



### Summary

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*"Year-to-date, revenues are 3.1% higher than last year and are \$2.3 million above the budget forecast."*

October General Fund revenue collections totaled \$662.7 million. Excluding one-time revenue adjustments, October collections were 2.6% above the prior year.

The growth in October revenues was largely the result of the growth of Individual Income Taxes. This category grew by 5% compared to the prior year, due mostly to technical timing issues related to withholding collections.

The number of work days in a given month can have a significant impact on receipts. In terms of the current month, October 2012 had 2 more of these processing days than in 2011, which artificially increased collections.

October General Fund collections were \$11.7 million above the enacted May budget forecast. Year-to-date, revenues are 3.1% higher than last year and are \$2.3 million above the budget forecast.

The two best "real-time" measures of Arizona revenues are sales tax collections and income tax withholding. They both reflect the current sluggish, slow-growth nature of the Arizona economy. For first one-third of the fiscal year,

sales tax collections are up 3.7% and withholding has increased 4.0%.

In comparison to revenue of \$662.7 million, October 2012 General Fund spending was \$500.7 million, or \$42 million above last year. October expenditures were greater than last year primarily due to Department of Education spending and increased payroll costs caused by: 1) An additional pay period in the month and 2) The employee retention payments which began in October 2012.

Fiscal year-to-date, General Fund revenues of \$3.0 billion have been offset by \$4.3 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-November 2012, the operating balance is \$1.2 billion.

In addition, the state has \$451.5 million in Budget Stabilization Fund reserves, which represents an original \$450 million deposited as part of the FY 2013 budget plus \$1.5 million of interest earned.

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

# October Revenues

**Table 1**

	General Fund Revenues (\$ in Millions)		
	<u>FY 2013 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2012</u>
October	\$ 662.7	\$ 11.7	\$ (5.0)
Year-to-Date	\$ 2,966.0	\$ 2.3	\$ (49.6)

**Sales Tax** collections were \$381.3 million, or 0.9% above October 2011 and \$(6.4) million below the budget forecast for the month.

Year-to-date, sales tax collections are 3.7% above the prior year and are \$9.1 million above forecast.

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

**Table 2**

	<u>October</u>	<u>YTD</u>
Retail	2.6%	4.6%
Contracting	(4.6)%	0.9%
Utilities	(6.9)%	4.0%
Use	(9.6)%	(3.0)%
Restaurant & Bar	7.0%	7.6%

Retail and contracting together account for almost 60% of all sales tax revenues. October retail, which reflects September sales, increased by a modest 2.6%. 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.

Overall, the retail category grew by 5.0% in FY 2012 compared to the prior year. Growth through the first third of the current fiscal year is slightly lower than that level, at 4.6%. Contracting collections have been much more volatile than retail and decreased by (4.6)% this month. The October decrease is the second consecutive month of decline in the contracting category.

**Individual Income Tax** net revenues were \$275.9 million in October, or 5.0% more than the prior year. Collections were \$25.3 million above the budget forecast. Year-to-date, revenues have grown 4.7% and are \$29.0 million above forecast. The October increase relative to the forecast was primarily the result of greater than anticipated withholding tax collections. Final payments met the forecast estimate, and refunds were slightly less than expected.

As indicated in Table 3, withholding was up significantly in October. The October increase brings withholding tax collections for the first third of the fiscal year up to 4.0%. This amount is \$6.1 million above the budget forecast.

Total estimated and final payments of \$46.5 million were 5.9% above last year, and were slightly above forecast. For the first third of the fiscal year, payments are \$(5.4) million below the forecast.

Refunds of \$(78.9) million were \$(14.9) million greater than last year's amount. Year-to-date, refunds are \$28.2 million below forecast.

**Table 3**

	<u>October</u>	<u>YTD</u>
Withholding	9.0%	4.0%
Estimated +		
Final Payments	5.9%	9.6%
Refunds	23.2%	5.3%

**Corporate Income Tax** net collections were \$27.4 million in October, which is 14.4% above the prior year. Collections for the month were \$0.7 million above the forecast. Year-to-date, collections are up 2.7% and are \$(10.9) million below forecast.

The **Lottery Commission** reports that October ticket sales were \$47.3 million, which is \$(1.1) million, or (2.3)%, below sales in the prior year. Year-to-date ticket sales are \$198.8 million, which is 6.0% 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 \$94.6 million in October were down \$(2.4) million, or (2.4)%, compared to October of last year. Year-to-date revenues are (0.4)% less than the prior year.

"October retail, which reflects September sales, increased by a modest 2.6%."

Table 4

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

	Current Month					FY 2013 YTD (Four Months)				
	Actual October 2012	Change From October 2011		Budget Forecast		Actual October 2012	Change from October 2011		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use - Base*	\$304,390,327	\$1,340,823	0.4 %	(\$7,990,504)	(2.6) %	\$1,243,734,627	\$40,625,647	3.4 %	(\$3,212,248)	(0.3) %
- 1¢ Increase*	76,905,196	2,222,715	3.0	1,585,066	2.1	311,636,611	15,265,913	5.2	12,293,566	4.1
Income - Individual	275,896,569	13,179,904	5.0	25,263,633	10.1	1,169,139,902	52,067,963	4.7	28,952,437	2.5
- Corporate	27,359,524	3,452,940	14.4	693,183	2.6	203,476,419	5,393,690	2.7	(10,881,885)	(5.1)
Property	1,897,338	(281,965)	(12.9)	(602,662)	(24.1)	2,211,513	(313,694)	(12.4)	(663,487)	(23.1)
Luxury - Tobacco	2,046,811	2,744,333	--	0	0.0	8,415,890	908,773	12.1	(626,660)	(6.9)
- Liquor	2,338,469	(757,807)	(24.5)	0	0.0	9,447,918	417,365	4.6	420,024	4.7
Insurance Premium	1,298,932	(191,210)	(12.8)	(701,068)	(35.1)	115,292,328	(7,948,806)	(6.4)	(6,707,672)	(5.5)
Estate	0	(173)	(100.0)	0	--	0	(200,825)	(100.0)	0	--
Other Taxes	56,092	4,963	9.7	(3,908)	(6.5)	170,017	(19,198)	(10.1)	(69,983)	(29.2)
<b>Sub-Total Taxes</b>	<b>\$692,189,258</b>	<b>\$21,714,523</b>	<b>3.2 %</b>	<b>\$18,243,740</b>	<b>2.7 %</b>	<b>\$3,063,525,225</b>	<b>\$106,196,828</b>	<b>3.6 %</b>	<b>\$19,504,092</b>	<b>0.6 %</b>
<b>Other Revenue</b>										
Lottery	2,640,740	(1,410,500)	(34.8)	(1,359,260)	(34.0)	8,700,120	(5,815,100)	(40.1)	(5,299,880)	(37.9)
License, Fees and Permits	2,646,632	373,019	16.4	(353,368)	(11.8)	10,066,412	914,341	10.0	(433,588)	(4.1)
Interest	3,771	(13,785)	(78.5)	(6,229)	(62.3)	8,332	(14,848)	(64.1)	(31,668)	(79.2)
Sales and Services	1,356,670	(11,623)	(0.8)	(1,143,330)	(45.7)	5,633,284	201,751	3.7	(4,366,716)	(43.7)
Other Miscellaneous	2,653,578	(4,065,444)	(60.5)	(3,846,422)	(59.2)	8,027,043	(5,435,046)	(40.4)	(5,472,957)	(40.5)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	658,931	961,726	--	158,931	31.8	385,436	(1,761,067)	(82.0)	(1,614,564)	(80.7)
<b>Sub-Total Other Revenue</b>	<b>\$9,960,322</b>	<b>(\$4,166,607)</b>	<b>(29.5) %</b>	<b>(\$6,549,678)</b>	<b>(39.7) %</b>	<b>\$32,820,627</b>	<b>(\$11,909,969)</b>	<b>(26.6) %</b>	<b>(\$17,219,373)</b>	<b>(34.4) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$702,149,580</b>	<b>\$17,547,916</b>	<b>2.6 %</b>	<b>\$11,694,062</b>	<b>1.7 %</b>	<b>\$3,096,345,852</b>	<b>\$94,286,859</b>	<b>3.1 %</b>	<b>\$2,284,719</b>	<b>0.1 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(42,798,670)	(7,430,050)	21.0	0	0.0	(171,194,680)	(29,720,200)	21.0	0	0.0
Budget Plan Transfers	3,352,311	(10,862,995)	(76.4)	0	0.0	40,886,315	(101,312,669)	(71.2)	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(39,446,359)</b>	<b>(22,582,187)</b>	<b>133.9 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(130,308,365)</b>	<b>(143,900,297)</b>	<b>-- %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$662,703,221</b>	<b>(\$5,034,271)</b>	<b>(0.8) %</b>	<b>\$11,694,062</b>	<b>1.8 %</b>	<b>\$2,966,037,487</b>	<b>(\$49,613,438)</b>	<b>(1.6) %</b>	<b>\$2,284,719</b>	<b>0.1 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$94,631,590	(\$2,367,943)	(2.4) %	(\$3,531,937)	(3.6) %	\$393,672,879	(\$1,728,459)	(0.4) %	(\$6,473,276)	(1.6) %

\* Total October collections including the temporary 1¢ increase approved by the voters in May 2010 were \$381.3 million. This amount is \$3.6 million, or 0.9%, above October 2011 and \$(6.4) million, or (1.7)%, below 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%. This growth represents a modest acceleration from the 1.3% rate estimated for the second quarter of 2012. Improvement in the rate was mainly caused by an upturn in Federal spending and acceleration of growth in personal consumption and residential fixed investment.

The Conference Board's **U.S. Consumer Confidence Index** rose 5.6% in October to 72.2, reaching its highest mark since February of 2008. The index's strong improvement in the last two months represents a reversal of the growing pessimism evident in the year's earlier readings. The rise in optimism was largely due to perceived improvements in the job and housing markets. Furthermore, consumers became less concerned about the looming fiscal cliff and the European debt crisis. Recent readings, however, do not include effects of Hurricane Sandy.

The Conference Board's **U.S. Leading Economic Index** increased by 0.6% in September to a reading of 95.9. The latest reading is 2.9% above that in September 2011, but the annual increase predominately came from gains achieved in last few months of 2011. Monthly growth in 2012 has fluctuated from positive to negative each month since March. Six of the index's 10 components increased in September, though the primary drivers of the overall increase were a rising number of building permits and improved stock performance.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, grew by 0.1% in October and by 2.2% above the prior year. This muted increase follows on the high monthly growth of 0.6% witnessed in August and September. October increases in food prices were partly offset by decreases in energy 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 September, 39 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 3.2% above last year, which is the 13<sup>th</sup> highest growth rate in the country. While this is a significant improvement, Arizona's index is still (11.0)% 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 4.5% over the next 6 months. This is higher than the revised 3.8% growth projection in August and higher than the 2.4% projection in September 2011.

#### Housing

The number of Maricopa County **pending foreclosures** decreased from 14,584 in September to 13,458 in October. This represents the fifth consecutive monthly decrease in this measure. The October 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 27,266 in October 2011 to 22,702 in October 2012, a (16.7)% decrease. This continues the decline in inventory that has occurred in every month since 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 \$150,000 in September. This represents no change from August, but a 20.0% increase from September of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through September, a total of 1,455 **single-family building permits** had been

*“Consumer prices, as measured by the U.S. Consumer Price Index (CPI), grew by 0.1% in October and by 2.2% above the prior year.”*

## Recent Economic Indicators (Continued)

issued statewide, a 50.6% 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, 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 September, a total of 485 **multi-family building permits** had been issued in the state. This figure represents a level similar to October 2008. Multi-family permitting activity remains (67.4)% below the peak of activity in April 2007.

### Employment

The state gained a total of 11,900 **nonfarm jobs** between September and October, of which 9,500 were attributable to the private sector and 2,400 to the government sector. This translates into month-over-month increase of 0.5%. While the state typically adds jobs in October, the net increase this year was (0.2)% below the average for October in the prior 10 years. Only 2 major sectors – manufacturing and construction – had above average gains in October.

Compared to October 2011, nonfarm employment was up by 1.9%, or 46,600 jobs. The largest contributors to October's year-over-year job gain were the professional and business services sector (+15,200 jobs), followed by the trade, transportation and utilities sector (+11,800 jobs), and the education and health services sector (+6,200 jobs). Year over year, nonfarm employment growth slowed from 2.3% in September to 1.9% in October, the lowest rate of growth since May this year.

The average monthly net gain for the first 10 months of 2012 is 48,100 jobs. With only 2 months remaining in the current calendar year, Arizona is on target to have its largest annual job increase since 2006 when the state added 126,300 nonfarm jobs.

As of October, total nonfarm employment remained (8.6)% or (232,700) jobs, below peak

employment in December 2007. *See Appendix A – Tracking Arizona's Recovery.*

The state's **unemployment rate** fell by (0.1)% in October, going from 8.2% to 8.1%. October's jobless rate was the lowest since December 2008. By contrast, the U.S. unemployment rate increased from a 43-month low of 7.8% in September to 7.9% in October.

### State Agency Data

At the beginning of November, total **AHCCCS** caseloads equaled 1.27 million members, a (1.2)% decrease from the prior month. Overall AHCCCS caseloads are currently (6.1)% below November 2011 levels. The traditional AHCCCS population, which consists primarily of lower-income children and their parents, decreased (0.8)% from last month and (1.3)% 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 (131,497) since then to 92,995. Of the decline, (11,620) 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 (27.7)% 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 (3.8)% compared to the prior month and (39.7)% 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, 17,338 children were enrolled in KidsCare II.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 39,975 inmates in October 2012. Relative to the prior 3-month period, the population has increased by 123 inmates. Compared to a year ago, the population has declined by (112) inmates.

*“Compared to October 2011, nonfarm employment was up by 1.9%, or 46,600 jobs.”*

## Recent Economic Indicators (Continued)

Table 5

### ECONOMIC INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
- Unemployment Rate (SA)	October	8.1%	(0.1) %	(1.1)%
- 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	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	September	40.7	(0.7)%	0.2%
- Contracting Tax Receipts (3-month average)	Aug-Oct	\$36.2 million	(2.1)%	(0.6)%*
- Retail Sales Tax Receipts (3-month average)	Aug-Oct	\$142.1 million	(1.6)%	3.8%*
- Residential Building Permits (3-month moving average)				
Single-family	Jul-Sep	1,455	(6.0)%	50.6%
Multi-unit	Jul-Sep	485	17.8%	18.5%
- Greater Phoenix Home Sales				
Single-Family	September	7,814	(15.2)%	(1.6)%
Townhouse/Condominium	September	1,099	(12.7)%	(4.8)%
- Greater Phoenix Median Home Price				
Single-Family	September	\$150,000	0.0%	20.0%
Townhouse/Condominium	September	\$90,000	0.0%	17.3%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	August	119.28	1.8%	18.8%
- Foreclosure Activity, Maricopa County				
Pending Foreclosures (Active Notices)	October	13,458	(7.7)%	(41.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	October	22,702	(0.7)%	(16.7)%
- Phoenix Sky Harbor Air Passengers	August	3.40 million	(4.9)%	(0.4)%
- Revenue Per Available Hotel Room	September	\$49.48	1.6%	16.0%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	August	\$4.35	5.1%	(33.8)%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2012	68.6	(1.3)%	32.2%
- Arizona Coincident Index (July 1992 = 100)	September	181.24	0.3%	3.2%
- Arizona Leading Index -- 6 month projected growth rate	Jul-Sep	4.5%	0.7%	2.1%
- 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	November	1,270,815	(1.2)%	(6.1)%
Acute Care Traditional		886,836	(0.8)%	(1.3)%
Spend Down		-	-	(100.0)%
Prop 204 Childless Adults		92,995	(3.5)%	(47.6)%
Other Prop 204		149,162	(0.7)%	(5.3)%
Kids Care		8,581	(3.8)%	(39.7)%
Kids Care II		17,338	(11.7)%	-
Long-Term Care – Elderly & DD		53,089	0.2%	2.7%
Emergency Services		62,814	(1.9)%	16.2%
- 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)	Aug - Oct	39,975	123 inmates	(112) inmates
- Probation Caseload				
Non-Maricopa	September	17,978	(124)	(908)
Maricopa County	September	25,394	(89)	(476)
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	3rd Quarter 2012 (1 <sup>st</sup> Estimate)	\$13.6 trillion	2.0%	2.3%
- Consumer Confidence Index (1985 = 100)	October	72.2	5.6%	76.5%
- Leading Indicators Index (2004 = 100)	September	95.9	0.6%	2.9%
- U.S. Semiconductor Billings (3-month moving average)	July-September	\$4.43 billion	5.8%	(3.9)%
- Consumer Price Index, SA (1982-84 = 100)	October	231.8	0.1%	2.2%

\*Adjusted for 1¢ sales tax



## Summary of Recent Agency Reports

**Arizona Department of Administration – Performance Management Software Report** – Pursuant to Laws 2009, 3<sup>rd</sup> Special Session, Chapter 7, Section 36C, the Arizona Department of Administration (ADOA) is required to submit an annual report detailing the savings generated from performance management software. The Chapter also required that ADOA only enter into a contract if the performance software vendor would agree to receive payment solely through savings created by the use of the software. ADOA has indicated that no vendors have agreed to such an agreement, therefore, no procurement has been achieved. (Brett Searle)

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

AHCCCS, in conjunction with the Department of Economic Security (DES), verified the immigration status of 48,182 individuals in FY 2012. During this period, AHCCCS and DES referred 20 citizens and 7 non-citizens for prosecution for fraudulent schemes, theft, or forgery. (Amy Upston)

**Arizona Commerce Authority – Arizona Competes Fund Annual Report** – Pursuant to A.R.S. § 41-1545.04, the Arizona Commerce Authority (ACA) is required to report annually on grants from the previous fiscal year and other projects currently funded from the Arizona Competes Fund and performance measures for the recipients including job creation, capital investment and median wages.

ACA reports awarding 4 grants, totaling \$5.2 million, from the Arizona Competes Fund in FY 2012. The largest grant of \$3.0 million was awarded to Silicon Valley Bank, with Clean Energy Systems Inc. and Ulthera, Inc. each receiving \$1.0 million. United Healthcare Services, Inc. received the smallest grant award of \$200,000.

Each recipient agreed, as part of the granting process, to meet certain metrics regarding job creation. In summation, the 4 recipients agreed, over the next 3 years, to create a collective total of 956 jobs, provide average annual wages of \$58,800, make a collective capital investment of \$17.7 million, and pay for at least 65% of health insurance costs. As of June 30, 2012, the grantees had created 152 jobs, average annual wages of \$105,000, and \$373,500 in capital investment.

The Arizona Competes Fund receives an annual \$21.5 million deposit of income tax withholding monies and \$3.5 million in state lottery revenues. The monies are

used to retain, attract, and expand businesses in Arizona through the provision of grants and loans. (Eric Billings)

**Department of Economic Security - Annual Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program** - Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) has provided the 2012 annual report on the TANF Grant Diversion Program. The program's purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2012, 16,599 applicant households chose the grant diversion option and were diverted from long-term assistance. A total of 8,597 households obtained employment within 90 days of receiving assistance under the diversion program in FY 2012. Through January 2012, the most recent month for which data is available, 2,024 of 13,744 households, or 15%, reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2011 indicates 2,156 of the total 22,196 households receiving diversion payments, or 10%, reapplied within 180 days. In December 2011, the department implemented a policy that restricted qualified applicants of the grant diversion option to one diversion payment in a single year. (Ben Beutler)

**Department of Education – Budget Status Report** – Pursuant to A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2013. In that report, ADE estimates that it will experience a \$46.5 million net funding surplus for formula programs for FY 2013. The estimated surplus includes a \$36.4 million savings from prior year (FY 2012) overpayments that are being recaptured in the current year. ADE's final formula costs for FY 2013 will not be known until later in the year due to ongoing data updates and corrections. (Steve Schimpp)

**Arizona Department of Education – K-12 Aggregate Expenditure Limit Report** – Pursuant to A.R.S. § 15-911B, the State Board of Education reported on October 31, 2012 that currently budgeted expenditures for all school districts collectively statewide for FY 2013 are \$(678.5) million below the Constitution's aggregate expenditure limitation (AEL). For FY 2012 the difference was \$(750.1) million. The AEL limits growth in statewide K-12 expenditures to the combined rate of growth for enrollment and inflation, with certain exceptions. (Steve Schimpp)

**Department of Health Services – Arnold v. Sarn Report** – Pursuant to a footnote in the FY 2013 General Appropriation Act, the Department of Health Services (DHS) has submitted the 1<sup>st</sup> quarter report (July-October

## Summary of Recent Agency Reports (Continued)

2012) on settling the *Arnold v. Sarn* lawsuit, which dealt with Seriously Mentally Ill (SMI) clients in Maricopa County.

Due to the state's fiscal condition, the plaintiffs and the state agreed in March 2010 to suspend the lawsuit for 2 years due to lack of funding. In accordance with the May 2012 agreement to end the suspension, the state has agreed to utilize restored funding to provide *Arnold* class members with access to additional medical services, crisis services and support services. The FY 2013 budget included \$95 million for services to the *Arnold* population, including \$38.7 million for Non-Medicaid services.

DHS reports that, as prescribed by the agreement to end the suspension of the lawsuit, the parties have met to discuss and review the implementation of the agreement. Additionally, the parties have worked to develop Quality Service Reviews and assist Magellan, the Maricopa County Regional Behavioral Health Authority (RHBA), in planning for service modifications. DHS reports that these service implementation adjustments have resulted in the following improvements:

- Increased Seriously Mentally Ill adult employment and referrals to vocational rehabilitation programs
- Increased coordination between the Arizona State Hospital and Magellan to produce timely hospital discharges
- Reduced inpatient days due to continued use of Assertive Community Treatment (ACT)
- Development of data collection methodologies for Non-Medicaid SMI clients by comparing Supported Housing performance measures with Substance Abuse Services performance measures
- Development of an infrastructure for a Peer Support Certification process with the assistance of statewide and national peer organizations for substance abuse treatment

(Art Smith)

**JLBC – County Flexible Revenue Report** –The FY 2013 Revenue Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 297) continued a prior year provision to permit counties to meet any FY 2013 fiscal obligation from any source of county revenue, including countywide special taxing jurisdictions. Chapter 297 requires counties to report on their use of this provision.

Of the 13 counties that submitted a report, 6 reported using the flexibility:

- Apache County: \$900,000 from 3 special taxing districts to the General Fund.
- Mohave County: \$980,334 from 3 special taxing districts to the General Fund and \$6 million from the Television District for debt service reserve needs for the County Jail.
- Navajo County: \$864,661 from the Flood Control District to the General Fund and Child Support Fund (administers child support program).
- Pinal County: \$8.9 million from numerous funds to the Debt Service Fund. The County reports that these transfers were effectively used to lower the primary property tax rate and levy as well as offset other cost shifts and increases.
- Yavapai County: \$550,000 from the Flood Control District to the General Fund.
- Yuma County: \$14,706 from the Library District to the General Fund.

The following 7 counties did not utilize this provision: Cochise, Coconino, Gila, Graham, Greenlee, Maricopa, and Pima Counties.

La Paz and Santa Cruz Counties did not respond to the statutory reporting requirement. (Stefan Shepherd)

### **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 2013 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2013 will be approximately \$21.7 million. Of this amount, approximately \$7.6 million, or 35%, will be spent on 6 new projects; \$8.5 million, or 39%, will be spent on shared infrastructure; and \$5.6 million, or 26%, will be spent on ongoing automation support in FY 2013. Of the 6 new projects, the larger projects include:

- Replacement of the current case management system in AOC limited jurisdiction courts (\$3,665,300)
- Improvements to the electronic filing system (\$2,900,500)
- The provision of remote electronic access to court documents (\$630,000) (Eric Billings)



## October Spending

October 2012 General Fund spending of \$500.7 million was \$42.0 million higher than October 2011. Year-to-date, spending is \$4.3 billion, or \$142.4 million above last year.

### FY 2013 Spending

October 2012 spending of \$500.7 million was \$42.0 million higher than October 2011 (*See Tables 6 & 7*).

- The Department of Education spent \$11.1 million more than October 2011. The higher expenditure amount reflects higher General

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

- The Department of Corrections spent \$26.3 million more than October 2011 due to an additional pay period that occurred in October 2012.
- Many agencies whose budgets have a significant portion of spending on personnel had increases due to: 1) An additional pay period in the month and 2) The employee retention payments which began in October 2012.

<b>Agency</b>	<b><u>Oct 12</u></b>	<b><u>Change from Oct 11</u></b>	<b><u>Year to Date</u></b>	<b><u>YTD Change from FY 12</u></b>
AHCCCS	120.4	(9.3)	458.3	(111.7)
Corrections	90.6	26.3	306.7	(7.1)
Economic Security	50.8	(5.3)	433.7	13.3
Education	92.6	11.1	1,649.3	(36.5)
Health Services	17.2	2.7	468.1	58.2
Public Safety	2.7	(3.1)	13.4	(17.0)
School Facilities Board	0.2	0.0	141.7	9.0
Universities	49.9	7.4	372.8	(1.6)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	<u>(77.6)</u>	<u>(68.9)</u>	<u>210.8</u>	<u>0.7</u>
<b>Total</b>	<b>500.7</b>	<b>42.0</b>	<b>4,138.9</b>	<b>(57.6)</b>
Budget Stabilization Fund Deposit	0.0	0.0	200.0	200.0
<b>Grand Total</b>	<b>500.7</b>	<b>42.0</b>	<b>4,338.9</b>	<b>142.4</b>

<b>Agency</b>	<b>General Fund Spending</b>			
	<b>(\$ in Thousands)</b>			
	<b>October 12</b>	<b>Change from October 11</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 12</b>
Department of Administration	5,146.6	4,386.3	11,939.4	3,480.0
Department of Admin Sale/Leaseback D/S	-	-	84,119.8	35,069.1
Office of Administrative Hearings	123.5	60.6	342.5	66.0
Department of Agriculture	937.5	345.3	3,015.4	19.3
AHCCCS	120,379.1	(9,272.1)	458,325.5	(111,747.7)
Arts, AZ Commission on the	-	-	-	(10.4)
Attorney General	1,487.6	251.7	7,101.6	440.4
AZ Capital Post Conviction Public Defender	-	(51.5)	4.1	(183.8)
State Board of Charter Schools	83.4	37.1	291.5	16.4
AZ Commerce Authority	2,625.0	-	10,500.0	-
Community Colleges	16,048.2	(1,212.7)	32,096.3	(2.5)
Corporation Commission	68.7	22.4	190.1	8.3
Department of Corrections	90,577.8	26,273.3	306,708.6	(7,111.9)
AZ State Schools for the Deaf & Blind	3,290.8	2,193.1	9,753.7	2,188.5
Department of Economic Security	50,862.7	(5,292.7)	433,745.0	13,325.0
Department of Education	92,635.0	11,081.6	1,649,321.9	(36,516.9)
DEMA	1,859.0	1,319.9	3,036.3	(582.6)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	6.4	(20.1)	55.0	(10.4)
State Board of Equalization	81.2	(15.0)	282.7	(6.1)
Board of Executive Clemency	48.2	(2.9)	259.1	(54.0)
Department of Financial Institutions	332.6	148.4	986.5	(3.5)
Department of Fire, Life, Bldg Safety	348.4	85.6	858.2	71.7
Office of the State Forester	561.3	(1,116.3)	1,557.5	(923.3)
Arizona Geological Survey	91.2	(105.5)	270.6	(78.2)
Government Information Tech.	-	-	-	3.1
Governor	823.9	(197.1)	2,157.5	(464.2)
Gov. - OSPB	203.2	(3.3)	666.5	(30.4)
Department of Health Services	17,177.2	2,681.3	468,081.6	58,211.0
Arizona Historical Society	319.7	95.8	1,338.5	(27.9)
Prescott Historical Society of AZ	71.0	5.1	252.5	33.2
Independent Redistricting Comm.	152.4	(120.5)	500.9	(699.9)
Commission on Indian Affairs	8.3	(3.3)	22.5	(0.8)
Department of Insurance	539.3	108.6	1,824.6	(107.0)
Judiciary				
Supreme Court	1,428.1	457.7	6,814.2	1,727.0
Superior Court	17,231.1	672.7	34,105.2	(691.0)
Court of Appeals	1,487.0	411.8	4,817.1	(12.9)
Department of Juvenile Corrections	4,536.5	121.7	15,049.4	(2,444.0)
State Land Department	349.4	(12.3)	486.6	(61.2)
Law Enforcement Merit System	7.5	3.0	22.5	6.1
Legislature				
Auditor General	2,004.3	747.7	5,946.6	63.7
House of Representatives	1,254.0	307.6	3,691.2	(215.0)
Joint Legislative Budget Comm.	211.2	73.0	631.7	(36.3)
Legislative Council	1,916.5	1,612.9	3,348.2	1,163.2
Senate	837.3	254.2	2,435.0	(171.7)

Agency	October 12	Change from October 11	Year-to-Date	YTD Change from FY 12
Mine Inspector	104.5	39.8	428.3	5.2
Nav. Streams & Adjudication	11.9	4.7	46.9	(19.4)
Pioneers' Home	18.1	(110.2)	499.7	(284.3)
Comm. for Postsecondary Ed.	610.4	522.4	698.4	-
Department of Public Safety	2,777.0	(3,142.5)	13,437.7	(17,016.7)
Arizona Department of Racing	11.0	(124.0)	1,790.5	(637.4)
Radiation Regulatory Agency	264.7	6.0	603.9	(62.1)
Real Estate Department	459.8	289.5	912.9	(63.2)
Department of Revenue	4,146.8	(681.0)	16,360.3	(5,002.4)
School Facilities Board	154.1	81.1	141,745.2	9,048.6
Secretary of State	1,620.3	822.3	8,215.4	4,582.1
Tax Appeals Board	25.1	(1.9)	106.2	0.8
Office of Tourism	424.9	424.9	1,732.6	1,732.6
Department of Transportation	3.0	0.8	15.9	3.2
Universities				
Board of Regents	10,737.8	10,240.1	16,045.3	9,695.2
Arizona State University	17,381.2	(1,788.1)	160,100.3	(7,152.6)
Northern Arizona University	5,925.8	(21.4)	54,198.1	(85.7)
University of Arizona	15,870.8	(1,001.8)	142,412.8	(4,007.3)
Department of Veteran Services	833.0	(579.6)	2,024.6	(737.5)
Department of Water Resources	979.7	728.5	3,036.6	1,173.1
Department of Weights & Measures	166.1	88.5	457.2	115.3
Other	39.5	(103.7)	147.7	(2,516.7)
<b>Total</b>	<b>500,717.6</b>	<b>42,006.8</b>	<b>4,138,970.4</b>	<b>(57,551.2)</b>
Budget Stabilization Fund Deposit	-	-	200,000.0	200,000.0
<b>Grand Total</b>	<b>500,717.6</b>	<b>42,006.8</b>	<b>4,338,970.4</b>	<b>142,448.8</b>

# Tracking Arizona's Recovery

November 2012

JLBC

# Contents

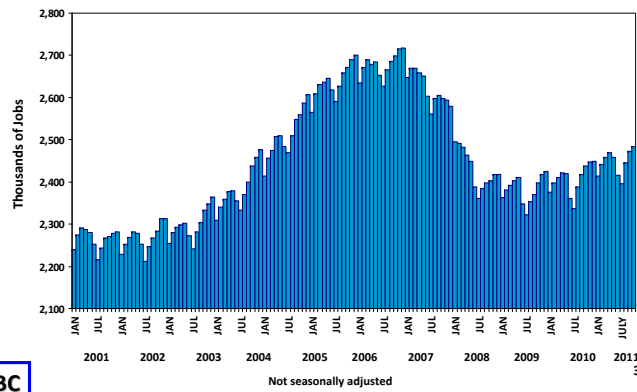
Slide:

- 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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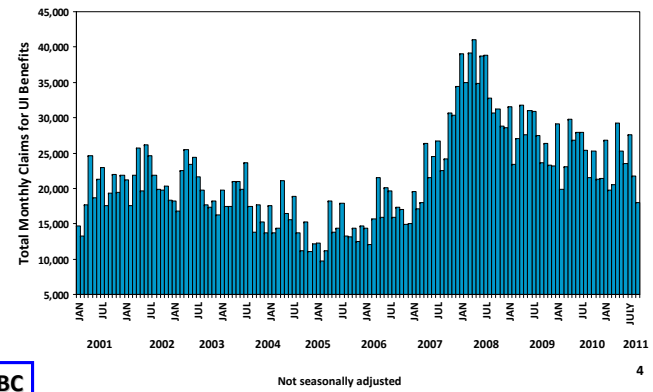
# Total Non-Farm Employment



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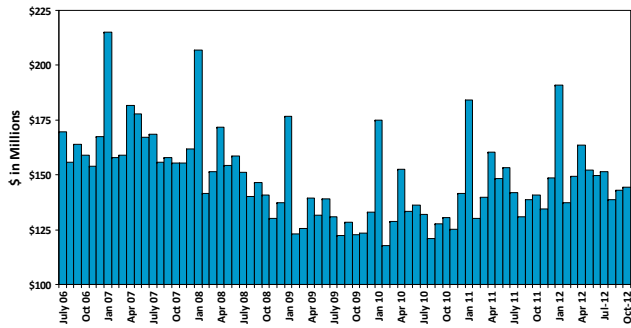
# Initial Claims for Unemployment Insurance



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### State Sales Tax Collections – Retail Category

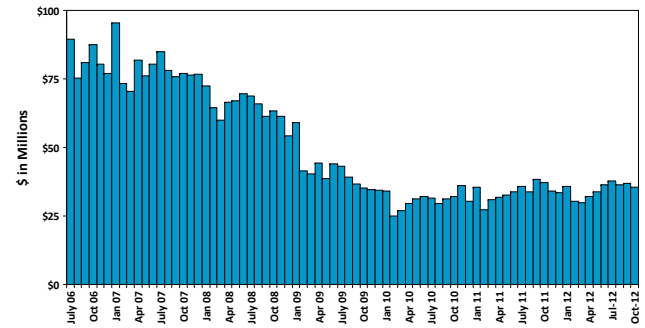


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Excludes temporary 1 ¢ sales tax

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### State Sales Tax Collections – Contracting Category

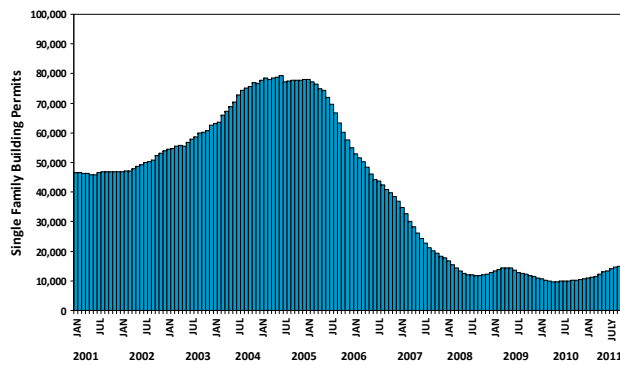


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Excludes temporary 1 ¢ sales tax

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### Single Family Building Permits

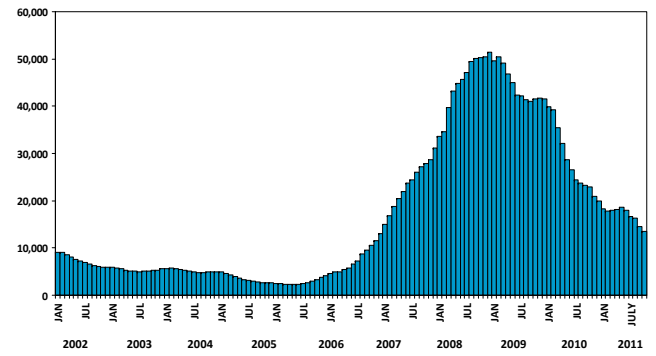


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12-Month Moving Sum

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### Maricopa County Pending Foreclosures



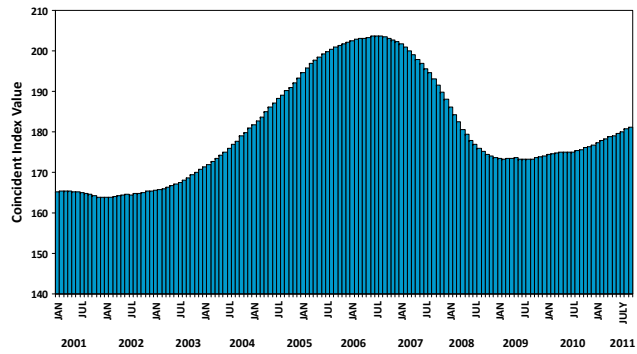
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An initial notice of trustee sale has been recorded but final sale has not yet occurred

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## 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.

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