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“Year-to-date, revenues are 4.0% higher than last year and are \$19.8 million above the budget forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on December 20, 2012.

Summary



November General Fund revenue collections totaled \$645.2 million. Base revenues, which exclude one-time adjustments, were 8.0% above the prior year.

November revenue growth was driven by the 2 largest revenue categories: Individual Income and Sales Taxes. Both categories grew by over 8% compared to the prior year.

In terms of Individual Income Taxes, the change in collections was caused by an abnormally low amount of refunds in November, as they declined (78)% from the prior year. Withholding only grew by 1.9% in November.

Sales Tax collections were helped by growth in the retail category, which posted its largest percentage gain (9.2%) in 16 months.

Total November General Fund collections were \$17.7 million above the enacted May budget forecast. Year-to-date, revenues are 4.0% higher than last year and are \$19.8 million above the budget forecast.

In comparison to revenue of \$645.2 million, November 2012 General Fund spending was \$540.2 million, or \$(20.4) million below last year. November expenditures were lower than last year primarily due to decreased enrollment in the Medicaid program.

Fiscal year-to-date, General Fund revenues of \$3.6 billion have been offset by \$4.9 billion in spending.

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. As of mid-December 2012, the operating balance is \$1.3 billion.

In addition, the state has \$451.8 million in Budget Stabilization Fund reserves, which represents an original \$450 million deposited as part of the FY 2013 budget plus \$1.8 million of interest earned.

This edition of the MFH also includes information on:

- Potential Fiscal Cliff “Windfall”
- Mortgage Settlement Update
- JLBC State Funds Report
- Income Tax Credit Review Findings

Potential Fiscal Cliff “Windfall”

The possibility of Bush-era tax cuts expiring on December 31, 2012 may shift some Arizona individual income tax collections forward into tax year 2012 that would have otherwise occurred in future years. Regardless of whether Congress resolves the “fiscal cliff” prior to January, investors appear to have already proactively taken steps to avoid even the potential of higher tax rates in January. As a result, investors’ TY 2012 personal income could increase substantially, which may result in higher FY 2013 income tax collections in April. This short-term gain, however, could be offset by lower than expected income liability in future years.

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Summary (Continued)

“As a result of [the shift in tax] activities, Arizona will likely receive increased final income tax payments in April 2013.”

Barring new legislation, the maximum federal tax rate of 15% applied to long-term capital gains and qualified dividends will revert to its higher pre-2003 rate of 20% in January 2013. At the highest income levels, the federal income tax rate on certain dividends could increase from 15% in December to 39.6% in January. (This excludes the new 3.8% surcharge on investor income which is being used to help finance federal health care changes).

While the magnitude of this potential tax year shifting is difficult to predict in advance, it could be substantial. The Congressional Budget Office, for example, has projected that the nation’s TY 2012 capital gains realizations would grow by 52% (to \$651.2 billion) while TY 2013 realizations would recede (36)% (to \$419.7 billion). In addition, numerous companies appear to be paying significantly higher dividends in the last quarter of calendar year 2012. According to a market research company, the amount of nationwide 4th quarter dividends (\$30 billion) is 4 times that paid in the fourth quarter of 2011.

As a result of these activities, Arizona will likely receive increased final income tax payments in April 2013. These increases though, would come at the expense of revenue collections in future periods. JLBC Staff is working to quantify these potential impacts. Some of the short term benefit of tax shifting could be offset by the absence of a one-time \$60 million individual income tax payment that was made in January 2011.

National Mortgage Settlement Update

Arizona residents have received more than \$880 million in assistance to date through the National Mortgage Settlement, according to a recently released report. The settlement is a result of state and federal investigations that 5 loan servers did not act legally in signing foreclosure documents, thus acting fraudulently in services and practices. The total settlement was \$25 billion, of which Arizona’s total share was \$1.3 billion.

The 5 loan servers, Bank of America, CitiBank, GMAC/Ally, JPMorgan Chase, and Wells Fargo, have released a report on how settlement money has been allocated within the state. According to the loan servers, approximately 13,000 Arizona residents have been helped through the settlement. Of the \$880 million, approximately \$762 million represents short sales

approved by lenders. An additional \$121 million reflects assistance for refinancing and modifying existing underwater mortgages. In 2013, the banks will be audited to confirm that they are complying with the terms of the settlement.

These monies are in addition to a \$97 million direct payment from the settlement to the Attorney General’s office. Along with a \$10 million settlement with Bank of America, \$57 million will be used as follows:

- \$41 million for direct assistance to help keep residents in their home and consumer restitution;
- \$5 million for enforcement and monitoring;
- \$5 million for housing counseling;
- \$4 million for legal services; and
- \$2 million for outreach, marketing, and education.

The remainder, \$50 million, has been set aside by the Legislature to help balance the FY 2013 budget. Those funds have yet to be transferred to the General Fund, based on the outcome of pending litigation. In May 2012, a lawsuit was filed arguing that the state could not transfer money from the settlement to the General Fund. In October 2012, a Superior Court judge ruled that the State Legislature can decide how to spend the funds from the settlement. An appeal has been filed with the Court of Appeals to overturn the ruling.

State Funds Report

A.R.S. § 41-1273 requires the JLBC Staff to annually report to the Joint Legislative Budget Committee (JLBC) on statutorily deleted and newly created funds, including funds that changed appropriated status from the prior fiscal year. Below is a summary of the [JLBC Annual State Funds Report](#), and the entire report is available on our website.

During the 2012 legislative session, the state statutorily made the following fund changes:

- Created 7 new funds with FY 2013 expenditures totaling \$26.1 million.
- Eliminated 5 funds with FY 2012 expenditures totaling \$9.6 million.
- Permanently changed 10 Department of Agriculture funds from appropriated to non-appropriated status. Spending from these funds sums to \$2.6 million in FY 2013.

Total state spending is \$27.9 billion in FY 2013.

Summary (Continued)

The largest category of spending is Federal Funds (34%), followed by the General Fund (31%), Non-Appropriated Funds (23%), and Other Appropriated Funds (12%).

Income Tax Credit Review Findings

The Joint Legislative Income Tax Credit Review Committee (JLITCRC) is statutorily responsible for an annual review of individual and corporate income tax credits.

At its December 6, 2012 meeting, the JLITCRC reviewed the JLBC Staff [Report](#) and [Presentations](#) regarding 9 income tax credits which were being evaluated according to the criteria outlined in statute, such as: cost, complexity and effectiveness. Statute requires income tax credits to be reviewed according to a given schedule, which is typically every 5 years.

The Committee recommended the continuation of the:

- Family Income Tax Credit
- Commercial Solar Energy Device Credit
- Military Family Relief Fund Credit
- Private School Tuition Credit
- Public School Extracurricular Activity Credit

The JLITCRC also recommended new performance measures for several of these credits.

In addition, the Committee recommended the elimination of the:

- Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlet Credit
- Military Reuse Zone Credit
- Environmental Technology Facility Credit
- School Site Donation Credit.

“November retail, which reflects October sales, increased by 9.2%. This is the largest percentage increase in the retail category in 16 months (since June, 2011).”

November Revenues

	<u>FY 2013 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2012</u>
November	\$ 645.2	\$ 17.7	\$ 36.3
Year-to-Date	\$ 3,611.1	\$ 19.8	\$ (13.5)

Sales Tax collections were \$386.4 million, or 8.1% above November 2011 and \$10.5 million above the budget forecast for the month.

Year-to-date, sales tax collections are 4.6% above the prior year and are \$19.6 million above forecast.

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

Retail and contracting together account for almost 60% of all sales tax revenues. November retail, which reflects October sales, increased by 9.2%. This is the largest percentage increase in the retail category in 16 months (since June, 2011). As we have noted in prior reports, the retail category began to grow in December 2010. Retail growth continued through the first

part of last fiscal year, but slowed during the last quarter of FY 2012 due primarily to the high growth rates in the last quarter of FY 2011.

	<u>November</u>	<u>YTD</u>
Retail	9.2%	5.5%
Contracting	9.2%	2.5%
Utilities	8.1%	4.7%
Use	14.4%	0.0%
Restaurant & Bar	5.8%	7.2%

Overall, the retail category grew by 5.0% in FY 2012 compared to the prior year. With the November growth rate of 9.2%, the year-to-date growth rate of 5.5% slightly exceeds last

November Revenues (Continued)

year's retail growth rate. Contracting collections have been much more volatile than retail, but also increased by 9.2% this month. The November increase brings the year-to-date increase in contracting to 2.5%.

Individual Income Tax net revenues were \$277.8 million in November, or 8.3% more than the prior year. Collections were \$1.9 million, or 0.7% above the budget forecast. Year-to-date, revenues have grown 5.3% and are \$30.9 million above forecast.

The modest November increase relative to the forecast was the net result of a small increase in withholding tax collections, and significantly lower than anticipated refunds.

As indicated in *Table 3*, withholding was up 1.9% in November. The November increase brings withholding tax collections for the first 5 months of the fiscal year up to 3.6%. This amount is \$(6.8) million below the budget forecast.

Total estimated and final payments of \$14.8 million were (3.2)% below last year, and were slightly below forecast. For the first 5 months of the fiscal year, payments are \$(7.0) million below the forecast.

Refunds of \$(4.8) million were \$17.0 million less than last year's amount. Year-to-date, refunds are \$44.7 million below forecast.

	<u>November</u>	<u>YTD</u>
Withholding	1.9%	3.6%
Estimated + Final Payments	(3.2)%	8.5%
Refunds	(77.8)%	(8.1)%

Corporate Income Tax net collections were \$(3.2) million in November, which is \$2.6 million above the prior year's net collections of \$(5.8) million. Net November corporate income tax collections are typically negative, as November is not generally a high gross tax collection month, and refunds are usually greater than gross payments. Collections for the month were \$8.5 million above the forecast. Year-to-date, collections are up 4.2% and are \$(2.4) million below forecast.

The **Lottery Commission** reports that November ticket sales were \$72.6 million, which is \$21.9

million, or 43.2%, above sales in the prior year. This increase was fueled by the \$550 million Powerball jackpot. Year-to-date ticket sales are \$271.4 million, which is 13.9% above last year's sales. While sales increased, net General Fund revenues actually declined due to an increase in 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 \$96.3 million in November were up \$1.7 million, or 1.8%, compared to November of last year. Year-to-date revenues are approximately equal to collections in the prior year.

Table 4

General Fund Revenue: Change from Previous Year and Enacted May Budget Forecast November 2012

	Current Month					FY 2013 YTD (Five Months)				
	Actual November 2012	Change From November 2011		Budget Forecast		Actual November 2012	Change from November 2011		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$308,743,822	\$22,446,653	7.8 %	\$3,871,757	1.3 %	\$1,552,478,449	\$63,072,300	4.2 %	\$659,509	0.0 %
- 1¢ Increase*	77,630,387	6,658,529	9.4	6,662,285	9.4	389,266,998	21,924,442	6.0	18,955,851	5.1
Income - Individual	277,808,006	21,298,524	8.3	1,923,556	0.7	1,446,947,908	73,366,487	5.3	30,875,993	2.2
- Corporate	(3,169,579)	2,663,501	--	8,465,660	(72.8)	200,306,840	8,057,191	4.2	(2,416,225)	(1.2)
Property	2,815,878	(512,193)	(15.4)	(684,122)	(19.5)	5,027,391	(825,887)	(14.1)	(1,347,609)	(21.1)
Luxury - Tobacco	2,222,710	(2,539,812)	(53.3)	0	0.0	10,466,498	(1,803,141)	(14.7)	(798,762)	(7.1)
- Liquor	2,612,698	705,998	37.0	0	0.0	12,039,815	1,102,562	10.1	399,223	3.4
Insurance Premium	208,825	(101,447)	(32.7)	(791,175)	(79.1)	115,501,153	(8,050,253)	(6.5)	(7,498,847)	(6.1)
Estate	0	0	--	0	--	0	(200,825)	(100.0)	0	--
Other Taxes	39,698	1,609	4.2	(20,302)	(33.8)	209,715	(17,589)	(7.7)	(90,285)	(30.1)
Sub-Total Taxes	\$668,912,445	\$50,621,362	8.2 %	\$19,427,659	3.0 %	\$3,732,244,767	\$156,625,287	4.4 %	\$38,738,848	1.0 %
Other Revenue										
Lottery	2,723,540	(1,461,400)	(34.9)	(1,276,460)	(31.9)	11,423,660	(7,276,500)	(38.9)	(6,576,340)	(36.5)
License, Fees and Permits	2,590,816	643,973	33.1	90,816	3.6	12,657,228	1,558,314	14.0	(342,772)	(2.6)
Interest	2,845	(5,726)	(66.8)	(7,155)	(71.6)	11,177	(20,574)	(64.8)	(38,823)	(77.6)
Sales and Services	1,209,966	34,942	3.0	(790,034)	(39.5)	6,843,250	236,693	3.6	(5,156,750)	(43.0)
Other Miscellaneous	3,642,391	1,979,008	119.0	1,642,391	82.1	11,669,434	(3,456,038)	(22.8)	(3,830,566)	(24.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	8,610,986	(688,299)	(7.4)	(1,389,014)	(13.9)	8,996,422	(2,449,366)	(21.4)	(3,003,578)	(25.0)
Sub-Total Other Revenue	\$18,780,544	\$502,498	2.7 %	(\$1,729,456)	(8.4) %	\$51,601,171	(\$11,407,471)	(18.1) %	(\$18,948,829)	(26.9) %
TOTAL BASE REVENUE	\$687,692,988	\$51,123,859	8.0 %	\$17,698,202	2.6 %	\$3,783,845,937	\$145,217,815	4.0 %	\$19,790,018	0.5 %
Other Adjustments										
Urban Revenue Sharing	(42,798,670)	(7,430,050)	21.0	0	0.0	(213,993,350)	(37,150,250)	21.0	0	0.0
Budget Plan Transfers	321,236	(7,419,001)	(95.8)	0	0.0	41,207,551	(108,731,670)	(72.5)	0	0.0
Sub-Total Other Adjustments	(42,477,434)	(14,849,051)	53.7 %	0	(0.0) %	(172,785,799)	(158,749,348)	-- %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$645,215,555	\$36,274,809	6.0 %	\$17,698,203	2.8 %	\$3,611,060,139	(\$13,531,532)	(0.4) %	\$19,790,019	0.6 %
Non-General Funds										
Highway User Revenue Fund	\$96,346,811	\$1,734,720	1.8 %	\$599,375	0.6 %	\$490,019,690	\$6,261	0.0 %	(\$5,873,901)	(1.2) %

* Total November collections including the temporary 1¢ increase approved by the voters in May 2010 were \$386.4 million. This amount is \$29.1 million, or 8.1%, above November 2011 and \$10.5 million, or 2.8%, above forecast.

Recent Economic Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** for the third quarter of calendar 2012 increased at an annual rate of 2.7%. This growth represents an upward revision from the preliminary estimate of 2% and a further acceleration from the 1.3% rate estimated for the second quarter of 2012. Improvement in the rate was mainly caused by increases in residential fixed investment, Federal spending, and inventory investment.

The Conference Board's **U.S. Leading Economic Index** increased by 0.2% in October to a reading of 96. The latest reading is 2.3% above that in October 2011. For the first time since March 2012, the index realized a consecutive month of growth. Only four of the index's 10 components increased during the month though, with the main drivers of overall growth being increased capital good orders and favorable consumer interest rates.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the Americas increased 8.1% in October to \$4.79 billion. The month's reading was the highest since June 2011 and also marked the first month of year over year growth since that time.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, decreased by (0.3)% in November and grew by 1.8% above the prior year. This latest reading represents the first monthly decrease since May. During November, a 0.2% increase in core inflation (all prices except for food and energy) was more than offset by a (7.4)% decrease in gasoline prices.

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 October, 41 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 2.7%

above last year, which is the 22nd highest growth rate in the country. While this is a significant improvement, Arizona's index is still (11.1)% 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 3.4% over the next 6 months. This is unchanged from the revised 3.4% growth projection in September and higher than the 3.1% projection in October 2011.

Housing

The number of Maricopa County **pending foreclosures** decreased from 13,458 in October to 11,973 in November. This represents the sixth consecutive monthly decrease in this measure. The November 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 decreased from 26,798 in November 2011 to 23,232 in November 2012, a (13.3)% decrease. This continues the decline in inventory that started in January 2011.

As the supply of housing has declined, the price has increased. In the Metropolitan Phoenix area, the **median price of a single family home** was \$157,000 in October. This represents a 4.7% increase from September, and a 25.7% increase from October of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through October, a total of 1,352 **single-family building permits** had been issued statewide, a 44.2% increase from last year. This level of activity is comparable to the amount of permitting seen in September 2008, a month which marked the beginning of the rapid decline in the state's housing market. Still,

"Consumer prices, as measured by the U.S. Consumer Price Index (CPI), decreased by (0.3)% in November...the first monthly decrease since May."

Recent Economic Indicators (Continued)

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 performance of the multi-family housing sector is similar to that of single-family housing. For the 3-month period ending in October, a total of 509 **multi-family building permits** had been issued in the state. This figure represents a level similar to October 2008. Multi-family permitting activity remains (65.2)% below the peak of activity in April 2007.

State Agency Data

At the beginning of December, total **AHCCCS** caseloads equaled 1.27 million members, a (0.3)% decrease from the prior month. Overall AHCCCS caseloads are currently (5.2)% below December 2011 levels. The traditional AHCCCS population, which consists primarily of lower income children and their parents, decreased (0.4)% from last month and (1.4)% 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. This population has declined (134,861) since then to 89,631. Of the decline, (11,938) is attributed to members who were transferred to the SSI program. As a whole, the Proposition 204 program has declined (1.8)% compared to the prior month, and (25.9)% 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 (2.4)% compared to the prior month and (38.1)% from the prior year. Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II, which 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 December, 22,015 children were enrolled in KidsCare II.

There were 42,022 **TANF recipients** in the state in October, a monthly caseload increase of 2.2%. Year-over-year, the number of TANF recipients has increased by 3.6%. This marks the second month of year-over-year growth in the TANF

program since November 2009. Since that time, the State reduced the lifetime limit a person may receive cash assistance, first to 36 months and then further to 24 months. Previously, the maximum had been 60 months. The appropriation for TANF cash assistance in the FY 2013 budget funds a caseload of approximately 36,200 recipients in FY 2013.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In October, there were a total 1.1 million food stamp recipients in the state, a 1.5% increase over the prior month. Compared to the same month last year, food stamp participation was about the same. 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 40,039 inmates in October 2012. Relative to the prior 3-month period, the population has increased by 64 inmates. Compared to a year ago, the population has declined by (18) inmates.

“Overall AHCCCS caseloads are currently (5.2)% below December 2011 levels.”

Recent Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate (SA)	October	8.1%	(0.1) %	(1.1)%
- Initial Unemployment Insurance Claims	November	19,147	(16.6)%	(10.3)%
- Unemployment Insurance Recipients	November	39,623	(13.0)%	(32.3)%
- Non-Farm Employment - Total	October	2.48 million	0.5%	1.9%
Manufacturing	October	152,700	0.6%	0.8%
Construction	October	122,500	1.7%	3.0%
- Average Weekly Hours, Manufacturing	October	40.7	0.0%	1.0%
- Contracting Tax Receipts (3-month average)	Sep-Nov	\$36.5 million	0.9%	(0.0)%*
- Retail Sales Tax Receipts (3-month average)	Sep-Nov	\$144.7 million	1.8%	4.9%*
- Residential Building Permits (3-month moving average)				
Single-family	Aug-Oct	1,352	(7.1)%	44.2%
Multi-unit	Aug-Oct	509	4.9%	98.8%
- Greater Phoenix Home Sales				
Single-Family	October	8,748	12.0%	21.2%
Townhouse/Condominium	October	1,260	14.6%	22.9%
- Greater Phoenix Median Home Price				
Single-Family	October	\$157,000	4.7%	25.7%
Townhouse/Condominium	October	\$94,000	4.4%	21.6%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	September	120.65	1.1%	20.4%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	November	11,973	(11.0)%	(42.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	November	23,232	2.3%	(13.3)%
- Phoenix Sky Harbor Air Passengers	October	3.37 million	14.4%	1.4%
- Revenue Per Available Hotel Room	September	\$49.48	1.6%	16.0%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	September	\$4.04	(7.1)%	(25.3)%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2012	68.6	(1.3)%	32.2%
- Arizona Coincident Index (July 1992 = 100)	October	180.91	0.2%	2.7%
- Arizona Leading Index -- 6 month projected growth rate	Aug-Oct	3.4%	0.0%	0.3%
- Arizona Personal Income	2nd Quarter 2012	\$235.1 billion	1.3%	3.6%
- Arizona Population	July 1, 2011	6.48 million	N/A	1.1%
- AHCCCS Recipients	December	1,266,727	(0.3)%	(5.2)%
Acute Care Traditional		882,915	(0.4)%	(1.4)%
Spend Down		-	-	(100.0)%
Prop 204 Childless Adults		89,631	(3.6)%	(45.5)%
Other Prop 204		148,328	(0.6)%	(5.4)%
Kids Care		8,379	(2.4)%	(38.1)%
Kids Care II		22,015	27.0%	-
Long-Term Care – Elderly & DD		53,190	0.2%	2.8%
Emergency Services		62,269	(0.9)%	14.3%
- TANF Recipients	October	42,022	2.2%	3.6%
- SNAP (Food Stamps) Recipients	October	1,137,786	1.5%	0.0%
- ADC Inmate Growth (3-month average)	Sep-Nov	40,039	64 inmates	(18) inmates
- Probation Caseload				
Non-Maricopa	October	18,133	155	(614)
Maricopa County	October	25,463	69	(276)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	3rd Quarter 2012 (2 nd Estimate)	\$13.6 trillion	2.7%	2.5%
- Consumer Confidence Index (1985 = 100)	November	73.7	0.8%	33.5%
- Leading Indicators Index (2004 = 100)	October	95.9	0.6%	2.9%
- U.S. Semiconductor Billings (3-month moving average)	Aug. – Sept.	\$4.79 billion	8.1%	2.6%
- Consumer Price Index, SA (1982-84 = 100)	November	231.03	(0.3)%	1.8%

*Adjusted for 1¢ sales tax

JLBC Meeting

At its December 18, 2012 meeting, the Joint Legislative Budget Committee considered the following issues:

School Facilities Board – Consider Approval of Index for School Facilities Board (SFB) Construction Costs – The Committee approved a 0% adjustment in the cost-per-square-foot factors used in SFB funding formulas based on the 3 years worth of cost data. In 3 of 4 cost indices, net construction prices have declined since 2008.

Department of Administration – Review of the Arizona Public Safety Communication Advisory Commission – The Committee gave a favorable review of the FY 2012 annual report of expenditures and progress for the statewide interoperability design project. The

Committee, however, did have considerable discussion about the Advisory Commission's future role.

Department of Administration – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan – The Committee gave a favorable review of the \$5.5 million wireless portion of the Emergency Telecommunications Services Revolving Fund expenditure plan.

Attorney General – Review of Allocation of Settlement Monies – The Committee gave a favorable review to the allocation plan from the \$2 million consent judgment with Janssen Pharmaceuticals, Inc. The settlement will be deposited into the Consumer Fraud Revolving Fund.

JCCR Meeting

At its December 18, 2012 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona State University – Review of Building Infrastructure and Renovations Bond Projects – The Committee gave a favorable review of \$35 million in Lottery bond issuances to fund \$15 million in infrastructure upgrades, \$10 million in classroom renovations, and \$10 million in research laboratory renovations.

University of Arizona – Review of Environment and Natural Resources Building Project – The Committee gave a favorable review of \$73.5 million in Lottery bond issuances to fund construction of an Environment and Natural Resources classroom and research building (ENR2).

University of Arizona – Review of Cancer Center Project -

The Committee gave a favorable review of a \$73.2 million bond issuance to fund a \$100 million cancer center on the Phoenix Biomedical Campus. The facility will be operated by St. Joseph's Hospital of the Dignity Health Corporation. St. Joseph's will be responsible for the annual debt service, which is estimated to be \$3.8 million. U of A will also receive one-third of the net annual operating income above a certain baseline. This provision is expected to generate \$5 million annually.

Arizona Department of Transportation – Review of FY 2013 Building Renewal Allocation Plan – The Committee gave a favorable review of ADOT's \$1.1 million FY 2013 Building Renewal Allocation Plan.

Arizona Department of Administration – Consider Recommending FY 2013 Rent Exemptions – The Committee recommended 3 technical rent exemptions.

Summary of Recent Agency Reports

Arizona Department of Administration – [Report on Motor Vehicle Fleet](#) – Pursuant to A.R.S. § 41-803R, the Arizona Department of Administration reported on the FY 2012 year-end inventory of state-owned alternative fuel vehicles. Of the 12,338 state vehicles, 4,781, or 38.8% are subject to the alternative fuel vehicle requirements. (Law enforcement and certain other vehicles are exempt.)

Of the 4,781 state vehicles subject to the alternative fuel vehicle requirements, 3,461, or 72.4% are alternative fuel

vehicles. This is an increase of 2.8% from the prior year and exceeds the 40% target established by statute. Statute also requires 90% of the state vehicles in Maricopa County to be capable of using alternative fuels. The state reports that 84.6% of its Maricopa County vehicles are alternative fuel vehicles. This is an increase of 1.9% from the prior year.

Notwithstanding the quantity of vehicles capable of using alternative fuel, only 1.5% of the fuel budget for the 6 largest state fleets was for alternative fuels. (Brett Searle)

Summary of Recent Agency Reports (Continued)

AHCCCS - Report on Healthcare Group - Pursuant to A.R.S. § 36-2912AA, the Arizona Health Care Cost Containment System (AHCCCS) submitted its financial report for Healthcare Group (HCG) for FY 2012. The agency reports that HCG's operating income was \$5.4 million for FY 2012. HCG began FY 2012 with total unpaid prior year obligations and other liabilities of \$6.8 million. As of June 30, 2012, total liability was \$2.8 million, with net assets of \$2.2 million, its highest net asset position since FY 2004.

Pursuant to A.R.S. § 36-2912Z, AHCCCS reports that, as of September 2012, total statewide HCG medical plan enrollment was 6,893, with participating members from 2,356 employers. This is a decline of (991) participating members (12.6% decline) and (456) employers (16.2% decline) from a year ago. AHCCCS believes that discontinued outreach has contributed to the declining enrollment. (Amy Upston)

Arizona Criminal Justice Commission - Report on Anti-Racketeering Revolving Fund - Pursuant to A.R.S. § 13-2314.01, the Arizona Criminal Justice Commission (ACJC) is required to report by September 30 each year on the Anti-Racketeering Revolving Fund (ARRF). ACJC compiles the Attorney General reports and the reports of all departments and agencies into a single comprehensive report of sources and expenditures.

In FY 2012, ARRF received revenues totaling \$43 million and had expenditures totaling \$21.4 million. Seizures by investigating and prosecuting agencies were highest in Maricopa County in FY 2012 at \$22.7 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2012 with \$14.2 million in ARRF monies spent.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited to the Fund and used in accordance with state and federal guidelines. Monies in the ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Krista MacGahan)

State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions -The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to address public safety hazards at abandoned mines. A.R.S. § 27-131 created the

Abandoned Mines Safety Fund (AMSF) to fund the program. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the AMSF, and the expenditures by the fund during the preceding fiscal year.

For FY 2011, the State Mine Inspector recently reported that the AMSF had no new revenue. The State Mine Inspector secured 59 mine sites during FY 2011, at a total cost of \$43,000. The Mine Inspector completed preliminary planning for an additional 26 mine sites in FY 2012, with an estimated cost of \$23,900. The Mine Inspector financed these activities through the fund's carry-forward balance. (Brett Searle)

School Facilities Board - Report on Costs for Current and Potential Litigation – Pursuant to A.R.S. § 15-2041L, the School Facilities Board (SFB) is required to annually report on the costs associated with current and potential litigation against the agency. The litigation account was created to pay for attorney fees, expert witness fees and other costs associated with litigation in which SFB pursues the recovery of damages for construction or design defects.

The agency is not currently in litigation and does not expect there to be the potential for litigation in pursuing the recovery of damages for deficiencies corrections. The account currently has a zero balance. (Andrew Hartsig)

Supreme Court – Report on Adult Probation Services Fund and the Juvenile Probation Fund – Pursuant to a General Appropriation Act footnote, the Administrative Office of the Courts (AOC) is required to report to the JLBC on the FY 2012 actual, FY 2013 estimated, and FY 2014 requested amounts of the following: 1) the number of authorized and filled, case carrying and non-case carrying, probation positions by county; 2) the total receipts and expenditures by county and fund source for each of the probation Special Line Items (SLI), including the Personal Services expended from each revenue source of each account; 3) the amount of monies from the probation SLIs that the AOC does not distribute as direct aid to counties.

Adult Standard Probation

Adult Standard Probation county expenditures statewide for probation officers were \$34.5 million in FY 2012, of which \$12.3 million were General Fund monies. These monies funded 245.5 authorized case carrying positions and 389.6 authorized non-case carrying positions. Of these positions, 233.8 case carrying and 284.4 non-case carrying positions were filled. AOC estimates total expenditures of \$34.2 million in FY 2013

Summary of Recent Agency Reports (Continued)

and \$35.6 million in FY 2014.

AOC reports Adult Standard Probation SLI expenditures of \$13.5 million in General Fund monies in FY 2012, of which \$2.0 million were for other services including \$726,211 for administration. The remaining \$11.5 million was distributed to counties.

Adult Intensive Probation

AOC reports statewide Adult Intensive Probation county expenditures for probation officers of \$9.1 million in FY 2012, of which \$8.4 million were General Fund monies. These monies funded 103.1 authorized case carrying positions and 64.6 authorized non-case carrying positions. Of these positions, 101.5 case carrying and 56.3 non-case carrying positions were filled. AOC estimates total expenditures of \$9.2 million in FY 2013 and \$9.3 million in FY 2014.

AOC reports Adult Intensive Probation SLI expenditures of \$10.7 million in General Fund monies in FY 2012, of which \$2.4 million were for other services including \$688,161 for administration and \$683,822 for the Adult Probation Enterprise Tracking System. The remaining \$8.3 million was distributed to counties.

Juvenile Standard Probation

The statewide total for Juvenile Standard Probation county expenditures for probation officers were \$19.8 million in FY 2012, of which \$3.7 million were General Fund monies. These monies funded 79.5 authorized case carrying positions and 353.7 authorized non-case carrying positions. Of these positions, 76.9 case carrying and 349.7 non-case carrying positions were filled. AOC estimates total expenditures of \$21.1 million in FY 2013 and \$21.9 million in FY 2014.

AOC reports Juvenile Standard Probation SLI expenditures of \$4.6 million in General Fund monies in FY 2012, of which \$605,518 were for other services including \$284,536 for administration and \$234,871 for Juvenile On-line Tracking System (JOLTS) Automation. The remaining \$4.0 million was distributed to counties.

Juvenile Intensive Probation

AOC reports statewide Juvenile Intensive Probation county expenditures for probation officers of \$5.4 million in FY 2012, all of which were General Fund monies. These monies funded 57.5 authorized case carrying positions and 39.0 authorized non-case carrying positions. Of these positions, 52.2 case carrying and 35.1 non-case carrying positions were filled. AOC estimates total expenditures of \$5.4 million in FY 2013 and \$5.6 million in FY 2014.

AOC reports Juvenile Intensive Probation SLI General

Fund expenditures of \$8.9 million in FY 2012. Of this amount, \$3.0 million were for other services including \$441,466 for administration and \$364,550 for JOLTS Automation. The remaining \$5.9 million was distributed to counties. (Eric Billings)

Commission for Postsecondary Education – Report on Math, Science, and Special Education Teacher Loan Forgiveness Program

– A.R.S. § 15-1782 requires the Commission for Postsecondary Education to report annually on its Math, Science, and Special Education Teacher Loan Forgiveness (MSSE) program. The MSSE program provides forgivable loans to eligible students attending any regionally or nationally accredited institution in Arizona (public or private) that agree to a service commitment to teach in an Arizona public K-12 school. The program was created in 2007.

In FY 2012 the MSSE program had 36 applicants and disbursed 33 loans. This total includes 13 new loans and 20 renewals. The total disbursement was \$159,068. Of the 33 recipients, 20 are studying mathematics, 8 are studying science, 4 are studying special education, and 1 is studying elementary education. Eight recipients attend private postsecondary institutions and 25 attend public universities. At the conclusion of FY 2012, 195 students have participated in the MSSE program. FY 2013 will be the first year the Commission begins collecting the 5 year teacher retention data. (Tom Ritland)

Commission for Postsecondary Education – Report on Postsecondary Education Grant Program

– A.R.S. § 15-1855 requires the Commission for Postsecondary Education to report annually on its Postsecondary Education Grant (PEG) program. The PEG program provides grants to students attending private postsecondary institutions. The program was launched in March 2007 and received funding through FY 2010. In that year, a total of \$2.2 million was disbursed to 1,400 grantees representing 20 private postsecondary schools. The PEG application process was temporarily suspended by the Executive for several months in FY 2010. According to the commission, there was a waiting list of 2,627 unfunded PEG students at the end of FY 2010 due to budget reductions. (Tom Ritland)

November Spending

November 2012 General Fund spending of \$540.2 million was \$(20.4) million lower than November 2011. Year-to-date, spending is \$4.9 billion, or \$122.1 million above last year.

FY 2013 Spending

November 2012 spending of \$540.2 million was \$(20.4) million lower than November 2011 (*See Tables 6 & 7*).

- The Department of Education spent \$20.7 million more than November 2011. The higher expenditure amount reflects higher General

Fund funding for the agency, as well as increased charter school enrollment.

- Department of Economic Security spending in November was \$2.8 million, or \$(4.2) million less than the prior year. The low expenditure amount reflects operating transfers among agency funds and does not reflect actual expenditures.
- AHCCCS spent \$(20.1) million less than November 2011, due to lower enrollment in both the Traditional and Proposition 204 Medicaid programs.

	<u>Nov 12</u>	<u>Change from Nov 11</u>	<u>Year to Date</u>	<u>YTD Change from FY 12</u>
Agency				
AHCCCS	99.7	(20.1)	558.1	(131.8)
Corrections	76.8	(9.1)	383.5	(16.2)
Economic Security	2.8	(4.2)	436.5	9.1
Education	272.4	20.7	1,921.7	(15.8)
Health Services	14.3	2.5	482.4	60.7
Public Safety	1.3	(0.9)	14.7	(17.9)
School Facilities Board	0.8	0.7	142.6	9.7
Universities	43.4	(5.0)	416.1	(6.5)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	<u>28.7</u>	<u>(5.0)</u>	<u>239.5</u>	<u>(4.3)</u>
Total	540.2	(20.4)	4,679.2	(77.9)
Budget Stabilization Fund Deposit	0.0	0.0	200.0	200.0
Grand Total	540.2	(20.4)	4,879.2	122.1

General Fund Spending				
(\$ in Thousands)				
Agency	November 12	Change from November 11	Year-to-Date	YTD Change from FY 12
Department of Administration	2,079.6	1,098.8	14,019.1	4,578.8
Department of Admin Sale/Leaseback D/S	-	-	84,119.8	35,069.1
Office of Administrative Hearings	85.1	(6.2)	427.6	59.8
Department of Agriculture	614.2	(280.7)	3,629.7	(261.4)
AHCCCS	99,735.6	(20,057.1)	558,061.1	(131,804.7)
Arts, AZ Commission on the	-	-	-	(10.4)
Attorney General	2,209.6	1,196.1	9,311.2	1,636.5
AZ Capital Post Conviction Public Defender	-	(53.4)	4.1	(237.2)
State Board of Charter Schools	53.6	(13.0)	345.1	3.4
AZ Commerce Authority	2,625.0	-	13,125.0	-
Community Colleges	-	-	32,096.3	(2.5)
Corporation Commission	49.6	(3.6)	239.7	4.7
Department of Corrections	76,788.3	(9,122.6)	383,497.0	(16,234.4)
AZ State Schools for the Deaf & Blind	466.9	(2,021.7)	10,220.6	166.8
Department of Economic Security	2,767.2	(4,220.5)	436,512.2	9,104.5
Department of Education	272,394.0	20,691.8	1,921,715.9	(15,825.1)
DEMA	424.4	462.5	3,460.7	(120.2)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	-	(16.1)	55.0	(26.4)
State Board of Equalization	34.0	(11.3)	316.7	(17.5)
Board of Executive Clemency	67.7	(5.2)	326.7	(59.2)
Department of Financial Institutions	215.6	(64.6)	1,202.1	(68.1)
Department of Fire, Life, Bldg Safety	25.3	(94.8)	883.5	(23.1)
Office of the State Forester	399.8	118.5	1,957.3	(804.8)
Arizona Geological Survey	184.6	110.5	455.2	32.3
Government Information Tech.	-	-	-	3.1
Governor	487.5	(73.4)	2,644.9	(537.6)
Gov. - OSPB	125.1	(82.2)	791.6	(112.6)
Department of Health Services	14,340.3	2,471.9	482,421.9	60,682.9
Arizona Historical Society	222.1	(52.8)	1,560.5	(80.7)
Prescott Historical Society of AZ	47.2	(18.4)	299.7	14.9
Independent Redistricting Comm.	126.5	(290.4)	627.4	(990.3)
Commission on Indian Affairs	2.4	(1.8)	24.9	(2.6)
Department of Insurance	345.1	(141.3)	2,169.7	(248.3)
Judiciary				
Supreme Court	970.3	(315.5)	7,784.5	1,411.4
Superior Court	1,758.6	539.1	35,863.8	(151.8)
Court of Appeals	1,024.8	(400.7)	5,841.9	(413.6)
Department of Juvenile Corrections	3,189.7	(1,520.2)	18,239.1	(3,964.2)

Agency	November 12	Change from November 11	Year-to-Date	YTD Change from FY 12
State Land Department	31.9	(0.4)	518.6	(61.6)
Law Enforcement Merit System	5.2	(2.0)	27.7	4.1
Legislature				
Auditor General	1,333.3	(544.6)	7,279.8	(480.9)
House of Representatives	816.6	(470.3)	4,507.8	(685.3)
Joint Legislative Budget Comm.	134.4	(77.6)	766.1	(113.9)
Legislative Council	394.2	(114.4)	3,742.4	1,048.8
Senate	573.6	(300.5)	3,008.6	(472.3)
Mine Inspector	88.8	(18.1)	517.2	(12.9)
Nav. Streams & Adjudication	7.4	(1.6)	54.2	(21.0)
Pioneers' Home	38.5	(8.6)	538.3	(292.9)
Comm. for Postsecondary Ed.	-	-	698.4	-
Department of Public Safety	1,293.2	(923.9)	14,731.0	(17,940.6)
Arizona Department of Racing	-	(197.2)	1,790.5	(834.7)
Radiation Regulatory Agency	64.8	(9.5)	668.7	(71.6)
Real Estate Department	154.6	(50.5)	1,067.5	(113.7)
Department of Revenue	2,394.7	(2,928.3)	18,755.0	(7,930.7)
School Facilities Board	840.9	652.9	142,586.2	9,701.6
Secretary of State	1,304.0	440.4	9,519.3	5,022.5
Tax Appeals Board	17.6	(7.4)	123.8	(6.6)
Office of Tourism	497.9	497.9	2,230.5	2,230.5
Department of Transportation	2.9	1.5	18.8	4.7
Universities				
Board of Regents	4,211.6	247.8	20,257.0	9,943.0
Arizona State University	17,381.2	(1,788.1)	177,481.5	(8,940.8)
Northern Arizona University	5,925.8	(2,443.3)	60,124.0	(2,529.0)
University of Arizona	15,870.7	(1,001.8)	158,283.5	(5,009.1)
Department of Veteran Services	393.4	(762.8)	2,418.0	(1,500.3)
Department of Water Resources	726.0	(4.6)	3,762.6	1,168.5
Department of Weights & Measures	101.1	(17.7)	558.4	97.7
Other	1,715.4	1,624.8	1,863.1	(891.9)
Total	540,179.7	(20,386.1)	4,679,150.1	(77,937.3)
Budget Stabilization Fund Deposit	-	-	200,000.0	200,000.0
Grand Total	540,179.7	(20,386.1)	4,879,150.1	122,062.7

Tracking Arizona's Recovery

Appendix A
December 2012

JLBC

Contents

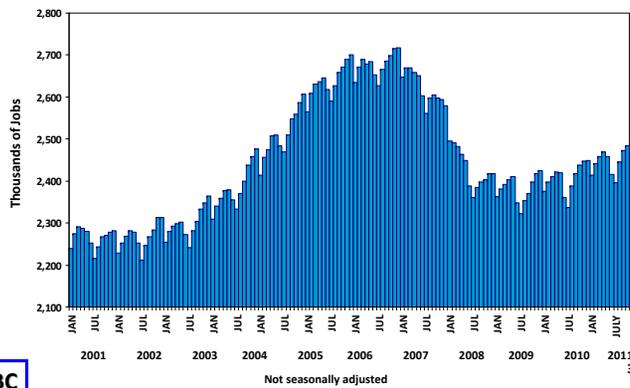
Slide:

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

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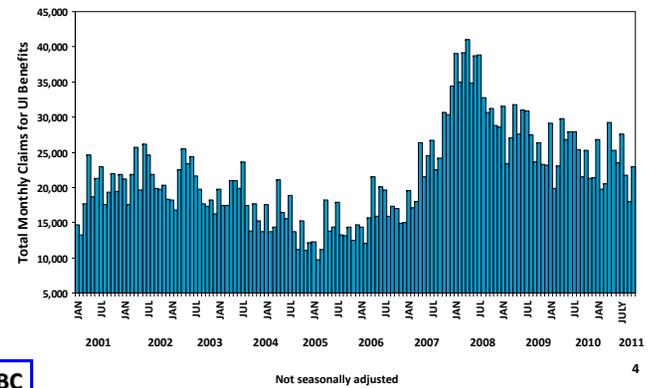
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Total Non-Farm Employment



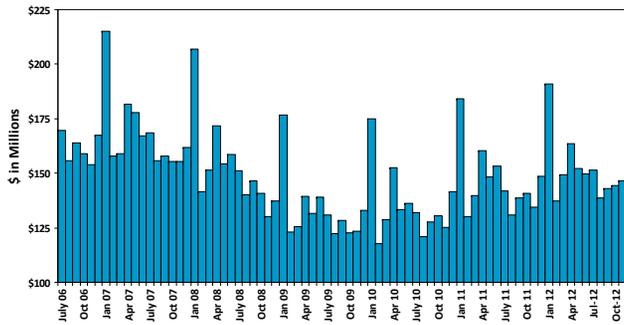
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Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category

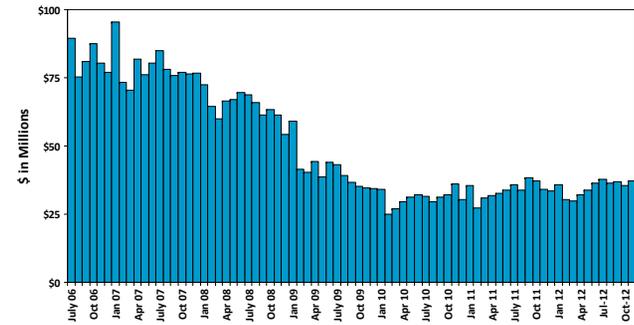


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Excludes temporary 1 ¢ sales tax

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State Sales Tax Collections – Contracting Category

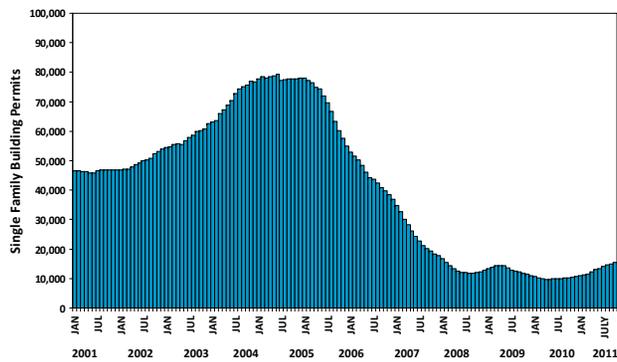


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Excludes temporary 1 ¢ sales tax

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Single Family Building Permits

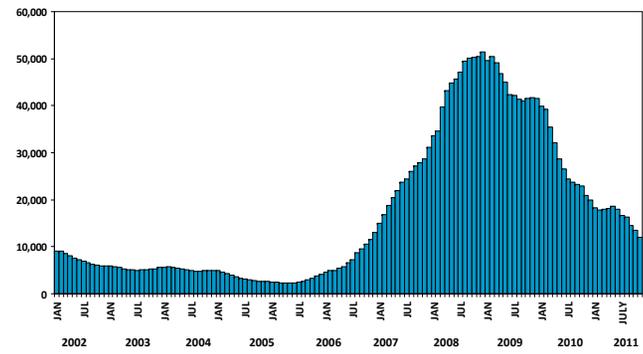


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12-Month Moving Sum

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Maricopa County Pending Foreclosures

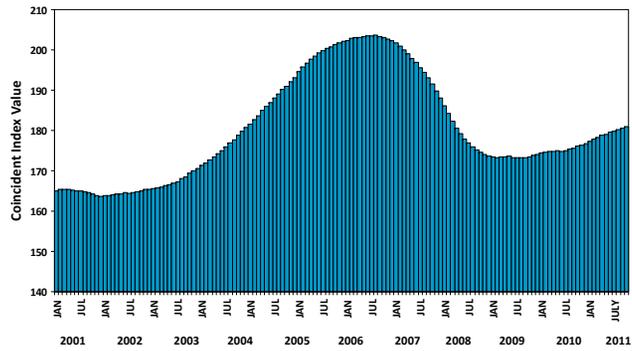


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An initial notice of trustee sale has been recorded but final sale has not yet occurred

8

Economic Activity Index



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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.