

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

“Base year-to-date General Fund revenues are 3.7% above the prior year, and are \$43.3 million above the enacted forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on June 20, 2016.

Summary

May General Fund revenues totaled \$679.5 million, which was an increase of 4.6% above the prior year. Collections for the month were \$(17.6) million below the enacted budget forecast. The modest revenue growth seen in May is the result of 2 offsetting factors.

The Individual Income Tax grew by 19.6% during May, based on significant growth in withholding collections. As reported in the April *Monthly Fiscal Highlights*, the Department of Revenue indicated that \$38.3 million of cumulative Individual Income Tax withholding revenues were excluded from reporting so far this fiscal year. This entire amount was recognized in the May results, causing the strong growth in Individual Income Tax and bringing collections in the category to \$22.7 million above forecast for the month.

After recognizing the cumulative withholding amount, year-to-date withholding collections are 4.7% above the prior year, a growth rate which is much more in line with the state's employment and wage growth. Previously withholding growth had been in the 2-3% range.

In contrast, Corporate Income Tax collections declined by (39.6)% during May, ending up \$(22.9) million below forecast. This significant decline is likely the result of the reduction in the Corporate Income Tax rate.

In terms of the state's other "Big 3" major revenue category, Sales Tax continued its sluggish growth. During May, the category grew 3.4% and was \$(6.2) million below forecast. The reasons for the continued slow growth in the category are unclear – potential

causes include the TPT Simplification Law that went into effect in January 2015, along with the increasing trend of online sales.

Excluding Urban Revenue Sharing and one-time transfers, base year-to-date General Fund revenues are 3.7% above the prior year, and are \$43.3 million above the enacted forecast.

In comparison to revenue collections of \$679.5 million, May 2016 spending was \$624.9 million, which is an increase of \$81.3 million from the prior year. The spending increase for the month is the result of including FY 2016 spending added in the May enacted budget.

Fiscal year-to-date, General Fund revenues of \$8.30 billion have been offset by \$8.69 billion of expenditures.

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 operating balance as of mid-June 2016 is \$2.3 billion. In addition, the state's Budget Stabilization Fund has a balance of \$460.7 million.

Table of Contents

Summary	
May Revenues	2
Monthly Indicators	4
JLBC Meeting	7
JCCR Meeting	7
Summary of Recent Agency Reports	
• ADOA/Treasurer – General Fund Balance.....	9
• ADOA – Report on Private Leases.....	9
• Attorney General – Legal Settlements	9
• DCS – Monthly Hiring Report.....	10
• ADE – Empowerment Scholarships Accts.	11
• DPS – Quaterly GIITEM Fund	11
May Spending	12
Tracking Arizona's Recovery	Appendix A

May Revenues

	<u>FY 2016 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2015</u>
May	\$ 679.5	\$ (17.6)	\$ 30.1
Year-to-Date	\$ 8,301.2	\$ 43.3	\$ 432.0

Sales Tax collections of \$357.6 million were 3.4% above May of last year but \$(6.2) million below forecast for the month. May collections reflect sales activity that occurred in April. Year to date, sales tax collections are up by 2.6% compared to last year and \$(51.4) million below forecast. *Table 2* below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections.

Contracting sales tax collections in May increased by 7.2% over the same month in the prior year. This was the second consecutive year-over-year increase of the contracting tax since January 2015. In prior months, contracting growth was being reduced by the 2013 "TPT Simplification" law that changed the tax base for building materials from the contracting category to the retail category, beginning in January 2015.

Retail tax collections increased by 1.8% in May compared to the same month last year. Year to date, retail sales tax growth is up by 6.2%. However, retail tax growth has slowed significantly over the last 6 months. The slowdown in retail growth is believed to be at least partly attributable to the aforementioned "TPT Simplification" law.

	<u>May</u>	<u>YTD</u>
Retail	1.8%	6.2%
Contracting	7.2%	(12.2)%
Use	10.2%	0.7%
Restaurant & Bar	6.5%	5.9%
Utilities	(1.8)%	1.8%

Individual Income Tax net revenues of \$283.7 million in May were \$46.5 million more than the prior year and \$22.7 million above forecast for the month. Year-to-date, revenue has grown 6.7% over the prior year.

As indicated in *Table 3*, withholding increased by 28.7% above last year and was \$67.3 million above the forecast. The large monthly increase was primarily driven by recognition of previously received, but unreported withholding collections. The Department of Revenue (DOR) discovered that \$38.3 million of withholding collections were excluded from revenue reporting from July to April of this fiscal year. DOR recognized the entire \$38.3 million in its May withholding revenue reporting, which increased year-to-date withholding growth from 2.4% in April to 4.7% in May. A portion of the monthly increase in withholding collections

may additionally be explained by an increase in processing days relative to May 2015.

May estimated and final payments of \$23.4 million were 8.0% above last year and \$0.9 million above the forecast. Year-to-date, payments are 10.9% above those collected during the same period of FY 2015.

April Individual Income Tax refunds totaled \$(116.9) million – this compares to \$(77.6) million in May 2015 and a forecasted amount of \$(71.4) million. Year-to-date, refunds have led to a \$(11.1) million loss compared to the enacted forecast.

	<u>May</u>	<u>YTD</u>
Withholding	28.7%	4.7%
Estimated/Final Payments	8.0%	10.9%
Refunds	50.7%	4.9%

Corporate Income Tax net collections were \$38.5 million in May, which was \$(25.3) million less than in the prior year and \$(22.9) million below the forecast. Year to date, collections are \$(77.5) million below prior year collections. This decrease is probably the result of the decline in the Corporate Income Tax rate.

The **Lottery Commission** reports that April ticket sales were \$70.9 million, which is \$5.6 million, or 8.5%, above sales in April 2015. Year-to-date ticket sales are \$733.5 million, which is 18.1% above last year's sales. General Fund Lottery distributions associated with the April sales are not expected to occur until June.

Insurance Premium Tax collections of \$40.8 million in May were \$(7.4) million below the prior year and \$(2.8) million below the forecast. Year-to-date, collections are 10.5% above last year and \$18.8 million above forecast.

Highway User Revenue Fund (HURF) collections of \$110.6 million in May were up 2.1% compared to May of last year and were \$2.9 million above forecast. Year-to-date collections are 5.2% above last year and \$21.4 million above forecast.

Due to the implementation of a new accounting system, DOR has made **technical adjustments** to prior month collection figures. For May, DOR has increased the amount of prior General Fund revenue collections by \$0.4 million, and the adjustment has been included in the reported year-to-date results.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast May 2016

	Current Month					FY 2016 YTD (Eleven Months)				
	Actual May 2016	Change From May 2015		Budget Forecast		Actual May 2016	Change from May 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$357,638,545	\$11,854,581	3.4 %	(\$6,230,419)	(1.7) %	\$3,947,186,609	\$101,138,325	2.6 %	(\$51,401,656)	(1.3) %
Income - Individual	283,732,699	46,493,749	19.6	22,692,462	8.7	3,592,688,384	225,377,962	6.7	82,733,976	2.4
- Corporate	38,471,115	(25,252,232)	(39.6)	(22,940,615)	(37.4)	475,500,998	(77,497,561)	(14.0)	(21,251,051)	(4.3)
Property	2,077,751	(4,091,767)	(66.3)	(2,509,790)	(54.7)	32,021,386	1,922,458	6.4	(744,959)	(2.3)
Luxury - Tobacco	1,712,166	(290,224)	(14.5)	0	0.0	21,864,947	240,731	1.1	466,459	2.2
- Liquor	3,341,774	291,713	9.6	0	0.0	31,394,810	954,241	3.1	114,221	0.4
Insurance Premium	40,845,608	(7,402,576)	(15.3)	(2,835,244)	(6.5)	403,299,319	38,200,344	10.5	18,758,567	4.9
Other Taxes	318,430	(198,105)	(38.4)	(295,366)	(48.1)	7,098,455	70,830	1.0	(217,932)	(3.0)
Sub-Total Taxes	\$728,138,088	\$21,405,140	3.0 %	(\$12,118,972)	(1.6) %	\$8,511,054,906	\$290,407,329	3.5 %	\$28,457,625	0.3 %
Other Revenue										
Lottery	0	0	--	0	--	64,972,750	20,063,550	44.7	24,156,326	59.2
License, Fees and Permits	2,004,376	35,356	1.8	(555,948)	(21.7)	26,855,791	32,411	0.1	(791,881)	(2.9)
Interest	(27,936)	(281,013)	--	(293,667)	--	(7,730)	(290,858)	--	(295,519)	--
Sales and Services	1,830,422	202,322	12.4	(96,596)	(5.0)	25,868,588	(52,940)	(0.2)	1,142,191	4.6
Other Miscellaneous	(3,483,125)	5,908,850	--	(3,734,834)	--	20,954,988	13,265,862	172.5	(4,309,625)	(17.1)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,473,868	2,545,843	--	(828,663)	(36.0)	27,078,375	(10,905,699)	(28.7)	(5,091,734)	(15.8)
Sub-Total Other Revenue	\$1,797,605	\$8,411,358	-- %	(\$5,509,709)	(75.4) %	\$165,722,762	\$22,112,326	15.4 %	\$14,809,759	9.8 %
TOTAL BASE REVENUE	\$729,935,692	\$29,816,498	4.3 %	(\$17,628,681)	(2.4) %	\$8,676,777,667	\$312,519,656	3.7 %	\$43,267,384	0.5 %
Other Adjustments										
Urban Revenue Sharing	(50,469,528)	275,114	--	(6)	0.0	(555,164,805)	3,026,261	--	(26)	0.0
One-Time Transfers	0	0	--	0	--	179,597,255	116,473,752	184.5	0	0.0
Sub-Total Other Adjustments	(50,469,528)	275,114	-- %	(6)	0.0 %	(375,567,550)	119,500,014	-- %	(26)	0.0 %
TOTAL GENERAL FUND REVENUE	\$679,466,165	\$30,091,612	4.6 %	(\$17,628,687)	(2.5) %	\$8,301,210,118	\$432,019,669	5.5 %	\$43,267,358	0.5 %
Non-General Funds										
Highway User Revenue Fund	\$110,562,936	\$2,300,413	2.1 %	\$2,868,490	2.7 %	\$1,241,399,822	\$61,198,684	5.2 %	\$21,361,444	1.8 %

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 0.8% in the first quarter of 2016. This estimate represents a further slowdown from weak 1.4% growth in the fourth quarter of 2015. The deceleration relative to the prior quarter was primarily due to decreases of (6.2)% in business investment and (1.6)% in federal spending and a slowdown in consumption growth (from 2.4% to 1.9%). Declining performance in these categories was partly offset by increases of 17.2% in household investment and 2.9% in state and local government spending. Based on the pattern of quarterly growth seen in recent years, economists expect that the low first quarter reading could reflect a BEA measurement problem and that growth will accelerate in the second quarter.

The Conference Board's **U.S. Consumer Confidence Index** decreased (2.1) points in May to a level that was (2.1)% below the May 2015 reading. The monthly decrease largely reflected pessimism in consumers' view of their current employment prospects, but also represented a declining outlook of the economy 6 months in the future. The greater pessimism reflected in the index is inconsistent with a May increase measured by the alternative Consumer Sentiment Index.

The Conference Board's **U.S. Leading Economic Index** increased by 0.6% in April and stands 1.9% above its April 2015 reading. The monthly percentage increase was the largest since September 2015. Of the index's 10 components, 9 made positive contributions in April while 1 made a negative contribution. The greatest positive contributions came from movement in interest rates and the increased average manufacturing workweek. Those impacts were partly offset by decreasing consumer sentiment.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.3% in April, relative to March. The increase was driven by a 3.8% monthly increase in energy prices. The overall index stands 1.1% above the April 2015 level, which is well below the Federal Reserve Bank's 2% annual inflation target. The low measure is largely due to a (8.1)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy) has grown by a steadier rate of 1.6% through April.

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 4.1% compared to April 2015. Over the same time period, the U.S. coincident index increased by 3.1%. *See Appendix A – Tracking Arizona's Recovery for additional historical information.*

Housing

Single-family housing construction is accelerating, while multi-family construction has peaked. Arizona's 12-month total of **single-family building permits** is 23,882, or 28.2% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 10.7%. *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 8,491 **multi-family building permits** is (3.8)% less than 2015. Arizona's rate of increase is now significantly less than the comparable multi-family permit growth for the U.S. as a whole, which is 14.5% above 2015.

Employment

Based on labor data provided the Department of Administration, the state lost (19,400) **nonfarm jobs** in May compared to the prior month. This was more than 6 times the 10-year average net employment loss for May of (3,100) jobs. Moreover, this was the largest month-over-month job loss for May since at least 1960. Two-thirds of the job losses occurred in the government sector and the remaining one-third in the private sector. Only 3 of the 11 major employment sectors added net new jobs in May (manufacturing, construction, and trade, transportation & utilities).

Compared to the same month in the prior year, Arizona added 70,700 net new jobs in May, which is a year-over-year increase of 2.7%. This was the lowest year-over-year net employment gain since August 2015. The slowdown in job growth in Arizona in May was not unique to our state. According to the federal Bureau of Labor Statistics (BLS), U.S. nonfarm employment (not seasonally adjusted) in May grew at its lowest (year-over-year) rate since February 2014. The slower-than-expected job growth in May was also the major reason behind the Federal Reserve Bank's

Monthly Indicators (Continued)

decision to leave its short-term interest rate unchanged in June. It remains to be seen whether Arizona and U.S. nonfarm employment growth will slow further in the coming months.

The state's regular **unemployment rate** increased from 5.5% in April to 5.6% in May. This was also the second consecutive month with an uptick in the state's jobless rate. The U.S. unemployment rate in May fell from 5.0% to 4.7%. The last time the U.S. unemployment rate was 4.7% was just before the start of the last recession in December 2007.

In April, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.3 hours. This workload is unchanged from the prior month level, but (1.2)% below the April 2015 level.

The **Average Hourly Earnings** received by these private sector workers was \$23.93, which is 0.9% above the average in the prior month. April earnings were 3.8% above the average in April 2015, the largest rate of year-over-year growth realized since January 2010.

Tourism

Revenue per available room reached \$86.17 in April, which was 8.3% above the amount in April 2015. Year-to-date, revenue per available room is 2.6% above the 2015 year-to-date amount through April.

National Park visitations in March, as measured by the National Park Service, decreased (1.3)% from the level in March 2015. **State Park** visitations in April, as reported by Arizona State Parks, decreased (0.5)% from the level in April 2015.

State Agency Data

At the beginning of June 2016, the total **AHCCCS** caseload was 1.8 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 546,200 members.

Total monthly enrollment increased by 15,400 members, or 0.9%, during May. The overall May increase was concentrated primarily in the Traditional population of low income parents and children. Enrollment in this population increased 14,700, or 1.4%, in May to a level of 1,054,500 members. This jump was accompanied by an enrollment increase of 600, or 0.3%, in the Proposition 204 parent population.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In May 2016, the childless adult population

increased by 1,500, or 0.5%. At 309,000, this population is 10.7% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (2,800) in May and now totals 83,300 individuals. Enrollment is 35.4% higher than a year ago. The federal government is currently paying 100% of this cost through the end of calendar year 2016.

There were 19,720 **TANF recipients** in the state in May, representing a (1.2)% decrease in monthly caseloads from April. The year-over-year number of TANF recipients has declined by (17.7)%. 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 May, there were 950,056 SNAP recipients in the state, representing a 0.2% increase from April caseloads. Compared to May of last year, SNAP participation declined by (4.6)%.

On May 31, 2016, ADC reported an **inmate population** of 42,921. The population increased 0.1% since April, and 1.1% increase since last year. The FY Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) session law provided that if the male inmate count exceeds the April 2016 level of 38,762 male inmates by 1,000 at the end of November 2016 that the department has the authority after JCCR review to open 1,000 additional male private beds. At the end of May, ADC reported 38,871 male prisoners.

Table 5

MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	May	5.6%	0.1%	(0.5)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2016	11.7%	(1.1)%	(2.6)%
- Initial Unemployment Insurance Claims	April	24,381	37.6%	0.4%
- Unemployment Insurance Recipients	May	31,255	9.8%	(3.9)%
- Non-Farm Employment - Total	May	2,698,400	(0.7)%	2.7%
Manufacturing	May	159,600	1.3%	1.6%
Construction	May	136,100	1.1%	7.2%
- Average Weekly Hours, Private Sector	April	34.3	0.0%	(1.2)%
- Average Hourly Earnings, Private Sector	April	\$23.93	0.9%	3.8%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	February	\$900.6 million	(8.8)%	3.2%
Furniture/Home Furnishings	February	\$321.7 million	(24.4)%	(5.7)%
Building Material/Lawn & Garden	February	\$340.9 million	(4.2)%	6.5%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	April	23,882	0.3%	28.2%
Multi-family	April	8,491	(6.4)%	(3.8)%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	April	6,542	(3.5)%	(7.8)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	April	\$236,000	0.5%	6.2%
- Phoenix S&P/C Home Price Index (2000 = 100)	March	157.60	0.3%	5.6%
- Maricopa Pending Foreclosures	April	4,146	(1.0)%	(25.8)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	April	27,015	(2.4)%	4.3%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	March	4.3 million	26.4%	1.5%
- National Park Visitors	March	1,114,134	70.9%	(1.3)%
- State Park Visitors	April	259,046	(30.6)%	(0.5)%
- Revenue Per Available Hotel Room	April	\$86.17	(26.8)%	8.3%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	2 nd Q 2016	80.0	(2.0)%	1.1%
- Arizona Coincident Index (July 1992 = 100)	April	226.04	0.0%	4.1%
- Arizona Leading Index -- 6 month projected growth	April	3.0%	(2.1)%	(2.3)%
- Arizona Personal Income	2015	\$266.8 billion	N/A	4.6%
- Arizona Population	July 2015	6,828,065	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	May	AA / Aa2	N/A	N/A
Outlook	May	Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	June 1 st	1,804,368	0.9%	8.3%
Acute Care Traditional		1,054,521	1.4%	4.8%
Prop 204 Childless Adults		308,994	0.5%	10.7%
Other Prop 204		182,877	0.3%	15.9%
Adult Expansion		83,337	(3.2)%	35.4%
Kids Care I		595	(4.2)%	(43.4)%
Long-Term Care – Elderly & DD		58,210	0.4%	2.0%
Emergency Services		115,834	1.1%	11.7%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Feb. 2016	50,692	(0.4)%	2.7%
DCS Out-of-Home Children	February	19,044	1.0%	9.2%
Filled Caseworkers (1406 Budgeted)	May	1,327	33	0
- ADC Inmate Growth	May	42,921	0.1%	1.1%
- Department of Economic Security				
- TANF Recipients	May	19,720	(1.2)%	(17.7)%
- SNAP (Food Stamps) Recipients	May	950,056	0.2%	(4.6)%
- Judiciary Probation Caseload				
Non-Maricopa	February	18,609	15	517
Maricopa County	February	27,517	(2)	888
United States				
- Gross Domestic Product	1 st Q, 2016	\$16.5 trillion	2.0%	0.8%
(Chained 2009 dollars, SAAR)	(2 nd Estimate)			
- Consumer Confidence Index (1985 = 100)	May	92.6	(2.2)%	(2.1)%
- Leading Indicators Index (2010 = 100)	April	123.9	0.6%	1.9%
- Consumer Price Index, SA (1982-84 = 100)	April	238.9	0.4%	1.1%
- Personal Consumption Price Index (2009 = 100)	April	110.3	0.3%	1.1%

JLBC Meeting

At its June 16, 2016 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Corrections – Review of Per Diem Rate Change for Year 4 of Inmate Health Care Contracted Services – The Committee gave a favorable review of the Arizona Department of Corrections' (ADC) expenditure plan to increase the inmate health care per diem from \$11.60 to \$12.06 at a total FY 2017 cost of \$2.7 million. The adjustment costs \$4.9 million. The FY 2017 budget funds \$2.7 million for this increase through accrued savings from the Kingman refinancing, along with the lower-than budgeted population growth and Medicaid savings providing the other \$2.2 million.

Arizona Department of Administration/Arizona Department of Education – Review of AELAS Expenditure Plan (Automation Projects Fund) – The Committee gave a favorable review of an expenditure plan of \$7.3 from the Automation Projects Fund for the Arizona Education Learning and Accountability System (AELAS). The favorable review included numerous provisions, including reporting requirements.

Secretary of State – Review of Election Services Line Item Transfers – The Committee gave a favorable review of a transfer of \$712,000 from the Election Services line item to the agency's operating budget during FY 2017. SOS requested review of the transfer in order to fund various election activities that were not included in the restrictions for the Election Services line item.

Department of Public Safety – Review of Border Strike Force Expenditure Plans – The Committee gave a favorable review of the Department of Public Safety's (DPS) expenditure plan for the newly-created Border

Strike Task Force ongoing and one-time line items. The Committee deferred reviewing the local support line item. The favorable review included numerous provisions with reporting requirements.

Department of Public Safety – Review of the Expenditure Plan for the GIITEM Border Security and Law Enforcement Subaccount – The Committee gave a favorable review of DPS' \$2.9 FY 2017 expenditure plan for the Gang and Immigration Intelligent Team Enforcement Mission (GIITEM). The expenditure plan includes distributions to all 15 county sheriffs, 6 municipalities, and the Arizona Department of Corrections.

Arizona Department of Administration/Department of Child Safety – Review of CHILDS (Automation Projects Fund) – The Committee gave a favorable review of the Department of Child Safety's (DCS) \$300,000 expenditure plan from the Automation Projects Fund for the Children's Information Library and Data Source (CHILDS) replacement project to develop multiple Requests for Proposal (RFPs). The favorable review included numerous provisions with reporting requirements.

Department of Child Safety – Review of Contractor Award for Backlog Privatization – The Committee gave a favorable review of the DCS' FY 2016 expenditure plan and a portion of the agency's FY 2017 expenditure plan for awards to a contractor to resolve backlog cases. The remaining amounts from the FY 2017 appropriation will be reviewed upon DCS submission of the complete set of awards. The FY 2017 budget included \$2.7 million from the General Fund for backlog privatization in each of FY 2016 and FY 2017. The favorable review included provisions with reporting requirements.

JCCR Meeting

At its June 16 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Corrections – Review of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review to the ADC proposed Building Renewal plan totaling \$5.5 million, which primarily funds structural repairs, replacement of obsolete and unreliable locking systems, and the replacement of evaporative cooling at certain medical units. In addition, the plan funds a variety of equipment replacements and upgrades in units across the state.

Arizona Department of Administration/Arizona Department of Corrections – Review of Lease-Purchase Refinancing for Kingman – The Committee gave favorable review of the refinancing agreement of the Kingman private prison facility. The agreement is expected to generate cost savings of \$8.7 million per year on an ongoing basis or \$77.5 million in total. The \$8.7 M ongoing savings will be allocated as follows: 1) ASP Kingman Adjustment - \$2.5 million increase in the per diem rate to the vendor to be used for increased salaries, along with food price increases and health care inflation; 2) \$2.7 million of funding for the ADC

JCCR Meeting (Continued)

health-care adjustment in the corresponding JLBC agenda item; 3) \$1.6 million to open the Northern Regional Community Corrections Center; and 4) \$1.9 million remains unallocated. The favorable review included a standard debt financing provision along with a requirement that ADC seek review before the expenditure of the unallocated monies.

Arizona Department of Administration – Review of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review of the ADOA proposed Building Renewal Plan totaling \$27.0 million, with the following exceptions:

- 1) Review of the \$500,000 of the \$4.2 million allocation for the 1740 West Adams renovation. Of this amount, \$350,000 funds demolition and abatement and \$150,000 funds architectural and engineering design for major building systems. The remaining \$3,700,000 for the renovation of 1740 West Adams would be deferred until ADOA receives review from the Committee on their tenant relocation report.
- 2) No review of the \$120,000 allocation for the repair of the 1938 Works Progress Administration Civic Building until certain legal requirements are met. Statute does not permit ADOA to spend the \$120,000 until matching funds from the City of Phoenix are received. When ADOA and the Arizona Exposition and State Fair Board subsequently request review of the 1938 WPA Civic Building Project, they shall include information on how total project funds will be spent and if the repairs will be sufficient to make the building operational.

The favorable review also included standard building renewal provisions. The plan will fund a variety of projects including fire alarm repairs, building renovation, new roofing, parking lot repairs, and HVAC replacement.

Arizona Exposition and State Fair Board – Review of the FY 2016 Capital Improvement Expenditures – The Committee gave favorable review of 6 capital projects with a total cost of \$291,000 in FY 2016. The review also includes the provision that the State Fair report to the JCCR if any proposed project exceeds the estimated cost by 20% and requires notification for emergency use of the State Fair's building renewal appropriation.

Arizona Game and Fish Department – Review of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review of 3 capital projects with a total cost of \$243,100 in FY 2017. The review includes a provision that requires Game and Fish to seek JCCR review of any remaining funds from the FY 2017 building renewal appropriation prior to expenditure, in accordance with A.R.S. § 41-1252 A(4).

Department of Emergency and Military Affairs – Review of Proposed Expenditures from the Military Installment Fund – The Committee gave favorable review of DEMA's plan to expend \$1.4 million from the Military Installment Fund for 4 land purchases near existing military facilities. The favorable review includes the following provisions: 1) DEMA will adjust the land purchases prices as necessary so that no purchase exceeds the appraised value; and 2) DEMA shall seek JCCR review if any proposed purchase prices increases by more than 10%. The Committee deferred review of land purchases near Davis-Monthan Air Force Base and Fort Huachuca in order to obtain more information.

Arizona State Parks Board – Review of Buckskin Sanitary District Lease and Easement – The Committee gave a favorable review of Arizona State Parks Board's (ASP) proposed lease and easement agreement with the Buckskin Sanitary District. ASP will provide a no cost 40-year land lease and easement to the district for construction of the new sanitation facilities that will be used for all district customers, including 2 state parks. This arrangement is expected to save ASP \$1.3 million over the next 20-years due to reduced wastewater treatment costs.

Arizona Department of Transportation – Review of De-Icer Buildings Project – The Committee gave favorable review of the Arizona Department of Transportation's (ADOT) \$2.3 million expenditure plan for construction of 4 de-icer buildings using the State Highway Fund. The FY 2016 Capital Outlay Bill appropriated this amount for 5 buildings.

Arizona Department of Transportation – Review of Vehicle Wash Systems Project – The Committee gave favorable review of ADOT's \$2.3 million expenditure plan to purchase 6 new vehicle wash systems using the State Highway Fund. The FY 2015 Capital Outlay Bill appropriated \$3.0 million from the State Highway Fund in FY 2015 for this purpose.

Arizona State University – Review of Sun Devil Stadium Renovation Phase 3 – The Committee gave favorable review to Arizona State University's (ASU) request of \$75.7 million in University System revenue bond issuances to fund the third and final phase of the renovation of Sun Devil Stadium. The total cost of Phase 3 is \$96.0 million, consisting of \$75.7 million from the revenue bonds and \$20.3 million of gift revenue. The favorable review included standard university financing provisions.

Arizona State University – Review of Biodesign C Building Financing Project – The Committee gave a favorable review to ASU's request of \$120.0 million in University System revenue bond issuances to fund

JCCR Meeting (Continued)

construction of the Biodesign C building. The debt service payments will be funded by indirect cost recovery and tuition revenues. The favorable review included standard university financing provisions.

Arizona State University – Review of Building Renewal and Renovation Projects – The Committee gave a favorable review to ASU's request of \$40.0 million in University System revenue bond issuances to fund the following 3 projects at all ASU campuses: building renewal and campus infrastructure, classroom renovations, and research laboratory renovations. The debt service will be funded by tuition revenues. The favorable review included standard university financing options.

In addition, the review includes a provision that by November 30, 2016, the Arizona Board of Regents (ABOR), shall report to the Committee for a review of their policy of determining the appropriate level of each University's financial liquidity and cash reserves. The report shall include the following:

1. Metrics used to measure each University's days cash on hand
2. Current levels of days cash on hand
3. Benchmarks used to develop the cash reserve policies.
4. The potential future use of cash reserves to finance capital projects in place of using debt financing

University of Arizona – Review of Health Sciences Innovation Building – The Committee gave a favorable review to the University of Arizona's (UA)

request of \$165.0 million in University System revenue bond issuances to fund construction of the 212,000 square foot Health Sciences Innovation Building. The debt service payments will be funded by University of Arizona Health Science (UAHS) fund and other local funds. The favorable review included standard university financing provisions.

University of Arizona – Review of Health Sciences Alvernon Way Project – The Committee gave a favorable review to UA's request of \$9.3 million in University System revenue bond issuances to purchase and renovate real property at 655 N. Alvernon Way in Tucson to be used for UA programs previously located in the Banner University Medical Center. The debt service payments will be funded by University of Arizona Health Science (UAHS) funds and other local funds. The favorable review included standard university financing provisions.

University of Arizona – Review of Phoenix Medical Campus Lease – The Committee gave a favorable review to UA's request of \$23.3 million in University System revenue bond issuances to purchase previously leased Phoenix Medical Campus buildings. The debt service payments will be funded with University revenues. The favorable review included standard university financing options, along with a requirement that ABOR report to the Committee for a review of their policy of determining the appropriate level of each University's financial liquidity and cash reserves (same as the ASU provision noted previously).

Summary of Recent Agency Reports

ADOA/Treasurer – Report on Reconciliation of General Fund Balance for FY 2015 – Pursuant to A.R.S. § 41-172A and A.R.S. § 35-131F the Office of the State Treasurer and the Arizona Department of Administration (ADOA) are required to submit reports reconciling any difference between agencies in the year-end General Fund balance. ADOA and the Treasurer currently report FY 2015 year-end General Fund balances (including dedicated subaccounts and excluding claims payable) of \$701.9 million and \$702.4 million, respectively. The difference leaves an unreconciled General Fund balance of \$475,000. ADOA and the Treasurer report that they will continue to try to isolate the source of the difference. (Eric Billings)

Arizona Department of Administration – Report on Private Leases – Pursuant to A.R.S. § 41-792D, the Arizona Department of Administration (ADOA) is biennially required to submit a report on all approved office leases that exceeded the Lease Cost Review

Board's (LCRB) estimated average cost per square foot for privately-owned office space during the prior 2 years. ADOA approved 55 leases in FY 2015 and 51 leases in FY 2016. Ten of the leases approved in FY 2016 exceeded the LCRB's \$19.90 average cost per square foot for privately-leased space. (Rebecca Perra)

Attorney General – Quarterly Reports on Legal Settlements – A.R.S. § 41-191.02B, 41-192J, 44-1531.01D, and 44-1531.02D requires the Attorney General (AG) to report quarterly to the JLBC on the receipts to and disbursements from the Antitrust Enforcement Revolving Fund, the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the third quarter of FY 2016, the AG deposited a total of \$340,000 into various consumer accounts. Of that

Summary of Recent Agency Reports (Continued)

amount, \$3,000 was deposited into the Antitrust Enforcement Revolving Fund, \$254,400 to the CCPF Revolving Fund, \$61,900 to the Restitution Subaccount, and \$20,700 to the Remediation Subaccount. An additional \$544,400 was deposited into the General Fund. Only the \$20,700 deposit to the Remediation Subaccount requires JLBC review prior to expenditure.

Deposits to the Antitrust Enforcement Revolving Fund
The AG deposited \$3,000 in the third quarter of FY 2016 to the appropriated Antitrust Enforcement Revolving Fund to pay for antitrust enforcement expenses undertaken by the AG. The entire \$3,000 in revenues to the fund came from legal settlements.

Deposits to the CCPF Revolving Fund
The AG deposited \$254,400 in the third quarter of FY 2016 to the appropriated CCPF Revolving Fund, which may be used for any purpose permitted by statute. The amount was derived from a settlement that the AG reached with the defendants in the *Cooke* lawsuit. The AG brought suit in federal court against the cities of Hildale, Utah and Colorado City, Arizona claiming that the cities had denied utilities and other governmental services to citizens as a result of their non-affiliation with the Fundamentalist Church of Jesus Christ of Latter-Day Saints.

Deposits to the Consumer Restitution Subaccount
The AG deposited \$61,900 in the third quarter of FY

2016 to the non-appropriated Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$61,600 came from small legal settlements and the remainder came from interest income.

Deposits to the Consumer Remediation Subaccount
The AG deposited \$20,700 in the third quarter of FY 2016 to the partially-appropriated Remediation Subaccount to rectify violations of consumer protection laws. These revenues were interest income on the fund balance. An expenditure plan must be reviewed by the JLBC before any funds are spent from this account. Those reviews have not yet occurred.

Deposits to the General Fund
The AG deposited \$544,400 in the third quarter of FY 2016 to the General Fund. These revenues were the result of a settlement that the AG reached with the cities of Hildale, Utah and Colorado City, Arizona as part of the *Cooke* lawsuit. (*Details of the lawsuit can be found in the Deposits to the CCPF Revolving Fund section above.*) (Eric Billings)

Department of Child Safety (DCS) — Monthly Report on Hiring — Pursuant to a FY 2017 General Appropriation Act footnote, DCS has reported on its progress in hiring and retaining child safety staff through May 2016. (See *Table 6 below*)

	January 2016	May 2016	Change thru January 2016
<u>Direct Line Staff</u>			
Caseworkers	935	970	35
Hotline Staff	74	76	2
Staff in Training	<u>286</u>	<u>281</u>	<u>(5)</u>
Subtotal - Direct Line	1,295	1,327	32
<u>Non-Direct Line Staff</u>			
Asst. Program Managers	40	40	0
Unit Supervisors	217	216	(1)
Case Aides	280	256	(24)
OCWI	75	84	9
Contracts and Procurement	17	18	1
Child Safety Support Admin.	54	86	32
CMDP Administration	56	79	23
Inspections Bureau	35	56	21
Other Non-Direct Line Staff	<u>621</u>	<u>546</u>	<u>(75)</u>
Subtotal - Non-Direct Line	1,395	1,381	(14)
Grand Total	2,690	2,708	18

Summary of Recent Agency Reports (Continued)

Direct Line Child Safety Staff – Since January 2016, the number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) increased by 32 to 1,327. The budgeted staffing level is 1,406. The number of staff directly working cases increased by 35 FTE Positions to 970. The monthly turnover rate for direct line staff declined from January to May, going from 2.8% in January 2016 to 2.2% in May 2016. From April to May, the number of direct line staff grew by 33.

Non-Direct Line Child Safety Staff - Since January 2016, non-direct line child safety staff has decreased by (14) to 1,381. The budgeted staffing level is 1,417 excluding Attorney General positions. One of the most significant changes in filled positions was associated with case aides, which declined by (24) positions from January. The turnover rate for non-direct line staff increased from a January 2016 turnover rate of 1.9% to a May 2016 turnover rate of 2.4%. From April to May, the number of non-direct line staff decreased by (53).

Department of Education – Report on Empowerment Scholarship Accounts – Pursuant to A.R.S. § 15-2403G, the Arizona Department of Education (ADE) provided an estimate of how much it will cost to fund Empowerment Scholarship Accounts (ESAs) for FY 2017. In its report, ADE estimates that it will cost \$37.0 million to fund ESAs in FY 2017, which would be \$10.0 million above its current estimate for FY 2016. ADE likewise estimates that program enrollment will grow by 1,498 students in FY 2017, increasing from 2,502 students in FY 2016 to 4,000 in FY 2017. The net cost of the ESA program above what participating students would receive through Basic State Aid if they were not ESA participants is unknown because an unknown portion of ESA recipients would attend private schools rather than public schools apart from the program. Those students would not generate offsetting Basic State Aid costs for the program. (Steve Schimpp)

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. In FY 2016, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. During the third quarter of FY 2016 DPS expended \$452,700 primarily for the final payments of the statutory \$1.6 million and \$500,000 distributions to the Maricopa County Sheriff and Pinal County Sheriff, respectively. These expenditures bring the year-to-date total to \$2.2 million.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$537,400 in criminal fine and fee revenues in the third quarter of FY 2016, bringing the year-to-date revenue total to \$1.6 million. DPS expended \$182,900 in the third quarter for grants to 9 local law enforcement agencies and the Arizona Department of Corrections for detention liaison officers, GIITEM Border District positions, and other border security purposes. (Eric Billings)

May Spending

May 2016 General Fund spending of \$624.9 million was \$81.3 million above May 2015. The spending increase for the month is the result of including FY 2016 spending added in the May enacted budget.

Year to date, spending is \$8.69 billion, or \$(11.4) million below last year. (See Tables 7 & 8).

- Year to date, the Department of Education has spent \$71.6 million more than the prior year. This spending increase is expected to grow in June as the disbursements enacted by Proposition 123 occur.
- Universities' spending increased by \$81.4 million during May. The enacted budget included a one-time \$200 million spending increase for the Universities' to eliminate their payment deferral. A portion of this allocation occurred in May.

	Change From			YTD Change from FY 15
	<u>May 16</u>	<u>May 15</u>	<u>Year-to-Date</u>	
Agency				
AHCCCS	89.2	(1.7)	1,079.6	(36.1)
Corrections	84.3	18.0	954.7	74.8
Child Safety	18.3	18.3	372.9	131.4
Economic Security	32.1	15.9	471.5	(125.4)
Education	225.4	(36.5)	3,659.5	71.6
Health Services	11.1	(10.0)	587.8	(15.3)
Public Safety	1.8	0.2	88.3	1.6
School Facilities Board	0.3	0.2	190.6	1.6
Universities	127.9	81.4	713.9	(11.9)
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>34.5</u>	<u>(4.5)</u>	<u>490.6</u>	<u>(103.7)</u>
Total	624.9	81.3	8,693.5	(11.4)

Table 8

General Fund Spending (\$ in Thousands)				
Agency	May 16	Change from May 15	Year-to-Date	YTD Change from FY 15
Dept. of Admin./Automation Projects Fund	4,690.5	3,808.7	25,148.1	(42,300.2)
ADOA – Sale/Leaseback Debt Service	-	-	84,114.6	(7.1)
Office of Administrative Hearings	70.4	12.5	798.0	(10.5)
Commission of African-American Affairs	17.3	11.0	117.9	88.9
Department of Agriculture	771.7	80.3	7,606.5	327.0
AHCCCS	89,206.2	(1,675.4)	1,079,619.8	(36,132.3)
Attorney General	1,965.8	296.5	20,579.1	405.4
State Board of Charter Schools	69.3	1.8	974.3	139.6
Department of Child Safety	18,349.5	18,349.5	372,871.2	131,375.5
AZ Commerce Authority	2,208.3	(416.7)	24,516.3	(4,583.7)
Community Colleges	1,406.8	1,406.8	52,830.6	(19,228.3)
Corporation Commission	35.6	(10.3)	542.9	(10.0)
Department of Corrections	84,286.3	18,014.2	954,718.1	74,756.1
County Funding	-	-	6,000.5	(1,650.0)
AZ State Schools for the Deaf & Blind	686.9	(1,342.0)	21,966.4	2,402.4
Department of Economic Security	32,129.3	15,902.4	471,511.1	(125,378.9)
State Board of Education	100.3	68.9	1,108.7	1,077.3
Department of Education	225,425.9	(36,518.2)	3,659,492.0	71,637.8
DEMA	785.5	301.2	10,031.7	2,201.1
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	13.5	4.2	177.8	44.4
State Board of Equalization	35.0	1.3	489.2	30.7
Board of Executive Clemency	60.1	(1.4)	832.0	(0.3)
Department of Financial Institutions	270.2	(0.4)	2,727.1	(62.5)
Department of Fire, Bldg and Life Safety	168.3	96.3	2,020.1	238.4
State Forester	351.4	(232.3)	7,426.5	511.3
Department of Gaming	-	-	1,794.4	1,794.4
Arizona Geological Survey	69.7	11.5	883.2	23.5
Governor/OSPB	1,117.2	(918.2)	9,433.4	(1,200.5)
Department of Health Services	11,093.9	(10,000.5)	587,755.4	(15,343.9)
Arizona Historical Society	217.0	2.3	2,972.0	(1.5)
Prescott Historical Society of AZ	63.3	6.7	832.2	80.1
Independent Redistricting Comm.	119.2	80.5	1,656.3	753.7
Commission of Indian Affairs	5.9	4.8	46.8	(0.8)
Department of Insurance	355.3	(29.8)	4,627.2	(190.2)
Judiciary				
Supreme/Superior Court	10,879.1	401.5	88,141.6	(3,994.4)
Court of Appeals	1,199.9	12.5	12,960.3	(57.0)
Department of Juvenile Corrections	1,693.9	(1,989.4)	22,177.6	(14,724.6)

Table 8 (Continued)

Agency	May 16	Change from May 15	Year-to-Date	YTD Change from FY 15
State Land Department	642.0	(403.1)	9,823.2	(1,035.5)
Legislature				
Auditor General	(285.2)	(1,755.0)	16,731.9	(1,969.5)
House of Representatives	978.7	(4.9)	12,789.0	389.4
Joint Legislative Budget Comm.	161.8	(0.4)	2,083.7	(11.9)
Legislative Council	382.9	17.4	5,654.7	(1,806.7)
Senate	650.4	34.4	7,259.6	(834.1)
Mine Inspector	88.2	(9.4)	1,040.9	(15.4)
Nav. Streams & Adjudication	8.2	(2.0)	110.0	(57.9)
Occupational Safety and Health Review	-	-	2.5	1.6
Arizona State Parks Board	-	-	417.8	417.8
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	-	(168.0)	-	(1,603.1)
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	1,835.2	154.3	88,278.1	1,577.8
Public Safety Personnel Retirement System	-	-	6,000.0	-
Arizona Department of Racing	-	(1.1)	-	(1,931.6)
Radiation Regulatory Agency	0.6	(68.0)	1,595.3	183.5
Real Estate Department	194.2	(24.6)	2,252.0	(49.7)
Department of Revenue	618.2	(3,608.2)	28,447.1	(13,387.1)
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	343.4	240.2	190,602.6	1,632.8
Secretary of State	1,089.0	473.3	12,372.6	(570.9)
Tax Appeals Board	-	-	224.9	(17.9)
Office of Tourism	-	-	7,103.7	(2,000.0)
Department of Transportation	-	3.2	7.1	6.1
Universities				
Board of Regents	687.7	(226.1)	21,241.0	(3,687.0)
Arizona State University	107,133.2	85,574.0	363,929.5	36,202.9
Northern Arizona University	5,951.9	(1,363.6)	94,965.7	(16,000.0)
University of Arizona	14,080.3	(2,586.1)	233,812.6	(28,447.5)
Department of Veteran Services	586.8	(34.9)	5,136.9	566.2
Department of Water Resources	1,049.4	(296.2)	10,186.6	(527.1)
Water Infrastructure Finance Authority	-	996.2	-	(3.8)
Department of Weights & Measures	4.2	(87.2)	1,062.2	(146.9)
Other - JP Salaries Distribution	75.9	(55.3)	1,158.0	232.1
Other	(0.0)	(19.5)	136.8	(97.2)
Total	624,933.5	81,258.7	8,693,511.0	(11,391.4)

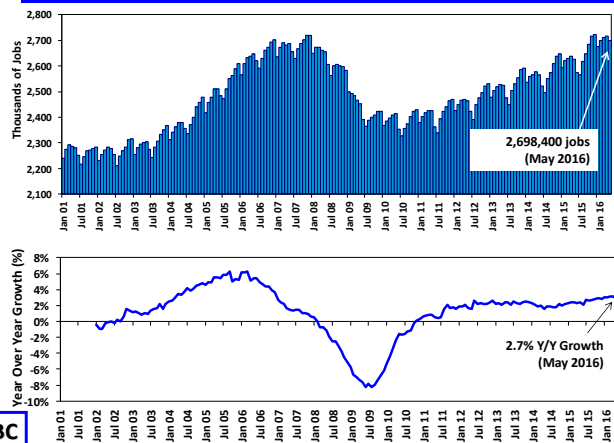
Tracking Arizona's Recovery

June 2016
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

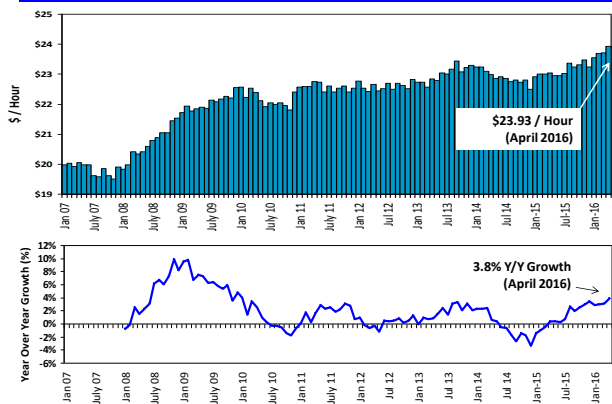
Total Non-Farm Employment



JLBC

2

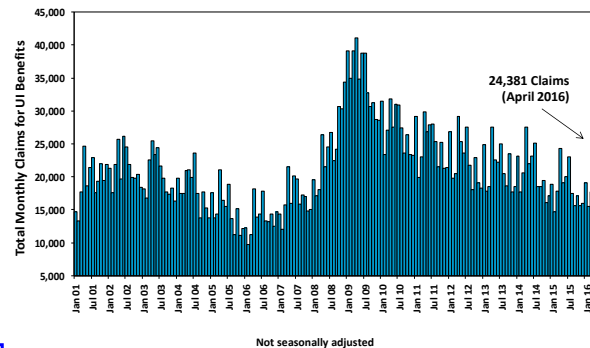
Average Hourly Earnings – Private Sector



JLBC

3

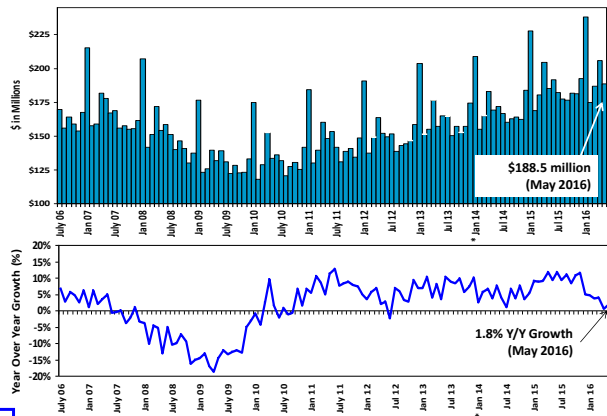
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



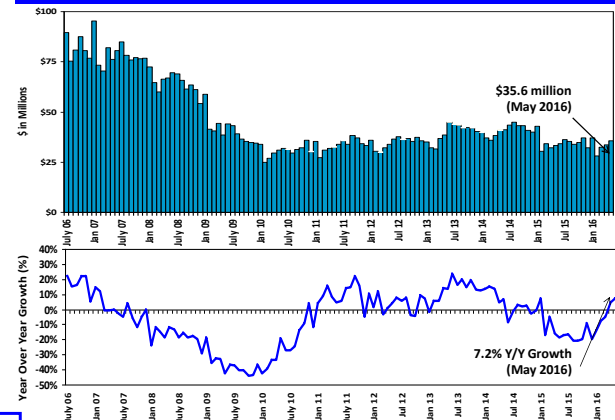
JLBC

Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

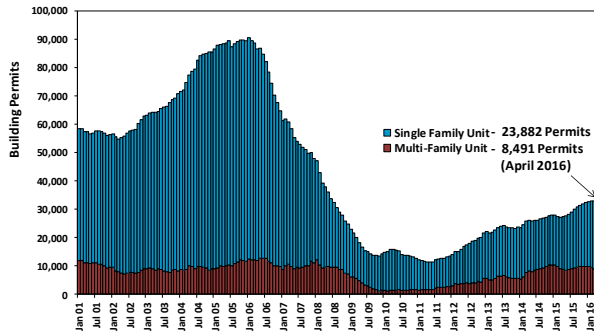


JLBC

Excludes temporary 1 c sales tax

6

Residential Building Permits

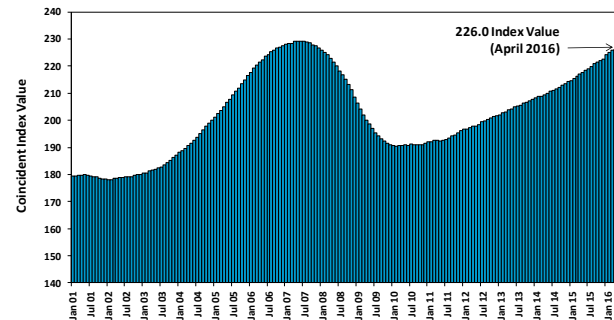


JLBC

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