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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on January 20, 2017.

Summary

December 2016 General Fund collections totaled \$855.6 million, which is an increase of 1.4% above the prior year.

When compared to the enacted budget projections, December posted a \$(28.1) million forecast loss. This loss does not appear to be caused by underlying economic conditions, instead technical factors produced varied results across revenue categories.

Insurance Premium Tax collections, which were inflated due to timing issues, posted a \$27.8 million forecast gain for the month.

This was offset by a \$(51.4) million forecast loss in the Individual Income Tax category. Based on preliminary discussions with the Department of Revenue (DOR), an unusually high level of refunds occurred during December 2016, likely due to the delayed processing of income tax returns filed in October 2016. While tax returns are typically due in April, certain filers receive a 6-month extension and file their return in October and DOR processes these returns through the rest of the calendar year.

In comparison to December revenue collections of \$855.6 million, December 2016 spending was \$616.4 million, which is an increase of \$13.3 million from the prior year.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, General Fund revenues are 3.0% above the prior year and are \$38.0 million above the enacted forecast.

Fiscal year-to-date, General Fund revenues of \$4.56 billion have been offset by \$5.53 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-January 2017 is \$2.04 billion, while the state's Budget Stabilization Fund has a current balance \$456.1 million.

JLBC Baseline Summary

On January 13, the JLBC released its [FY 2018 Baseline budget](#). The Baseline reflects a consensus economic forecast and statutory funding formula requirements. In summary:

- For FY 2018, with ongoing General Fund revenues of \$9.65 billion and spending of \$9.60 billion, the budget has a projected FY 2018 structural balance of \$46 million. The projected FY 2018 cash balance is \$159 million.
- The ending balance projections exclude the state's \$456 million Budget Stabilization Fund.

In addition, the JLBC Staff has also published a comparison of the [Baseline with the Executive Budget](#).

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December Revenues

	<u>FY 2017 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2016</u>
December	\$ 855.6	\$ (28.1)	\$ 11.4
Year-to-Date	\$ 4,556.6	\$ 38.0	\$ 57.4

Sales Tax (preliminary) collections of \$364.3 million were 4.7% above December of last year and \$5.7 million above the forecast for the month. Year-to-date, Sales Tax revenues have increased by 3.1% and are \$4.9 million above forecast.

Individual Income Tax net revenues of \$411.7 million in December were \$(9.1) million less than the prior year and \$(51.4) million below forecast for the month. Year-to-date, revenue has grown 3.6% over the prior year and is \$(5.4) million below forecast.

As indicated in Table 2, withholding increased by 3.0% from last year and was \$(6.2) million below the forecast. Year-to-date withholding collections are 6.0% above FY 2016. Due to technical reasons, DOR underreported withholding receipts during July – March in FY 2016. If revenues had not been underreported in the beginning of FY 2016, growth in withholding would instead equal 4.7% year-to-date in FY 2017.

December estimated and final payments of \$100.6 million were (14.2)% below last year and \$(18.3) million below the forecast. Year to date, payments are (5.6)% below FY 2016 and \$(30.6) million below the forecast.

December Individual Income Tax refunds totaled \$(32.6) million – this compares to \$(30.2) million in December 2015 and a forecasted amount of \$(5.7) million. The increase in refunds compared to last year and the forecast partly reflects timing issues for processing returns of taxpayers that received extensions on their Tax Year 2015 returns. Year-to-date refunds have led to a \$(10.6) million decrease compared to the enacted forecast.

	<u>December</u>	<u>YTD</u>
Withholding	3.0%	6.0%
Estimated/Final Payments	(14.2)%	(5.6)%
Refunds	8.1%	8.6%

Corporate Income Tax net collections were \$64.6 million in December, which was \$(3.2) million less than in the prior year and \$(0.3) million less than the forecast. Year to date, collections are \$(61.9) 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 \$49.6 million in December were \$30.5 million above the prior year and \$27.8 million above the forecast. The large difference from prior year revenues and the forecast is likely driven by timing issues for processing quarterly payments from AHCCCS insurers. Year-to-date, collections are 28.2% above last year and \$46.2 million above the forecast.

The **Lottery Commission** has not yet reported December sales information.

Highway User Revenue Fund (HURF) collections of \$117.3 million in December were up 4.7% compared to December of last year and were \$4.2 million above forecast. Year-to-date collections are 4.1% above last year.

Due to delays in reporting final November revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For December, DOR has increased the amount of prior General Fund revenue collections by \$0.6 million, and the adjustment has been included in the reported year-to-date results.

Table 3

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

	Current Month					FY 2017 YTD (Six Months)				
	Actual December 2016	Change From December 2015		Budget Forecast		Actual December 2016	Change from December 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$364,338,000	\$16,355,191	4.7 %	\$5,702,498	1.6 %	\$2,181,768,008	\$65,230,726	3.1 %	\$4,943,101	0.2 %
Income - Individual	411,697,127	(9,068,531)	(2.2)	(51,406,173)	(11.1)	2,164,068,438	75,372,761	3.6	(5,425,041)	(0.3)
- Corporate	64,568,762	(3,217,705)	(4.7)	(322,476)	(0.5)	195,212,190	(61,923,137)	(24.1)	(24,225,545)	(11.0)
Property	4,928,209	(2,792,297)	(36.2)	(4,226,732)	(46.2)	18,124,121	(2,776,073)	(13.3)	(4,071,530)	(18.3)
Luxury - Tobacco	1,727,954	(525,538)	(23.3)	0	0.0	11,618,824	(547,452)	(4.5)	(35,606)	(0.3)
- Liquor	2,739,139	(312,878)	(10.3)	0	0.0	16,246,554	356,985	2.2	89,852	0.6
Insurance Premium	49,584,849	30,465,323	159.3	27,796,718	127.6	202,411,056	44,511,746	28.2	46,189,532	29.6
Other Taxes	36,432	(284,161)	(88.6)	(351,579)	(90.6)	1,252,147	(1,404,139)	(52.9)	(1,823,613)	(59.3)
Sub-Total Taxes	\$899,620,472	\$30,619,404	3.5 %	(\$22,807,745)	(2.5) %	\$4,790,701,337	\$118,821,417	2.5 %	\$15,641,150	0.3 %
Other Revenue										
Lottery	0	0	--	0	--	26,744,043	13,812,568	106.8	13,053,936	95.4
License, Fees and Permits	3,888,795	832,921	27.3	701,887	22.0	18,422,159	3,198,285	21.0	1,957,461	11.9
Interest	22,628	22,032	--	22,021	--	171,048	160,950	--	156,777	--
Sales and Services	837,737	(3,248,312)	(79.5)	(408,180)	(32.8)	11,142,128	2,473,787	28.5	3,124,545	39.0
Other Miscellaneous	3,614,578	(8,328,838)	(69.7)	(1,799,147)	(33.2)	21,926,149	996,974	4.8	8,630,027	64.9
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	2,899,787	(3,650,964)	(55.7)	(3,854,528)	(57.1)	18,134,842	4,121,667	29.4	(4,608,198)	(20.3)
Sub-Total Other Revenue	\$11,263,526	(\$14,373,161)	(56.1) %	(\$5,337,946)	(32.2) %	\$96,540,369	\$24,764,230	34.5 %	\$22,314,548	30.1 %
TOTAL BASE REVENUE	\$910,883,997	\$16,246,243	1.8 %	(\$28,145,691)	(3.0) %	\$4,887,241,706	\$143,585,648	3.0 %	\$37,955,698	0.8 %
Other Adjustments										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	(0)	0.0	(331,791,084)	(28,973,918)	9.6	(0)	0.0
One-Time Transfers	0	0	--	0	--	1,191,548	(57,190,452)	(98.0)	0	0.0
Sub-Total Other Adjustments	(55,298,514)	(4,828,986)	9.6 %	(0)	0.0 %	(330,599,536)	(86,164,370)	35.3 %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$855,585,483	\$11,417,257	1.4 %	(\$28,145,691)	(3.2) %	\$4,556,642,170	\$57,421,278	1.3 %	\$37,955,698	0.8 %
Non-General Funds										
Highway User Revenue Fund	\$117,254,715	\$5,289,948	4.7 %	\$4,205,208	3.7 %	\$688,854,892	\$27,288,746	4.1 %	\$20,035,088	3.0 %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 3.5% 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** increased by 3.9% in December and by 18.1% above the reading in December 2015. The index's latest reading is the highest since August 2001. The increase in December reflected improvement in consumer expectations of future economic and job circumstances. This monthly increase in expectations was partly offset by a decrease in consumers' assessment of current economic conditions.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** was flat in November, relative to October. During the month, a 1.3% increase in energy prices was offset by decreases in prices of other products. The index's year-over-year growth remained flat at 1.4%, but had been steadily moving closer to the Federal Reserve Bank's (Fed) 2.0% annual inflation target in prior months. Citing increased inflation and an improving labor market, the Fed chose to resume increases to the federal funds interest rate in December 2016.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.2% in November and 1.7% above November 2015 prices. Continuing a 3-month trend, the monthly increase was primarily driven by a 2.7% increase in the gasoline index and also by a 0.3% increase in the shelter index. Energy prices increased 1.2% and core inflation (all items less food and energy) increased 0.2% for the month. Indexes for motor vehicle insurance, education and communication increased, while indexes for apparel, household furnishings, and airline fares decreased.

The Conference Board's **U.S. Leading Economic Index** was unchanged in November and stands 0.7% above its November 2015 reading. Of the index's 10 components, 7 made positive contributions in November. Interest rate spread was once again the strongest positive contributor, and average weekly initial claims and stock prices made positive contributions as well. Negative contributors include building permits, average workweek of production workers and the ISM index for new orders.

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 2.4% compared to November 2016. 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 24,211, or 9.1% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 9.0%.

The 12-month total of multi-family building permits has started to increase again. Arizona's total of 10,735 **multi-family building permits** is 9.6% more than 2015. Nationwide multi-family permits are (8.4)% lower than 2015.

Revenue per available room was \$70.16 in November, which was 9.5% above the amount in November 2015. The Arizona Office of Tourism reports that visits to state parks during October were 14.2% above visits in October 2015.

Employment

According to information released by the Office of Economic Opportunity (OEO), the state added 6,300 net new **nonfarm jobs** in December over the prior month. This was slightly less than the average employment gain for December in the prior 5 years, which was 6,600.

Year over year, the state added 32,000 net new jobs in December. This corresponds to a job growth rate of 1.2%. Employment growth has slowed significantly over the last 6 months. To provide some perspective, job growth in the first half of 2016 was 3.0% compared to 1.9% in the second half of the year.

The state's **unemployment rate** declined from 5.0% in November to 4.8% in December. This was the lowest jobless rate in Arizona since February 2008. The U.S. unemployment rate was 4.7% in December, an increase of 0.1% over the prior month.

In November, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.1 hours. This workload was (1.7)% below the level during the prior month and (0.6)% below the level in November 2015.

Monthly Indicators (Continued)

The **Average Hourly Earnings** received by private sector workers was \$24.41, which is (0.4)% below the average in the prior month. Despite the monthly decrease, November earnings were 4.0% above the average in November 2015. Year-over-year growth has been at or above 4.0% in each of the last 3 months. The last time this occurred was from August to October of 2009.

The U.S. Department of Commerce Bureau of Economic Analysis quarterly releases estimates of annual **Personal Income** received in each state. This measure includes wages and salaries, proprietors' income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In the third quarter of 2016, Arizona personal income increased year-over-year by 3.8%, to \$279.1 billion.

Overall growth of 3.8% largely reflected strong wage growth of 5.0% that was partly offset by weak growth of 1.4% in dividends, interest and rent income. All other sources of income collectively grew at 3.4% during the quarter.

The Office of Economic Opportunity (OEO) reported that 15,555 **initial claims for unemployment insurance** were filed in December, a decrease of (2.9)% compared to the same month last year. This was the first year-over-year decrease of initial jobless claims since July 2016.

According to OEO, the state had a total of 23,690 **claimants receiving unemployment insurance benefits** in December, a decrease of (8.2)% from November. This figure was (6.1)% below the December 2015 level, and represented the lowest number of claimants receiving jobless benefits for the month of December in 10 years.

According to the U.S. Census, Arizona's **population** was estimated to be 6.93 million as of July 1, 2016. This was a net increase of 1.7%, or 113,500 persons over July 1, 2015. This represented the largest population increase since 2007. An estimated 67%, or equivalently, 76,400 of the population increase was attributable to net migration. By way of comparison, OEO estimates that Arizona's population was 6.84 million on July 1, 2016.

State Agency Data

At the beginning of January 2017, the total **AHCCCS** caseload was 1.87 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 608,600 members. Total monthly enrollment decreased by (900) members, or less than (0.1)%, during December. The overall decrease in December was spread among most enrollment populations. The Traditional population of low income parents and children decreased (1,300), or (0.1)%, in December to a level of 1.09 million members.

This drop was accompanied by an enrollment decrease of (800), or (0.4)%, in the Proposition 204 parent population.

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 January 1, enrollment in the program reached 13,400, or 3,700 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In December 2016, the childless adult population decreased by (2,200), or (0.7)%. At 316,000, this population is 3.1% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (200) in December and now totals 81,800 individuals. Enrollment is 2.8% higher than a year ago. The federal government pays 100% of this cost through the end of calendar year 2016. The federal match rate for this population drops to 95% in calendar year 2017.

There were 19,728 **TANF recipients** in the state in December, representing a (0.1)% monthly caseloads decrease from November. The year-over-year number of TANF recipients has declined by (13.2)%. 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 December, 958,638 people received food stamp assistance in the state, representing a (0.9)% decrease over November caseloads. Compared to December caseloads last year, the level of food stamp participation has declined by (3.0)%.

The **inmate population** was 42,297 as of December 31, 2016. This is a (1.0)% decrease since last December. The population decreased by (0.4)% since November 2016.

Based on information the Department of Child Safety provided for November 2016, **reports of child maltreatment** totaled 48,237 over the last 12 months, a decrease of (5.7)% over the prior year. There were 17,936 **children in out-of-home care** as of October 2016, or (5.2)% less than in October 2015. Compared to the prior month, the number of out-of-home children decreased by (0.6)%.

Table 4

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	December	4.8%	(0.2)%	(1.1)%
- Total Unemployment Rate (discouraged/underemployed)	3 rd Q 2016	10.9%	(0.4)%	(2.7)%
- Initial Unemployment Insurance Claims	December	15,555	(3.4)%	(2.9)%
- Unemployment Insurance Recipients	December	23,690	(8.2)%	(6.1)%
- Non-Farm Employment - Total	December	2,754,700	0.2%	1.2%
Manufacturing	December	159,700	0.6%	(0.6)%
Construction	December	136,300	0.4%	4.8%
- Average Weekly Hours, Private Sector	November	34.1	(1.7)%	(0.6)%
- Average Hourly Earnings, Private Sector	November	\$24.41	(0.4)%	4.0%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	November	\$955.9 million	(2.9)%	(2.1)%
Furniture/Home Furnishings	November	\$320.5 million	(9.8)%	5.7%
Building Material/Lawn & Garden	November	\$401.7 million	8.1%	3.7%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	November	24,211	1.0%	9.1%
Multi-family	November	10,735	5.7%	9.6%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	November	5,435	0.8%	3.2%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	November	\$244,990	0.9%	6.5%
Phoenix S&P/C Home Price Index (2000 = 100)	October	163.92	0.4%	5.2%
- Maricopa Pending Foreclosures	November	3,334	(2.4)%	(23.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	November	24,675	(1.5)%	(1.0)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	November	3,556,974	(0.2)%	0.5%
- National Park Visitors	August	1,647,913	(8.8)%	(10.2)%
- State Park Visitors	October	229,170	21.0%	14.2%
- Revenue Per Available Hotel Room	November	\$70.16	NA	9.5%
<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)	November	222.28	0.1%	2.4%
- Arizona Leading Index -- 6 month projected growth	November	3.9%	(0.7)%	(0.4)%
- Arizona Personal Income	3 rd Q 2016	\$279.1 billion	1.0%	3.8%
- Arizona Population	July 2016	6,931,071	N/A	1.7%
- 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	January 1 st	1,866,776	0.0%	3.6%
Acute Care Traditional		1,091,599	(0.1)%	3.6%
Prop 204 Childless Adults		316,007	(0.7)%	3.1%
Other Prop 204		183,638	(0.4)%	(3.1)%
Adult Expansion		81,795	(0.2)%	2.8%
Kids Care I		13,389	38.0%	1627.6%
Long-Term Care – Elderly & DD		58,894	0.2%	2.0%
Emergency Services		121,454	(0.2)%	5.8%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	November	48,237	0.3%	(5.7)%
DCS Out-of-Home Children	October	17,936	(0.6)%	(5.2)%
Filled Caseworkers (1406 Budgeted)	December	1,340	(3)	31
- ADC Inmate Growth	December	42,297	(0.4)%	(1.0)%
- Department of Economic Security				
- TANF Recipients	December	19,728	(0.1)%	(13.2)%
- SNAP (Food Stamps) Recipients	December	958,638	(0.9)%	(3.0)%
- Judiciary Probation Caseload				
Non-Maricopa	September	18,880	29	583
Maricopa County	September	27,766	(17)	502
United States				
- Gross Domestic Product	3 rd Q, 2016	\$16.7 trillion	1.7%	3.5%
(Chained 2009 dollars, SAAR)	(3 rd Estimate)			
- Consumer Confidence Index (1985 = 100)	December	113.7	3.9%	18.1%
- Leading Indicators Index (2010 = 100)	November	124.6	0.0%	0.7%
- Consumer Price Index, SA (1982-84 = 100)	November	242.4	0.2%	1.7%
- Personal Consumption Price Index (2009 = 100)	November	111.5	0.0%	1.4%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Budget Stabilization Fund Loan Authority – Pursuant to a FY 2017 General Appropriation Act (Laws 2016, Chapter 117) footnote, the Arizona Department of Administration (ADOA), the Department of Economic Security (DES), and the Department of Child Safety (DCS) have reported on their plans to improve the federal reimbursement claiming process to eliminate the need for loan authority from the Budget Stabilization Fund (BSF), or "bridge loan."

The FY 2017 General Appropriation Act authorized DCS and DES to each receive a bridge loan of up to \$35 million from the BSF in FY 2016 to address cash flow needs, on the condition that the funding would be repaid on or before September 1, 2016. DES used the bridge loan and repaid the loan on August 11, 2016. DCS did not use the bridge loan.

DES reports that it has made improvements to claiming federal reimbursements that will reduce the bridge loan need by \$(10) million in FY 2017, but will still require bridge loan authority of at least \$25 million in FY 2017. DES claims that the remaining \$25 million is needed to comply with cost allocation plans associated with federal grants. DCS believes it will no longer need bridge loan authority in FY 2017 based on process improvements the agency made in claiming federal reimbursements. (Patrick Moran)

Arizona Department of Administration – Third-Party Report on AFIS Replacement – Pursuant to A.R.S. § 18-104A1(g), the Arizona Department of Administration (ADOA) has provided a quarterly update for the Arizona Financial Information System (AFIS) Replacement project. The new AFIS system went "live" on July 1, 2015. The report noted that during the implementation ADOA had issues with the integration of AFIS with the state's procurement system. While the most critical components have been addressed, ADOA is in the process of replacing its e-procurement system. During FY 2017, ADOA outsourced the technical operations of AFIS to the developer. As a result of this transition, some functionality such as travel management and Comprehensive Annual Financial Reporting (CAFR) were deferred. ADOA will implement these functions in FY 2017. Overall, the consultant reported that the project is making appropriate progress. (Rebecca Perrera)

Arizona Health Care Cost Containment System – Report on Arnold v. Sarn – Pursuant to a FY 2017 General Appropriation Act (Laws 2016, Chapter 117) footnote, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its report for the first and

second quarter of FY 2017 on implementing the *Arnold v. Sarn* joint agreement. The state has been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population in Maricopa County. In January 2014, a joint agreement was filed with the court to terminate the lawsuit, and the agreement received court approval in February 2014.

The agreement requires expansion of certain behavioral health services for individuals with a serious mental illness in Maricopa County ("class members") by the end of FY 2016, including the establishment of 8 additional assertive community treatment teams, peer support services for 1,500 class members, supported employment for 750 class members, and supportive housing for 1,200 class members. AHCCCS has met all, and substantially exceeded most of, these service capacity requirements. AHCCCS estimates that the cost of meeting these service capacity requirements is approximately \$85.4 million, including \$64 million from the General Fund.

The agreement also requires the state to maintain a crisis system to provide emergency services to individuals experiencing a behavioral health crisis, including a crisis hotline, mobile crisis teams, and facility-based crisis services. AHCCCS reports that in October 2016, 1,050 members used the crisis hotline in Maricopa County, 219 mobile crisis teams were deployed, and 1,207 members received crisis stabilization services.

The agreement also limits the census of class members at the Arizona State Hospital (ASH) to 55 members. AHCCCS reports that there are currently 55 members receiving treatment at ASH. A wait list for ASH treatment is maintained to ensure compliance with the census limitation. (Patrick Moran)

AHCCCS – Report on Reconciliation Payments – Pursuant to the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the Arizona Health Care Cost Containment System (AHCCCS) submitted a report on reconciliation payments and penalties received and deposited during the first 6 months of FY 2017. AHCCCS reports that during that 6-month period they deposited \$2.0 million to the General Fund and \$1.4 million into the Hospital Assessment Fund, and used \$8.5 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions.

Summary of Recent Agency Reports (Continued)

AHCCCS limits financial risks and profits for health plans and Regional Behavioral Health Authorities (RBHAs) for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made by health plans/RBHAs to the state if profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities.

Pursuant to A.R.S. § 35-142.01, AHCCCS is required to deposit monies received for reconciliation payments and penalties received into the General Fund or the fund from which the appropriation was originally made. (Jon Stall)

Attorney General – Quarterly Reports on Legal Settlements – Statute 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 second quarter of FY 2017, the AG deposited a total of \$197,200 into various consumer accounts. Of that amount, \$46,600 was deposited into the Antitrust Enforcement Revolving Fund, \$77,400 into the CPCF Revolving Fund, \$53,200 into the Restitution Subaccount, and \$20,000 into the Remediation Subaccount. No monies were deposited into the General Fund this quarter. Only the \$20,000 deposit to the Remediation Subaccount requires JLBC review prior to expenditure.

Deposits to the Antitrust Enforcement Revolving Fund
The AG deposited \$46,600 in the second quarter of FY 2017 to the appropriated Antitrust Enforcement Revolving Fund to pay for antitrust enforcement expenses undertaken by the AG. The amount was derived from small legal settlements.

Deposits to the CPCF Revolving Fund
The AG deposited \$77,400 in the second quarter of FY 2017 to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. The amount was derived from small legal settlements.

Deposits to the Consumer Restitution Subaccount
The AG deposited \$53,200 in the second quarter of FY 2017 to the non-appropriated Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount,

\$52,900 came from small legal settlements and the remainder came from interest income.

Deposits to the Consumer Remediation Subaccount
The AG deposited \$20,000 in the second quarter of FY 2017 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. (Eric Billings)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – Statute requires the Attorney General (AG) to report quarterly on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund was created in FY 2015 with an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age-restricted areas. Monies in the fund are utilized to support the ICAC Task Force housed within the Phoenix Police Department which works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the second quarter of FY 2017, a total of \$63,600 in lottery revenues were deposited into the ICAC Enforcement Fund. Additionally, a total of \$21,800 was expended in the second quarter of FY 2017 to help pay for 4 new positions and other operating costs of the ICAC Task Force. No monies were expended from the fund in the first quarter.

As reported by the AG, the FY 2017 expenditure plan for the ICAC Enforcement Fund allocates monies to the hiring of 4 new positions within the Phoenix Police Department; one-time equipment costs of the task force including computers, unmarked vehicles, educational materials, monitors, cameras, software, hardware, a forensic van, and a crime scene van; annual equipment costs including computers, software, and hardware; and law enforcement training.

As of December 31, 2016, the ICAC Enforcement Fund had a balance of \$1.8 million. (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 December 2016. (See Table 5 below.)

Summary of Recent Agency Reports (Continued)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,340 in December 2016, or (66) 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 decreased by (12) since November.

There were also 1,380 non-direct line child safety staff in December 2016, or (131) 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 12 since November. (Patrick Moran)

Arizona Criminal Justice Commission – Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on expenditures for the prior fiscal year from the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8 of each year.

In FY 2016, the State Aid to County Attorneys Fund received revenues totaling \$934,500 and had an ending balance of \$595,400. ACJC reports that county attorneys, out of their \$973,700 appropriation, reported expenditures of \$1.8 million in FY 2016 by also utilizing an existing cash balance in the State Aid to County Attorneys Fund. Of that total, \$1.7 million was spent on salary and benefits, \$12,000 on equipment, \$3,200 for contractual services, \$1,600 on operating costs and supplies, \$13,100 on case management software, and \$800 on other expenditures.

ACJC reports that counties used the monies in 3 main areas: additional staffing, technological purchases,

and training and travel expenses. Training and travel expenses funded witness travel and staff attendance at educational seminars and conferences.

ACJC also states that no prosecuting agencies reported case processing times that met the Supreme Court guidelines as no agency reported adjudicating 100% of eligible felony cases within 180 days of filing. Of the 28 agencies who provided case processing statistics, 12 reported an increase in the percentage of cases adjudicated within 180 days from FY 2015 to FY 2016.

ACJC did not distribute State Aid to Indigent Defense Fund revenues to counties in FY 2016, as they were appropriated for other non-Indigent Defense areas. (Josh Hope)

Department of Education – Budget Status Report – Pursuant to a General Appropriation Act footnote and A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2017. In that report, ADE estimates that it will experience a \$(4.0) million net funding shortfall for formula programs for FY 2017. This consists of an estimated \$0.9 million surplus for Basic State Aid and estimated \$(4.9) million shortfall for Additional State Aid (the Homeowner's Rebate and 1% Cap programs). ADE's current \$(4.0) million shortfall estimate is subject to revision as additional data become available. (Steve Schimpp)

Department of Education – Report on Education Learning and Accountability System – Pursuant to a A.R.S. § 18-104, the Arizona Department of Education (ADE) must contract with an independent third-party vendor to provide additional oversight on the development of ADE's Education Learning and Accountability System (ELAS). The vendor is required to submit quarterly reports that evaluate and assess the project's feasibility, estimated expenditures, timeline for completion, technology approach and scope

Table 5

DCS Filled FTE Positions as of December 2016

	<u>Funded</u>	<u>December</u>	<u>Difference</u>
Caseworkers	1,190	1,085	(105)
Hotline Staff	76	66	(10)
Staff in Training	<u>140</u>	<u>189</u>	<u>49</u>
<i>Subtotal - Direct Line</i>	1,406	1,340	(66)
<i>Subtotal - Non-Direct Line Staff</i>	<u>1,511</u>	<u>1,380</u>	<u>(131)</u>
Grand Total ^{1/}	2,917	2,720	(197)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

throughout the life of the project. The vendor's most recent quarterly review from October 2016 was released by ADE on January 13, 2017.

The report observes that "all districts (with a couple small exceptions)" are now reporting student data via the new Arizona Education Data Standards (AzEDS) platform, and that "districts seem to be satisfied with the process," which "is saving districts time and providing accurate data."

The report notes that ADE's school payment systems, APOR and CHAR, will be rewritten in FY 2017 and FY 2018. As part of this process, the report recommends that "ADE conduct a thorough legislative review" of the current financial calculations to determine whether they reflect legislative intent and to calculate the financial impact to districts of any necessary refinements.

The review states that ADE has pursued best practices in most areas of ELAS development, including project management and the system's architecture, but that the customer support help desk services "do not reflect the commonly accepted best practices." The report suggests that ADE resolve these issues before selling any of the ELAS components (as allowed by Laws 2016, Chapter 317) and notes that ADE has begun a structural reorganization of the help desk to address the problems.

The report finds that districts participating in the state information system (SIS) program "have enjoyed lower per student costs," but that "it is arguable as to whether they receive better support and easier procurement" as intended. It notes that ADE has begun taking steps to improve these aspects of the program.

The report also notes that "work is underway" to consolidate the current data silos (e.g. free and reduced price lunch, Empowerment Scholarship Accounts, etc.) into the AzEDS data collection. Finally, the report commends ADE for its work in promoting data literacy among educators and for the state's progress in developing strategic plans for the federal Every Student Succeeds Act (ESSA), which can utilize the new capabilities under ELAS. (Matt Beienburg)

JLBC Staff – Public Programs Eligibility Report – As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint

Legislative Budget Committee. Below is a summary of the December 31, 2016 reports:

Universities – At the 3 universities, 172,177 students registered for the fall 2016 semester. Of the total students registered, the universities were able to verify the legal immigration status of 157,830 students. Additionally, the universities reported that 18,431 of these students did not require verification because they have neither requested nor received in-state tuition or state-supported financial aid. The universities reported that no students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security – The department reported that 8,247 applications were received for child care assistance during the reporting period of June 1, 2016 to November 30, 2016. Of this number, 19 were denied because criteria for citizenship or legal residency were not met.

Community Colleges – Statewide, the Community Colleges reported a total of 228,505 students classified as in-state for the fall 2016 semester. They reported 363 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 91,059 students applied for financial aid. Of those who applied, the community colleges reported that 104 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education – The department reported that 9,907 people applied for instruction in Arizona Adult Education during the reporting period of June 1, 2016 to December 1, 2016. Of this amount, 548 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. The Arizona Adult Education program is funded with a combination of state and Federal Funds. (Morgan Dorcheus)

Ombudsman-Citizens' Aide Office – Annual Report – Pursuant to A.R.S. § 41-1376, the Ombudsman-Citizens' Aide is to submit an annual written report by January 1 summarizing their activities during the previous fiscal year (FY). The FY 2016 annual report cites examples of cases in the office's 3 focus areas: general complaints about state agencies, Department of Child Safety (DCS) cases, and public access cases. There were 5,132 total cases in FY 2016 including 3,156 involving coaching, 1,619 needing assistance, and 357 requesting investigations. Of the 357 requests for investigations, 234 were completed, 3 are ongoing, 64 were discontinued or the complaint was withdrawn, and the Ombudsman declined to investigate 56. (Steve Grunig)

Summary of Recent Agency Reports (Continued)

Arizona Board of Regents/Arizona Community Colleges – [Report on Articulation](#) – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents (ABOR) and the community colleges are required to submit an annual report by December 15 of their progress on both articulation and meeting statewide postsecondary education needs.

This year's progress in implementing the transfer model and support systems include:

- During the 2015-2016 academic year, 10,807 community college students transferred to the public university system. This is an increase of 10.9% from the 2010-2011 academic year.
- 54.4% of new transfer students had 60 or more credit hours transferred to a university in 2015-2016 versus 47.2% in 2010-2011.
- 56.0% of transfer students completed an associate's degree prior to transfer in 2014-2015 versus 48.8% in 2010-2011.
- Minority students accounted for 43.1% of new community college transfers in 2015-2016. (Matt Beienburg)

December Spending

December 2016 General Fund spending was \$616.4 million, which represents an increase of \$13.3 million above December 2015. (See *Tables 6 & 7*). Year-to-date, General Fund spending is \$5.53 billion, or \$(264.6) million below the prior year.

Agency	Change From			YTD Change from FY 16
	<u>Dec 16</u>	<u>Dec 15</u>	<u>Year-to-Date</u>	
AHCCCS	159.3	4.1	870.5	216.4
Corrections	80.1	2.0	520.1	(12.7)
Child Safety	18.7	6.3	183.5	(31.2)
Economic Security	(2.6)	(6.2)	464.1	60.2
Education	272.8	0.5	2,506.2	34.3
Health Services	5.9	(8.0)	47.1	(469.1)
Public Safety	2.0	0.4	44.8	4.9
School Facilities Board	0.1	(0.0)	171.0	9.1
Universities	55.0	18.4	339.4	(92.1)
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>25.1</u>	<u>(4.2)</u>	<u>304.0</u>	<u>15.6</u>
Total	616.4	13.3	5,534.8	(264.6)

General Fund Spending				
(\$ in Thousands)				
Agency	Dec 16	Change from Dec 15	Year-to-Date	YTD Change from FY 16
Dept. of Admin./Automation Projects Fund	2,531.3	1,834.2	22,480.0	10,941.4
ADOA – Sale/Leaseback Debt Service	-	-	84,117.4	2.8
Office of Administrative Hearings	38.4	(2.0)	429.2	3.4
Commission of African-American Affairs	8.2	0.7	58.0	4.4
Department of Agriculture	563.1	(61.7)	4,772.4	472.6
AHCCCS	159,318.0	4,116.3	870,500.4	216,407.1
Attorney General	1,954.2	332.1	11,777.6	1,401.9
State Board of Charter Schools	66.2	(7.3)	517.7	(39.1)
Department of Child Safety	18,700.9	6,306.5	183,490.9	(31,198.9)
AZ Commerce Authority	1,866.7	(491.6)	10,900.2	(2,083.0)
Community Colleges	241.4	(12.1)	26,499.0	539.7
Corporation Commission	43.2	18.5	531.5	267.9
Department of Corrections	80,077.9	1,958.2	520,148.1	(12,666.7)
County Funding	-	-	14,000.5	8,000.0
AZ State Schools for the Deaf & Blind	1,488.5	(379.6)	12,742.3	(1,940.8)
Office of Economic Opportunity	119.5	119.5	119.5	119.5
Department of Economic Security	(2,622.1)	(6,182.8)	464,059.4	60,200.9
State Board of Education	36.9	(39.9)	481.9	(106.9)
Department of Education	272,828.9	506.4	2,506,178.4	34,333.9
DEMA	863.3	373.2	4,666.6	447.8
DEQ – WQARF	-	(7,000.0)	2,823.6	(4,176.4)
Office of Equal Opportunity	9.1	(9.1)	97.2	11.4
State Board of Equalization	23.3	(0.2)	359.3	28.7
Board of Executive Clemency	142.3	86.8	405.5	(81.4)
Department of Financial Institutions	202.2	(52.7)	1,449.2	(124.5)
Department of Fire, Bldg and Life Safety	-	(128.4)	(2.4)	(1,009.2)
Department of Forestry and Fire Management	463.8	166.8	3,348.2	670.3
Department of Gaming	-	-	1,779.5	(14.9)
Arizona Geological Survey	-	(122.4)	-	(489.2)
Governor/OSPB	717.6	(499.2)	5,029.7	(7.9)
Department of Health Services	5,914.2	(8,043.6)	47,099.1	(469,096.9)
Arizona Historical Society	128.8	(14.4)	1,634.0	(169.2)
Prescott Historical Society of AZ	58.7	(5.1)	405.3	(32.8)
Department of Housing	61.0	61.0	452.4	452.4
Independent Redistricting Comm.	75.0	(97.7)	634.5	15.1
Department of Insurance	299.4	(41.2)	2,475.7	(175.9)
Judiciary				
Supreme/Superior Court	2,344.1	439.7	47,140.0	2,462.2
Court of Appeals	998.2	(3.4)	6,931.7	(185.8)
Department of Juvenile Corrections	(186.3)	(1,875.4)	11,300.0	(2,657.6)

Table 7 (Continued)				
Agency	Dec 16	Change from Dec 15	Year-to-Date	YTD Change from FY 16
State Land Department	605.3	(46.5)	5,462.7	(253.7)
Legislature				
Auditor General	1,359.8	(148.2)	9,786.0	(278.2)
House of Representatives	1,112.5	8.7	6,265.9	(595.0)
Joint Legislative Budget Comm.	158.8	(11.7)	1,154.4	7.7
Legislative Council	581.9	12.4	3,412.3	57.3
Senate	673.7	83.2	4,260.0	539.9
Mine Inspector	77.5	5.9	584.8	3.6
Nav. Streams & Adjudication	5.0	(4.9)	66.3	2.2
Occupational Safety and Health Review	-	(0.9)	-	(2.5)
Arizona State Parks Board	-	-	-	(275.3)
Phoenix Convention Center	-	-	20,449.0	-
Comm. for Postsecondary Ed.	-	-	696.3	(2.1)
Department of Public Safety	2,046.2	400.3	44,813.8	4,949.1
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	104.1	104.1	1,028.0	212.7
Real Estate Department	145.0	(11.1)	1,390.3	50.4
Department of Revenue	1,398.4	1,585.4	15,284.4	(8,765.7)
School Facilities Board	79.5	(5.9)	170,994.4	9,116.9
Secretary of State	2,573.4	1,796.7	16,298.3	10,902.1
Tax Appeals Board	0.2	(17.3)	134.5	(11.2)
Office of Tourism	-	-	4,907.0	(70.3)
Department of Transportation	-	-	1,500.7	1,500.7
Governor's Office on Tribal Relations	(1.1)	(3.6)	29.0	8.9
Universities				
Board of Regents	529.0	507.0	12,907.0	636.8
Arizona State University	24,676.2	8,048.6	148,057.2	(42,283.6)
Northern Arizona University	8,436.3	2,609.4	50,568.7	(14,887.5)
University of Arizona	21,311.5	7,231.3	127,869.3	(35,542.1)
Department of Veteran Services	369.8	(64.8)	2,828.0	187.5
Department of Water Resources	777.7	49.9	5,245.5	103.4
Water Infrastructure Finance Authority	-	-	500.0	500.0
Department of Weights & Measures	-	(23.1)	-	(562.7)
Other - JP Salaries Distribution	-	(4.4)	378.0	(130.3)
Other	-	(7.6)	70.4	(204.3)
Total	616,396.6	13,342.8	5,534,775.7	(264,558.7)

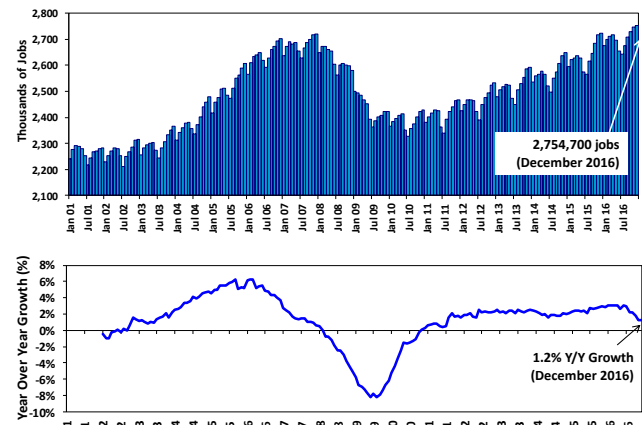
Arizona Economic Trends

January 2017
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
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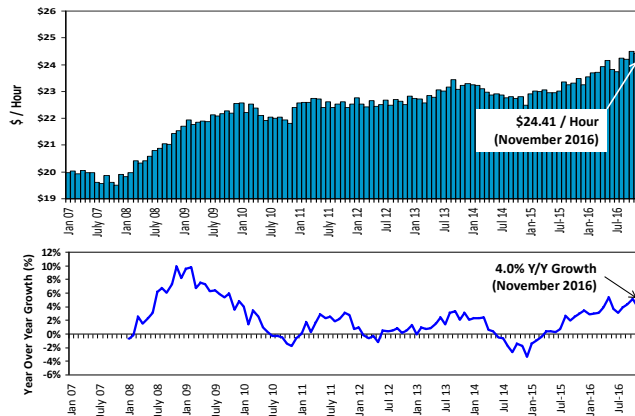
Total Non-Farm Employment



JLBC

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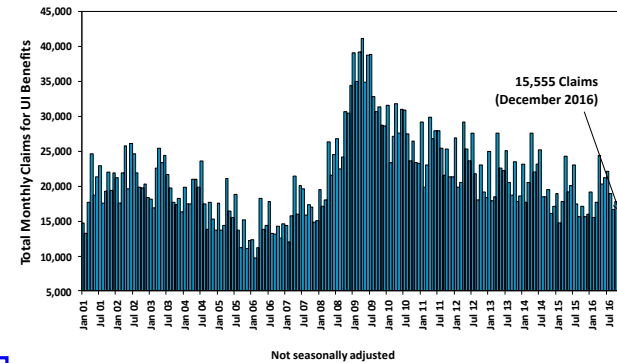
Average Hourly Earnings – Private Sector



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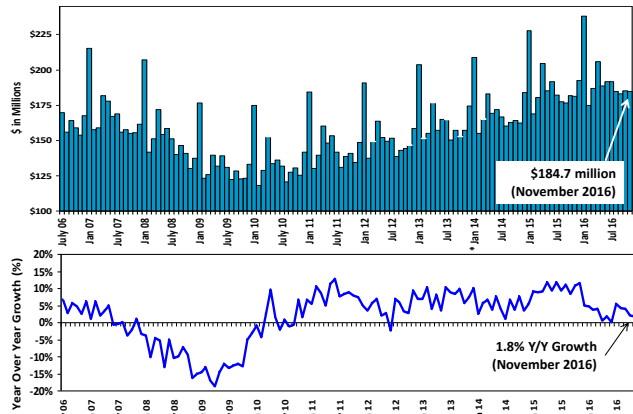
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



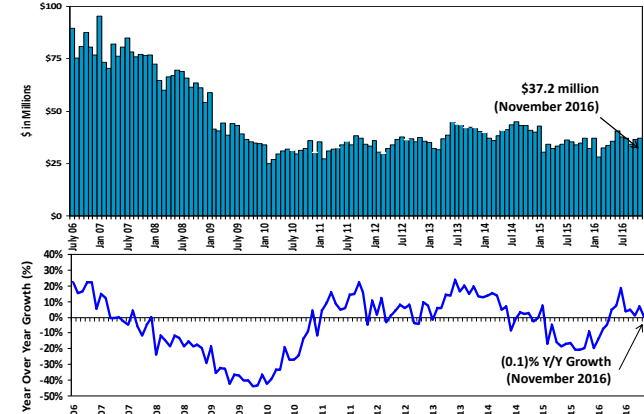
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Excludes temporary 1 ¢ sales tax

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

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State Sales Tax Collections – Contracting Category

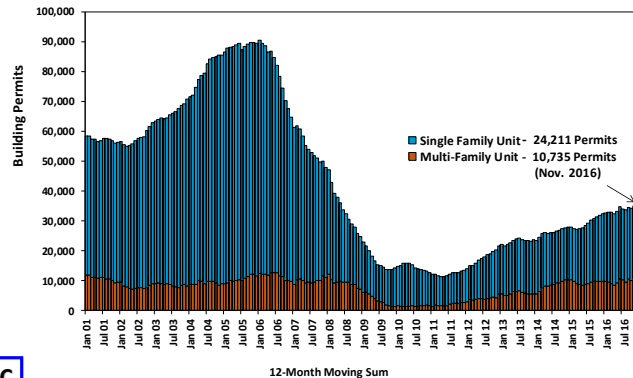


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Excludes temporary 1 ¢ sales tax

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Residential Building Permits

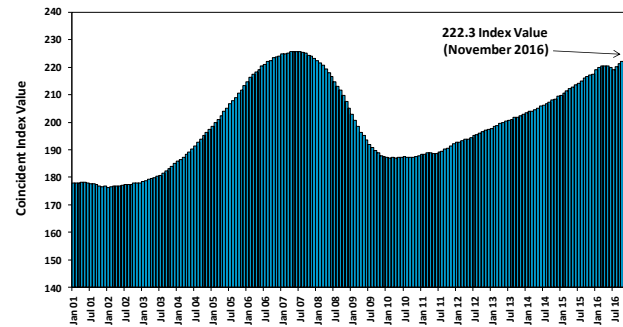


JLBC

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.

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