

JLBC - Monthly Fiscal Highlights

October 2015

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

***“Year-to-date,
base General
Fund
revenues...are
1.8% above
the prior year,
and are \$63.0
million above
forecast.”***

Summary

September 2015 collections of \$838.6 million were (3.3)% below the prior year, and were \$17.2 million above the enacted budget forecast.

A decline in overall revenues was expected due to the one-time nature of FY 2015 Corporate Income Tax gains along with the phase in of Corporate Income Tax reductions.

The Corporate decline, however, was offset in part by unexpected gains in the Individual Income Tax category, leading to a total forecast gain for the month.

Individual Income Tax was \$26.4 million above forecast for the month. This forecast overage was the result of 12.5% growth in estimated and final payments above September 2014. September is one of the four estimated payment months during the year.

The higher level of September payments may have been in reaction to tax bills during the April 2015 tax filing season. Capital gains are thought to have driven the 13.9% increase in final payments in FY 2015. To avoid a penalty for insufficient estimated payments in FY 2016, taxpayers may be increasing their estimated payments.

The state's "core" revenues – withholding and Sales Tax did not fare as well in September. Withholding declined by (5.0)% compared to September 2014. Sales Tax also continued its slow performance, with growth of 2.8% for the month. The category has grown at a rate below 3.0% during 4 of the last 5 months. This slow growth may be related to the implementation of the TPT legislation that became effective in January 2015.

Year-to-date, base General Fund revenues (excluding Urban Revenue Sharing and Fund Transfers) are 1.8% above the prior year, and are \$63.0 million above forecast.

In comparison to revenue collections of \$838.6 million, September 2015 spending was \$725.8 million, which is a decrease of \$(53.4) million from the prior year. The Department of Administration has made spending data available for the first time this fiscal year.

Fiscal year-to-date, General Fund revenues of \$2.21 billion have been offset by \$3.93 billion of expenditures.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bill out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-October 2015 is \$1.6 billion. In addition, the state's Budget Stabilization Fund has a balance of \$458.5 million.

October FAC Summary

The Finance Advisory Committee (FAC) met on October 8, 2015 to update its 4-sector revenue forecast. The FAC is a 12-member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC's Consensus Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) models. The JLBC Staff provided the FAC with a presentation on updated FY 2016 – FY 2019 budget projections.

Driven by one-time factors, the state is projected to have a cash balance of \$650 million in FY 2017. Of this amount, \$250 million may be available for ongoing initiatives without re-creating a long run structural gap where permanent spending exceeds permanent revenue.

The cash balance is also subject to several risk factors. These include the ongoing K-12 litigation and a possible recession, based on the length of the current economic expansion compared to the historical averages. For more information, please see the [JLBC Staff Budget Update](#) and [October FAC meeting materials](#).

Table of Contents

Summary

• October FAC Summary	1
September Revenues	2
Monthly Indicators	4
JLBC Meeting	7
JCCR Meeting	8
Summary of Recent Agency Reports	
• ADOA – Telecommunications Office	8
• AHCCCS – Immigration Verification	9
• DCS – CMDP Integration	9

• Comm. Colleges – Dual Enrollment	9
• DES – Developmentally Disabled Report	9
• DES – Child Care Expenditure Report	9
• DHS – Serious Mental Illness Report	10
• JLBC Staff – County Flexibility Report	10
• DOR – Tax Credit Report	10
• Universities – Research Income	11
September Spending	11
Tracking Arizona's Recovery	Appendix A

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 20, 2015.

September Revenues

Table 1

General Fund Revenues (\$ in Millions)			
	FY 2016 Collections	Difference From Budget Forecast	Difference From FY 2015
September	\$ 838.6	\$ 17.2	\$ (28.6)
Year-to-Date	\$ 2,210.6	\$ 63.0	\$ 41.0

Sales Tax collections of \$354.6 million were 2.8% above September of last year and essentially at forecast for the month.

Table 2 below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections.

The trend of strong year-over-year retail sales tax growth and declining contracting tax collections continued in September. The retail category, which makes up close to 50% of total sales tax collections, increased by 8.3% in September, whereas the contracting category declined by (21.1)%. Since the beginning of the January, the retail tax is up by 10.0% whereas the contracting tax is down by (17.1)%

The simultaneous increase of retail sales tax collections and decline of contracting tax collections since the beginning of 2015 appear to be related to "TPT Simplification" legislation enacted in 2013, under which the tax base for building materials changed from contracting to retail, beginning in 2015.

Tax collections from restaurant and bar sales declined by (2.5)% in September, the first year-over-year decrease since February 2011. However, after accounting for technical adjustments made by the Department of Revenue last year, the underlying growth for this sales tax category becomes 4.5%.

Table 2

Sales Tax Growth Rates Compared to Prior Year		
	September	YTD
Retail	8.3%	9.5%
Contracting	(21.1)%	(19.4)%
Use	17.3%	0.8%
Restaurant & Bar	(2.5)%	4.2%
Utilities	4.6%	(0.2)%

Individual Income Tax net revenues were an estimated \$393.7 million in September, which were \$2.5 million above the prior year and \$26.4 million above the forecast for the month. Year-to-date, revenue has grown 5.0% over the prior year to a level that is \$77.3 million above the budget forecast.

As indicated in *Table 3*, withholding decreased by (5.0)% for the month and was \$(4.8) million below the forecast. Year-to-date withholding collections were \$40.2 million above the forecast.

September estimated and final payments of \$132.4 million were 12.5% above last year and \$27.9 million above the forecast. Year-to-date, payments are \$35.4 million above the budget forecast.

September Individual Income Tax refunds totaled \$(12.7) million – this compares to \$(14.8) million in September 2014 and a forecasted amount of \$(16.0) million. Year-to-date, lower-than-expected refunds have led to a \$1.7 million gain compared to the enacted forecast.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year

	September	YTD
Withholding	(5.0)%	3.7%
Estimated +		
Final Payments	12.5%	10.8%
Refunds	(14.4)%	(0.9)%

Corporate Income Tax net collections were estimated to be \$88.8 million in September, which was \$(28.9) million less than September of the prior year. Collections for the month were \$(6.2) million below the forecast. Year to date, net collections are \$0.9 million above the forecast.

Insurance Premium Tax collections of \$43.7 million in September were (0.7)% below the prior year, but \$3.8 million above forecast. Year-to-date, collections are \$(3.3) million below forecast.

Highway User Revenue Fund (HURF) collections of \$110.4 million in September were up \$6.3 million, or 6.1% compared to September of last year. September collections were \$3.4 million above forecast while year-to-date collections are \$11.8 million above forecast.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast September 2015

	Current Month					FY 2016 YTD (Three Months)				
	Change From					Change from				
	Actual	September 2014		Budget Forecast		Actual	September 2014		Budget Forecast	
	September 2015	Amount	Percent	Amount	Percent	September 2015	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$354,595,811	\$9,735,831	2.8 %	\$513,165	0.1 %	\$1,056,907,534	\$27,851,824	2.7 %	(\$1,707,116)	(0.2) %
Income - Individual	393,705,665	2,529,087	0.6	26,387,335	7.2	1,025,353,931	49,146,515	5.0	77,282,429	8.2
- Corporate	88,756,178	(28,892,827)	(24.6)	(6,154,930)	(6.5)	123,367,343	(20,809,513)	(14.4)	883,828	0.7
Property	68,968	(10,076)	(12.7)	(5,137)	(6.9)	687,246	392,186	132.9	266,974	63.5
Luxury - Tobacco	2,237,813	(1,871,775)	(45.5)	0	0.0	6,268,227	(1,903,394)	(23.3)	117,610	1.9
- Liquor	2,095,152	2,095,152	--	0	0.0	7,117,904	2,158,919	43.5	(366,915)	(4.9)
Insurance Premium	43,689,628	(328,213)	(0.7)	3,829,137	9.6	128,963,185	(98,975)	(0.1)	(3,338,851)	(2.5)
Other Taxes	34,039	(663,203)	(95.1)	(859,226)	(96.2)	118,803	(1,443,901)	(92.4)	(1,459,381)	(92.5)
Sub-Total Taxes	\$885,183,254	(\$17,406,023)	(1.9) %	\$23,710,343	2.8 %	\$2,348,784,173	\$55,293,662	2.4 %	\$71,678,578	3.1 %
<u>Other Revenue</u>										
Lottery	0	(7,025,300)	(100.0)	0	--	0	(7,025,300)	(100.0)	0	--
License, Fees and Permits	2,170,980	461,681	27.0	74,444	3.6	7,537,991	1,039,789	16.0	233,479	3.2
Interest	51,526	46,208	868.9	(1,481,204)	(96.6)	51,958	43,510	515.0	(1,561,442)	(96.8)
Sales and Services	1,866,991	(653,965)	(25.9)	(502,218)	(21.2)	2,498,040	(1,854,964)	(42.6)	(2,044,730)	(45.0)
Other Miscellaneous	(416,596)	(1,004,181)	--	(1,875,472)	--	2,006,311	(4,232,537)	(67.8)	(3,388,687)	(62.8)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	241,335	(1,350,531)	(84.8)	(2,758,665)	(92.0)	1,104,148	(1,112,210)	(50.2)	(1,895,852)	(63.2)
Sub-Total Other Revenue	\$3,914,237	(\$9,526,089)	(70.9) %	(\$6,543,115)	(62.6) %	\$13,198,448	(\$13,141,713)	(49.9) %	(\$8,657,232)	(39.6) %
TOTAL BASE REVENUE	\$889,097,491	(\$26,932,112)	(2.9) %	\$17,167,228	2.0 %	\$2,361,982,621	\$42,151,949	1.8 %	\$63,021,346	2.7 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(50,469,528)	275,116	--	(3)	0.0	(151,408,583)	825,347	--	(8)	0.0
One-Time Transfers	0	(1,969,047)	(100.0)	0	--	0	(1,969,047)	(100.0)	0	--
Sub-Total Other Adjustments	(50,469,528)	(1,693,930)	3.5 %	(3)	0.0 %	(151,408,583)	(1,143,700)	0.8 %	(8)	0.0 %
TOTAL GENERAL FUND REVENUE	\$838,627,963	(\$28,626,042)	(3.3) %	\$17,167,225	2.1 %	\$2,210,574,038	\$41,008,249	1.9 %	\$63,021,338	2.9 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$110,397,584	\$6,305,114	6.1 %	\$3,419,117	3.2 %	\$331,051,188	\$17,222,066	5.5 %	\$11,752,264	3.7 %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 3.9% in the second quarter of 2015. This estimate is a noticeable pick-up from the 0.6% growth in the first quarter of 2015. The acceleration was primarily due to increased consumption, exports, state and local government spending, and fixed investment. These improvements were partly offset by deceleration in inventory investment and federal spending.

The Conference Board's **U.S. Consumer Confidence Index** grew to 103.0 in September, continuing the August recovery after having fallen to 91.0 in July. The latest reading is the highest recorded since January 2015. Economists think the rebound from prior low readings may have been driven by decreases in gas prices and calming of fears over stock market volatility.

The Conference Board's **U.S. Leading Economic Index** increased by 0.1% in August, returning the index to positive monthly growth after flat growth in July. The index stands 4.4% above its August 2014 reading. Of the index's 10 components, 5 made positive contributions, 1 was neutral, and 4 made negative contributions. Movement in interest rates was once again the largest positive contributor to the index. Increased unemployment claims, decreases in manufacturing orders and stock market performance provided the majority of drag on the index.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** was flat in August, relative to July. The measure stands at just 0.3% above the August 2014 level. The index's annual growth has been pulled well below the Federal Reserve Bank's 2% annual inflation target, largely due to a (16.2)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy), however, has grown by a steadier 1.3% through August.

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.

Arizona's coincident index increased by 3.0% compared to August 2014. Over the same time period, the U.S. coincident index increased by 3.4%. Currently, Arizona's rate of annual coincident index growth is 37th in the nation. Last year at this time, Arizona's rate was also 37th highest among states. *See Appendix A – Tracking Arizona's Recovery for additional historical information.*

Housing

The **median price of a single family home** was \$224,900 in September, a 0.4% increase from August. The price is 12.5% higher than September of last year.

Single-family housing construction is accelerating, while multi-family construction has peaked. Arizona's 12-month total of **single-family building permits** is 20,785, or 19.7% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 8.0%. *See Appendix A – Tracking Arizona's Recovery for historical information.*

The 12-month total of multi-family building permits was increasing strongly compared to last year, but has recently leveled off. Arizona's total of 9,386 **multi-family building permits** is 2.8% above 2014. Arizona's rate of increase is now less than the comparable multi-family permit growth for the U.S. as a whole, which is 17.8% above 2014.

Employment

The state added a net total 28,800 **nonfarm jobs** from August to September. The comparable 10-year average net job increase is 23,600.

Compared to the same month in the prior year, Arizona added 58,100 net new jobs in September, which resulted in a year-over-year growth rate of 2.3%. The year-over-year job gains in September were concentrated to the following 3 sectors of the economy: education and health services (+11,300), leisure and hospitality (+11,300) and professional and business services (+10,100), and.

The state's seasonally adjusted **unemployment rate** remained unchanged at 6.3% in September. Compared to the same month last year, the unemployment rate is down by (0.3)%. The U.S. jobless rate was 5.1% in September, the same as in the prior month.

In August, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 35.1 hours. This workload is 2.3% above the August 2014 level and represents the largest year-over-year rate of growth

Monthly Indicators (Continued)

since July 2010. The **Average Hourly Earnings** received by these private sector workers was \$23.38, which is 1.6% above the average in the prior month. August earnings were 2.7% above the average in August 2014, which represents the largest year-over-year rate of growth since November 2013.

The U.S. Department of Commerce Bureau of Economic Analysis quarterly releases estimates of annual **Personal Income** received in each state. This measure includes wages and salaries, proprietors' income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In the second quarter of 2015, Arizona personal income increased at an annual rate of 4.2%, to \$264.8 billion.

Tourism

Revenue per available room reached \$51.34 in August, which was 5.5% above the amount in August 2014. Year to date, revenue per available room is 13.4% above the 2014 year-to-date amount through August. Ridership during August through Phoenix Sky Harbor Airport increased 6.0% above the level in August 2014.

State Agency Data

At the beginning of October 2015, the total **AHCCCS** caseload was 1.77 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 514,200 members. Total monthly enrollment increased 0.8% during September.

Enrollment in the Traditional program decreased (4.9)% while enrollment of Proposition 204 parents and children increased 47.6%. A total of 72,000 Proposition 204 parent and child enrollees were determined to have been incorrectly enrolled in the Traditional program in prior months. The large percentage changes in Traditional and Proposition 204 parent and child enrollment in September reflect the reclassification of enrollees in their correct program.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In September 2015, the childless adult population increased by 5,500, or 1.9%. At 298,800, this population is 12.1% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 1,800 in September and now totals 73,300 individuals. Enrollment is 144% higher than a year ago. The federal government is currently paying 100% of this cost.

In FY 2015, **reports of child maltreatment**, as reported by the Department of Child Safety, increased by 12.6% over the prior fiscal year, going from 45,368 in FY 2014 to 51,073 in FY 2015. For June 2015, the department reports 18,059 **children in out-of-home care**, or growth of 1.2% from the prior month. Out-of-home children at the end of FY 2015 were up by 9.1% compared to the end of FY 2014.

There were 24,301 **TANF recipients** in the state in August, representing a 2.3% increase in monthly caseloads over July. The year-over-year number of TANF recipients has declined by (20.0)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. This August, there were 1,009,668 food stamp recipients in the state, representing a 1.0% increase over July caseloads. Compared to the same month last year, food stamp participation declined by (4.6)%.

The Arizona Department of Corrections (ADC) reported an **inmate population** of 42,798 on September 30, 2015. This was a 0.8% increase from August 2015, and increased 1.7% over last September.

Table 5

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	September	6.3%	0.0%	(0.3)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2015	13.8%	(0.5)%	(2.1)%
- Initial Unemployment Insurance Claims	August	17,420	(24.3)%	(5.8)%
- Unemployment Insurance Recipients	July	29,157	(23.0)%	(32.2)%
- Non-Farm Employment - Total	September	2.63 million	1.1%	2.3%
Manufacturing	September	155,200	(1.1)%	(0.7)%
Construction	September	131,400	1.2%	6.1%
- Average Weekly Hours, Private Sector	August	35.1	1.4%	2.3%
- Average Hourly Earnings, Private Sector	August	\$23.38	1.6%	2.7%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	July	\$945.5 million	(6.6)%	11.1%
Furniture/Home Furnishings	July	\$328.6 million	1.3%	(1.8)%
Building Material/Lawn & Garden	July	\$393.6 million	5.5%	26.5%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	July	20,785	3.5%	19.7%
Multi-family	July	9,386	4.0%	2.8%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	September	5,287	(2.1)%	10.6%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	September	\$224,900	0.4%	12.5%
- Phoenix S&P/C Home Price Index (2000 = 100)	July	154.03	0.7%	4.6%
- Maricopa Pending Foreclosures	August	4,634	(4.5)%	(25.4)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	22,432	(1.9)%	(17.1)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	August	3.67 million	(6.2)%	6.0%
- National Park Visitors	July	1,548,311	(0.6)%	(13.6)%
- State Park Visitors	August	194,241	(24.0)%	10.0%
- Revenue Per Available Hotel Room	August	\$51.34	(5.3)%	5.5%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3rd Q 2015	84.3	6.6%	17.7%
- Arizona Coincident Index (July 1992 = 100)	August	217.85	0.0%	3.0%
- Arizona Leading Index -- 6 month projected growth	August	1.0%	(0.6)%	(2.3)%
- Arizona Personal Income	2 nd Q 2015	\$264.7 billion	4.4%	4.2%
- Arizona Population	July 2014	6.73 million	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	May '15	AA / Aa2	N/A	N/A
Outlook	May '15	Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	October 1 st	1,772,342	0.8%	10.7%
Acute Care Traditional		1,042,671	(4.9)%	5.6%
Prop 204 Childless Adults		298,765	1.9%	12.1%
Other Prop 204		184,190	47.6%	9.2%
Adult Expansion		73,265	2.5%	144.1%
Kids Care I		882	(4.9)%	(54.7)%
Long-Term Care – Elderly & DD		57,513	0.4%	2.6%
Emergency Services		115,056	1.5%	28.0%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	June 2015	51,073	0.6%	12.6%
DCS Out-of-Home Children	June	18,059	1.2%	9.1%
Filled Caseworkers (1406 Budgeted)	July	1,286	23	5
- ADC Inmate Growth	September	42,798	0.8%	1.7%
- Department of Economic Security				
- TANF Recipients	August	24,301	2.3%	(20.0)%
- SNAP (Food Stamps) Recipients	August	1,009,668	1.0%	(4.6)%
- Judiciary Probation Caseload				
Non-Maricopa	May	18,296	127	797
Maricopa County	May	26,833	(42)	1,821
United States				
- Gross Domestic Product	2 nd Q, 2015	\$16.3 trillion	3.9%	2.7%
(Chained 2009 dollars, SAAR)	(3 rd Estimate)			
- Consumer Confidence Index (1985 = 100)	September	103.0	1.7%	15.7%
- Leading Indicators Index (2010 = 100)	August	123.7	0.1%	4.4%
- Consumer Price Index, SA (1982-84 = 100)	August	237.9	(0.1)%	0.2%
- Personal Consumption Price Index (2009 = 100)	August	109.8	0.0%	0.3%

JLBC Meeting

At its September 24, 2015 meeting, the Joint Legislative Budget Committee considered the following issues:

Department of Child Safety – Review of FY 2016 ICAC Expenditure Plan – The Committee gave a favorable review of the FY 2016 \$350,000 expenditure plan for Internet Crimes Against Children (ICAC) with a provision that the Arizona Internet Crimes Against Children Task Force via DCS report any funding reallocations above \$50,000.

Department of Child Safety – Review of Fourth Quarter Benchmarks – The Committee accepted the DCS report with no comment that outlined fourth quarter benchmarks for assessing the progress of increasing the number of FTE Positions and in reducing the number of backlog cases.

Department of Child Safety – Review of IFS FY 2016 Expenditure Plan – The Committee gave favorable review of the FY 2016 \$8.5 million expenditure plan for Intensive Family Services (IFS). The Committee added provisions indicating that a favorable review expires with federal approval or disapproval of the Title IV-E waiver and recommended that the department release a Request for Proposal (RFP) prior to the final approval of the Title IV-E waiver.

Department of Corrections – Review of FY 2015 Bed Capacity Report – The Committee gave a favorable review of the bed capacity report detailing the bed capacity changes in FY 2015 and the proposed changes in FY 2016.

Arizona Department of Administration – Consider Approval of Maximum Lodging and Per Diem Reimbursement Rates – The Committee approved the use of the federal lodging reimbursement rate and per diem rate, less \$10, as the state rates effective October 1, 2015. The Committee added the following provisions:

- 1) Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs;
- 2) ADOA may continue to grant waivers for reimbursement above the state's maximum rate but should not delegate any waiver authority to agencies; and
- 3) ADOA shall submit for review its written guidelines for reviewing and approving lodging rate waivers by November 30, 2015.

Arizona Department of Administration/Department of Education – Review of Automation Projects Fund Expenditure Reallocation – The Committee gave a favorable review of a reallocation of the FY 2016 Arizona Education Learning and Accountability System appropriation, which allows ADE to shift \$400,000 from the Program Support Office to Centralized Education Data Services.

Arizona Department of Administration/Department of Revenue – Review of Data Capture Contingency Expenditure Plan – The Committee gave a favorable review of the use of \$459,000 of contingency monies from the Automation Projects Fund to improve DOR's ability to analyze more tax return data electronically. The Committee added a provision requiring DOR to submit an expenditure plan to the Committee for review prior to spending the project's remaining contingency funding of \$106,800.

Attorney General – Review of Quarterly Reports on Legal Settlements – The Committee gave a favorable review of the AG's allocation of legal settlements among the various funds. In the fourth quarter of FY 2015, the AG deposited \$353,900 to the Consumer Protection – Consumer Fraud Revolving Fund, \$81,000 to the Restitution Subaccount, and \$9,400 to the Remediation Subaccount.

JLBC Staff – Review of Agency Legal Services Charges – The Committee gave favorable review of the fund source reports for the AG legal services charges. The charges total \$1.8 million, the same amount as last year.

Board of Behavioral Health Services – Testimony on Proposed Licensing Rules – The Committee accepted the Board's testimony on proposed licensing rules without comment.

AHCCCS/Department of Health Services/Department of Economic Security/Department of Child Safety – Review of Proposed Capitation Rate Changes – The Committee gave favorable review of AHCCCS' proposed capitation rate changes for the state's Medicaid system. In the aggregate, the proposed rates are expected to save \$(9.7) million relative to the FY 2016 General Fund budgeted amounts.

Department of Environmental Quality – Review of Safe Drinking Water Expenditure Plan – The Committee gave a favorable review of the FY 2016 \$1.8 million expenditure plan for the Safe Drinking Water Program.

JCCR Meeting

At its September 24, 2015 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona State University – Review of Sun Devil Stadium Renovation Phase 2 – The Committee gave a favorable review of \$107.0 million in system revenue bond issuances over the next year to fund the second phase of a 3-part renovation of Sun Devil Stadium. The favorable review includes the standard university financing provisions.

Arizona Department of Corrections – Review of Reallocation of FY 2016 Building Renewal Allocation Plan – The Committee gave a favorable review to the reallocation of \$2.4 million in projected savings resulting from reducing the scope of the project and postponing the original projects in the approved FY 2016 Building Renewal Plan. The \$2.4 million will be used to meet immediate needs, including structural repairs at ASPC – Eyman Running Unit, gas line replacement at ASPC – Tucson, and water line replacement at ASPC – Florence Central Unit. The favorable review includes a provision that requires ADC to continue to report any change in the building renewal spending plan to the JLBC Staff.

Department of Public Safety – Review of Proposed Microwave System Upgrades – The Committee gave a favorable review to the DPS proposed microwave system upgrades for \$2.0 million that will establish 2 new tower sites creating 3 new transmission paths and make additional upgrades to 1 existing tower site that will allow for increased bandwidth across 2 transmission paths. The projects will allow for the completion of the western loop of the microwave system by the end of FY 2017.

Arizona Department of Transportation – Review of FY 2016 Building Renewal Allocation Plan – The Committee gave a favorable review to ADOT's FY 2016 \$3.4 million Building Renewal Allocation Plan. ADOT has allocated \$3.2 million from the State Highway Fund among 72 projects. ADOT has also allocated \$204,900 from the State Aviation Fund for 13 projects. The favorable review includes a provision requiring ADOT to report any project reallocations above \$100,000 to the JCCR.

Arizona Exposition and State Fair Board – Review of Sewer Line and Transformer Expenditures – The Committee gave a favorable review to the Board's sewer line repairs and transformer replacement with a total cost of \$155,000. After taking into account an item reviewed at the June 2015 JCCR meeting, \$620,000 of the \$1.0 million appropriated in FY 2016 to the Board for capital improvements remains. The favorable review includes a provision requiring a return to JCCR prior to expending any of these funds for other projects.

Coconino Association for Vocations, Industry and Technology – Consider Approval of Proposed JTED Leases – The Committee approved CAVIAT's plan to lease a 750 square foot classroom from Fredonia-Moccasin Unified School District and a 650 square foot classroom from the Williams Unified School District in order to establish "leased centralized JTED campus" programs at those 2 school districts.

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Telecommunications Program Office – Pursuant to A.R.S. § 41-712, the Arizona Department of Administration (ADOA) is required to submit an annual report on the Telecommunication Program Office (TPO), including the current rate structure of telecommunications charges, and payments made by all AZNet 2 participants for FY 2015 and FY 2016. AZNet 2 participants pay a variety of fees for different purposes, including a third-party vendor to operate and maintain the system, a separate third-party vendor who aggregates an agency's bills and manages expenses, as well as an amount paid to TPO for their administration of the system as a whole. In FY 2015, total charges paid by all entities were \$42.4 million. In FY 2016, the estimated total charges paid by all entities is \$43.3 million.

Pursuant to A.R.S. § 41-713, ADOA is additionally submitting their annual report on the Telecommunication Fund, which includes the sources and uses of received monies, for FY 2015, as well as estimates for FY 2016. The Telecommunication Fund primarily consists of monies paid by agencies, as well as other AZNet 2 participants, to TPO to administer the system as a whole. In FY 2015, the Telecommunication Fund received \$1.8 million from AZNet 2 participants to administer the system. In FY 2016, the Telecommunication Fund is estimated to receive \$1.8 million from AZNet 2 participants to administer the system. (Rebecca Perrera)

Summary of Recent Agency Reports (Continued)

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 83,829 individuals in FY 2015. During this period, AHCCCS and DES referred 32 individuals (29 citizens, 3 non-citizens) for prosecution for fraudulent schemes, prohibited acts, theft, or forgery. AHCCCS and DES did not identify any fraudulent documents utilizing the SAVE program during FY 2015. (Jon Stall)

Department of Child Safety – Report on CMDP Integration - Pursuant to Laws 2013, Chapter 220, the Arizona Health Care Cost Containment System (AHCCCS), the Department of Child Safety (DCS) and the Department of Health Services (DHS) have reported on the methods for delivering medical, dental and behavioral health services to foster children who qualify for the Comprehensive Medical and Dental program (CMDP).

The agencies recommend that the state transition to an integrated CMDP contracted network model beginning on October 1, 2019. Under this proposal, all aspects of CMDP would be consolidated into DCS, and DCS would contract directly with behavioral and physical health professionals to build its own provider network. This new proposal contrasts with the existing CMDP delivery model where DCS contracts for the physical health portion of CMDP and DHS contracts for the behavioral health component.

Besides integration of CMDP into DCS, the proposed CMDP contracted network model differs from the existing CMDP delivery mechanism in 2 main ways. First, the proposed contracted network model would allow DCS to contract for specialty healthcare services, rather than be limited to the AHCCCS registered healthcare providers and AHCCCS fee for service rates. Second, the proposed contracted network model would not contract with a private managed care organization (e.g., a Regional Behavioral Health Authority) to administer or build a provider network for CMDP behavioral health.

Because DCS will essentially operate its own health plan under this proposal, the report estimates the cost for DCS to develop the required infrastructure to be in the tens of millions of dollars. (Ben Beutler)

Arizona Community Colleges – Report on Dual Enrollment Threshold - Pursuant to A.R.S. § 15-1821.01, the Arizona Community Colleges are required to report by October 1 of each year if dual enrollment by high school freshman and sophomore students at a community college are in

excess of 25% of the high school students enrolled in dual enrollment at that college.

Glendale Community College (GCC) had 852 high school freshmen and sophomore dual enrollment students in the 2014-2015 school year, which was 26.2% of their total dual enrollment of 3,246. GCC states that the increased enrollments were in specific courses that the high schools promoted and encouraged underclassmen high school students to take. To ensure compliance in the future, GCC will monitor the enrollment of freshman and sophomore high school students on a weekly basis to ensure compliance with the state statute. (Tom Ritland)

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 the provider rates in FY 2016 are generally adequate and appropriate, but also notes that there are serious rate deficiencies for some services based on a recent rate rebase study.

The rebase study highlighted that 5 of the top 10 services by total funding, including Habilitation, Day Treatment, Attendant Care, Respite Care, and Group Home Room and Board, had adopted rates below 80% of the benchmark rate. However, the report concludes that the division's rates are adequate and appropriate according to federal standards that require a sufficient number, mix, and geographic distribution of providers and services to serve enrolled members. (Tom Ritland)

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 2015 report shows that the average number of children served increased to 25,834, or 8.7% above FY 2014; the number of families served increased by 9.7%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) increased by 23.9%, child welfare-related placements increased by 10.0%, the number of Temporary Assistance for Needy Families-related children decreased by (6.8)%, while the number of children receiving transitional child care decreased by (6.7)%. DES conducted 6 releases of the waiting list in FY 2015, contributing to the increase in Low Income Working clients served.

The amount spent by DES on child care subsidies increased to \$110.3 million, or 9.3% above FY 2014. The average monthly subsidy paid per child increased 0.5%

Summary of Recent Agency Reports (Continued)

to \$355.94. The total amount of co-payments collected increased by 12.1% over FY 2014 to \$5.7 million. (Tom Ritland)

Department of Health Services – Annual Report on Individuals with a Serious Mental Illness (SMI) - Pursuant to A.R.S. § 36-3415, the Arizona Department of Health Services (DHS) is required to report annually on behavioral health demographics, utilization and expenditures.

DHS states that enrollment of members with a SMI diagnosis in Arizona's public behavioral health system in FY 2015 increased by 4% to 41,876. The share of the population that resided in Maricopa County comprised 48%, or 19,957 members, of the total SMI population. The percentage of enrolled SMI members eligible for Medicaid increased from 78% in the previous year to 81% in FY 2015.

Compared to last year, FY 2015 annual per capita expenditures increased from \$8,000 to \$11,100 for Medicaid-eligible members and increased from \$3,600 to \$3,900 for Non-Medicaid-eligible members. DHS attributes the discrepancy in expenditures between the 2 groups to the benefit package available to Non-Medicaid-eligible members, which is more limited than what is used by Medicaid-eligible members. DHS reports that the annual per capita expenditure rate outside of Maricopa County increased from \$5,000 in FY 2014 to \$6,500 in FY 2015 and the rate increased from \$9,100 to \$13,300 inside Maricopa County.

According to DHS, expenditure figures in this report only include service encounter data, meaning that certain expenditures, such as administrative costs, are excluded from the report. Total capitation expenditures for behavioral health services for the SMI population are estimated to be \$19,100 annually per capita.

The most widely used services by members during FY 2015 were case management, medical and treatment services. Of all members, 98% used case management services, 83% received medical services, and 69% received treatment services. Additionally, 27% of members accessed at least once during FY 2015 hospital, in-home, or mobile crisis intervention services that stabilize or prevent a sudden or potentially dangerous behavioral health episode. (Patrick Moran)

JLBC Staff – County Flexible Revenue Report - The FY 2016 Revenue Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 10) as amended by Laws 2015, Chapter 323 permits counties with a population of fewer than 200,000 to meet any FY 2016 fiscal obligation from any source of county revenue, including countywide

special taxing jurisdictions. Counties with a population of more than 200,000 but fewer than 900,000 may use up to \$1,000,000 from any source of county revenue, including countywide special taxing jurisdictions, to meet any FY 2016 fiscal obligation. The FY 2016 Revenue BRB requires counties to report on their use either of these provisions.

Of the 13 eligible counties, 7 reported using the flexibility:

- Apache County: \$400,000 from the Juvenile Jail Fund to the Sheriff's Office to maintain deputies;
- Cochise County: \$23,000 from the Library District to the Heavy Fleet Management Fund to hire a mechanic;
- Coconino County: \$634,800 from the Jail District to the General Fund to cover Public Safety Personnel Retirement System costs and Adult Probation Pre-trial Services;
- La Paz County: \$992,500 from Vehicle License Tax disbursements to the General Fund to cover the structural deficit;
- Navajo County: \$1,200,000 from 2 special taxing districts to the General Fund for general expenditures;
- Pinal County: \$1,000,000 from the Flood Management District to the General Fund for debt payments; and
- Yuma County: \$10,200 from the Library District for the cleaning and maintenance of the South County facility.

The following 6 eligible counties did not utilize this provision: Gila, Graham, Greenlee, Mohave, Santa Cruz, and Yavapai Counties. (Josh Hope)

Department of Revenue – Report on Individual Income Tax Credits - Pursuant to a footnote in Laws 2015, Chapter 8, the Arizona Department of Revenue is required to report by September 30, 2015 on the amounts of individual income tax credits used in FY 2015. The agency reports that 1,673,303 claimants used a total \$323.9 million in individual income tax credits in FY 2015. Of the total amount used, \$298.9 million resulted from 6 credits while 31 other credits comprised the remaining \$25.0 million in usage. The number of claims and dollar impacts of credits are listed in *Table 6*, below. (Jon Stall)

Summary of Recent Agency Reports (Continued)

Table 6

FY 2015 Individual Income Tax Credits (\$ in millions)

<u>Credits:</u>	<u># of Claims</u>	<u>Annual Cost</u>
Income Taxes Paid to Other States	53,608	\$113.9
School Tuition Organizations (STO-1)	82,550	57.1
Public School Extracurriculars	147,457	40.1
Prop 301 Sales Tax Credit	635,989	32.4
Contributions to Charities	109,658	29.6
School Tuition Organizations (STO -2)	35,811	25.8
Other Credits	<u>608,230</u>	<u>25.0</u>
Total Value of Credits	1,673,303	\$323.9

Universities – Report on University Research

Infrastructure Income - Pursuant to A.R.S. § 15-1670, Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) are required to submit an annual report on the amount of the previous year's income from licensure and royalty payments and the sale or transfer of intellectual property developed by the university, and to deposit a portion of that income into the state General Fund. ASU, NAU and UA made no deposits in FY 2015, as they report no net income from licensure and royalty payments, or the sale or transfer of intellectual property, in FY 2015. The universities define this income as being their income net of expenses instead of gross income.

In terms of FY 2015 gross royalty revenues, ASU reported \$1.1 million of licensing and royalty revenues, NAU reported \$74,900 of licensing and royalty revenues and UA reported \$3.9 million of licensure, royalty and assignment revenues. (Matt Gress)

September Spending

September 2015 General Fund spending of \$725.8 million was \$(53.4) million less than September 2014. Year to date, spending is \$3.93 billion, or \$(16.1) million below last year. (See *Tables 7 & 8*).

- Year to date, the Department of Education has spent \$49.3 million more than the prior year.
- Due to technical reporting issues with the newly created Department of Child Safety (DCS) in FY 2015,
- the figures reported below for DCS and the Department of Economic Security do not accurately reflect changes in spending levels from the prior year.
- During FY 2016, Universities spending has declined by \$(30.0) million. This is related to changes enacted in the FY 2016 budget, which contained a \$(99.0) million spending reduction for the Universities system.

Table 7

	General Fund Spending (\$ in Millions)			
	<u>Sept 15</u>	<u>Change From Sept 14</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 15</u>
Agency				
AHCCCS	40.1	(97.7)	306.7	(28.2)
Corrections	111.2	30.6	291.4	50.3
Child Safety	41.7	41.7	89.0	89.0
Economic Security	5.8	(3.2)	359.0	(130.0)
Education	228.8	(3.6)	1,672.1	49.3
Health Services	21.6	6.6	462.0	(13.7)
Public Safety	2.1	(2.0)	27.9	1.3
School Facilities Board	0.2	(0.1)	161.5	10.4
Universities	236.2	(19.7)	316.3	(30.0)
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>38.1</u>	<u>(6.0)</u>	<u>156.1</u>	<u>(14.5)</u>
Total	725.8	(53.4)	3,926.1	(16.1)

Table 8

General Fund Spending (\$ in Thousands)				
Agency	Sept 15	Change from Sept 14	Year-to-Date	YTD Change from FY 15
Dept. of Admin./Automation Projects Fund	989.3	(2,183.7)	3,185.7	(6,303.7)
ADOA – Sale/Leaseback Debt Service	-	-	84,114.6	(7.1)
Office of Administrative Hearings	113.0	42.3	243.8	3.6
Commission of African-American Affairs	18.7	18.7	32.2	32.2
Department of Agriculture	979.8	28.4	2,204.2	(31.5)
AHCCCS	40,145.0	(97,668.2)	306,670.6	(28,223.8)
Attorney General	2,154.5	724.0	5,603.9	190.5
State Board of Charter Schools	106.0	(46.1)	262.5	5.6
Department of Child Safety	41,730.4	41,730.4	89,002.6	89,002.6
AZ Commerce Authority	2,625.0	-	7,875.0	-
Community Colleges	185.8	(494.0)	12,492.0	(4,709.3)
Corporation Commission	71.7	27.4	163.5	29.0
Department of Corrections	111,245.7	30,593.7	291,445.6	50,343.8
County Funding	-	-	-	-
AZ State Schools for the Deaf & Blind	2,785.9	764.4	7,523.5	1,349.9
Department of Economic Security	5,831.2	(3,211.7)	358,956.6	(129,961.0)
State Board of Education	109.4	109.4	326.6	326.6
Department of Education	228,776.0	(3,556.4)	1,672,133.1	49,308.8
DEMA	511.9	134.9	965.1	(546.1)
DEQ – WQARF	-	(7,000.0)	-	(7,000.0)
Office of Equal Opportunity	13.7	(3.5)	33.0	(10.5)
State Board of Equalization	45.5	3.7	203.9	17.4
Board of Executive Clemency	94.7	38.2	227.6	(43.7)
Department of Financial Institutions	452.7	235.9	879.1	97.1
Department of Fire, Bldg and Life Safety	161.1	(61.4)	609.9	(16.0)
State Forester	565.7	282.1	1,566.6	659.6
Department of Gaming	-	-	1,794.4	1,794.4
Arizona Geological Survey	85.2	39.8	198.5	52.9
Governor/OSPB	1,046.5	(201.3)	2,603.7	36.6
Department of Health Services	21,557.1	6,625.9	461,961.7	(13,655.4)
Arizona Historical Society	234.4	40.0	786.9	(290.4)
Prescott Historical Society of AZ	82.8	30.2	254.1	69.6
Independent Redistricting Comm.	84.2	29.4	191.0	2.9
Commission of Indian Affairs	1.5	(3.0)	4.1	(11.3)
Department of Insurance	516.0	145.4	1,296.1	96.5
Judiciary				
Supreme/Superior Court	2,877.4	1,069.7	21,253.3	(2,276.0)
Court of Appeals	1,527.7	118.5	3,622.0	171.8
Department of Juvenile Corrections	2,294.2	(904.7)	8,453.1	(1,233.1)

Table 8 (Continued)

Agency	Sept 15	Change from Sept 14	Year-to-Date	YTD Change from FY 15
State Land Department	1,042.4	137.8	2,498.2	(722.6)
Legislature				
Auditor General	2,145.8	640.6	5,134.1	718.7
House of Representatives	1,617.2	654.1	3,527.3	738.0
Joint Legislative Budget Comm.	294.5	86.4	629.7	87.0
Legislative Council	534.7	(129.9)	1,727.7	(419.2)
Senate	868.7	262.3	2,123.0	272.0
Mine Inspector	107.1	47.4	260.6	(69.8)
Nav. Streams & Adjudication	11.9	2.5	28.4	(27.1)
Occupational Safety and Health Review	0.7	0.7	1.6	0.7
Arizona State Parks Board	-	-	272.8	272.8
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	-	(5.5)	-	(479.5)
Comm. for Postsecondary Ed.	610.4	610.4	698.4	-
Department of Public Safety	2,070.9	(2,024.1)	27,903.7	1,309.3
Public Safety Personnel Retirement System	-	-	6,000.0	6,000.0
Arizona Department of Racing	-	-	-	(1,779.5)
Radiation Regulatory Agency	64.0	5.1	436.1	34.2
Real Estate Department	250.7	(142.3)	605.3	(152.5)
Department of Revenue	6,898.2	1,471.4	16,981.8	2,830.9
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	161.1	(54.7)	161,535.9	10,362.2
Secretary of State	1,149.5	(1,957.8)	2,622.5	(2,062.2)
Tax Appeals Board	16.9	(33.9)	85.9	0.8
Office of Tourism	2.3	(1,297.7)	2,488.6	(1,997.7)
Department of Transportation	-	-	-	-
Universities				
Board of Regents	546.2	(7,513.9)	6,686.7	(2,981.8)
Arizona State University	109,107.3	(5,352.2)	140,458.1	(14,794.9)
Northern Arizona University	36,321.7	(1,488.6)	47,975.5	(4,465.9)
University of Arizona	90,212.1	(5,384.1)	121,170.6	(7,758.4)
Department of Veteran Services	561.1	263.7	1,364.2	246.7
Department of Water Resources	1,110.1	316.4	2,704.6	294.1
Water Infrastructure Finance Authority	-	-	-	(1,000.0)
Department of Weights & Measures	117.1	33.9	290.8	48.8
Other - JP Salaries Distribution	2.8	(55.0)	274.4	92.7
Other	-	-	-	(4.0)
Total	725,845.4	(53,408.4)	3,926,075.9	(16,133.6)

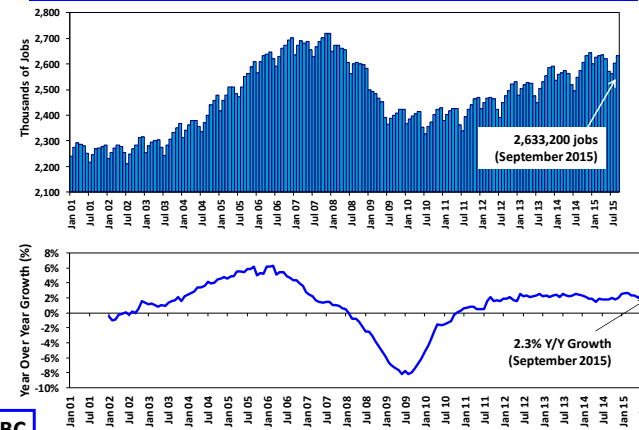
Tracking Arizona's Recovery

October 2015
Appendix A

Page:

- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits
- 8.....Economic Activity Index

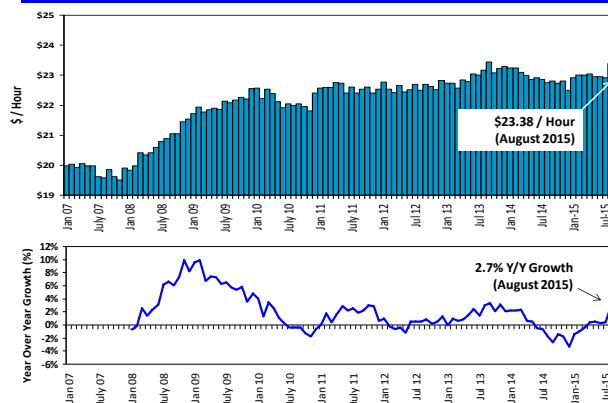
Total Non-Farm Employment



JLBC

2

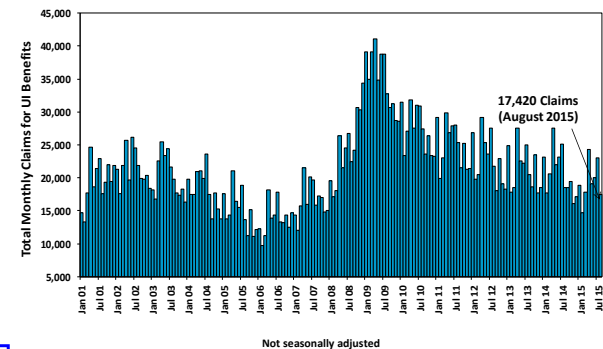
Average Hourly Earnings – Private Sector



JLBC

3

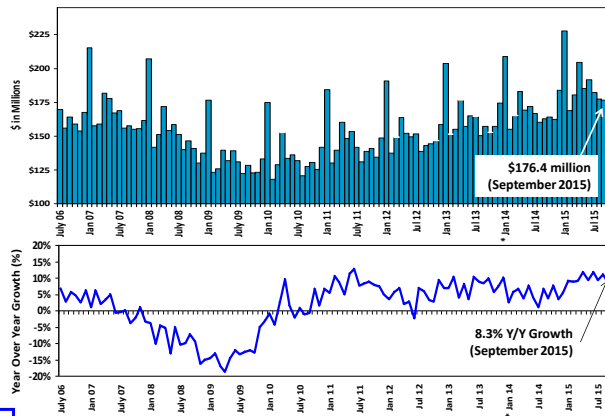
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



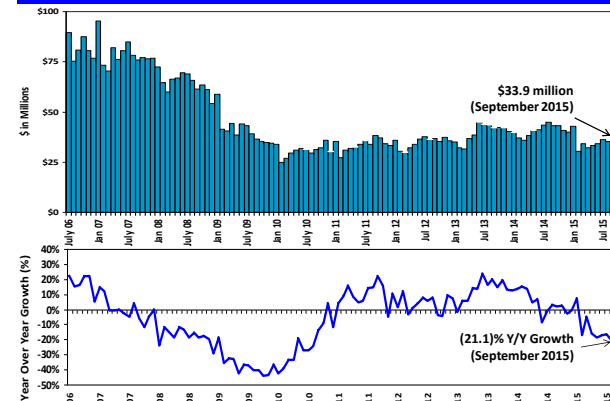
JLBC

Excludes temporary 1 ¢ sales tax

* January 2014 estimate adjusted downward by \$30 million to reflect one-time category shift.

5

State Sales Tax Collections – Contracting Category

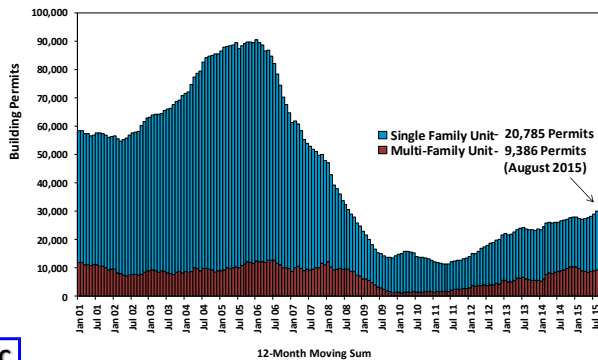


JLBC

Excludes temporary 1 ¢ sales tax

6

Residential Building Permits

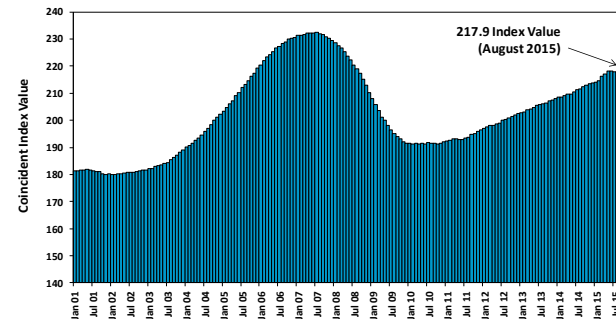


JLBC

12-Month Moving Sum

7

Economic Activity Index



JLBC

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

8