011, respectively. Of the funds received, 97.1% have been expended for FFY 2010, and 71.9% have been expended for FFY 2011. (Krista MacGahan)

Supreme Court – Report on Current and Future Automation Projects

Pursuant to a General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2014 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2014 will be approximately \$21.7 million. Of this amount, approximately \$5.4 million, or 25%, will be spent on 5 ongoing projects; \$9.8 million, or 45%, will be spent on shared infrastructure; and \$6.4 million, or 30%, will be spent on ongoing automation support in FY 2014. Of the 5 ongoing projects, the larger projects include:

- Update out-dated software for electronic filing (\$1,912,000)
 - Streamline and standardize the case management system utilized by judges (\$1,585,000)
 - Update the agencywide case management system (\$1,447,500)
- (Eric Billings)

August Spending

August 2013 General Fund spending of \$779.9 million was \$(164.1) million lower than August 2012. Year-to-date, spending is \$3.0 billion, or \$(90.3) million below last year.

(See Tables 7 & 8).

- The Department of Education spent \$(461.0) million less than the prior year due to the timing of deferred payments to school districts as part of the on-going \$931 million rollover.
- The Department of Health Services spending increased \$278.2 million more than the prior year due to technical timing issues related to Medicaid spending.

Table 7

General Fund Spending (\$ in Millions)

	August 13	Change from August 12	Year-to-Date	YTD Change from FY 13
Agency				
AHCCCS	107.6	2.4	218.4	2.2
Corrections	80.4	14.4	154.5	10.1
Economic Security	(0.1)	(4.0)	411.8	20.9
Education	211.1	(461.0)	1,369.4	82.7
Health Services	294.4	278.2	398.8	(38.7)
Public Safety	1.6	0.0	10.0	1.2
School Facilities Board	0.4	0.3	152.7	11.9
Universities	44.3	7.0	84.3	10.2
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>40.2</u>	<u>(1.4)</u>	<u>123.1</u>	<u>9.2</u>
Total	779.9	(164.1)	3,007.1	109.7
Budget Stabilization Fund Deposit	0.0	0.0	0.0	(200.0)
Grand Total	779.9	(164.1)	3,007.1	(90.3)

Table 8				
General Fund Spending				
(\$ in Thousands)				
Agency	August 13	Change from August 12	Year-to-Date	YTD Change from FY 13
Department of Administration	1,532.3	(3,424.1)	3,774.5	(2,401.5)
ADOA Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	84.5	9.3	146.1	9.0
Department of Agriculture	1,033.3	504.2	1,637.7	168.0
AHCCCS	107,575.9	2,431.9	218,357.8	2,163.0
Arts, AZ Commission on the	-	-	-	-
Attorney General	3,334.1	658.2	4,848.3	691.3
AZ Capital Post Conviction Public Defender	-	(4.1)	-	(4.1)
State Board of Charter Schools	184.1	128.4	240.6	83.6
AZ Commerce Authority	2,625.0	-	5,250.0	-
Community Colleges	212.3	(489.6)	16,116.1	(180.4)
Corporation Commission	43.6	0.8	85.5	5.7
Department of Corrections	80,422.3	14,350.2	154,506.7	10,056.3
AZ State Schools for the Deaf & Blind	2,585.3	(405.9)	4,318.6	(223.4)
Department of Economic Security	(86.3)	(3,952.0)	411,816.1	20,941.3
Department of Education	211,105.4	(460,960.1)	1,369,388.7	82,692.2
DEMA	424.1	116.0	1,186.3	400.9
DEQ – WQARF	-	(7,000.0)	-	(7,000.0)
Office of Equal Opportunity	14.6	3.8	32.4	(5.4)
State Board of Equalization	30.0	(14.1)	139.6	(12.2)
Board of Executive Clemency	132.9	86.1	190.3	16.3
Department of Financial Institutions	187.1	8.7	557.5	103.6
Department of Fire, Bldg and Life Safety	305.3	181.2	431.0	(58.1)
State Forester	340.1	128.8	589.7	(190.7)
Arizona Geological Survey	60.7	(8.1)	124.6	13.8
Governor/OSPB	751.1	237.2	1,393.3	166.0
Department of Health Services	294,434.0	278,216.8	398,824.1	(38,717.7)
Arizona Historical Society	538.8	327.3	845.3	25.9
Prescott Historical Society of AZ	50.0	3.7	118.0	31.3
Independent Redistricting Comm.	171.9	125.8	343.0	180.8
Commission of Indian Affairs	2.9	1.0	7.0	(8.4)
Department of Insurance	704.6	347.6	1,098.9	133.7
Judiciary				
Supreme/Superior Court	5,220.9	3,359.1	21,283.9	803.7
Court of Appeals	1,394.0	454.1	2,406.1	70.5
Department of Juvenile Corrections	3,395.9	271.0	6,570.2	(573.8)

Agency	August 13	Change from August 12	Year-to-Date	YTD Change from FY 13
State Land Department	1,004.6	963.9	1,769.8	1,709.7
Law Enforcement Merit System	-	(5.4)	-	(9.9)
Legislature				
Auditor General	1,705.2	505.6	3,050.5	354.4
House of Representatives	857.6	130.5	1,827.4	344.7
Joint Legislative Budget Comm.	184.1	31.7	333.6	47.6
Legislative Council	376.6	(67.8)	1,071.3	33.7
Senate	574.6	73.1	1,217.4	166.7
Mine Inspector	157.5	78.6	253.9	0.2
Nav. Streams & Adjudication	9.2	2.6	17.9	(7.4)
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	44.6	12.0	413.0	(69.6)
Comm. for Postsecondary Ed.	44.0	(44.0)	44.0	(44.0)
Department of Public Safety	1,644.6	(20.6)	10,049.2	1,195.2
Arizona Department of Racing	-	-	1,779.5	-
Radiation Regulatory Agency	117.8	55.7	374.3	86.6
Real Estate Department	433.9	292.2	592.3	282.2
Department of Revenue	6,969.4	3,174.5	11,534.1	1,574.2
School Facilities Board	387.1	292.4	152,699.2	11,875.7
Secretary of State	698.7	(2,223.8)	1,406.4	(2,284.3)
Tax Appeals Board	49.4	32.9	67.1	2.0
Office of Tourism	157.3	(137.9)	322.0	(307.7)
Department of Transportation	0.2	(5.6)	0.2	(9.1)
Commission on Uniform State Laws	47.0	47.0	47.0	47.0
Universities				
Board of Regents	824.3	638.6	917.1	408.2
Arizona State University	18,480.1	2,169.2	36,868.8	4,518.4
Northern Arizona University	7,054.2	1,080.2	13,125.0	1,273.4
University of Arizona	17,920.6	3,122.2	33,382.3	4,016.3
Department of Veteran Services	431.1	(31.5)	895.4	15.6
Department of Water Resources	795.7	126.4	1,631.7	264.5
Department of Weights & Measures	85.4	5.3	171.3	2.8
Other - JP Salaries Distribution	63.7	(44.5)	63.7	(44.5)
Other	-	-	-	-
Total	779,929.2	(164,053.2)	3,007,122.6	109,677.4
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
Grand Total	779,929.2	(164,053.2)	3,007,122.6	(90,322.6)

Tracking Arizona's Recovery

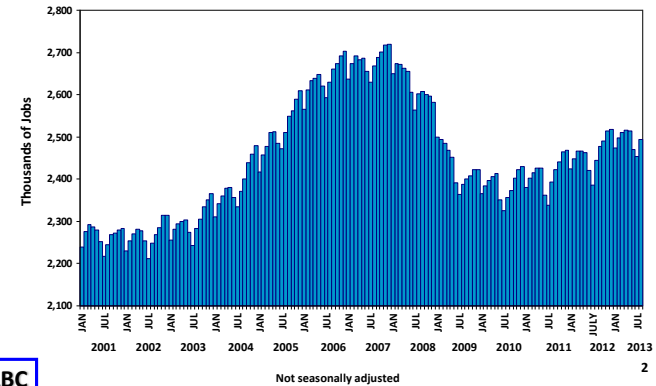
September 2013
Appendix A

Slide:

- 2.....Total Non-Farm Employment
- 3.....Initial Claims for Unemployment Insurance
- 4.....State Sales Tax Collections – Retail Category
- 5.....State Sales Tax Collections – Contracting Category
- 6.....Single Family Building Permits
- 7.....Maricopa County Pending Foreclosures
- 8.....Coincident Index

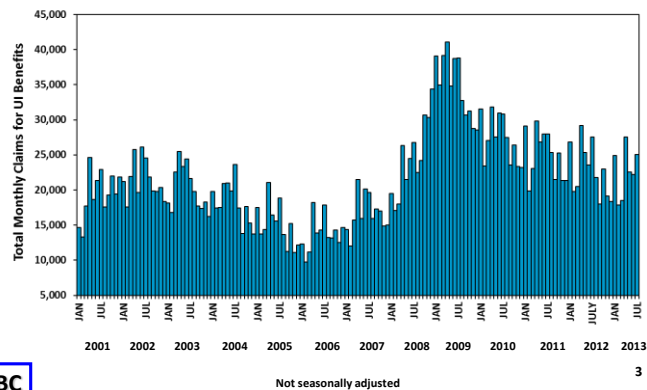
JLBC

Total Non-Farm Employment



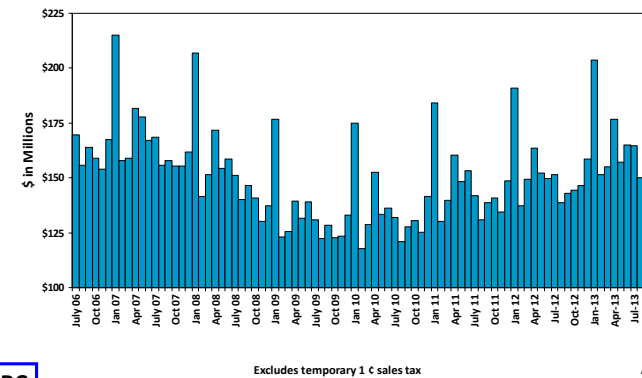
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Initial Claims for Unemployment Insurance



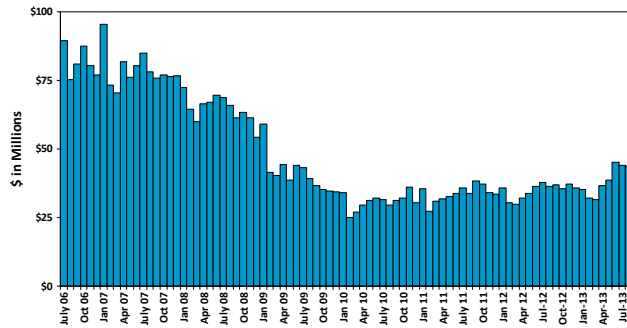
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State Sales Tax Collections – Retail Category



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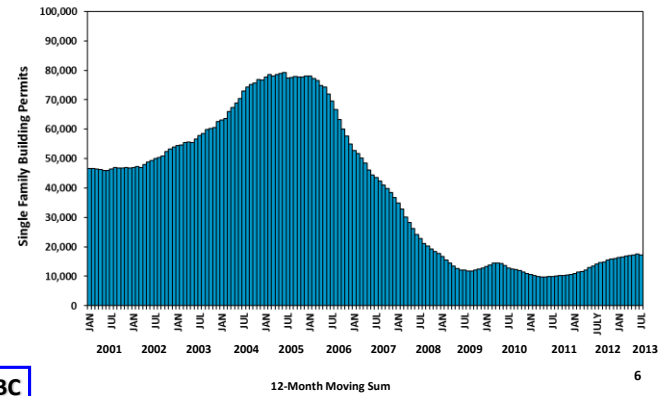
State Sales Tax Collections – Contracting Category



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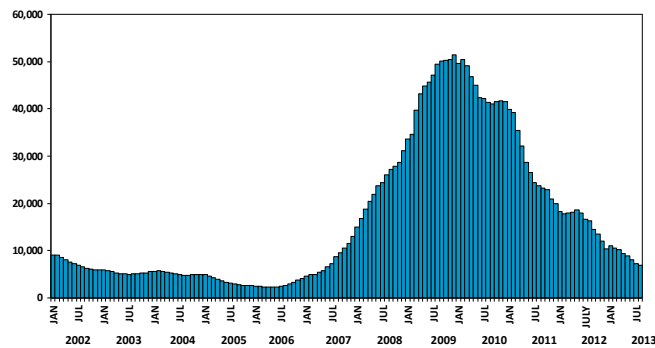
Single Family Building Permits



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Maricopa County Pending Foreclosures

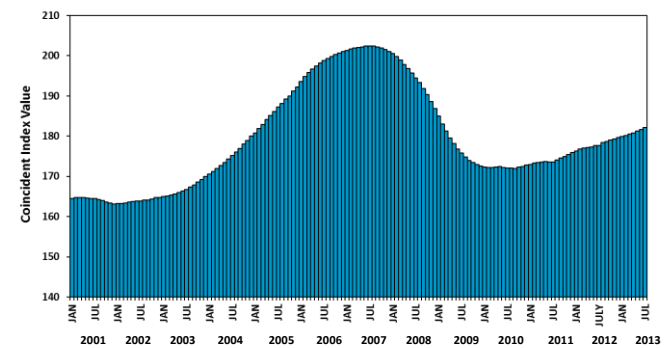


JLBC

An initial notice of trustee sale has been recorded but final sale has not yet occurred

7

Economic Activity Index



JLBC

Source: Coincident Index – Federal Reserve Bank of Philadelphia. Combines four state-level indicators (employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements) to summarize current economic conditions.

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