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## Summary

October 2016 General Fund revenues were \$740.8 million, which represents an increase of 2.3% above the prior year. Collections during October were \$33.4 million above the enacted budget forecast.

Continuing a trend seen in prior months, the Sales Tax posted moderate growth, while the Corporate Income Tax category saw a double digit percentage decline for the third month so far during FY 2017.

In contrast, Individual Income Tax had the strongest growth rate of the state's large revenue categories. Collections increased by 14.2% and were \$29.2 million above forecast.

The performance of the Individual Income Tax was the result of several factors, one of which was a substantial increase in withholding revenues. During October, withholding grew by 13.5%, bringing the year-to-date growth rate to 8.4% above the prior year.

The year-to-date growth in withholding was helped by 2 factors: 1) Due to technical reasons, DOR underreported withholding receipts during July – March in FY 2016, which artificially lowered the withholding amount reported in the beginning of FY 2016; 2) The state's employment growth has remained largely steady at approximately 3% over the past year.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, General Fund revenues are 3.5% above the prior year and are \$56.9 million above the enacted forecast.

In comparison to revenue collections of \$740.8 million, October 2016 spending was \$699.9 million, which is an increase of \$5.5 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$3.01 billion have been offset by \$4.32 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-November 2016 is \$1.38 billion, while the state's Budget Stabilization Fund has a current balance \$453.0 million.

### ATRA Outlook Conference

At the annual Arizona Tax Research Association Outlook Conference, JLBC Staff presented a **Revenue and Budget Update** which summarized the most recent revenue and spending projections, along with fiscal issues for the upcoming Legislative session.

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## October Revenues

	<u>FY 2017 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2016</u>
October	\$ 740.8	\$ 33.4	\$ 16.6
Year-to-Date	\$ 3,018.3	\$ 56.9	\$ 92.2

**Sales Tax** collections of \$368.5 million were 4.3% above October of last year and \$4.3 million above the forecast for the month. Year-to-date, Sales Tax revenues have increased by 3.5% and are \$8.0 million above forecast.

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

	<u>October</u>	<u>YTD</u>
Retail	2.0%	3.9%
Contracting	6.7%	4.0%
Use	25.1%	(0.1)%
Restaurant & Bar	9.0%	9.0%
Utilities	(2.9)%	0.8%

**Individual Income Tax** net revenues of \$364.3 million in October were \$45.2 million more than the prior year and \$29.2 million above forecast for the month. Year-to-date, revenue has grown 6.9% over the prior year.

As indicated in Table 3, withholding increased by 13.5% above last year and was \$12.0 million above the forecast. The monthly increase was, in part, the result of an additional major processing day compared to October of 2015. Year-to-date withholding collections are 8.4% above FY 2016.

October estimated and final payments of \$59.4 million were (22.6)% below last year and \$(19.9) million below the forecast. The monthly decrease in payments may reflect the one-time nature of final payments received in October 2015 from taxpayers that took extensions for filing their 2014 returns. Year to date, payments are (9.3)% below those collected during the same period of FY 2016.

October Individual Income Tax refunds totaled \$(38.8) million – this compares to \$(60.5) million in October 2015 and a forecasted amount of \$(75.9) million. The reasons for the large monthly decrease in refunds are not well understood, but may partly reflect timing issues for processing returns of taxpayers that received extensions on their 2015 returns. The amount of refunds which posted in the first week of November were higher than usual, which suggests at least a modest delay in processing. Year-to-date refunds have led to a \$33.9 million gain compared to the enacted forecast.

	<u>October</u>	<u>YTD</u>
Withholding	13.5%	8.4%
Estimated/Final Payments	(22.6)%	(9.3)%
Refunds	(35.9)%	(14.7)%

**Corporate Income Tax** net collections were \$30.7 million in October, which was \$(14.7) million less than in the prior year and \$(0.9) million below the forecast. Year to date, collections are \$(52.4) million below prior year collections. This decrease is probably the result of the multi-year statutory decline in the Corporate Income Tax rate and a decline in corporate profits during the last year.

**Insurance Premium Tax** collections of \$4.1 million in October were \$(5.9) million below the prior year and \$(1.5) million below the forecast. October collections for Insurance Premium Tax largely consist of late payments from AHCCCS health plans. Year-to-date, collections are 7.5% above last year.

The **Lottery Commission** reports that October ticket sales were \$59.9 million, which is \$(0.3) million, or (0.5)%, below sales in October 2015. Year-to-date ticket sales are \$248.7 million, which is 2.5% above last year's sales. Distributions of Lottery revenues for ticket sales in July through September are expected to be deposited to the General Fund in November while distributions associated with October Sales are expected to be made in January.

**Highway User Revenue Fund (HURF)** collections of \$115.3 million in October were up 4.6% compared to October of last year and were \$5.2 million above forecast. Year-to-date collections are 4.4% above last year.

Due to delays in reporting final September revenues for sales and luxury taxes, DOR has made **technical adjustments** to prior month collection figures. For October, DOR has reduced the amount of prior General Fund revenue collections by \$(6.7) 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 October 2016

	Current Month					FY 2017 YTD (Four Months)				
	Actual October 2016	Change From October 2015		Budget Forecast		Actual October 2016	Change from October 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$368,502,768	\$15,294,319	4.3 %	\$4,277,539	1.2 %	\$1,459,275,884	\$49,159,901	3.5 %	\$7,976,585	0.5 %
Income - Individual	364,275,584	45,241,234	14.2	29,218,882	8.7	1,436,817,434	92,429,153	6.9	42,040,846	3.0
- Corporate	30,677,582	(14,705,393)	(32.4)	(919,290)	(2.9)	116,326,107	(52,424,211)	(31.1)	(23,124,761)	(16.6)
Property	4,823,998	(3,018,899)	(38.5)	(1,384,043)	(22.3)	5,588,826	(2,941,318)	(34.5)	(1,346,554)	(19.4)
Luxury - Tobacco	1,924,699	(211,596)	(9.9)	0	0.0	7,644,223	(524,857)	(6.4)	(379,234)	(4.7)
- Liquor	2,745,493	140,420	5.4	0	0.0	9,666,217	(237,305)	(2.4)	(577,899)	(5.6)
Insurance Premium	4,077,218	(5,859,256)	(59.0)	(1,499,283)	(26.9)	149,145,430	10,414,484	7.5	15,009,106	11.2
Other Taxes	51,545	1,760	3.5	(294,601)	(85.1)	1,185,276	1,016,687	603.1	(437,221)	(26.9)
<b>Sub-Total Taxes</b>	<b>\$777,078,887</b>	<b>\$36,882,589</b>	<b>5.0 %</b>	<b>\$29,399,205</b>	<b>3.9 %</b>	<b>\$3,185,649,396</b>	<b>\$96,892,535</b>	<b>3.1 %</b>	<b>\$39,160,867</b>	<b>1.2 %</b>
<b>Other Revenue</b>										
Lottery	0	(12,931,475)	(100.0)	0	--	0	(12,931,475)	(100.0)	0	--
License, Fees and Permits	2,416,186	(110,171)	(4.4)	(473,928)	(16.4)	11,149,913	1,487,250	15.4	540,476	5.1
Interest	18,783	15,788	527.2	15,737	516.7	120,776	112,799	--	108,663	897.1
Sales and Services	1,281,427	649,211	102.7	(99,456)	(7.2)	12,970,027	9,827,392	312.7	7,400,055	132.9
Other Miscellaneous	13,490,195	10,240,519	315.1	12,225,714	--	19,320,199	14,080,495	268.7	14,629,284	311.9
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,125,701	(14,015,533)	(92.6)	(7,692,674)	(87.2)	9,079,737	819,758	9.9	(4,901,048)	(35.1)
<b>Sub-Total Other Revenue</b>	<b>\$18,332,292</b>	<b>(\$16,151,661)</b>	<b>(46.8) %</b>	<b>\$3,975,394</b>	<b>27.7 %</b>	<b>\$52,640,652</b>	<b>\$13,396,219</b>	<b>34.1 %</b>	<b>\$17,777,430</b>	<b>51.0 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$795,411,178</b>	<b>\$20,730,928</b>	<b>2.7 %</b>	<b>\$33,374,599</b>	<b>4.4 %</b>	<b>\$3,238,290,048</b>	<b>\$110,288,754</b>	<b>3.5 %</b>	<b>\$56,938,297</b>	<b>1.8 %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	(0)	0.0	(221,194,056)	(19,315,945)	9.6	(0)	0.0
One-Time Transfers	729,948	729,948	--	0	0.0	1,191,548	1,191,548	--	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(54,568,566)</b>	<b>(4,099,038)</b>	<b>8.1 %</b>	<b>(0)</b>	<b>0.0 %</b>	<b>(220,002,508)</b>	<b>(18,124,397)</b>	<b>9.0 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$740,842,613</b>	<b>\$16,631,890</b>	<b>2.3 %</b>	<b>\$33,374,599</b>	<b>4.7 %</b>	<b>\$3,018,287,540</b>	<b>\$92,164,357</b>	<b>3.1 %</b>	<b>\$56,938,297</b>	<b>1.9 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$115,305,597	\$5,106,720	4.6 %	\$5,198,634	4.7 %	\$460,803,762	\$19,553,697	4.4 %	\$14,241,126	3.2 %

## 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 2.9% in the third quarter of 2016. This estimate is the highest rate of growth since the third quarter of 2014 and reflects a strong pickup from the weak growth of 1.4% in the second quarter of 2016. The acceleration relative to the prior quarter was primarily due to growth in inventory investment, exports and federal government spending. Improved performance in these categories was partly offset by a deceleration in consumption spending and an increase in imports.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (4.7)% to 98.6 in October, after having reached a post-recession high of 104.1 in September. The monthly decrease reflected widespread consumer pessimism about current economic and job circumstances. Economists think the decrease may have been driven by political uncertainty in the lead-up to the election and rising fuel prices. Year-over-year growth for the index fell to (0.5)% in October.

The Conference Board's **U.S. Leading Economic Index** increased by 0.2% in September and stands 0.6% above its September 2015 reading. Of the index's 10 components, 5 made positive contributions in September. Building permits registered a particularly strong positive contribution, and low average weekly initial claims for unemployment insurance also contributed positively. Average workweek of production workers and stock prices negatively contributed, but not enough to offset the strong performance of positive contributing components.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.3% in September and 1.5% above September 2015 prices, its largest 12-month increase since October 2014. The monthly increase was primarily driven by a 5.8% increase in the gasoline index, and also by a smaller increase in the shelter index. Energy prices increased 2.9%, with other energy indexes rising along with the gasoline index. Core inflation (all items less food and energy) increased 0.1% in September. Indexes for medical care, motor vehicle insurance and personal care increased, while indexes for communication, apparel, used cars and trucks, recreation and new vehicles declined.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** grew 0.2% in September, relative to August. The overall index stands 1.2% above the September 2015 level. The monthly increase in the overall measure was largely driven by monthly growth of

3.0% in energy prices. Annual growth in the core index (all items except food and energy) grew by 0.1% during the month.

### ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Arizona's coincident index increased by 3.0% compared to September 2015. Over the same time period, the U.S. coincident index increased by 2.9%. See *Appendix A – Arizona Economic Trends for additional historical information*.

#### Housing

Single-family housing construction is increasing. Multi-family construction had previously peaked, but has recently started to increase again. Arizona's 12-month total of **single-family building permits** is 23,927, or 13.1% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 9.5%. See *Appendix A – Arizona Economic Trends for historical information*.

The 12-month total of multi-family building permits has started to increase again. Arizona's total of 10,633 **multi-family building permits** is 10.1% more than 2015. Arizona's rate of increase is now greater than the comparable multi-family permit growth for the U.S. as a whole, which is (5.3)% lower than 2015.

#### Employment

According to information released by the Office of Economic Opportunity (OEO), the state added 28,000 net new **nonfarm jobs** in October over September. This was slightly above the average employment gain for October in the prior 5 years, which was 26,500.

Compared to the same month in the prior year, the state added 49,600 nonfarm jobs in October. This represents a net job growth rate of 1.8%, which is the smallest such increase since September 2014. Overall, employment growth has slowed over the last 3 months.

The state's **unemployment rate** declined from 5.5% in September to 5.2% in October. This was the lowest reading since March 2008 when the jobless rate was 5.0%. The U.S. unemployment rate was 4.9% in October, a decrease of 0.1% over the prior month.

## Monthly Indicators (Continued)

In September, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.0 hours. This workload was (0.3)% below the level during the prior month and (1.2)% below the level in September 2015.

The **Average Hourly Earnings** received by private sector workers was \$24.26, which is 0.1% above the average in the prior month. September earnings were 4.3% above the average in September 2015. The month represented the second time since the start of calendar year 2010 that year-over-year earnings growth exceeded 4.0%.

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the "regularly" unemployed, the measure also includes persons who are available to work but stopped looking for a job ("discouraged workers"), and persons who had to settle for part-time employment ("underemployed workers"). The Arizona rate averaged 10.9% from the third quarter of 2015 through the third quarter of 2016. This rate is (0.4)% below the reading issued for the prior period. The state's 10.9% rate was the ninth highest of any state, which represented an improvement over the state's sixth place rank during the prior quarter. The national average for the measure was 9.8% during the quarter.

OEO reported that 17,773 **initial claims for unemployment insurance** were filed in October, an increase of 3.8% compared to the same month last year. This was the first year-over-year increase of initial jobless claims for the month of October since 2013.

According to OEO, the state had a total of 28,421 **claimants receiving unemployment insurance benefits** in October, a decrease of (5.2)% from September. This figure was (4.4)% below the October 2015 level, and represented the lowest number of claimants receiving jobless benefits for the month of October in 10 years.

### State Agency Data

At the beginning of November 2016, the total **AHCCCS** caseload was 1.9 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 605,310 members.

Total monthly enrollment increased by 10,735 members, or 0.6%, during October. Growth over the prior month was widespread across most AHCCCS populations. Traditional and Proposition 204 populations of low income parents and children collectively grew 2,700 (0.2%) during the month.

Laws 2016, Chapter 112 reopened enrollment in the KidsCare program for children with family incomes above those in the Traditional population, beginning September 1, 2016. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by August 2016. Through November 1, enrollment in the program reached 9,200, or 3,300 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In October 2016, the childless adult population increased by 2,500, or 0.8%. At 316,800, this population is 4.4% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 400 in October and now totals 81,100 individuals. Enrollment is 6.2% higher than a year ago. The federal government is currently paying 100% of this cost through the end of calendar year 2016.

There were 20,063 **TANF recipients** in the state in October, representing a (0.7)% monthly caseload decrease from September. The year-over-year number of TANF recipients has declined by (16.2)%. The statutory lifetime limit on cash assistance is 12 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In October, 975,447 people received food stamp assistance in the state, representing a (0.3)% decrease over September caseloads. Compared to October caseloads last year, the level of food stamp participation has declined by (2.9)%.

The **inmate population** was 42,600 as of October 31, 2016. This is a (0.7)% decrease since last October. The population decreased by (0.2)% since September 2016. Laws 2016, Chapter 119 included a provision that if the male inmate count exceeds 39,762 by November 2016, the department may open 1,000 additional private prison beds. As of October 31, 2016, ADC held 38,595 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>
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	October	5.2%	(0.3)%	(0.7)%
- Total Unemployment Rate (discouraged/underemployed)	3 <sup>rd</sup> Q 2016	10.9%	(0.4)%	(2.7)%
- Initial Unemployment Insurance Claims	October	17,773	6.4%	3.8%
- Unemployment Insurance Recipients	October	28,421	(5.2)%	(4.4)%
- Non-Farm Employment - Total	October	2,733,400	1.0%	1.8%
Manufacturing	October	158,200	0.1%	(0.7)%
Construction	October	139,600	0.3%	8.1%
- Average Weekly Hours, Private Sector	September	34.0	(0.3)%	(1.2)%
- Average Hourly Earnings, Private Sector	September	\$24.26	0.1%	4.3%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	August	\$1.01 billion	3.9%	5.5%
Furniture/Home Furnishings	August	\$331.1 million	(4.2)%	4.1%
Building Material/Lawn & Garden	August	\$396.4 million	(5.8)%	6.1%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	September	23,927	(0.1)%	13.1%
Multi-family	September	10,633	10.8%	10.1%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	September	5,604	(7.1)%	6.0%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	September	\$244,900	0.4%	8.9%
- Phoenix S&P/C Home Price Index (2000 = 100)	August	162.87	0.6%	5.2%
- Maricopa Pending Foreclosures	September	3,505	(3.6)%	(24.1)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	September	24,087	1.7%	3.3%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	August	3,367,271	(8.8)%	(8.2)%
- National Park Visitors	July	1,807,611	NA	(0.7)%
- State Park Visitors	August	184,610	(34.7)%	(5.0)%
- Revenue Per Available Hotel Room	August	\$53.83	(5.5)%	5.5%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	4th Q 2016	91.7	3.7%	12.9%
- Arizona Coincident Index (July 1992 = 100)	September	222.47	0.6%	3.0%
- Arizona Leading Index -- 6 month projected growth	September	4.8%	3.1%	(1.0)%
- Arizona Personal Income	2 <sup>nd</sup> Q 2016	\$275.3 billion	1.2%	3.3%
- 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	November 1 <sup>st</sup>	1,863,452	0.6%	4.3%
Acute Care Traditional		1,090,820	0.1%	3.8%
Prop 204 Childless Adults		316,763	0.8%	4.4%
Other Prop 204		185,558	0.8%	2.1%
Adult Expansion		81,116	0.5%	6.2%
Kids Care I		9,184	55.4%	984.3%
Long-Term Care – Elderly & DD		58,750	0.2%	1.9%
Emergency Services		121,261	1.5%	4.3%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	July	48,885	(0.5)%	(4.7)%
DCS Out-of-Home Children	July	18,183	(0.6)%	(0.2)%
Filled Caseworkers (1406 Budgeted)	October	1,341	20	71
- ADC Inmate Growth	October	42,600	(0.2)%	(0.7)%
- Department of Economic Security				
- TANF Recipients	October	20,063	(0.7)%	(16.2)%
- SNAP (Food Stamps) Recipients	October	975,447	(0.3)%	(2.9)%
- Judiciary Probation Caseload				
Non-Maricopa	August	18,851	95	534
Maricopa County	August	27,783	(13)	1,740
<b>United States</b>				
- Gross Domestic Product	3 <sup>rd</sup> Q, 2016 (1 <sup>st</sup> Estimate)	\$16.7 trillion	1.5%	2.9%
(Chained 2009 dollars, SAAR)				
- Consumer Confidence Index (1985 = 100)	October	98.6	(4.7)%	(0.5)%
- Leading Indicators Index (2010 = 100)	September	124.4	0.2%	0.6%
- Consumer Price Index, SA (1982-84 = 100)	September	241.00	0.3%	1.5%
- Personal Consumption Price Index (2009 = 100)	September	111.1	0.2%	1.2%

## Summary of Recent Agency Reports

**Arizona Department of Administration – Report on Administrative Adjustments** – Pursuant to A.R.S § 35-191, the Arizona Department of Administration (ADOA) is submitting their report on administrative adjustments. A.R.S § 35-191 allows administrative adjustments for goods and services received after the end of the fiscal year if written documentation is provided by an agency and approved by ADOA. Statute requires ADOA to report any approvals for goods or services ordered in one fiscal year but received beyond August 30 of the following fiscal year. In FY 2017, ADOA did not grant any approvals for administrative adjustments for orders for goods or services made in FY 2016 and received after August 30, 2016. (Rebecca Perrera)

**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), performed 179,335 verifications of immigration status in FY 2016. During this period, AHCCCS and DES referred 49 individuals (35 citizens, 14 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 2016. (Jon Stall)

**Attorney General – Report on Interagency Service Agreements Fund Reserve Appropriation Expenditure Notification** – The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) appropriates \$15.5 million from the Interagency Service Agreements (ISA) Fund to the Attorney General in FY 2017 to provide contracted legal services to state agencies and political subdivisions. A budget footnote appropriates an additional \$800,000 and 11 FTE Positions in FY 2017 for new or expanded ISAs that exceed the initial appropriation. The Attorney General must report to JLBC when the additional amounts are used.

Pursuant to the footnote, the Attorney General reports that in FY 2017 it will expend all of the additional \$800,000 as follows:

- Expand an existing ISA with the Department of Child Safety for litigation costs related to the *Tinsley v. McKay* case by \$500,200 and 3 FTE Positions (the aggregate cost would be \$1,010,400);
- Expand its existing ISA with the Department of Corrections for litigation costs related to the *Parsons v. Ryan* case by \$206,400 and 2 FTE Positions (the aggregate cost would be \$394,700); and
- Expand its ISA with the Department of Gaming by \$93,400 and 1 FTE Position (the aggregate cost would be \$282,100). (Eric Billings)

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

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,341 in October 2016, or (65) fewer staff than the number of funded positions. Most of the difference between funded positions and filled positions was driven by lower-than-budgeted staffing of caseworkers, which was partly offset by higher-than-budgeted staff in training. Total direct line staff increased by 20 since September, including 16 caseworkers.

There were also 1,351 non-direct line child safety staff in October 2016, or (160) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions increased by 2 since September. (Patrick Moran)

**Department of Corrections – Report on Transition Release Program** – Pursuant to A.R.S. § 31-285, the

**Table 6**

### DCS Filled FTE Positions as of October 2016

	<u>Funded</u>	<u>October</u>	<u>Difference</u>
Caseworkers	1,190	970	(220)
Hotline Staff	76	70	(6)
Staff in Training	<u>140</u>	<u>301</u>	<u>161</u>
<i>Subtotal - Direct Line</i>	1,406	1,341	(65)
<i>Subtotal - Non-Direct Line Staff</i>	<u>1,511</u>	<u>1,351</u>	<u>(160)</u>
<b>Grand Total <sup>1/</sup></b>	<b>2,917</b>	<b>2,692</b>	<b>(225)</b>

<sup>1/</sup> Excludes 276.2 Attorney General Staff.

## Summary of Recent Agency Reports (Continued)

Arizona Department of Corrections (ADC) has submitted its annual report that details the cost reductions that are directed to the department from the Transition Program. The Transition Program, as established by A.R.S. § 31-281, allows certain inmates the opportunity to be released 3 months prior to their release date. Statute requires for each bed day saved a transfer of at least \$17 to the program.

ADC reports that an average of 394 inmates participated each quarter in the program. In FY 2016, the department reports that 844 participants successfully completed the Transition Program and their term of community supervision while an additional 507 participants completed the Transition Program and continued their term of community supervision. A total of 103 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is responsible for 64,886 bed days saved which translates into a savings of \$1.1 million at the statutorily-mandated rate of \$17 per day. (Micaela Larkin)

**Arizona Department of Education – Report on K-12 Aggregate Expenditure Limit** – Pursuant to A.R.S. § 15-911B, the State Board of Education recently reported that currently budgeted expenditures for all school districts collectively statewide for FY 2017 are \$(532.3) million below the Constitution’s aggregate expenditure limitation (AEL). For FY 2016 the difference was \$(813.1) million. The AEL limits growth in non-exempted statewide K-12 expenditures for school districts (excluding charter schools) to the combined rate of growth for enrollment and inflation, with certain exceptions. (Steve Schimpp)

**Department of Health Services – Annual Report on Intergovernmental Agreement/Interagency Service Agreement Funds** – Pursuant to the FY 2016 General Appropriation Act (Laws 2015, Chapter 8, Section 50) and A.R.S. § 36-108.01E, DHS is required to report annually on the fund balances, revenues, and expenditures of its 4 Intergovernmental and Interagency Service Agreement (IGA/ISA) funds. These funds include monies that DHS receives from federal, state, and local public agencies to deliver behavioral health services, nutrition education in schools, and teenage pregnancy prevention programs, among other services.

The Health Services Lottery Fund consists of revenues from the state lottery for teenage pregnancy prevention, the Health Start program, and the Women, Infants, and Children (WIC) program. DHS estimates that the fund will have revenues equal to \$7.4 million

and expenditures equal to \$9.2 million, with an ending balance of \$7.2 million in FY 2017. DHS projects the fund will have revenues of \$7.6 million and expenditures of \$9.2 million, with an ending balance of \$5.7 million in FY 2018.

The IGA/ISA Fund primarily consists of monies from an ISA between DHS and the Department of Economic Security (DES) that requires DHS to provide nutrition education in public schools using funds from the Supplemental Nutrition Assistance Program (SNAP). DHS states that in FY 2017 this fund is estimated to have \$22.8 million in revenues and \$16.8 million in expenditures, and have an ending balance of \$6.0 million. DHS projects revenues and expenditures will be unchanged in FY 2018, with an ending balance of \$12.0 million.

The ISA for Behavioral Health Services Fund consists of state and federal monies that DHS received from the Arizona Health Care Cost Containment System (AHCCCS) for the delivery of Medicaid-funded behavioral health services. The IGA for County Behavioral Health Services Fund consists of monies received from Maricopa County and Pima County for the delivery of behavioral health services to individuals with a serious mental illness. These funds will have no revenues or expenditures in FY 2017 because behavioral health services transferred to AHCCCS beginning July 1, 2016. In FY 2016, the ending balances for these funds were \$44.3 million and \$346,300, respectively. (Morgan Dorcheus)

**JLBC Staff – Report on FY 2016 Travel and Relocation Expenses** – A.R.S. § 35-196.01 requires agencies to annually report relocation expenses for their employees. As of November 4, 2016, 5 agencies reported spending a total of \$39,862 on these purposes in FY 2016. See Table 7. (Steve Grunig)

<u>Agency</u>	<u>FY 2016 Travel Expense</u>
Corrections, State Department of	\$10,515
Game and Fish Department, Arizona	2,630
Governor, Office of the	4,853
Arizona State Schools for the Deaf and the Blind	6,172
Public Safety, Department of	<u>15,692</u>
<b>Total</b>	<b>\$39,862</b>

**Department of Revenue - Report on Individual Income Tax Fraud Prevention** - Pursuant to Laws 2016, Chapter 117, on or before November 1, 2016, the Department of

## Summary of Recent Agency Reports (Continued)

Revenue is required to report the results of private fraud prevention investigation services during FY 2016, including the total number of fraudulent returns prevented and the total dollar amount of fraudulent returns prevented. Funds are used to contract with a vendor to provide investigation services to identify potentially fraudulent Individual Income Tax returns and prevent fraudulent refunds from being sent by the department. The department reports that the fraud prevention efforts stopped 41,186 returns from being sent to filers totaling \$78.5 million in FY 2016. (Jeremy Gunderson)

**Supreme Court – Report on Adult Probation Services Fund and the Juvenile Probation Fund** – Pursuant to a General Appropriation Act footnote and A.R.S. § 12-262, the Administrative Office of the Courts (AOC) is required to report to the JLBC on the FY 2016 actual, FY 2017 estimated, and FY 2018 requested amounts of the following: 1) the number of authorized and filled case carrying and non-case carrying probation positions by county; 2) the total receipts and expenditures by county and fund source for each of the probation Special Line Items (SLI), including the Personal Services expended from each revenue source of each account; and 3) the amount of monies from the probation SLIs that the AOC does not distribute as direct aid to counties. The figures in this report are for all counties except Maricopa as the state does not pay any of the county's costs of probation.

### Adult Standard Probation

Adult Standard Probation county expenditures statewide for probation officers were \$37.4 million in FY 2016, of which \$11.9 million were General Fund monies and \$3.9 million were non-General Fund state expenditures. The remaining \$21.6 million were county expenditures. These monies funded 231.4 authorized case carrying positions and 391.3 authorized non-case carrying positions. Of these positions, 207.0 case carrying and 324.6 non-case carrying positions were filled. AOC estimates total expenditures of \$39.2 million in FY 2017 and \$41.6 million in FY 2018.

AOC reports Adult Standard Probation SLI expenditures of \$15.8 million in FY 2016 which included \$11.6 million in General Fund and \$4.2 million in other appropriated funds. All of these monies were distributed to county probation departments for probation officer costs. The AOC also reports expenditures of \$467,200 from the Interstate Compact SLI which were distributed to Yavapai and Pima Counties.

### Adult Intensive Probation

AOC reports statewide Adult Intensive Probation county expenditures for probation officers of \$10.1 million in FY 2016, of which \$8.6 million were General Fund monies and \$1.5 million were non-General Fund state expenditures. These monies funded 105.5 authorized case carrying positions and 64.4 authorized non-case carrying positions. Of these positions, 101.5 case carrying and 53.6 non-case carrying positions were filled. AOC estimates total expenditures of \$10.4 million in both FY 2017 and FY 2018.

AOC reports Adult Intensive Probation SLI expenditures of \$10.2 million in FY 2016, of which \$8.6 million were General Fund monies and \$1.6 million were other appropriated funds. All of these monies were distributed to county probation departments for probation officer costs.

### Juvenile Standard Probation

The statewide total for Juvenile Standard Probation county expenditures for probation officers was \$16.5 million in FY 2016, of which \$3.2 million were General Fund monies. The remaining \$13.3 million were county expenditures. These monies funded 56.7 authorized case carrying positions and 369.1 authorized non-case carrying positions. Of these positions, 51.4 case carrying and 366.8 non-case carrying positions were filled. AOC estimates total expenditures of \$18.2 million in both FY 2017 and FY 2018.

AOC reports Juvenile Standard Probation SLI expenditures of \$3.4 million in General Fund monies in FY 2016. All of these monies were distributed to county probation departments for probation officer costs.

### Juvenile Intensive Probation

AOC reports statewide Juvenile Intensive Probation county expenditures for probation officers of \$4.8 million in FY 2016, all of which were General Fund monies. These monies funded 45.3 authorized case carrying positions and 33.1 authorized non-case carrying positions. Of these positions, 45.3 case carrying and 27.1 non-case carrying positions were filled. AOC estimates total expenditures of \$4.9 million in both FY 2017 and FY 2018.

AOC reports Juvenile Intensive Probation SLI General Fund expenditures of \$5.3 million in FY 2016. All of these monies were distributed to county probation departments for probation officer costs. (Eric Billings)

**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

## Summary of Recent Agency Reports (Continued)

the university, and to deposit a portion of that income into the state General Fund. These payments were required in exchange for the General Fund paying the debt service on \$483 million in 2003 research building construction.

While not defined in statute, the universities consider income to be gross royalty and licensure revenues net of legal fees, associated operating expenses, and distributions made to the inventors.

In terms of FY 2016 gross royalty revenues, ASU reported \$10.8 million of licensing and royalty revenues, NAU reported \$5,290 of licensing and royalty revenues, and UA reported \$2.0 million of licensure, royalty and assignment revenues.

In terms of net income, NAU and UA both reported a loss in FY 2016. ASU reported a net income of \$603,000 in FY 2016. ASU did not deposit any portion of these monies into the General Fund, however, citing a \$40.3 million cumulative loss from prior years they believe

should offset the FY 2016 income. Statute does not provide, however, for offsetting annual income with prior year losses. (Matt Beienburg)

**Department of Veterans' Services – Report on Capital Projects** – Pursuant to A.R.S. § 41-610, the Department of Veterans' Services is required to submit an annual report on capital projects for which they have requested federal monies in the past 12 months. The department has not received any additional monies for construction of veterans' cemeteries or federal match monies for veterans' home construction in the past 12 months. The department reports it has been awarded monies for 2 veteran cemetery projects which are continued from last year, as well as 2 pending applications for veterans' homes. The FY 2015 and FY 2017 budgets appropriated \$9.2 million and \$10.0 million, respectively from the General Fund for the state's portion of the construction cost. The state is responsible for paying the ongoing operational costs of cemeteries and 35% of the construction costs of veterans' homes. (Morgan Dorcheus)

## October Spending

October 2016 General Fund spending was \$699.9 million, which represents an increase of \$5.5 million above October 2015. (See *Tables 8 & 9*). Year-to-date, General Fund spending is \$4.32 billion, or \$(298.1) million below the prior year.

- Year-to-date, Department of Education spending has increased by \$43.5 million, due to increased enrollment and inflation funding.
- Prior to FY 2017, DHS used to administer the state's Medicaid Behavioral Health program. Beginning in

FY 2017, this responsibility has been shifted to AHCCCS. Due to this shift, DHS will no longer be making its beginning of the year Medicaid transfer, causing DHS spending to decline by \$(449.3) million year-to-date compared to FY 2016.

- The decline in Universities' spending year-to-date is a technical timing issue relating to the distribution of funds to the University system. Excluding additional monies for the rollover repayment (which occurred at the of FY 2016), the Universities received a net increase in funding for FY 2017.

Agency	Change From			YTD Change from FY 16
	Oct 16	Oct 15	Year-to-Date	
AHCCCS	170.4	50.7	595.6	169.2
Corrections	72.5	(12.6)	359.9	(16.6)
Child Safety	19.4	(35.4)	122.6	(10.4)
Economic Security	15.8	(8.7)	451.5	63.2
Education	285.1	17.0	1,983.6	43.5
Health Services	7.0	(14.0)	33.7	(449.3)
Public Safety	9.3	0.7	40.4	3.8
School Facilities Board	0.1	(0.1)	170.8	9.1
Universities	55.7	18.8	226.1	(127.2)
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>64.6</u>	<u>(10.9)</u>	<u>246.9</u>	<u>16.6</u>
<b>Total</b>	<b>699.9</b>	<b>5.5</b>	<b>4,315.2</b>	<b>(298.1)</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>Oct 16</b>	<b>Change from Oct 15</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 16</b>
Dept. of Admin./Automation Projects Fund	1,696.7	(4,557.9)	18,447.3	9,007.0
ADOA – Sale/Leaseback Debt Service	-	-	84,117.4	2.8
Office of Administrative Hearings	75.1	4.8	324.9	10.7
Commission of African-American Affairs	8.9	2.0	40.6	1.4
Department of Agriculture	748.3	(255.8)	3,162.0	(46.3)
AHCCCS	170,419.8	50,716.6	595,581.4	169,207.6
Attorney General	2,533.1	963.6	8,230.4	1,056.9
State Board of Charter Schools	62.3	(81.8)	308.0	(98.6)
Department of Child Safety	19,411.1	(35,390.5)	122,629.2	(10,435.1)
AZ Commerce Authority	1,791.7	(416.6)	7,241.8	(1,591.4)
Community Colleges	12,835.9	(227.1)	25,348.8	(104.6)
Corporation Commission	45.1	(7.7)	195.1	(21.2)
Department of Corrections	72,478.5	(12,555.8)	359,918.1	(16,561.8)
AZ State Schools for the Deaf & Blind	2,869.0	(1,393.8)	10,501.8	(1,284.6)
Office of Economic Opportunity	19.5	19.5	19.5	19.5
Department of Economic Security	15,788.3	(8,748.9)	451,454.9	63,178.8
State Board of Education	(20.6)	(101.0)	321.8	(85.2)
Department of Education	285,052.6	17,049.9	1,983,594.9	43,459.1
DEMA	1,025.4	(1,387.6)	3,214.9	(145.8)
Office of Equal Opportunity	18.2	1.8	70.0	20.6
State Board of Equalization	135.0	79.3	301.1	41.5
Board of Executive Clemency	57.1	(88.9)	214.3	(159.2)
Department of Financial Institutions	344.9	123.5	1,045.1	(55.3)
Department of Fire, Bldg and Life Safety	-	(147.0)	(3.6)	(760.5)
Department of Forestry and Fire Management	582.8	40.6	2,558.8	450.0
Department of Gaming	-	-	1,779.5	(14.9)
Governor/OSPB	472.4	(149.9)	2,923.7	(302.2)
Department of Health Services	6,989.4	(14,042.5)	33,670.1	(449,323.5)
Arizona Historical Society	490.9	(173.4)	1,302.1	(149.2)
Prescott Historical Society of AZ	57.9	(6.7)	287.6	(31.2)
Department of Housing	76.9	76.9	321.5	321.5
Independent Redistricting Comm.	96.6	8.1	390.3	110.7
Department of Insurance	366.8	(323.7)	1,526.6	(460.0)
Judiciary				
Supreme/Superior Court	21,285.8	1,853.1	43,144.6	2,458.6
Court of Appeals	1,388.6	(33.1)	4,913.2	(130.5)
Department of Juvenile Corrections	1,065.6	(1,099.7)	9,085.0	(1,533.4)

<b>Table 9 (Continued)</b>				
<b>Agency</b>	<b>Oct 16</b>	<b>Change from Oct 15</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 16</b>
State Land Department	1,385.7	634.6	3,671.9	422.6
Legislature				
Auditor General	1,469.2	(11.8)	6,625.3	10.2
House of Representatives	1,048.0	(262.1)	4,228.0	(609.4)
Joint Legislative Budget Comm.	186.6	21.2	841.1	46.0
Legislative Council	537.5	(51.9)	1,947.7	(369.4)
Senate	589.8	102.9	2,987.4	377.5
Mine Inspector	151.7	(30.1)	435.0	(7.4)
Nav. Streams & Adjudication	17.9	(0.6)	52.5	5.6
Arizona State Parks Board	-	-	-	(272.8)
Phoenix Convention Center	-	-	20,449.0	-
Comm. for Postsecondary Ed.	-	-	696.3	(2.1)
Department of Public Safety	9,348.0	667.5	40,382.7	3,798.6
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	291.9	(28.2)	835.8	79.6
Real Estate Department	408.7	10.3	1,095.9	92.2
Department of Revenue	5,201.3	(1,921.5)	12,016.5	(12,088.1)
School Facilities Board	90.5	(74.5)	170,830.6	9,129.7
Secretary of State	1,578.8	455.2	12,520.8	8,774.6
Tax Appeals Board	50.5	25.2	112.5	1.3
Office of Tourism	-	(2,488.6)	1,777.6	(3,199.7)
Governor's Office on Tribal Relations	11.0	(0.3)	28.0	12.6
Universities				
Board of Regents	1,325.5	895.5	8,440.0	1,323.3
Arizona State University	24,676.2	8,048.6	98,704.8	(58,380.9)
Northern Arizona University	8,432.8	2,605.9	33,696.0	(20,106.4)
University of Arizona	21,311.5	7,231.3	85,246.2	(50,004.7)
Department of Veteran Services	468.8	48.6	1,993.2	208.7
Department of Water Resources	926.2	(9.5)	3,702.5	62.2
Water Infrastructure Finance Authority	-	-	500.0	500.0
Department of Weights & Measures	-	(89.3)	-	(380.1)
Other - JP Salaries Distribution	153.3	(9.4)	335.4	(101.7)
Other	-	76.0	17.5	(25.7)
<b>Total</b>	<b>699,931.5</b>	<b>5,510.8</b>	<b>4,315,177.3</b>	<b>(298,111.5)</b>

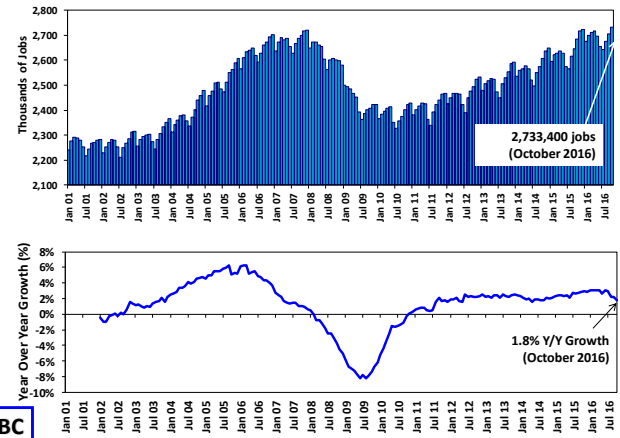
## Arizona Economic Trends

November 2016  
Appendix A

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- 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

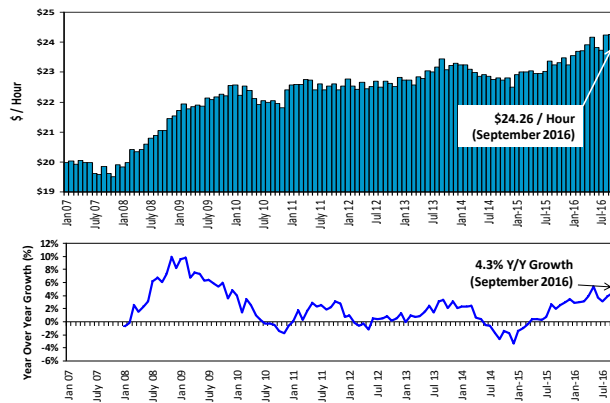
## Total Non-Farm Employment



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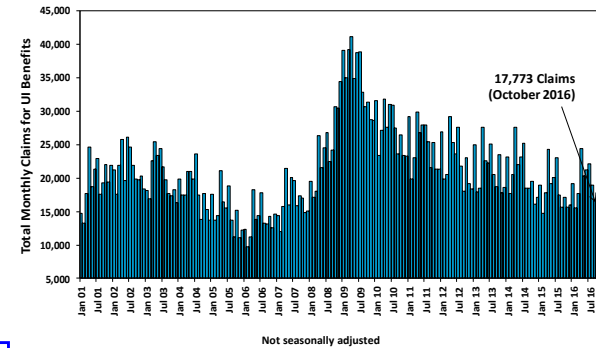
## Average Hourly Earnings – Private Sector



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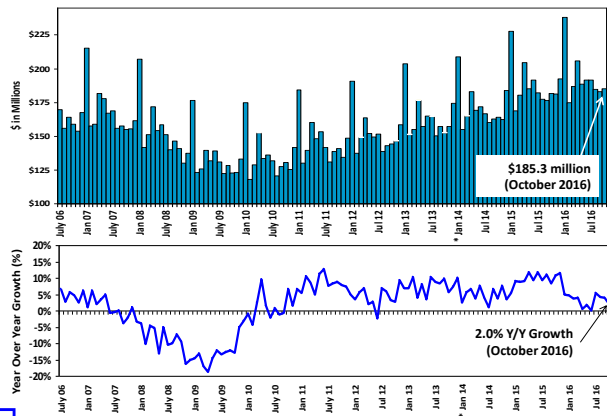
## Initial Claims for Unemployment Insurance



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## State Sales Tax Collections – Retail Category



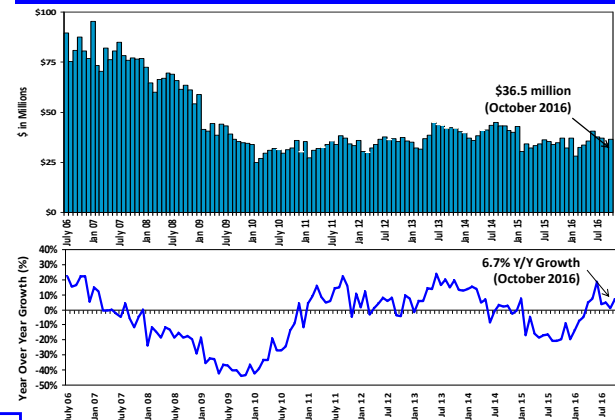
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Excludes temporary 1 c sales tax

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

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## State Sales Tax Collections – Contracting Category

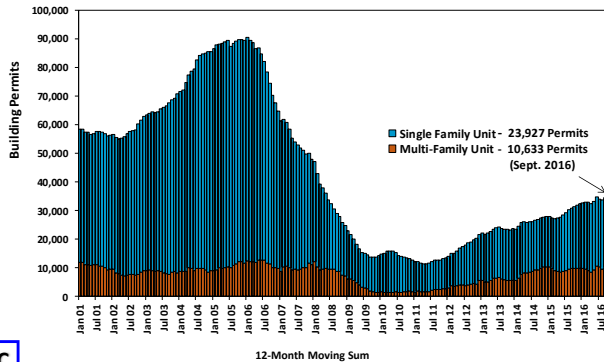


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Excludes temporary 1 c sales tax

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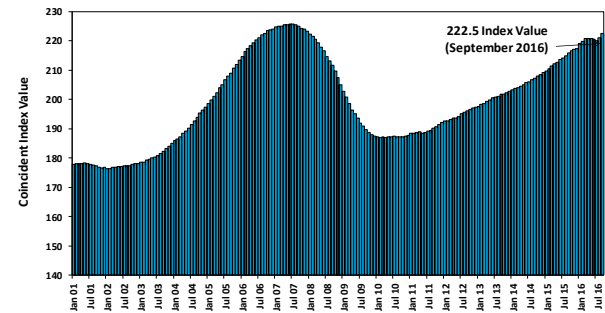
## Residential Building Permits



JLBC

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## 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.

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