JLBC - Monthly Fiscal Highlights

October 2012

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"Year-to-date, revenues are 3.4% higher than last year and are $(8.4) million below the budget forecast."

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 19, 2012.

Summary

September General Fund revenue collections totaled $864.1 million. Excluding one-time revenue adjustments, September collections were 4.2% above the prior year.

The increase in September revenues was due to increases in all of the "Big 3" revenue categories of Sales, Individual Income and Corporate Income taxes. Each of these main revenue categories grew by over 4%.

September General Fund collections were $4.7 million above the enacted May budget forecast. Year-to-date, revenues are 3.4% higher than last year and are $(8.4) million below the budget forecast.

In comparison to revenue of $864.1 million, September 2012 General Fund spending was $746.7 million, or $(174.4) million below last year. September expenditures were lower than last year, primarily due to technical timing issues for the second consecutive month related to Medicaid spending in AHCCCS and the Department of Health Services.

Fiscal year-to-date, General Fund revenues of $2.3 billion have been offset by $3.8 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. The mid-October 2012 balance is $1.3 billion, with an additional $451 million in Budget Stabilization Fund reserves.

Updated Budget Forecast

The JLBC's Finance Advisory Committee met on Thursday, October 4, to discuss an updated General Fund forecast through FY 2016. Here is a summary of the key points of the JLBC Staff presentation:

- While the state ended FY 2012 with $275 million more in the ending balance than expected, FY 2013 growth since July has been slower than forecast.
- Using the 4-sector forecast, Baseline revenues are projected to grow by 5.8% to 6.3% annually between FY 2014 and FY 2016.
- JLBC Staff has developed 2 scenarios for its budget forecast through FY 2016. Two factors will especially influence these estimates:
  - The rate of recovery of the economy and the potential impacts of efforts to reduce the federal deficit.
  - The future of the federal health care legislation, including whether to restore childless adult coverage.
- In the Baseline scenario, revenues grow at the 4-sector rate and the state continues its current freeze on childless adult coverage.
  - The state would accumulate large balances (for example, $368 million in FY 2014) in the short run. By FY 2016, the balances will have been depleted and the projected shortfall is $(67) million. The state, however, would still have a $451 million Rainy Day Fund.
- In the Alternate scenario, revenue growth is capped at 5% in light of general economic

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uncertainty. Childless adult coverage is restored to 100% of poverty and several other expiring initiatives are continued.
- The balances would be spent down more quickly and there would be a projected shortfall of $(411) million in FY 2015 and $(583) million in FY 2016.

As with any long-term forecast, there are certain caveats:

- Long term budget forecasts are subject to considerable change -- a 1% error would change available resources by over $500 million in the third year.
- The availability of short term balances may result in the enactment of new permanent tax reduction and spending initiatives, which would further increase shortfalls in the out years.
- The budget scenarios assume the continuation of temporary statutory suspensions -- if funded, the balance would decline by another $(632) million.
- The proposed 1 cent initiative is essentially designated for new spending and those monies would not be available to offset any shortfall.

You will find more information on the updated forecast in the October FAC Meeting Book.

September Revenues

Table 1

General Fund Revenues ($ in Millions)

	FY 2013 Collections	Difference From Budget Forecast	Difference From FY 2012
September	$ 864.1	$ 4.7	$ 13.4
Year-to-Date	$ 2,304.4	$ (8.4)	$ (43.6)

Sales Tax collections were $393.4 million, or 5.1% above September 2011 and $7.8 million above the budget forecast for the month.

Year-to-date, sales tax collections are 4.7% above the prior year and are $15.5 million above forecast.

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

Table 2

Sales Tax Growth Rates Compared to Prior Year

	September	YTD
Retail	3.1%	5.3%
Contracting	(3.7)%	2.8%
Utilities	2.6%	8.0%
Use	21.9%	(1.1)%
Restaurant & Bar	14.2%	7.8%

Retail and contracting together account for almost 60% of all sales tax revenues. September retail, which reflects August sales, increased by a modest 3.1%. 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 exceptionally high growth rates in the last quarter of FY 2011.

Overall, the retail category grew by 5.0% in FY 2012 compared to the prior year. Growth through the first quarter of the current fiscal year is about equal to that level, at 5.3%. Contracting collections have been much more volatile than retail and decreased by (3.7)% this month.

Individual Income Tax net revenues were $330.5 million in September, or 4.4% more than the prior year. Collections were $(3.4) million below the budget forecast. Year-to-date, revenues have grown 4.6% and are $3.7 million above forecast. The September decline relative to the forecast was the result of less than expected withholding tax collections and final payments, partially offset by lower than anticipated refunds.

As indicated in *Table 3*, withholding was relatively flat in September. For the first quarter of the fiscal year, withholding is up a modest 2.2%. This amount is $(15.5) million below the budget forecast.

Total estimated and final payments of $96.0 million were 13.2% above last year, but slightly below forecast. For the first quarter of the fiscal year, payments are $(5.6) million below the forecast.

September Revenues (Continued)

Refunds of $(13.9) million were $2.2 million less than last year's amount. For the first quarter, refunds are $24.7 million below forecast.

Table 3
Individual Income Tax Growth Rates Compared to Prior Year

	September	YTD
Withholding	`0.2%	2.2%
Estimated + Final Payments	13.2%	11.0%
Refunds	(13.9)%	(18.5)%

Corporate Income Tax net collections were $132.9 million in September, which is 14.4% above the prior year. Collections for the month were $10.2 million above the forecast. Year-to-date, collections are up 1.1% and are $(11.6) million below forecast. September represents the first of 4 larger collection months for Corporate Income tax.

The **Lottery Commission** reports that September ticket sales were $48.4 million, which is $3.4 million, or 7.5%, above sales in the prior year. Year-to-date ticket sales are $151.5 million, which is 8.9% 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 $100.3 million in September were up $0.5 million, or 0.5%, compared to September of last year. Year-to-date revenues are 0.2% greater than the prior year.

Table 4

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

	Current Month					FY 2013 YTD (Three Months)				
		Change From					Change from			
	Actual	September 2011		Budget Forecast		Actual	September 2011		Budget Forecast	
	September 2012	Amount	Percent	Amount	Percent	September 2012	Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	$314,805,532	$15,157,859	5.1 %	$4,366,899	1.4 %	$939,344,300	$39,284,824	4.4 %	$4,778,256	0.5 %
- 1¢ Increase*	78,565,390	4,088,402	5.5	3,426,236	4.6	234,731,415	13,043,198	5.9	10,708,500	4.8
Income - Individual	330,473,378	13,813,997	4.4	(3,441,842)	(1.0)	893,243,333	38,888,059	4.6	3,688,804	0.4
- Corporate	132,923,917	16,761,714	14.4	10,205,668	8.3	176,116,895	1,940,750	1.1	(11,575,068)	(6.2)
Property	56,155	6,686	13.5	6,155	12.3	314,175	(31,729)	(9.2)	(60,825)	(16.2)
Luxury - Tobacco	2,597,878	(1,221,421)	(32.0)	0	0.0	6,896,610	(1,308,029)	(15.9)	(99,129)	(1.4)
- Liquor	2,137,242	2,137,242	--	0	0.0	7,608,448	1,674,171	28.2	919,023	13.7
Insurance Premium	34,681,755	(11,694,444)	(25.2)	(5,318,245)	(13.3)	113,993,396	(7,757,596)	(6.4)	(6,006,604)	(5.0)
Estate	0	0	--	0	--	0	(200,652)	(100.0)	0	--
Other Taxes	25,803	(7,205)	(21.8)	(34,197)	(57.0)	113,925	(24,161)	(17.5)	(66,075)	(36.7)
Sub-Total Taxes	$896,267,050	$39,042,830	4.6 %	$9,210,674	1.0 %	$2,372,362,497	$85,508,835	3.7 %	$2,286,882	0.1 %
Other Revenue										
Lottery	3,149,440	(2,308,500)	(42.3)	(1,850,560)	(37.0)	6,059,380	(4,404,600)	(42.1)	(3,940,620)	(39.4)
License, Fees and Permits	1,913,863	(276,725)	(12.6)	(586,137)	(23.4)	7,419,780	541,322	7.9	(80,220)	(1.1)
Interest	1,798	(507)	(22.0)	(8,202)	(82.0)	4,561	(1,063)	(18.9)	(25,439)	(84.8)
Sales and Services	2,299,289	84,603	3.8	(1,200,711)	(34.3)	4,276,614	213,374	5.3	(3,223,386)	(43.0)
Other Miscellaneous	2,007,664	(722,615)	(26.5)	(992,336)	(33.1)	5,373,465	(1,369,602)	(20.3)	(1,626,535)	(23.2)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	675,497	563,413	502.7	175,497	35.1	(273,495)	(2,722,793)	--	(1,773,495)	--
Sub-Total Other Revenue	$10,047,551	($2,660,331)	(20.9) %	($4,462,449)	(30.8) %	$22,860,305	($7,743,362)	(25.3) %	($10,669,695)	(31.8) %
TOTAL BASE REVENUE	**$906,314,601**	**$36,382,499**	**4.2 %**	**$4,748,225**	**0.5 %**	**$2,395,222,802**	**$77,765,473**	**3.4 %**	**($8,382,813)**	**(0.3) %**
Other Adjustments										
Urban Revenue Sharing	(42,798,670)	(7,430,050)	21.0	0	0.0	(128,396,010)	(22,290,150)	21.0	0	0.0
Budget Plan Transfers	579,291	(6,961,486)	(92.3)	0	0.0	37,534,004	(90,449,674)	(70.7)	0	0.0
Sub-Total Other Adjustments	(42,219,379)	(22,969,822)	119.3 %	0	0.0 %	(90,862,006)	(121,318,110)	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	**$864,095,222**	**$13,412,677**	**1.6 %**	**$4,748,225**	**0.6 %**	**$2,304,360,796**	**($43,552,637)**	**(1.9) %**	**($8,382,813)**	**(0.4) %**
Non-General Funds										
Highway User Revenue Fund	$100,314,080	$513,546	0.5 %	($684,061)	(0.7) %	$299,041,289	$639,484	0.2 %	($2,941,339)	(1.0) %

* Total September collections including the temporary 1¢ increase approved by the voters in May 2010 were $393.4 million. This amount is $19.2 million, or 5.1%, above September 2011 and $7.8 million, or 2.0%, above forecast.

Economic Indicators

NATIONAL

The U.S. Department of Commerce revised down their second quarter growth estimate of **U.S. Real Gross Domestic Product (GDP)**, from 1.7% to 1.3%. This growth represents a further slowdown of the economy, from the 2.2% rate estimated for the first quarter of 2012 and the 3.0% for the fourth quarter of 2011. The slowdown was mainly caused by a deceleration of personal consumption and fixed investment.

The negative trend for the Conference Board's **U.S. Consumer Confidence Index** potentially reversed in September, as the index rose 14.7% to 70.3. This reading was the highest in 7 months and resulted in the index's largest year-over-year growth (51.5%) in over a year and a half. Cause for the rise in optimism was widespread, including improvements in stock prices, a deceleration in gas price hikes, better perceived job prospects, and an improved economic outlook.

The Conference Board's **U.S. Leading Economic Index** decreased by (0.1)% in August to a reading of 95.7. The latest reading is 2.1% above that in August 2011, but the annual increase predominately came from gains towards the end of 2011. The index has remained nearly flat this year, as growth fluctuated from positive to negative each month since March. Though 4 of the index's 10 components decreased in August, the primary cause for the overall drop was a decrease in manufacturing new orders.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, grew by 0.6% in September and by 2.0% above the prior year. This sharp monthly increase follows on another 0.6% increase in August. The majority of the growth was caused by a 7.0% rise in gasoline prices. Core inflation, which measures price changes of all items except energy and food, only increased 0.1% during the month.

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 August, 25 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 2.9% above last year, which is the 6th highest growth rate in the country. While this is a significant improvement, Arizona's index is still (11.2)% 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 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 3.5% over the next 6 months. This is higher than the revised 3.0% growth projection in July and higher than the 2.0% projection in August 2011.

Housing

The number of Maricopa County **pending foreclosures** decreased from 16,370 in August to 14,584 in September. This represents the fourth consecutive monthly decrease in this measure. The September total is substantially 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 26,950 in September 2011 to 22,862 in September 2012, a (15.2)% decrease. 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 $150,000 in August. This represents an increase of 0.7% from July, and a 22.5% increase from August of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through August, a total of 1,548 **single-family building permits** had been issued statewide, a 54.2% increase from last year. Permitting activity in recent months has been the highest 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 Appendix A – Tracking Arizona's Recovery.*

The performance of the multi-family housing sector also continues to improve. For the 3-month period ending in August, a total of 412 **multi-family building permits** had been issued in the state. This figure represents a large increase from the prior month and is 11.9% above the prior year. Multi-family permitting activity still remains (68.5)% below the peak of activity in April 2007.

Economic Indicators (continued)

State Agency Data

At the beginning of October, total **AHCCCS** caseloads equaled 1.29 million members, a (0.7%) decrease from the prior month. Overall AHCCCS caseloads are currently (6.0)% below October 2011 levels. The traditional AHCCCS population, which consists primarily of lower-income children and their parents, decreased (0.4)% from last month as well as 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 (128,167) since then to 96,325. Of the decline, (11,591) is attributed to members who were transferred to the SSI program.

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 (40.4)% 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 October, 19,642 children were enrolled in KidsCare II.

There were 41,118 **TANF recipients** in the state in September, a monthly caseload decline of (2.6)%. Year-over-year, the number of TANF recipients has increased by 8.8%. This marks the first 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 September, there were a total 1.1 million food stamp recipients in the state, a (0.6)% decline 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 Correction's (ADC) inmate population** increased to 39,852 inmates in September 2012. Relative to the prior 3-month period, the population has increased by 2 inmates. Compared to a year ago, the population has declined by (243) inmates.

Employment

According to the Arizona Department of Administration's employment report for September, the state gained a total of 30,000 **nonfarm jobs** between August and September, of which 24,800 were attributable to the government sector and 5,200 to the private sector. Job gains are typical in September primarily due to the seasonal hiring that occur in local and state public education at this time of the year. Almost 70% of the jobs added to private sector payrolls in September, or 3,500 positions, came from the health care industry.

Compared to September 2011, nonfarm employment was up by 2.4%, or 57,100 jobs. More than 93% of these job gains were created in the private sector. September also marked the fourth consecutive month with over-the-year job growth in excess of 2%. The average monthly net gain for the first 9 months of 2012 is 48,500 jobs. If this trend continues for the remainder of the year, Arizona is slated to the largest annual job increase in 6 years.

The largest contributors to September's year-over-year job gain were the professional and business services sector (+16,200 jobs), followed by the trade, transportation and utilities sector (+10,900 jobs), and the education and health services sector (+10,200 jobs). It is noteworthy that one relatively small sub-sector, employment services (essentially temporary staffing services), can be credited with creating almost 18% of September's total statewide year-over-year job gains. The temporary staffing industry had 91,700 persons on the payrolls in September 2012, or 12.4% more than 1 year earlier.

The state's **unemployment rate** fell by (0.1)% in September, going from 8.3% to 8.2%. Although the jobless rate declined somewhat in September, it has essentially stayed the same over the last 6 months. By contrast, the U.S. unemployment rate has declined for 3 consecutive moths and reached a 43-month low rate of 7.8% in September. *See Appendix A – Tracking Arizona's Recovery.*

Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
- Unemployment Rate (SA)	September	8.2%	(0.1) %	(1.2)%
- Initial Unemployment Insurance Claims	September	18,024	(17.3)%	(16.2)%
- Unemployment Insurance Recipients	September	47,243	(19.5)%	(27.0)%
- Non-Farm Employment - Total	September	2.47 million	1.2%	2.4%
Manufacturing	September	152,000	0.3%	1.4%
Construction	September	120,900	(1.0)%	3.9%
- Average Weekly Hours, Manufacturing	August	40.6	(1.5)%	0.5%
- Contracting Tax Receipts (3-month average)	Jul-Sep	$37.0 million	0.4%	2.8%*
- Retail Sales Tax Receipts (3-month average)	Jul-Sep	$144.4 million	(1.5)%	5.3%*
- Residential Building Permits (3-month moving average)				
Single-family	Jun-Aug	1,548	(5.6)%	54.2%
Multi-unit	Jun-Aug	412	74.4%	11.9%
- Greater Phoenix Home Sales				
Single-Family	August	9,220	5.3%	(0.3)%
Townhouse/Condominium	August	1,259	(7.8)%	(1.3)%
- Greater Phoenix Median Home Price				
Single-Family	August	$150,000	0.7%	22.5%
Townhouse/Condominium	August	$90,000	9.8%	14.2%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	117.22	2.2%	16.6%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	September	14,584	(10.9)%	(37.4)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	September	22,862	9.2%	(15.2)%
- Phoenix Sky Harbor Air Passengers	July	3.58 million	0.9%	(1.4)%
- Revenue Per Available Hotel Room	August	$42.68	(1.9)%	3.5%
- Arizona Average Natural Gas Price ($ per thousand cubic feet)	July	$4.14	4.3%	(29.8)%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2012	68.6	(1.3)%	32.2%
- Arizona Coincident Index (July 1992 = 100)	August	180.41	0.3%	2.9%
- Arizona Leading Index -- 6 month projected growth rate	Jun-Aug	3.5%	0.5%	1.5%
- 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	October	1,285,972	(0.7)%	(6.0)%
Acute Care Traditional		893,840	(0.4)%	(0.4)%
Spend Down		-	-	(100.0)%
Prop 204 Childless Adults		96,325	(3.9)%	(49.8)%
Other Prop 204		150,220	(1.0)%	(5.4)%
Kids Care		8,916	(2.4)%	(40.4)%
Kids Care II		19,642	3.2%	-
Long-Term Care – Elderly & DD		52,998	0.3%	2.8%
Emergency Services		64,031	(0.3)%	21.0%
- TANF Recipients	September	41,118	(2.6)%	8.8%
- SNAP (Food Stamps) Recipients	September	1,136,321	(0.6)%	(0.9)%
- ADC Inmate Growth (3-month average)	July - Sept	39,852	2 inmates	(243) inmates
- Probation Caseload				
Non-Maricopa	May	18,183	19	(807)
Maricopa County	May	25,581	(48)	(603)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2nd Quarter 2012 (3rd Estimate)	$13.6 trillion	1.3%	2.2%
- Consumer Confidence Index (1985 = 100)	September	70.3	14.7%	51.5%
- Leading Indicators Index (2004 = 100)	August	95.7	(0.1)%	2.1%
- U.S. Semiconductor Billings (3-month moving average)	June-August	$4.19 billion	1.0%	(8.6)%
- Consumer Price Index, SA (1982-84 = 100)	September	231.4	0.6%	2.0%

*Adjusted for 1¢ sales tax

Summary of Recent Agency Reports

AHCCCS – Report on Graduate Medical Education Distributions – Pursuant to an FY 2013 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to notify the JLBC before expending any Graduate Medical Education (GME) monies in excess of $91.0 million in FY 2013. The GME program reimburses hospitals with GME programs for the additional costs of treating AHCCCS members with graduate medical students. Statute allows local, county, and tribal governments, along with public universities, to provide the state match for GME, and entities may designate the recipients of such funds. The voluntary contributions receive an approximate 2:1 match from the Federal government.

AHCCCS reports that they are distributing $167.6 million in total funds. The state match has been provided by Mohave County Hospital District #1, Maricopa Integrated Health System, Pima County, and the University of Arizona. Contributions are being made to the following hospitals: Banner Good Samaritan, Kingman Regional Medical Center, Maricopa Medical Center, Phoenix Children's Hospital, Scottsdale Healthcare, St. Joseph's Hospital, Tucson Medical Center, and University Medical Center. (Amy Upston)

Department of Economic Security - Report on Annual Child Care Expenditures - A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2012 report shows that the average number of children served decreased to 27,852, or (5.8)% below FY 2011; the number of families served decreased by (5.5)%. Across categories, the number of children served in the Low Income Working category decreased (18.9)%, CPS-related placements increased by 13.6%, and the number of Temporary Assistance for Needy Families-related children decreased by (13.4)%, while the number of children receiving transitional child care increased by 4.8%.

The amount spent by DES on child care subsidies decreased to $155.6 million, or (5.7)% below FY 2011. The average monthly subsidy paid per child increased 0.1% to $345.84. The total amount of co-payments decreased (15.4)% from FY 2011 to $7.0 million. (Ben Beutler)

Department of Economic Security - Report on Reimbursement Rates for Developmental Disabilities Programs - Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) has provided its annual study of Medicaid reimbursement rates to service providers in the Developmental Disabilities program. The study states that despite the previous provider rate reductions, the provider network appears to have a sufficient number and mix of providers. The study further states that the FY 2013 rates are adequate and appropriate, or consistent with Medicaid principles. (Amy Upston)

Department of Education - Report on the Arizona Education Learning and Accountability System (AELAS) – Laws 2012, Chapter 294, Section 29 requires the Arizona Department of Education (ADE) to report quarterly on its progress in implementing its new "AELAS" data system, including "an assessment of progress from an independent third party not affiliated with state government." The new system is intended to replace the current "SAIS" system for counting and funding students, replace other currently-separate ADE data systems, and provide statewide access to data on student achievement and teacher effectiveness for individual courses.

The current ADE report indicates that much of FY 2012 was spent "shoring up critical systems" and laying the technical groundwork for building AELAS. ADE, for example, has "mapped" critical SAIS functions, pilot tested "dashboards" for external display of ADE information, and begun work with districts on cross walking local course codes to the state level course catalog.

Feedback from 2 private sector professionals who serve on the Arizona Reach Council's IT task force is included in the report. They indicate that the program "is heading in the right direction," and has developed "a good blue-print on how to build an effective system," while recommending, for example, that ADE establish a broader steering committee and develop a long-term strategy for program support. (Steve Schimpp)

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) 2008 through FFY 2011. The report indicates that $49.1 million of the $50.5 million FFY 2008 allocation has been expended. Information for FFY 2009 - FFY 2011 is included in *Table 1* below.

The state was allocated and the Arizona Department of Homeland Security awarded $29.0 million in Homeland Security grants for FFY 2011. The department reported total expenditures of $1.7 million, leaving $27.3 million unexpended. State agencies were awarded $4.4 million, of which $563,300 has been expended. Local governments were awarded $24.6 million, of which $1.1 million has been expended. The largest local grantee was the city of Yuma ($4.3 million). The largest state grantee was the Department of Public Safety (DPS) ($2.2

Summary of Recent Agency Reports (Continued)

Table 6

Awards and Expenditures by Homeland Security Grant Recipients

	FFY 2009	FFY 2010	FFY 2011
State Awards	$13,974,300	$7,257,400	$4,408,300
Local Government Awards	43,044,100	45,956,200	24,587,800
Total Awards	**$57,018,400**	**$53,213,600**	**$28,996,100**
State Expenditures	$12,801,300	$2,075,200	$563,300
Local Government Expenditures	38,802,500	23,832,000	1,109,100
Total Expenditures	**$51,603,800**	**$25,907,200**	**$ 1,672,400**
Percentage of Total Awards Currently Expended	90.5%	48.7%	5.8%

million). The largest individual grant of $3.9 million went to the city of Yuma for the acquisition of a voice and data integration system.

FFY 2011 represented a decrease from the amount received in both FFY 2009 and FFY 2010. While Arizona received $29.0 million in FFY 2011, the state received $57.0 million in FFY 2009 and $53.2 million in FFY 2010, respectively. Of the funds received, 90.5% have been expended for FFY 2009, and 48.7% have been expended for FFY 2010. (Eric Billings)

Department of Revenue – Annual Enforcement Goals Report – Pursuant to a General Appropriation Act footnote, the Department of Revenue (DOR) is required to report on their FY 2013 revenue enforcement goals, and to provide an annual progress report to the Committee as to the effectiveness of the department's overall enforcement and collections program for FY 2012.

In FY 2012, DOR's enforcement goal was $500.5 million, but they actually collected $483.9 million. DOR's FY 2013 goal is enforcement collections totaling $488.5 million.

DOR's General Fund FY 2013 revenue enforcement goal is $356.4 million, which is $15.1 million, or 4.4%, above FY 2012 actual collections. According to DOR, these targets are based on the assumption that they will not experience further budget reductions.

Compared to actual FY 2012 General Fund enforcement revenue, DOR's FY 2013 goals consist of:

- An increase in audit revenue of $9.7 million, or 10.0%.
- An increase in collections revenue of $13.5 million, or 8.8%.
- A decrease in accounts receivables revenues of $(8.0) million, or (8.8)%.

Audit enforcement revenue includes revenue due to DOR's auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR's collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from accounts receivable to DOR's Collections Section. (Eric Billings)

Department of Public Safety – Quarterly Report on the GIITEM Fund – Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. During the fourth quarter of FY 2012, DPS expended $486,500 in GIITEM Immigration Enforcement Grant monies. Year-to-date, DPS has expended $2.4 million of the FY 2012 non-lapsing $2.6 million appropriation for local law enforcement grants. Of this amount, $1.6 million was provided to the Maricopa County Sheriff's Office, $500,000 was granted to the Pinal County Sheriff's Office per statute, and the remaining $313,000 was retained by DPS to support local agencies receiving grant monies. Additionally, to date, DPS spent or encumbered $2.3 million of the FY 2011 non-lapsing $2.6 million appropriation, including $267,100 in the fourth quarter.

The remaining $295,700 in the FY 2011 and $190,400 in the FY 2012 appropriations will be available for use through FY 2012 and FY 2013, respectively.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received $1,222,500 in criminal fine and fee revenues in the fourth quarter of FY 2012, for a total of $1,693,800 year-to-date. These monies are being used to reimburse the General Fund for a $1.0 million appropriation made to the Pinal County Sheriff pursuant to Laws 2011, Chapter 308 and $353,000 to fund DPS' efforts in support of local grants. The GIITEM Border Security and Law Enforcement Subaccount also received $61,100 in

Summary of Recent Agency Reports (Continued)

Indigent Defense Fund revenue in the fourth quarter and $659,300 year-to-date, of which $500,000 was used for a grant to the Pima County Sheriff's Office. (Eric Billings)

September Spending

September 2012 General Fund spending of $746.7 million was $(174.4) million lower than September 2011. Year-to-date, spending is $3.8 billion through September, or $100.4 million above last year.

FY 2013 Spending

September 2012 spending of $746.7 million was $(174.4) million lower than September 2011 *(See Tables 7 and 8)*.

- The Medicaid agencies of AHCCCS and the Department of Health Services spent $(10.7) million and $(145.7) million less than September 2011, respectively due to technical timing issues related to Medicaid spending.
- Department of Economic Security spending in September was $(16.0) million less than the prior year. The lower expenditure amount reflects operating transfers among agency funds and does not reflect actual expenditures.

Table 6

General Fund Spending ($ in Millions)

Agency	Sept 12	Change from Sept 11	Year to Date	YTD Change from FY 12
AHCCCS	121.8	(10.7)	337.9	(102.5)
Corrections	71.7	2.5	216.1	(33.4)
Economic Security	(8.0)	(16.0)	382.9	18.6
Education	267.0	(6.3)	1,556.7	(47.6)
Health Services	13.3	(145.7)	450.9	55.5
Public Safety	1.8	0.0	10.7	(13.9)
School Facilities Board	0.8	0.7	141.6	9.0
Universities	248.8	3.4	322.8	(9.0)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	29.5	(2.3)	134.5	(11.4)
Total	**746.7**	**(174.4)**	**3,638.2**	**(99.6)**
Budget Stabilization Fund Deposit	0.0	0.0	200.0	200.0
Grand Total	**746.7**	**(174.4)**	**3,838.2**	**100.4**

Table 8

General Fund Spending
($ in Thousands)

Agency	September 12	Change from September 11	Year-to-Date	YTD Change from FY 12
Department of Administration	616.7	(1,930.2)	6,792.8	(906.3)
Department of Admin Sale/Leaseback D/S	-	-	84,119.8	35,069.1
Office of Administrative Hearings	81.8	9.7	219.0	5.4
Department of Agriculture	608.3	55.1	2,078.0	(326.0)
AHCCCS	121,751.7	(10,690.2)	337,946.4	(102,475.5)
Arts, AZ Commission on the	-	0.1	-	(10.4)
Attorney General	1,456.9	779.6	5,613.9	188.7
AZ Capital Post Conviction Public Defender	0.0	(37.3)	4.1	(132.3)
State Board of Charter Schools	51.1	(2.1)	208.1	(20.7)
AZ Commerce Authority	2,625.0	-	7,875.0	-
Community Colleges	-	-	16,048.2	(1,329.1)
Corporation Commission	41.7	(5.0)	121.5	(14.1)
Department of Corrections	71,680.5	2,545.0	216,130.9	(33,385.2)
AZ State Schools for the Deaf & Blind	1,921.0	428.5	6,463.0	(4.6)
Department of Economic Security	(7,992.6)	(16,007.7)	382,882.3	18,617.8
Department of Education	269,990.4	(6,274.2)	1,556,686.9	(47,598.5)
DEMA	391.9	(179.2)	1,177.3	(1,902.5)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	10.9	0.1	48.7	9.7
State Board of Equalization	49.7	8.7	201.6	8.9
Board of Executive Clemency	36.8	(94.8)	210.9	(51.1)
Department of Financial Institutions	199.9	6.3	653.9	(151.9)
Department of Fire, Life, Bldg Safety	20.6	4.6	509.7	(13.9)
Office of the State Forester	215.8	33.8	996.2	193.0
Arizona Geological Survey	68.6	25.0	179.4	27.3
Government Information Tech.	-	3.1	-	3.1
Governor	441.7	(48.8)	1,333.6	(267.0)
Gov. - OSPB	127.8	(23.9)	463.3	(27.1)
Department of Health Services	13,362.7	(145,647.6)	450,904.5	55,529.7
Arizona Historical Society	199.4	(368.8)	1,018.8	(123.7)
Prescott Historical Society of AZ	94.8	51.1	181.5	28.1
Independent Redistricting Comm.	186.3	(125.5)	348.5	(579.4)
Commission on Indian Affairs	(1.1)	(4.1)	14.2	2.5
Department of Insurance	320.0	(8.5)	1,285.3	(215.7)
Judiciary				
Supreme Court	730.3	(147.0)	5,386.1	1,269.2
Superior Court	1,049.6	274.3	16,874.1	(1,363.7)
Court of Appeals	994.4	134.9	3,330.0	(424.6)
Department of Juvenile Corrections	3,369.0	295.7	10,512.9	(2,565.7)
State Land Department	77.1	48.9	137.2	(48.9)
Law Enforcement Merit System	5.1	0.7	15.1	3.1
Legislature				
Auditor General	1,246.1	(46.7)	3,942.3	(683.9)
House of Representatives	954.4	126.3	2,437.1	(522.6)
Joint Legislative Budget Comm.	134.5	(0.7)	420.5	(109.4)
Legislative Council	394.0	82.3	1,431.7	(449.7)
Senate	546.9	(48.9)	1,597.7	(425.9)

Agency	September 12	Change from September 11	Year-to-Date	YTD Change from FY 12
Mine Inspector	70.1	(0.3)	323.8	(34.6)
Nav. Streams & Adjudication	9.6	(0.7)	35.0	(24.1)
Pioneers' Home	(1.0)	(1.0)	481.7	(174.2)
Comm. for Postsecondary Ed.	-	(610.4)	88.0	(522.4)
Department of Public Safety	1,806.8	(32.2)	10,660.8	(13,874.2)
Arizona Department of Racing	-	(1,873.9)	1,779.5	(513.5)
Radiation Regulatory Agency	51.5	35.2	339.2	(68.1)
Real Estate Department	142.9	(5.3)	453.0	(352.7)
Department of Revenue	2,253.6	(2,336.0)	12,213.5	(4,321.3)
School Facilities Board	767.7	695.4	141,591.2	8,967.5
Secretary of State	2,904.4	2,244.3	6,595.1	3,759.8
Tax Appeals Board	15.9	10.2	81.1	2.7
Office of Tourism	678.0	678.0	1,307.7	1,307.7
Department of Transportation	3.6	0.3	12.9	2.3
Universities				
Board of Regents	4,798.6	3,848.4	5,307.5	(544.9)
Arizona State University	110,368.6	(1,788.2)	142,719.0	(5,364.5)
Northern Arizona University	36,420.6	(21.4)	48,272.3	(64.3)
University of Arizona	97,176.0	1,373.7	126,542.0	(3,005.5)
Department of Veteran Services	311.7	(28.0)	1,191.5	(158.0)
Department of Water Resources	689.7	223.0	2,056.9	444.6
Department of Weights & Measures	122.6	49.8	291.1	26.9
Other	-	(62.4)	108.2	126.2
Total	**746,651.1**	**(174,379.0)**	**3,638,252.8**	**(99,558.0)**
Budget Stabilization Fund Deposit	-	-	200,000.0	200,000.0
Grand Total	**746,651.1**	**(174,379.0)**	**3,838,252.8**	**100,442.0**

Tracking Arizona's Recovery

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

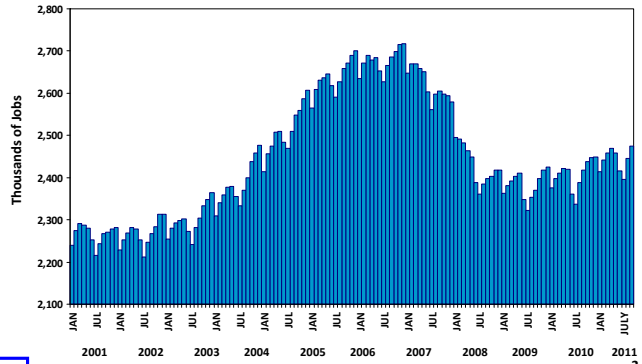
6……Single Family Building Permits

7……Maricopa County Pending Foreclosures

8……Coincident Index

JLBC

Total Non-Farm Employment



Not seasonally adjusted

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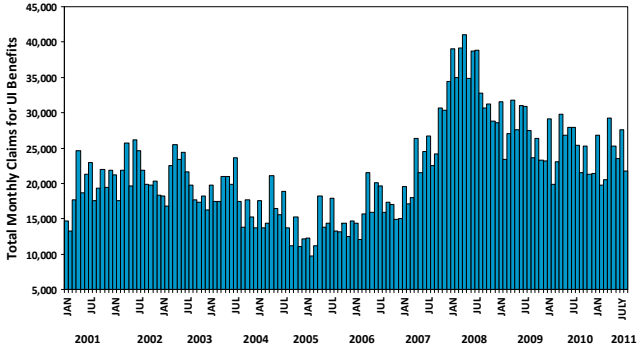
Initial Claims for Unemployment Insurance



Not seasonally adjusted

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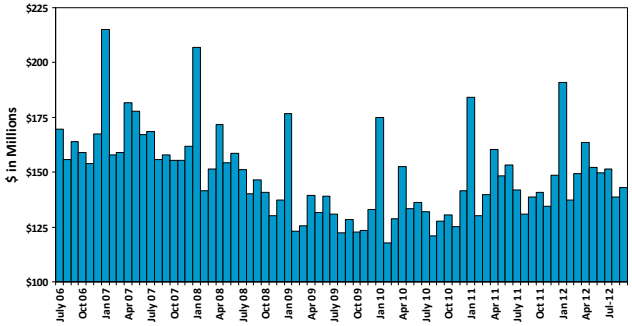
State Sales Tax Collections – Retail Category



Excludes temporary 1 ¢ sales tax

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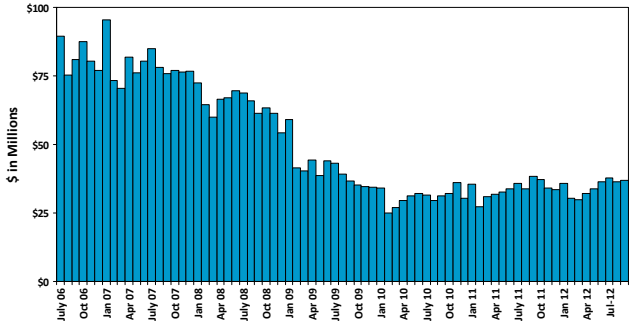
State Sales Tax Collections – Contracting Category



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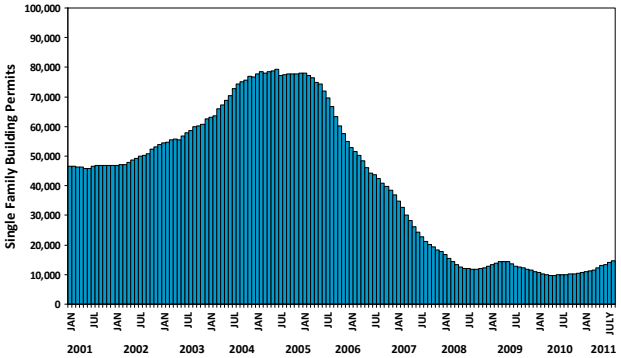
Excludes temporary 1 ¢ sales tax

Single Family Building Permits



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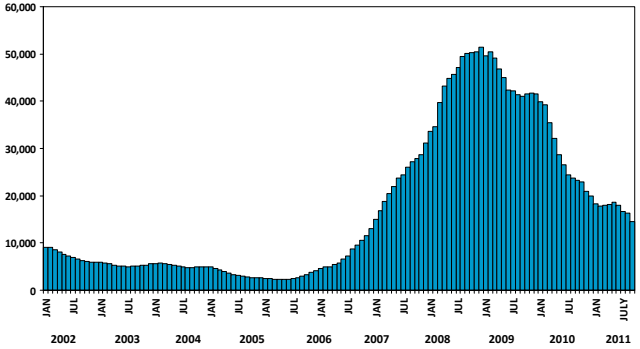
12-Month Moving Sum

Maricopa County Pending Foreclosures



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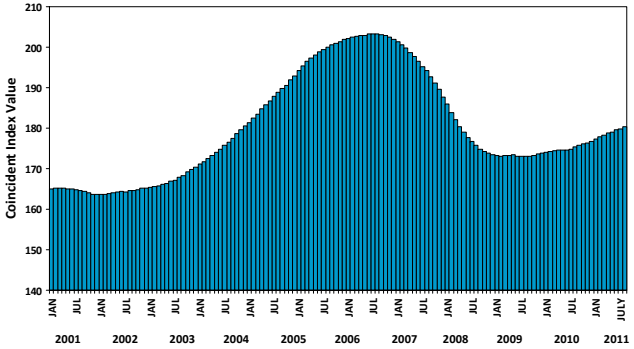
An initial notice of trustee sale has been recorded but final sale has not yet occurred

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.