

1716 W. Adams  
Phoenix, AZ 85007

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



[www.azleg.gov/jlbc.htm](http://www.azleg.gov/jlbc.htm)

**" Year-to-date,  
...General  
Fund revenues  
are 3.3%  
above the  
prior year."**

## Summary

January 2017 General Fund collections were \$925.0 million, which represents an increase of 3.4% above the prior year.

This increase was the result of significant growth in Individual Income Tax estimated payments. This increase, however, is likely the result of technical timing issues.

Estimated payments can be made in either December or January, and how payments are split between these months can substantially affect the growth rate for the category. When looking at December and January combined, Individual Income Tax estimated payments grew at a much more modest rate of 1.9% above the prior year.

While the state saw gains from the large increase in Individual Income Tax collections, these gains were moderated by the significant decline in the Corporate Income Tax category. Corporate collections fell by \$(40) million compared to the prior year and were actually negative for the month.

In addition, losses also occurred in the Insurance Premium Tax category, which also experiences timing issues with payments being processed during the months of December and January. Due to these timing issues, the category declined by (80.9)% in January compared to the prior year.

Beginning with this February report, the *Monthly Fiscal Highlights* compares actual revenue collections to the Baseline forecast published last month. The Baseline forecast is based on the 4-sector consensus estimates that were presented at the January Finance Advisory Committee meeting.

When compared to the Baseline revenue projections, January revenues were \$(3.7) million below forecast.

In comparison to January revenue collections of \$925.0 million, January 2017 spending was \$756.1 million, which is an increase of \$172.0 million from the prior year.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, General Fund revenues are 3.3% above the prior year.

Fiscal year-to-date, General Fund revenues of \$5.48 billion have been offset by \$6.29 billion of expenditures.

### State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2017 state appropriations (both General and Other Funds) are \$16.35 billion, or 5.70% of personal income. Under the JLBC Baseline, projected FY 2018 spending is \$16.42 billion, which would be 5.47% of personal income.

### Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2018, as required by A.R.S. § 41-1276. Due to the growth in values for new properties being lower than expected, the cost of the FY 2018 Basic State Aid formula will be \$3.1 million higher than the JLBC Baseline.

The purpose of TNT is to offset the annual change in the value of existing property statewide with proportional Qualifying Tax Rate and State Equalization Tax Rate changes.

## Table of Contents

### Summary

- State Appropriations Limit Report ..... 1
- Truth in Taxation Report ..... 1

### January Revenues ..... 2

### Monthly Indicators ..... 4

### Summary of Recent Agency Reports

- AHCCCS – Emergency Dept. Utilization ..... 7
- Auditor General – DCS Administrative Staff... 7

- ADE – Third-Party IT Oversight Report ..... 7
- DCS/ECDHB – Program Coordination ..... 8
- DCS – Monthly Hiring Report ..... 8
- DCS – Semi-Annual Progress Report ..... 9
- PSPRS – Elected Officials DC Plan Report ..... 9
- PSPRS – Funding Status Report ..... 9
- **January Spending** ..... 10
- **Arizona Economic Trends** ..... Appendix A

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

## January Revenues

	<u>FY 2017 Collections</u>	<u>Difference From Baseline Forecast</u>	<u>Difference From FY 2016</u>
January	\$ 925.0	\$ (3.7)	\$ 30.8
Year-to-Date	\$ 5,476.9	\$ (3.7)	\$ 83.4

**Sales Tax** (preliminary) collections of \$428.4 million were 6.5% above January of last year and \$11.1 million above the forecast for the month. January tax collections reflect sales activities that occurred in December. Year-to-date, Sales Tax revenues have increased by 3.5%.

Sales tax collections by category were not available as of the Monthly Fiscal Highlights publication date.

**Individual Income Tax** net revenues of \$552.0 million in January were \$105.6 million more than the prior year. Year-to-date, revenue has grown 7.1% over the prior year and is \$18.9 million above forecast.

As indicated in *Table 2*, January withholding increased by 20.9% from last year and was \$10.3 million above the forecast. The large monthly increase was partly driven by differences in the number of processing days in January 2017 compared to January 2016.

Year-to-date withholding collections are 8.2% 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 6.9% year-to-date in FY 2017.

January estimated and final payments of \$175.1 million were 14.2% above last year. The large monthly increase may have been driven by timing issues of processing calendar year-end payments. Combined payment collections in December and January were 1.9% above collections during the same months in the prior year. Year to date, payments are flat compared to FY 2016 and \$6.1 million above the forecast.

January Individual Income Tax refunds totaled \$(10.7) million – this compares to \$(27.6) million in January 2016 and a forecasted amount of \$(13.2) million. The decrease in refunds compared to last year may partly reflect timing differences of processing TY 2016 and TY 2015 returns. Year-to-date refunds have led to a \$2.5 million increase compared to the enacted forecast.

	<u>January</u>	<u>YTD</u>
Withholding	20.9%	8.2%
Estimated/Final Payments	14.2%	0.0%
Refunds	(61.1)%	(2.1)%

**Corporate Income Tax** net collections were \$(18.7) million in January, which was \$(40.0) million less than in the prior year. Year to date, collections are \$(28.5) 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 \$6.3 million in January were \$(26.8) million below the prior year. The large difference from prior year revenues is likely driven by timing issues for processing quarterly payments from AHCCCS insurers. Year-to-date, collections are 9.3% above last year and \$(3.6) million below the forecast.

The **Lottery Commission** reports that December ticket sales were \$70.4 million, which is \$(6.0) million, or (7.9)%, below sales in December 2015. Year-to-date ticket sales are \$385.3 million, which is 1.4% above last year's sales.

**Highway User Revenue Fund (HURF)** collections of \$119.0 million in January were up 3.8% compared to January of last year and were \$(1.0) million below forecast. Year-to-date collections are 4.1% above last year.

Due to delays in reporting final December revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For January, DOR has decreased the amount of prior General Fund revenue collections by \$(4.8) 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 January 2017

	Current Month					FY 2017 YTD (Seven Months)				
	Actual January 2017	Change From January 2016		Baseline Forecast		Actual January 2017	Change from January 2016		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$428,398,354	\$26,271,423	6.5 %	\$11,058,289	2.6 %	\$2,606,880,617	\$88,216,404	3.5 %	\$11,058,289	0.4 %
Income - Individual	551,996,656	105,601,828	23.7	18,878,532	3.5	2,716,065,094	180,974,589	7.1	18,878,532	0.7
- Corporate	(18,702,423)	(40,046,130)	--	(28,534,311)	--	176,509,768	(101,969,267)	(36.6)	(28,534,311)	(13.9)
Property	1,487,625	(897,736)	(37.6)	(527,843)	(26.2)	19,611,746	(3,673,808)	(15.8)	(527,843)	(2.6)
Luxury - Tobacco	2,165,670	204,995	10.5	0	0.0	13,473,753	(653,198)	(4.6)	0	0.0
- Liquor	2,907,751	213,662	7.9	0	0.0	19,436,843	853,185	4.6	0	0.0
Insurance Premium	6,317,744	(26,802,469)	(80.9)	(3,573,151)	(36.1)	208,728,800	17,709,276	9.3	(3,573,151)	(1.7)
Other Taxes	106,169	42,139	65.8	(195,642)	(64.8)	1,358,316	(1,362,000)	(50.1)	(195,642)	(12.6)
<b>Sub-Total Taxes</b>	<b>\$974,677,547</b>	<b>\$64,587,711</b>	<b>7.1 %</b>	<b>(\$2,894,126)</b>	<b>(0.3) %</b>	<b>\$5,762,064,937</b>	<b>\$180,095,181</b>	<b>3.2 %</b>	<b>(\$2,894,126)</b>	<b>(0.1) %</b>
<b><u>Other Revenue</u></b>										
Lottery	0	(14,612,975)	(100.0)	0	--	26,744,043	(800,407)	(2.9)	0	0.0
License, Fees and Permits	4,055,389	1,869,705	85.5	1,573,443	63.4	22,477,548	5,067,990	29.1	1,573,443	7.5
Interest	(76,990)	(77,526)	--	(80,343)	--	94,058	83,423	784.5	(80,343)	(46.1)
Sales and Services	(60,955)	(974,416)	--	(889,122)	--	10,882,391	1,300,589	13.6	(889,122)	(7.6)
Other Miscellaneous	195,800	3,246,572	--	(864,091)	(81.5)	20,813,048	2,934,644	16.4	(864,091)	(4.0)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,557,341	(5,971,283)	(79.3)	(510,473)	(24.7)	19,692,183	(1,849,616)	(8.6)	(510,473)	(2.5)
<b>Sub-Total Other Revenue</b>	<b>\$5,670,585</b>	<b>(\$16,519,924)</b>	<b>(74.4) %</b>	<b>(\$770,586)</b>	<b>(12.0) %</b>	<b>\$100,703,270</b>	<b>\$6,736,623</b>	<b>7.2 %</b>	<b>(\$770,586)</b>	<b>(0.8) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$980,348,132</b>	<b>\$48,067,788</b>	<b>5.2 %</b>	<b>(\$3,664,712)</b>	<b>(0.4) %</b>	<b>\$5,862,768,207</b>	<b>\$186,831,804</b>	<b>3.3 %</b>	<b>(\$3,664,712)</b>	<b>(0.1) %</b>
<b><u>Other Adjustments</u></b>										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	(0)	0.0	(387,089,598)	(33,802,904)	9.6	(0)	0.0
One-Time Transfers	0	(12,393,700)	(100.0)	0	--	1,191,548	(69,584,152)	(98.3)	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(55,298,514)</b>	<b>(17,222,686)</b>	<b>45.2 %</b>	<b>(0)</b>	<b>0.0 %</b>	<b>(385,898,050)</b>	<b>(103,387,056)</b>	<b>36.6 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$925,049,618</b>	<b>\$30,845,101</b>	<b>3.4 %</b>	<b>(\$3,664,712)</b>	<b>(0.4) %</b>	<b>\$5,476,870,157</b>	<b>\$83,444,748</b>	<b>1.5 %</b>	<b>(\$3,664,712)</b>	<b>(0.1) %</b>
<b><u>Non-General Funds</u></b>										
Highway User Revenue Fund	\$118,957,105	\$4,383,849	3.8 %	(\$958,586)	(0.8) %	\$807,811,997	\$31,672,595	4.1 %	(\$958,586)	(0.1) %

## 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 1.9% in the fourth quarter of 2016. This estimate reflects a slowdown from the strong growth of 3.5% experienced in the prior quarter. The slowdown relative to the prior quarter was primarily due to declines in exports and federal spending and a deceleration in consumer spending. Declining performance in these categories was partly offset by growth in residential and business investment.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (1.3)% in January, but was still 14.3% above the reading in January 2016. The monthly decrease followed on a December reading that was the index's highest since August 2001. The decrease in January reflected greater consumer pessimism in expectations of future economic and job circumstances. This monthly decrease in expectations was partly offset by an increase 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)** increased 0.2% in December. The overall monthly increase was primarily driven by a 1.7% increase in energy prices. The index's year-over-year growth increased to 1.6%, the highest rate of growth seen since September 2014. Growth in the index has been steadily moving closer to the Federal Reserve Bank's (Fed) 2.0% annual inflation target. Recent price increases may encourage the Fed to further increase short term interest rates at their upcoming March meeting.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.3% in December and 2.1% above December 2015 prices. Continuing a 4-month trend, the monthly increase was primarily driven by a 3.0% increase in the gasoline index and also by a 0.3% increase in the shelter index. Energy prices increased 1.5% and core inflation (all items less food and energy) increased 0.2% for the month. Indexes for motor vehicle insurance, education and new vehicles increased, while indexes for apparel and communication decreased.

The Conference Board's **U.S. Leading Economic Index** increased 0.5% in December and stands 1.1% above its December 2015 reading. Of the index's 10 components, 6 made positive contributions in December. Interest rate spread was once again the strongest positive contributor, and average consumer expectations and stock prices made positive contributions as well. Negative contributors included average weekly initial claims and manufacturers' 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 3.0% compared to December 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. Arizona's 12-month total of **single-family building permits** is 24,244, or 7.3% 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 11,376 **multi-family building permits** is 24.7% more than 2015. Nationwide multi-family permits are (12.1)% lower than 2015.

#### Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment figures will not be released until the second week of March. For this reason, this month's issue of *Monthly Fiscal Highlights* does not include these employment statistics.

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 10.8% during the four quarters of 2016. This rate is (0.1)% below the reading issued for the prior period. The state's 10.8% rate was the eighth highest of any state, which represented a weakening from the state's ninth place rank during the prior period. The national average for the measure was 9.6% during the 2016.

In December, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This workload was 0.6% above the level during the prior month and 0.3% above the level in December 2015.

## Monthly Indicators (Continued)

The **Average Hourly Earnings** received by private sector workers was \$24.02, which is (1.4)% below the average in the prior month. Despite the monthly decrease, December earnings were 3.3% above the average in December 2015. Year-over-year growth has been at or above 3.0% in each month since January 2016.

The Office of Economic Opportunity (OEO) reported that 19,468 **initial claims for unemployment insurance** were filed in January, an increase of 1.7% compared to the same month last year.

According to OEO, the state had a total of 19,620 **claimants receiving unemployment insurance benefits** in January, a decrease of (17.2)% from December. This figure was (23.9)% below the January 2016 level, and represented the largest monthly year-over-year decrease in number of claimants receiving jobless benefits since July 2013.

**Revenue per available room** was \$55.43 in December, which was 7.8% above the amount in December 2015.

**Ridership** during December through Phoenix Sky Harbor Airport was down (1.4)% compared to December 2015.

### State Agency Data

At the beginning of February 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 612,400 members.

Total monthly enrollment increased by 3,700 members, or 0.2%, during January. The overall increase in January was mostly concentrated in the Traditional population of low income parents and children. Enrollment in this population increased 3,400, or 0.3%, in January to a level of 1.10 million members. This increase was partly offset by an enrollment decrease of (1,500), or (0.8)%, 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 February 1, enrollment in the program reached 13,800, or 400 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In January 2016, the childless adult population increased by 2,400, or 0.7%. At 318,400, this population is 3.6% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 100 in January and now totals 81,900 individuals. Enrollment is (1.8)% lower than a year ago. The share of this population's cost that is funded by the federal government decreased from 100% to 95% in January.

There were 18,581 **TANF recipients** in the state in January, representing a (5.8)% monthly caseload decrease from December. The year-over-year number of TANF recipients has declined by (14.5)%. 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 January, 941,321 people received food stamp assistance in the state, representing a (1.8)% decrease over December caseloads. Compared to January caseloads last year, the level of food stamp participation has declined by (3.5)%.

The **inmate population** was 42,287 as of January 31, 2017. This is a (0.9)% decrease since last January. The population decreased by (0.2)% since December 2016.

Based on information the Department of Child Safety provided for December 2016, **reports of child maltreatment** totaled 48,251 over the last 12 months, a decrease of (5.4)% over the prior year. There were 17,413 **children in out-of-home care** as of November 2016, or (7.5)% less than in November 2015. Compared to the prior month, the number of out-of-home children decreased by (2.9)%.

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>
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	December	4.8%	(0.2)%	(1.1)%
- Total Unemployment Rate (discouraged/underemployed)	4 <sup>th</sup> Q 2016	10.8%	(0.1)%	(2.0)%
- Initial Unemployment Insurance Claims	January	19,648	25.2%	1.7%
- Unemployment Insurance Recipients	January	19,620	(17.2)%	(23.9)%
- 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	December	34.4	0.6%	0.3%
- Average Hourly Earnings, Private Sector	December	\$24.02	(1.4)%	3.3%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	December	\$960.0 million	0.4%	6.9%
Furniture/Home Furnishings	December	\$366.8 million	14.4%	9.2%
Building Material/Lawn & Garden	December	\$395.2 million	(1.6)%	(2.6)%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	December	24,244	0.1%	7.3%
Multi-family	December	11,376	6.0%	24.7%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	December	3,781	(30.4)%	(2.7)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	December	\$239,999	(2.0)%	4.4%
- Phoenix S&P/C Home Price Index (2000 = 100)	November	164.44	0.3%	5.2%
- Maricopa Pending Foreclosures	December	3,310	(0.7)%	(22.3)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	December	22,536	(8.7)%	(1.6)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	December	3,657,361	2.8%	(1.4)%
- National Park Visitors	August	1,647,913	(8.8)%	(10.2)%
- State Park Visitors	December	158,644	(19.0)%	30.2%
- Revenue Per Available Hotel Room	December	\$55.43	(21.0)	7.8%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	4 <sup>th</sup> Q 2016	91.7	3.7%	12.9%
- Arizona Coincident Index (July 1992 = 100)	December	224.64	0.2%	3.0%
- Arizona Leading Index -- 6 month projected growth	December	3.6%	(0.1)%	0.0%
- Arizona Personal Income	3 <sup>rd</sup> 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	February 1 <sup>st</sup>	1,870,524	0.2%	3.8%
Acute Care Traditional		1,095,018	0.3%	4.3%
Prop 204 Childless Adults		318,367	0.7%	3.6%
Other Prop 204		182,110	(0.8)%	(3.1)%
Adult Expansion		81,852	0.1%	(1.8)%
Kids Care I		13,770	2.8%	1786.3%
Long-Term Care – Elderly & DD		58,917	0.0%	2.2%
Emergency Services		120,490	(0.8)%	4.8%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	December	48,251	0.0%	(5.4)%
DCS Out-of-Home Children	November	17,413	(2.9)%	(7.5)%
Filled Caseworkers (1406 Budgeted)	January	1,336	(4)	41
- ADC Inmate Growth	January	42,287	(0.2)%	(0.9)%
- Department of Economic Security				
- TANF Recipients	January	18,581	(5.8)%	(14.5)%
- SNAP (Food Stamps) Recipients	January	941,321	(1.8)%	(3.5)%
- Judiciary Probation Caseload				
Non-Maricopa	September	18,880	29	583
Maricopa County	September	27,766	(17)	502
<b>United States</b>				
- Gross Domestic Product	4 <sup>th</sup> Q, 2016	\$16.8 trillion	1.9%	1.9%
(Chained 2009 dollars, SAAR)	(3 <sup>rd</sup> Estimate)			
- Consumer Confidence Index (1985 = 100)	January	111.8	(1.3)%	14.3%
- Leading Indicators Index (2010 = 100)	December	124.6	0.5%	1.1%
- Consumer Price Index, SA (1982-84 = 100)	December	243.0	0.3%	2.1%
- Personal Consumption Price Index (2009 = 100)	December	111.7	0.2%	1.6%

## Summary of Recent Agency Reports

### AHCCCS – Report on Emergency Department

Utilization – Pursuant to a provision in the FY 2017 Health and Welfare Budget Reconciliation Bill (Laws 2016, Chapter 122), AHCCCS submitted their report on emergency department (ED) utilization. Currently there is no national standard for identifying whether an ED visit was the result of an emergency or non-emergency situation. Therefore, AHCCCS continues to use the American College of Emergency Physicians' facility coding for the state's Medicaid population which assigns visits to 1 of 5 categories. Level I represents conditions such as acute upper respiratory infection, removal of sutures, or cough. Conditions such as severe burns or toxic ingestions are classified as a Level V visit, the most severe.

From FY 2014 to FY 2015, total ED visits increased by 190,581, or 21.8%, which resulted in an increase of \$110.1 million in total payments for AHCCCS recipients receiving ED services. Although imperfect, AHCCCS believes the Level I-V classifications to be "reasonable" indicators of non-emergency use of ED utilization data. Table 5 below provides a breakout by AHCCCS recipient and total amounts paid. (Jon Stall)

### Auditor General – Report on DCS' Administrative

Staffing Level – Pursuant to the FY 2017 Human Services Budget Reconciliation Bill (Laws 2016, Chapter 123), the Auditor General reported on the Department of Child Safety's (DCS) administrative staffing level.

Auditors concluded that DCS' administrative staffing levels appears to be reasonable. The audit compared central administrative staffing levels of DCS with the Department of Economic Security (DES), the Arizona Health Care Cost Containment System (AHCCCS), and the Tennessee Department of Children's Services (TDCS). Auditors found that DCS had a 16% central administrative staffing rate, compared to 10% for DES, 25% for AHCCCS, and 18% for TDCS. The auditors did

caution, however, that the value of this analysis is limited, since some central administrative functions of DCS, such as foster home licensing, are too program-specific to be directly compared to other agencies.

The audit also reviewed a new staffing analysis tool that DCS uses to determine appropriate administrative staffing levels. The tool includes estimates of the volume of each job task and the estimated average time to complete each task to determine the total number of FTE Positions required. This methodology is based on a child welfare workload study published by American Humane. The auditors found that the estimates of workload volume and time per task were based on supporting documentation, and that job activities aligned appropriately with position descriptions.

In cases where DCS' actual filled positions were less than the amount recommended by the staffing tool, DCS has relied on a combination of overtime and temporary positions. The audit found that DCS spent a total of \$13.7 million on contracted temporary employees, IT consultants, security services, and other professional and outside services in FY 2016.

The audit included no recommendations for DCS. (Patrick Moran)

### Department of Education – Report on Education

Learning and Accountability System – Pursuant to 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 throughout the life of the project. The vendor's most recent quarterly was released on February 3, 2017.

Table 5

#### FY 2015 Emergency Department Utilization By AHCCCS Recipients

<u>Level</u>	<u>FY 2015 # Visits</u>	<u>FY 2015 % Total Visits</u>	<u>% Change From 2014</u>	<u>FY 2015 Amount Paid (\$ in Millions)</u>	<u>FY 2015 % Paid Amount</u>	<u>Difference in Amount Paid from FY 2014 (\$ in Millions)</u>
I	36,964	3.5%	(0.8)%	\$ 3.5	0.7%	\$ (0.0)
II	141,885	13.3	21.8	23.6	4.7	3.0
III	374,660	35.1	17.3	110.6	21.9	17.5
IV	357,061	33.5	26.6	194.1	38.4	42.3
V	155,721	14.6	29.1	173.3	34.3	47.3
<b>Total</b>	<b>1,066,291</b>	<b>100.0%</b>	<b>21.8%</b>	<b>\$505.1</b>	<b>100.0%</b>	<b>\$110.1</b>

## Summary of Recent Agency Reports (Continued)

In the current report, the third-party reviewers "elected to not present the typical findings and recommendations" on the ELAS project, but to instead "focus on one main finding," which they describe as "the fiscal instability of the funding sources for the completion of the development work and the ongoing maintenance needs" of ELAS.

The review states that in the absence of additional General Fund support in FY 2018, ADE's IT department will "be unable to maintain the systems it has most recently constructed" and may be required to shut them down and return to "manual processes of funding calculations that pre-dated" the system currently being replaced by ELAS. (Matt Beienburg)

**Department of Child Safety – DCS/ECDHB Joint Report**  
 – Pursuant to a provision in the FY 2017 Human Services Budget Reconciliation Bill (Laws 2016, Chapter 123), the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB) reported on the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. The systemic collaborative efforts include:

- **Court Teams Program:** ECDHB funds teams that are intended to improve how the courts, child welfare, and child serving organizations work together to protect infants and toddlers in the child welfare system from further harm. The agencies estimate that a total of 15,958 infants and toddlers were impacted by the court teams in FY 2016.
- **Child Care Funding and Quality Improvement:** ECDHB provided \$30.0 million of matching dollars to draw down \$37.1 million of matching federal monies in federal fiscal year (FFY) 2016. The \$30.0 million provides child care scholarships to children. ECDHB also reports that its Quality First initiative has improved the quality of child care settings serving DCS children and other children. The number of

child care providers with at least a 3-star quality rating increased from 25% in FY 2013 to 65% in FY 2016.

- **Early Childhood Mental Health Consultations (ECMHC):** ECDHB operates the ECMHC program, which provides children with socio-emotional and behavioral issues, including DCS-involved children, with consultation from trained mental health professionals to reduce the incidence of poor classroom behaviors and lower expulsion rates from preschool and child care. The program also provides training to teachers to better address needs of children with socio-emotional or behavioral issues.

Aside from these system-level collaborations, DCS and ECDHB collaborate in other programs as well. For example, the Healthy Families Arizona program, which is a home visitation program designed to strengthen families during the first 5 years of a child's life, is funded jointly by ECDHB, DCS, and the Department of Health Services (DHS). In FY 2016, 4,165 families were served statewide. (Patrick Moran)

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

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,336 in January, or (70) 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 (4) since December.

There were also 1,388 non-direct line child safety staff in January 2017, or (123) fewer staff than the funded

**Table 6**

**DCS Filled FTE Positions as of January 2017**

	<u>Funded</u>	<u>January</u>	<u>Difference</u>
Caseworkers	1,190	1,068	(122)
Hotline Staff	76	70	(6)
Staff in Training	<u>140</u>	<u>198</u>	<u>58</u>
Subtotal - Direct Line	1,406	1,336	(70)
Subtotal - Non-Direct Line Staff	<u>1,511</u>	<u>1,388</u>	<u>(123)</u>
<b>Grand Total <sup>1/</sup></b>	<b>2,917</b>	<b>2,724</b>	<b>(193)</b>

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

## Summary of Recent Agency Reports (Continued)

staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions increased by 8 since December. (Patrick Moran)

**Department of Child Safety (DCS) – Semi-Annual Progress Report** – Pursuant to A.R.S. § 8-818, DCS has submitted its semi-annual financial and program accountability report covering the period of July 2016 through December 2016.

According to the report, out-of-home placements decreased by (5.0)% from 18,183 in July to 17,318 in December. Caseloads are above the department's goals and caseworker turnover was approximately 30.4%. Employee satisfaction remained unchanged at a 3.6 rating on a 5 point scale. The contents of this report, covering the first 6 months of FY 2017, are summarized below.

- The Training Academy had 347 new caseworkers in training as of December 2016. During the time period from July 2016 to December 2016, 220 caseworkers graduated from the Training Academy, or (18) fewer graduates than in the previous 6-month period.
- DCS reports that annualized caseworker turnover during July - December 2016 was 30.4%, down from a 33.8% annualized rate in the last report.
- The percent of Office of Administrative Hearings decisions affirming DCS case findings increased from 61.1 % to 80.7%. The percent of complaints validated by the Ombudsman increased from 18.54% to 34%.
- The number of congregate care placements decreased from 2,727 to 2,360, a (13.5)% decrease. DCS also reports that from July to December the number of children aged 0-3 in shelter care declined from 34 to 19, the number of children aged 0-6 in group homes increased from 102 to 106, and the number of children in shelter care for more than 21 days decreased from 1,059 to 980.

- As of December 2016, workload per caseworker remains higher than the revised caseload goals established during the May 2014 Special Session, with investigations at 18 (goal: 13), in-home cases at 39 (goal: 33), and out-of-home children at 28 (goal: 20).

Table 7 provides a historical view of workload by caseworker responsibility since 2008; it also displays how much workload exceeds the caseload standard in the "percent above workload standard" line. (Patrick Moran)

**Public Safety Personnel Retirement System (PSPRS) – Report on the Status of the Elected Officials' Defined Contribution Retirement System** – Pursuant to A.R.S. § 38-832G, PSPRS, in its capacity as the administrator of the retirement system, is required to report on the status of the Elected Officials' Defined Contribution Retirement System (EODCRS). Beginning on January 1, 2014, newly elected and appointed officials would pay contributions into the EODCRS while those in the Elected Officials' Retirement Plan (EORP) system prior to that date would continue to pay contributions into EORP, a defined benefit plan.

PSPRS reports that as of the end of FY 2016, the EODCRS has an account balance of \$1,144,400. Contributions in FY 2016 totaled \$232,800 while market gains totaled \$18,200. Miscellaneous changes such as transfers in and out, dividends and interest were \$39,500. At the end of FY 2016, there were 96 participants in the system. This number is expected to increase substantially in the next year as the 2016 elections will add more members into the system. (Chris Gustafson)

**Public Safety Personnel Retirement System (PSPRS) – Report on Shared Cost Structure, Funding Status and Rate of Return** – Pursuant to A.R.S. § 38-848.02, PSPRS is required to report annually on the shared cost structure of the employees and employers, the funding status and the rate of return for the system. Besides administering its own system, PSPRS is also responsible for

**Table 7**

**Caseworker Workload**

	<b>Dec. 2008</b>	<b>Dec. 2009</b>	<b>Dec. 2010</b>	<b>Dec. 2011</b>	<b>Dec. 2012</b>	<b>Dec. 2013</b>	<b>Dec. 2014</b>	<b>Dec. 2015</b>	<b>Dec. 2016</b>
Investigations	15	15	15	15	15	16	16	25	18
In-Home Cases	28	27	30	32	33	47	42	43	39
Out-of-Home Children	24	23	25	27	36	25	29	30	28
Percent Above Workload Standard	9%	9%	15%	22%	48%	28%	37%	54%	36%
Total Case-Carrying Caseworkers	818	761	764	781	750	983	1,019	953	975
Caseworkers Required by Standard	890	829	879	955	1,107	1,263	1,397	1,466	1,329

## Summary of Recent Agency Reports (Continued)

the Correctional Officers Retirement Plan (CORP) as well as the Elected Officials' Retirement Plan (EORP). *Table 1* shows the contribution rates, funded status and rate of return for FY 2018, based on valuation data from June 30, 2016.

The employer contribution rates and the funded status have been shown in the aggregate. In PSPRS and CORP, however, there is significant variation in the actuarial status of individual employer groups. Individual employer contribution rates and funded ratios are available on the PSPRS website.

A 7-year smoothing period is used to calculate the investment rate of return. This smoothing technique is a tool used to reduce short-term volatility of assets by deferring a portion of gains and losses over time. This smoothing process is used under the condition that the maximum deferred gain or loss remains within 20% of market value. *Table 8* shows 1-year market-based returns, in addition to the 7-year smoothing technique. (Chris Gustafson)

**Table 8**

PSPRS Annual Report			
	PSPRS	CORP	EORP
<b>FY 18 Contribution Rates <sup>1/</sup></b>			
Employer <sup>2/</sup>	52.09%	20.98%	23.50% <sup>3/</sup>
Employee	11.65% <sup>4/</sup>	8.41% <sup>5/</sup>	13.00%
<b>Funded Status <sup>1/ 2/ 6/</sup></b>			
	46.0%	57.3%	37.6%
<b>Rate of Return</b>			
1-year market value basis	0.63%	0.63%	0.63%
7-year smoothing basis	6.6%	6.6%	6.6%

<sup>1/</sup> Based on June 30, 2016 valuation.

<sup>2/</sup> Employer contribution rates and funded statuses for PSPRS and CORP are shown in the aggregate, as there is significant variation in the actuarial status between individual employer groups.

<sup>3/</sup> Pursuant to A.R.S. § 38-810, a fixed employer contribution rate of 23.5% began January 1, 2014.

<sup>4/</sup> As stipulated in A.R.S. § 38-843E.

<sup>5/</sup> Pursuant to A.R.S. § 38-891H and I, the employee rate is 7.96% for full-time dispatchers and 8.41% for all others.

<sup>6/</sup> Funded status is adjusted to exclude retiree health.

## January Spending

January 2017 General Fund spending was \$756.1 million, which represents an increase of \$172.0 million above January 2016. (See *Tables 9 & 10*). Year-to-date, General Fund spending is \$6.29 billion, or \$(89.2) million below the prior year.

Agency	General Fund Spending (\$ in Millions)			YTD Change from FY 16
	Jan 17	Change From Jan 16	Year-to-Date	
AHCCCS	193.8	72.7	1,064.3	289.1
Corrections	84.1	4.0	604.2	(8.6)
Child Safety	40.9	8.7	228.9	(18.0)
Economic Security	1.3	(8.9)	464.4	50.4
Education	298.8	74.7	2,805.0	109.0
Health Services	6.9	(5.9)	54.0	(475.0)
Public Safety	16.6	1.4	61.4	6.3
School Facilities Board	0.2	0.1	171.2	9.2
Universities	60.8	17.5	400.2	(74.6)
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>52.7</u>	<u>7.7</u>	<u>356.7</u>	<u>23.0</u>
<b>Total</b>	<b>756.1</b>	<b>172.0</b>	<b>6,294.4</b>	<b>(89.2)</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>Jan 17</b>	<b>Change from Jan 16</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 16</b>
Dept. of Admin./Automation Projects Fund	2,863.9	1,538.6	25,217.7	12,353.9
ADOA – Sale/Leaseback Debt Service	-	-	84,117.4	2.8
Office of Administrative Hearings	93.9	5.1	523.1	8.5
Commission of African-American Affairs	8.2	(8.9)	66.2	(4.4)
Department of Agriculture	742.9	71.9	5,515.3	544.5
AHCCCS	193,814.7	72,734.3	1,064,315.1	289,141.4
Attorney General	1,593.1	11.9	13,370.7	1,413.8
State Board of Charter Schools	71.8	(12.8)	589.5	(51.9)
Department of Child Safety	40,868.8	8,661.3	228,913.1	(17,984.2)
AZ Commerce Authority	1,791.7	(416.6)	12,691.9	(2,916.2)
Community Colleges	13,641.2	1,137.5	40,140.1	1,677.3
Corporation Commission	43.8	20.7	575.3	288.6
Department of Corrections	84,065.9	4,048.2	604,213.2	(8,619.3)
County Funding	-	-	14,000.5	8,000.0
AZ State Schools for the Deaf & Blind	1,142.2	(441.3)	13,884.5	(2,382.1)
Office of Economic Opportunity	48.3	48.3	48.3	48.3
Department of Economic Security	1,283.1	(8,881.7)	464,442.2	50,418.9
State Board of Education	71.5	3.8	553.5	(103.1)
Department of Education	298,830.5	74,667.4	2,805,009.0	109,001.3
DEMA	623.1	(151.6)	5,289.7	296.2
DEQ – WQARF	-	-	2,823.6	(4,176.4)
Office of Equal Opportunity	27.4	8.9	124.6	20.3
State Board of Equalization	22.5	(5.1)	381.8	23.6
Board of Executive Clemency	56.8	(2.4)	462.3	(83.8)
Department of Financial Institutions	213.2	3.4	1,662.4	(121.1)
Department of Fire, Bldg and Life Safety	-	(246.5)	(2.4)	(1,255.8)
Department of Forestry and Fire Management	637.4	67.0	3,985.5	737.4
Department of Gaming	75.0	75.0	1,854.5	60.1
Arizona Geological Survey	-	(116.4)	-	(605.6)
Governor/OSPB	766.7	171.0	5,796.4	163.1
Department of Health Services	6,864.6	(5,946.1)	53,963.7	(475,043.0)
Arizona Historical Society	353.7	86.9	1,987.8	(82.4)
Prescott Historical Society of AZ	61.5	0.2	466.8	(32.6)
Department of Housing	68.3	68.3	520.6	520.6
Independent Redistricting Comm.	83.5	(213.7)	718.0	(198.6)
Department of Insurance	325.7	(5.1)	2,801.4	(181.0)
Judiciary				
Supreme/Superior Court	9,676.9	(150.7)	56,816.9	2,311.5
Court of Appeals	1,033.2	(22.1)	7,964.9	(207.9)
Department of Juvenile Corrections	2,333.4	864.5	13,633.5	(1,793.0)

<b>Table 10 (Continued)</b>				
<b>Agency</b>	<b>Jan 17</b>	<b>Change from Jan 16</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 16</b>
State Land Department	698.2	(24.3)	6,160.9	(278.0)
Legislature				
Auditor General	1,466.3	(53.8)	11,252.3	(332.0)
House of Representatives	1,072.7	51.0	7,338.6	(544.0)
Joint Legislative Budget Comm.	194.1	(10.7)	1,348.5	(2.9)
Legislative Council	625.7	226.7	4,037.9	284.0
Senate	715.1	71.5	4,975.2	611.4
Mine Inspector	75.5	(0.5)	660.3	3.1
Nav. Streams & Adjudication	8.4	0.4	74.7	2.6
Occupational Safety and Health Review	-	-	-	(2.5)
Arizona State Parks Board	-	-	-	(275.3)
Phoenix Convention Center	-	-	20,449.0	-
Comm. for Postsecondary Ed.	695.7	(2.7)	1,392.0	(4.8)
Department of Public Safety	16,558.1	1,380.9	61,371.9	6,330.0
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	200.0	(168.5)	1,228.0	44.2
Real Estate Department	164.1	10.4	1,554.5	60.8
Department of Revenue	1,304.0	1,928.4	16,588.4	(6,837.3)
School Facilities Board	204.7	119.3	171,199.1	9,236.2
Secretary of State	2,599.3	1,953.8	18,897.6	12,855.9
Tax Appeals Board	18.2	0.7	152.7	(10.5)
Office of Tourism	1,280.2	(141.9)	6,187.2	(212.1)
Department of Transportation	-	-	1,500.7	1,500.7
Governor's Office on Tribal Relations	6.5	5.7	35.5	14.7
Universities				
Board of Regents	6,368.6	(417.5)	19,275.5	219.3
Arizona State University	24,668.0	8,040.5	172,725.2	(34,243.1)
Northern Arizona University	8,436.3	2,609.4	59,005.0	(12,278.0)
University of Arizona	21,311.5	7,231.3	149,180.8	(28,310.8)
Department of Veteran Services	470.6	145.0	3,298.5	332.5
Department of Water Resources	760.5	(164.2)	6,006.0	(60.7)
Water Infrastructure Finance Authority	-	-	500.0	500.0
Department of Weights & Measures	0.8	(253.1)	0.8	(815.8)
Other - State Treasurer/JP Salaries	1,679.2	1,458.9	2,057.2	1,328.7
Other	303.3	294.8	493.2	451.4
<b>Total</b>	<b>756,084.0</b>	<b>171,964.6</b>	<b>6,294,386.0</b>	<b>(89,242.9)</b>

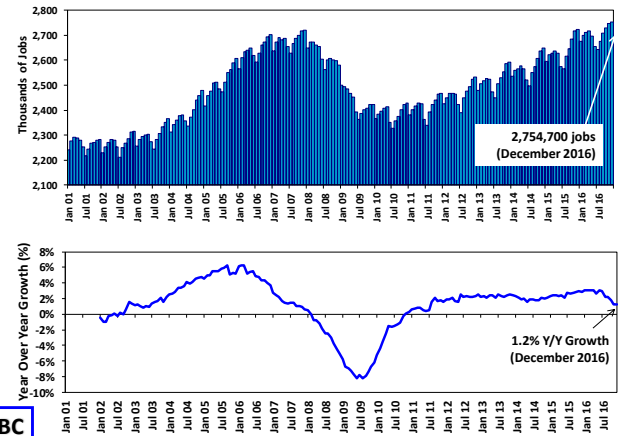
## Arizona Economic Trends

February 2017  
Appendix A

Page:

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

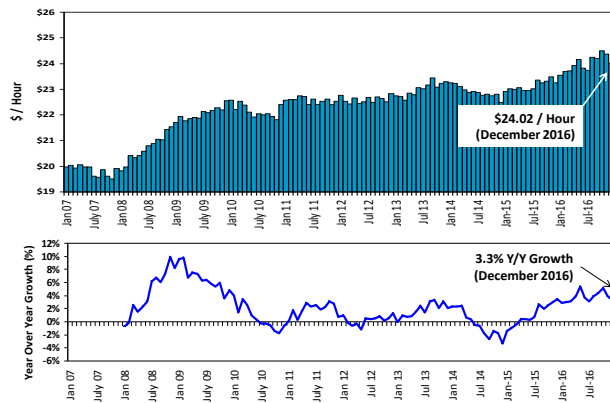
## Total Non-Farm Employment



JLBC

2

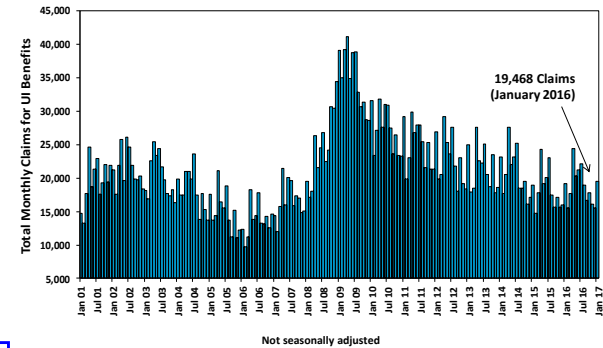
## Average Hourly Earnings – Private Sector



JLBC

3

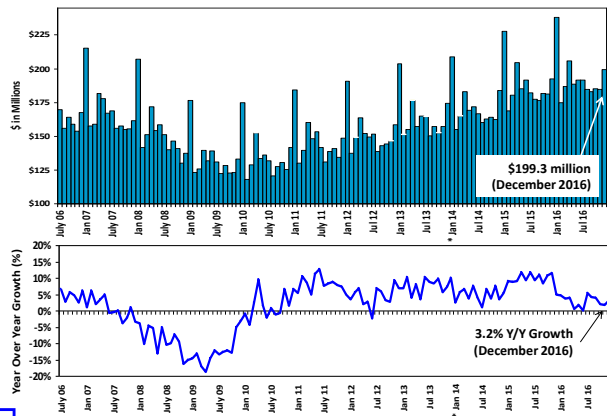
## Initial Claims for Unemployment Insurance



JLBC

4

## State Sales Tax Collections – Retail Category



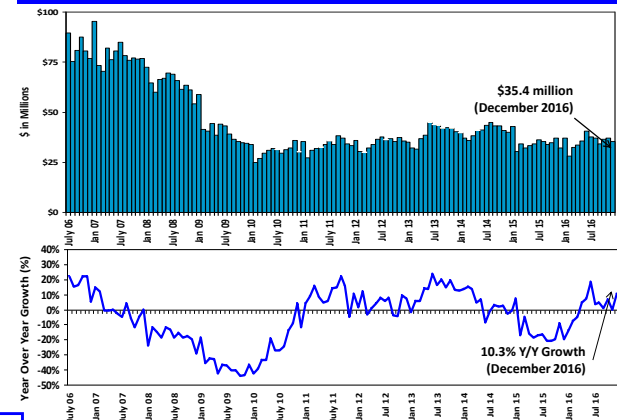
JLBC

Excludes temporary 1 ¢ sales tax

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

5

## State Sales Tax Collections – Contracting Category

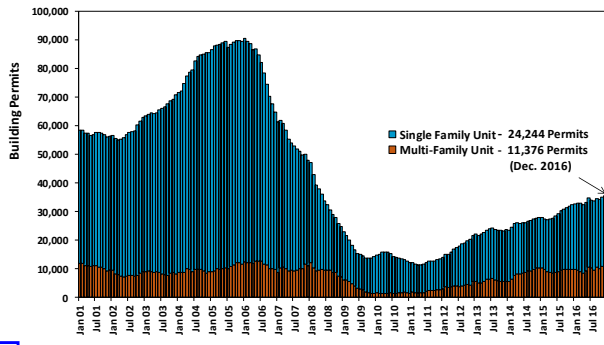


JLBC

Excludes temporary 1 ¢ sales tax

6

## Residential Building Permits

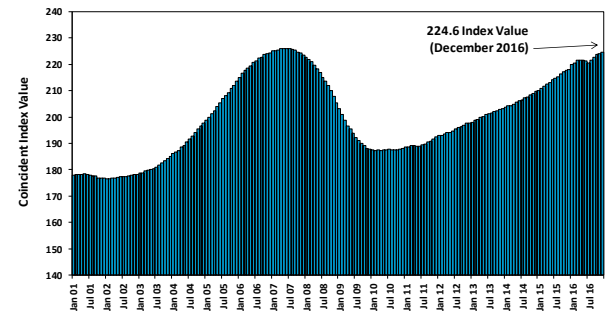


JLBC

12-Month Moving Sum

7

## Economic Activity Index



JLBC

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

8