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

Summary

May 2017 General Fund revenues were \$725.1 million and were 6.7% above the prior year. May collections were \$45.8 million above the enacted budget forecast.

Most of the month's forecast overage came in the Individual Income Tax (IIT) category, which grew by 3.9% and was \$44.4 million above forecast.

April Individual Income Tax revenues were \$(101.7) million below forecast. In the May *Monthly Fiscal Highlights*, we speculated that timing of tax return processing may have caused the April results. Looking at the final May data, the state did recapture some, but not all, of the April Individual Income Tax shortfall.

Several factors helped recapture some of the April IIT shortfall. During May, the number of IIT payments processed increased by 21% over the prior year and IIT payments contributed \$14.4 million of the overall \$44.4 million IIT forecast gains.

In addition, the number of IIT refunds issued during May declined by (9)% compared to the prior year, and refunds contributed to \$25.7 million of the overall \$44.4 million IIT forecast overage.

In terms of the state's other major revenue categories, Sales Tax posted a second consecutive month of strong growth above 5%. Based on preliminary information, the growth in May Sales Tax collections is due to

the retail component of the category, however, the current cause is unclear at this time. Data regarding the performance of each subcomponent of retail sales (such as auto sales) will not be available for several months.

FY 2017 Ending Balance

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, General Fund revenues are 1.5% above the prior year and are \$(40.3) million below forecast.

The enacted budget projected an FY 2017 ending balance of \$171 million. Given the year-to-date revenue shortfall, that balance appears to provide sufficient room to cover any year-end revenue gap.

As a quarterly reporting month, June can result in substantial Individual Income Tax and Corporate Income Tax activity. The month-to-date June results, however, do not currently suggest any significant deviation from the monthly forecast.

May Spending

In comparison to May revenue collections of \$725 million, May 2017 spending was \$636.6 million, which is a decrease of \$(9.4) million from the prior year.

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May Revenues

	FY 2017 <u>Collections</u>	Difference From <u>Enacted Forecast</u>	Difference <u>From FY 2016</u>
June	\$ 725.1	\$ 45.8	\$ 45.8
Year-to-Date	\$ 8,198.9	\$ (40.3)	\$ (105.4)

Sales Tax collections of \$375.9 million were 5.1% above May of last year and \$7.2 million above the forecast for the month. May tax collections reflect sales activities that occurred in April. Year-to-date, collections are up by 3.5% and are \$9.8 million above forecast.

Sales tax collections by category for May were not available as of the *Monthly Fiscal Highlights* publication date. The most recent data available, which is for April collections, is shown in *Table 2* below. The 5 major categories of the state's sales tax shown in the table account for approximately 90% of total collections.

	<u>April</u>	<u>YTD</u>
Retail	2.3%	3.2%
Contracting	18.6%	7.5%
Use	20.2%	6.4%
Restaurant & Bar	7.5%	6.3%
Utilities	0.9%	(1.5)%

Individual Income Tax net revenues of \$294.8 million in May were \$11.1 million more than in the prior year and \$44.4 million above forecast. Year-to-date, revenue has grown 3.8% over the prior year and is \$12.9 million above forecast.

As indicated in *Table 3*, May withholding decreased by (3.8)% from last year. Year-to-date, revenue has grown 5.3% and is \$19.4 million above forecast.

Due to technical reasons, DOR underreported withholding receipts by a cumulative total of \$(38.3) million during July – April in FY 2016. DOR recognized the entire \$38.3 million in May 2016. If revenues had not been underreported in the beginning of FY 2016, and overreported in May 2016, year-over-year growth in withholding would have equaled 7.1% in May 2017.

May estimated and final payments of \$38.6 million were 64.5% above last year. Year to date, payments have decreased (0.9)% compared to FY 2016 and are \$(25.9) million below the forecast.

May Individual Income Tax refunds totaled \$(106.9) million – this compares to \$(116.9) million in May 2016 and a forecasted amount of \$(132.6) million. Year-to-date refunds have led to a \$19.5 million revenue increase compared to the enacted forecast.

	<u>May</u>	<u>YTD</u>
Withholding	(3.8)%	5.3%
Estimated/Final Payments	64.5%	(0.9)%
Refunds	(8.6)%	3.4%

Corporate Income Tax net collections were \$28.0 million in May, which was \$(10.5) million less than in the prior year and \$(0.2) million below the forecast. Year to date, collections are \$(178.9) million below prior year collections and \$(51.3) million below forecast.

Insurance Premium Tax collections of \$41.4 million in May were \$0.6 million above the prior year. Year-to-date, collections are 1.4% above last year and \$(18.1) million below the forecast.

Prior month **tobacco and liquor tax** are not typically available for publication in the *Monthly Fiscal Highlights*. Through the end of April, year-to-date tobacco tax revenues are (7.1)% below FY 2016 and are \$(1.3) million below forecast. Year-to-date liquor collections are 2.6% above 2017 and are \$0.4 million above forecast. Due to the late data, May collections are simply reported at the forecast level.

The **Lottery Commission** reports that May ticket sales were \$78.7 million, which is \$7.6 million, or 10.7%, above sales in May 2016. Year-to-date ticket sales are \$776.0 million, which is (3.5)% below last year's sales. The year-to-date decrease reflects the one-time nature of January 2016 ticket sales associated with a record-breaking \$1.4 billion Powerball jackpot. In terms of General Fund collections, year-to-date lottery revenues through May are \$5.6 million above the forecast.

Highway User Revenue Fund (HURF) collections of \$114.8 million in May were up 3.9% compared to May of last year, but were \$(0.8) million below forecast. Year-to-date collections are 3.4% above last year.

Due to delays in reporting final April revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For May, DOR has decreased the amount of prior General Fund revenue collections by \$(0.1) million, and the adjustment has been included in the reported year-to-date results.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast May 2017

	Current Month					FY 2017 YTD (Eleven Months)				
	Actual May 2017	Change From		Budget Forecast		Actual May 2017	Change from		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$375,941,459	\$18,302,914	5.1 %	\$7,227,637	2.0 %	\$4,087,098,393	\$139,911,784	3.5 %	\$9,779,508	0.2 %
Income - Individual	294,799,742	11,053,856	3.9	44,360,301	17.7	3,728,288,928	135,587,357	3.8	12,944,938	0.3
- Corporate	27,990,248	(10,480,867)	(27.2)	(216,376)	(0.8)	296,631,084	(178,869,913)	(37.6)	(51,265,706)	(14.7)
Property	4,965,524	2,887,773	139.0	392,045	8.6	29,622,294	(2,399,093)	(7.5)	(2,675,248)	(8.3)
Luxury - Tobacco	2,187,605	188,302	9.4	0	0.0	20,978,860	(1,247,418)	(5.6)	(1,295,254)	(5.8)
- Liquor	3,103,976	202,858	7.0	0	0.0	31,874,538	920,385	3.0	430,688	1.4
Insurance Premium	41,421,304	575,696	1.4	173,930	0.4	408,949,638	5,650,319	1.4	(18,085,583)	(4.2)
Other Taxes	41,953	(276,477)	(86.8)	(788,895)	(95.0)	2,706,036	(4,392,419)	(61.9)	(4,791,669)	(63.9)
Sub-Total Taxes	\$750,451,811	\$22,454,054	3.1 %	\$51,148,642	7.3 %	\$8,606,149,772	\$95,161,002	1.1 %	(\$54,958,327)	(0.6) %
<u>Other Revenue</u>										
Lottery	29,668,300	29,668,300	--	2,406,366	8.8	74,404,643	9,431,893	14.5	5,643,343	8.2
License, Fees and Permits	2,725,288	720,912	36.0	829,871	43.8	34,804,080	7,948,290	29.6	6,188,286	21.6
Interest	(513,266)	(485,330)	--	(562,587)	--	(420,427)	(412,696)	--	(655,202)	--
Sales and Services	1,875,234	44,813	2.4	(297,760)	(13.7)	27,912,718	2,044,130	7.9	(1,443,874)	(4.9)
Other Miscellaneous	(4,784,044)	(1,300,920)	37.3	(6,004,185)	--	32,808,849	11,853,861	56.6	5,764,327	21.3
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	982,298	(491,570)	(33.4)	(1,722,879)	(63.7)	30,304,822	144,658	0.5	(874,642)	(2.8)
Sub-Total Other Revenue	\$29,953,810	\$28,156,205	-- %	(\$5,351,175)	(15.2) %	\$199,814,686	\$31,010,136	18.4 %	\$14,622,238	7.9 %
TOTAL BASE REVENUE	\$780,405,621	\$50,610,260	6.9 %	\$45,797,467	6.2 %	\$8,805,964,458	\$126,171,138	1.5 %	(\$40,336,089)	(0.5) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	0	(0.0)	(608,283,654)	(53,118,849)	9.6	0	(0.0)
One-Time Transfers	0	0	--	0	--	1,191,548	(178,405,707)	(99.3)	0	0.0
Sub-Total Other Adjustments	(55,298,514)	(4,828,986)	9.6 %	0	(0.0) %	(607,092,106)	(231,524,556)	61.6 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$725,107,107	\$45,781,273	6.7 %	\$45,797,467	6.7 %	\$8,198,872,353	(\$105,353,418)	(1.3) %	(\$40,336,089)	(0.5) %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$114,840,627	\$4,277,691	3.9 %	(\$835,112)	(0.7) %	\$1,283,281,360	\$41,881,538	3.4 %	(\$11,698,285)	(0.9) %

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 1.2% in the first quarter of 2017. This estimate reflects a slowdown from the growth of 2.1% experienced in the prior quarter. The slowdown relative to the prior quarter was primarily due to a deceleration in consumption expenditures and a decrease in inventory investment. Declining performance in these categories was partly offset by growth in exports and residential and business investment. Economists expect a portion of the slowdown in GDP growth reflects temporary seasonal variations not fully removed from the estimates.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (1.3)% to 117.9 in May. The reading was still 27.6% above the index in May 2016. The monthly decrease reflected a reduction in expectations of future economic conditions, following rapid gains earlier in the year. Consumer confidence reached a 16-year high in March.

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 April. The overall monthly increase was partly driven by a 1.0% rise in energy prices. The index had reached year-over-year growth of 2.1% in February 2017, which is above the Federal Reserve Bank's 2.0% annual inflation target. The index's annual growth, though, since decreased to 1.7% in April.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, decreased (0.1)% in May and increased 1.9% above May 2016 prices. The energy index was the primary contributor the monthly decrease, declining by (2.7)%, mostly driven by a (6.4)% decrease in the gasoline index. A number of other indexes decreased, including apparel, airline fares, communication and medical care. Core inflation (all items less food and energy) increased 0.1% for the month, and the shelter index increased 0.2% for the month.

The Conference Board's **U.S. Leading Economic Index** increased 0.3% in April to 126.9 and stands 3.2% above its April 2016 reading. Of the index's 10 components, 8 made positive contributions for the month. Interest rate spread made its typically strong contribution, and average weekly initial claims and the Institute of Supply Management (ISM) index for new orders bolstered the increase as well. Building permits and stock prices were the only negative contributors for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In April, Arizona's 12-month total of **single-family building permits** was 24,943, or 4.4% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 8.4%.

The 12-month total of multi-family building permits has started to increase again. In April, Arizona's total of 12,025 **multi-family building permits** were 41.6% more than in 2016. Nationwide multi-family permits were (8.3)% lower than in 2016.

Tourism

Revenue per available room was \$96.15 in April, which was 11.5% above the amount in April 2016. **Ridership** through Phoenix Sky Harbor Airport during the month was up 2.7% compared to April 2016.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state lost (14,700) **nonfarm jobs** in May over the prior month. This was more than the 10-year average net job loss for May of (5,400) jobs. Most of the month-over-month job losses occurred in the Government sector (-9,200), followed by the Professional and Business Services sector (-2,100).

Compared to the same month in the prior year, Arizona added 48,200 net new jobs in May, which is a year-over-year increase of 1.8%. The state's job growth rate has slowed in each of the last 4 months. The largest year-over-year job gains in May came from the following industries: Leisure and Hospitality Services (+17,100), Education and Health Services (+11,200), and Financial Activities (+9,700).

The state's regular **unemployment rate** increased from 5.0% in April to 5.1% in May. Compared to May 2016, the jobless rate is down by (0.2)%. The U.S. unemployment rate declined from 4.4% in April to 4.3% in May. The last time the U.S. unemployment rate was below 4.3% was in February 2001. Arizona's jobless rate has not been below 5.0% since February 2008.

In April, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.9 hours. This workload was 1.5% above the level during the prior month and 0.3% above the level in April 2016.

The **Average Hourly Earnings** received by private sector workers was \$25.25, which is 2.3% above the average in the prior month. April earnings were 5.6% above the

Monthly Indicators (Continued)

average in April 2016, which is tied for the highest rate of year-over-year growth since October 2009.

The Office of Economic Opportunity (OEO) reported that 23,124 **initial claims for unemployment insurance** were filed in April, a decrease of (5.2)% compared to the same month last year.

According to OEO, the state had a total of 25,896 **claimants receiving unemployment insurance benefits** in April, an increase of 9.3% from March. This figure is (9.0)% below the April 2016 level.

State Agency Data

At the beginning of June 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 615,700 members.

Total monthly enrollment decreased by (2,200) members, or (0.1)%, during May. The Traditional population of low income parents and children decreased by (3,100), or (0.3%), in May to a level of 1.08 million members. This drop was partly offset by an enrollment increase of 500, or 0.3%, 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 June 1, enrollment in the program reached 21,050, or 1,200 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In May 2017, the childless adult population decreased by (300), or (0.1)%. At 317,100, this population is 2.6% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 100 in May and now totals 82,200 individuals. Enrollment is (1.3)% 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 17,572 TANF **recipients** in the state in May, representing a (1.3)% monthly caseloads decrease from April. The year-over-year number of TANF recipients has declined by (10.9)%. 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 May, 911,921 people received food stamp assistance in the state. Food stamp enrollment in May was essentially unchanged from the prior month. Compared to May 2016, the level of food stamp participation has declined by (4.0)%.

The **inmate population** was 42,187 as of May 31, 2017. This is a (1.7)% decrease since last May. The population decreased by (0.2)% since April 2017.

Based on information the Department of Child Safety provided for April 2017, **reports of child maltreatment** totaled 47,352 over the last 12 months, a decrease of (4.7)% over the prior year. There were 16,931 **children in out-of-home care** as of March 2017, or (10.5)% less than in March 2016. Compared to the prior month, the number of out-of-home children decreased by (1.1)%.

Table 5

MONTHLY INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<i>Employment</i>				
- Regular Unemployment Rate	May	5.1%	0.1%	(0.2)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2017	10.9%	0.1%	(0.8)%
- Initial Unemployment Insurance Claims	April	23,124	29.6%	(5.2)%
- Unemployment Insurance Recipients	April	25,896	9.3%	(9.0)%
- Non-Farm Employment - Total	May	2,747,000	(0.5)%	1.8%
Manufacturing	May	162,000	0.0%	1.6%
Construction	May	138,300	(0.7)%	3.4%
- Average Weekly Hours, Private Sector	April	34.9	1.5%	0.3%
- Average Hourly Earnings, Private Sector	April	\$25.25	2.3%	5.6%
<i>Sales</i>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	February	\$952.9 million	(12.6)%	5.8%
Furniture/Home Furnishings	February	\$331.7 million	(27.7)%	3.1%
Building Material/Lawn & Garden	February	\$379.8 million	(1.9)%	11.4%
<i>Building</i>				
- Residential Building Permits (12-month avg)				
Single-family	April	24,943	0.6%	4.4%
Multi-family	April	12,025	4.6%	41.6%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	April	6,300	(5.0)%	(7.0)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	April	\$257,095	4.6%	9.4%
- Phoenix S&P/C Home Price Index (2000 = 100)	March	166.32	0.6%	5.6%
- Maricopa Pending Foreclosures	April	2,995	(2.9)%	(27.8)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	April	24,176	(1.8)%	(10.5)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	April	3,837,155	(10.4)%	2.7%
- National Park Visitors	December	646,020	(17.0)%	7.5%
- State Park Visitors	February	256,236	32.2%	(5.6)%
- Revenue Per Available Hotel Room	April	\$96.15	(24.1)%	11.5%
<i>General Measures</i>				
- Arizona Consumer Confidence Index (1985 = 100)	4th Q 2016	91.7	3.7%	12.9%
- Arizona Leading Index -- 6 month projected growth	December	3.6%	(0.1)%	0.0%
- Arizona Personal Income	4 th Q 2016	\$284.3 billion	0.9%	4.6%
- 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
<i>Agency Measures</i>				
- AHCCCS Recipients	June 1 st	1,873,850	(0.1)%	3.9%
Acute Care Traditional		1,078,398	(0.3)%	2.3%
Prop 204 Childless Adults		317,135	(0.1)%	2.6%
Other Prop 204		194,261	0.3%	6.2%
Adult Expansion		82,228	0.1%	(1.3)%
Kids Care I		21,050	6.2%	N/A
Long-Term Care – Elderly & DD		59,673	0.3%	2.5%
Emergency Services		121,105	(0.6)%	4.6%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	April	47,352	(0.5)%	(4.7)%
DCS Out-of-Home Children	March	16,931	(1.1)%	(10.5)%
Filled Caseworkers (1406 Budgeted)	May	1,343	(18)	16
- ADC Inmate Growth	May	42,187	(0.2)%	(1.7)%
- Department of Economic Security				
- TANF Recipients	May	17,573	(1.3)%	(10.9)%
- SNAP (Food Stamps) Recipients	May	912,171	0.0%	(4.0)%
- Judiciary Probation Caseload				
Non-Maricopa	March	19,130	52	486
Maricopa County	March	28,221	172	579
United States				
- Gross Domestic Product	1 st Q, 2017	\$16.9 trillion	2.0%	1.2%
(Chained 2009 dollars, SAAR)	(2 nd Estimate)			
- Consumer Confidence Index (1985 = 100)	May	117.9	(1.3)%	27.6%
- Leading Indicators Index (2010 = 100)	April	126.9	0.3%	3.2%
- Consumer Price Index, SA (1982-84 = 100)	May	243.9	(0.1)%	1.9%
- Personal Consumption Price Index (2009 = 100)	April	112.2	0.2%	1.7%

Summary of Recent Agency Reports

AHCCCS – Report on Nursing Facility Assessment

Distribution Notification – A FY 2017 General Appropriation Act footnote allows the Arizona Health Care Cost Containment System (AHCCCS) Administration to spend above the appropriated level of \$72.0 million for supplemental payments to nursing facilities, but requires AHCCCS to report the increased payment total. In May 2017, AHCCCS reported they expect to make \$77.0 million in supplemental payments in FY 2017.

AHCCCS levies an assessment on nursing facilities to receive matching Federal Funds that are used to make supplemental payments to facilities for covered Medicaid expenditures. On January 1, 2017, the agency increased the assessment rate from \$1.40 to \$1.80 for facilities with more than 43,500 Medicaid bed days per year and from \$10.50 to \$15.63 for facilities with less than 43,500 Medicaid bed days per year.

The additional \$5.0 million of supplemental payments above the original FY 2017 budgeted amount reflects additional funding from the January 1, 2017 increase to assessment rates. The \$5.0 million increase consists of \$1.5 million in assessments levied on nursing facilities (the state match) and \$3.5 million in Federal Funds. (Jon Stall)

Department of Child Safety – Quarterly Report on Foster Care and Medicaid – Pursuant to Laws 2013, Chapter 220 as amended by Laws 2016, Chapter 273, the Department of Child Safety (DCS) is required to report on foster care and Medicaid eligibility. During the third quarter of FY 2017, DCS reports the following trends in foster care and Medicaid eligibility:

1. There were 16,408 children eligible for Medicaid in foster care at the end of the third quarter, down (2.5)% from 16,820 at the end of the first quarter of FY 2017.
2. The percentage of foster care children eligible for Medicaid increased from 93% at the end of the

second quarter of FY 2017 to 96% at the end of the third quarter of FY 2017.

3. The amount of non-Medicaid expenditures for behavioral health inpatient facilities and behavioral health residential facilities used by DCS to supplement Medicaid behavioral health placement services was \$1,268,900 in the third quarter of FY 2017.
4. The amount of non-Medicaid behavioral health counseling/psychiatric services expenditures used by DCS to supplement Medicaid behavioral health services was \$112,600 in the third quarter of FY 2017. (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 May 2017. (See Table 6 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,343 in May, or (63) 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 (18) since April.

There were also 1,388 non-direct line child safety staff in May 2017, or (123) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions decreased by (10) since April. (Patrick Moran)

Economic Estimates Commission – Report on the Budget Stabilization Fund – Pursuant to A.R.S. § 35-144F, the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn

Table 6

DCS Filled FTE Positions as of May 2017

	<u>Funded</u>	<u>May</u>	<u>Difference</u>
Caseworkers	1,190	1,087	(103)
Hotline Staff	76	72	(4)
Staff in Training	<u>140</u>	<u>184</u>	<u>44</u>
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,343</i>	<i>(63)</i>
<i>Subtotal - Non-Direct Line Staff</i>	<i><u>1,511</u></i>	<i><u>1,388</u></i>	<i><u>(123)</u></i>
Grand Total ^{1/}	2,917	2,731	(186)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a formula that compares the growth rate of real adjusted Arizona personal income in the most recent calendar year to the average in the last 7 calendar years (hereafter referred to as the “trend” growth rate).

Since the calendar year 2016 growth rate exceeded the trend growth rate by 0.91%, EEC reported on May 31, 2017 that the formula calls for a BSF deposit of \$84.3 million at the end of FY 2017. EEC calculations under the formula, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal. The FY 2018 budget does not include an appropriation of these monies to the BSF.

The current BSF balance is about \$460 million as the result of large deposits in FY 2012 and FY 2013 and accumulated interest earnings. (Ben Murphy)

Department of Economic Security – Report on Cost Effectiveness Study Rates for Developmental Disabilities Programs – Pursuant to A.R.S. § 36-2960, the Department of Economic Security (DES) provided its annual report of the cost-effectiveness study (CES) rate for persons receiving services from the Division of Developmental Disabilities (DDD). The CES reflects a federal requirement for Arizona’s Medicaid program that the net cost of home and community-based services (HCBS) for a DDD client enrolled in ALTCS may not exceed the net cost of institutional services for that client.

Table 7 below displays the CES for each DDD institutional setting, and the percentage change compared to the prior year. The FY 2018 CES ranges from approximately \$13,510 per month (\$162,120 in annual costs) for clients

that would be placed in an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/ID) to \$33,458 monthly (\$401,496 annually) for individuals that would be placed in a nursing home with the most intensive level of supervision. The FY 2018 budget continues to include \$120,000 from the Special Administration Fund to allow clients with HCBS costs that exceed the CES to continue receiving services at home or in the community. (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 Arizona Education Learning and Accountability System (AELAS). 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 review, based on its April site visit, was received on May 18, 2017.

The third-party review states that the \$7.3 million FY 2018 appropriation for AELAS “is in on the low end of the amount needed to maintain AELAS operations, and does not provide funding for further development, in particular of the replacement of [the school payment reports].”

The review also states that ADE expects to discontinue the statewide Opt-In SSIS program after calendar year 2018 due to fiscal instability caused by the low margins generated by small district users and the June 2016 JLBC provision that prohibits further marketing the offering to new (including larger) districts.

Table 7

DDD Cost Effectiveness Study Rates

<u>Institutional Setting</u>	Monthly Cost (\$)		
	<u>FY 2017</u>	<u>FY 2018</u>	<u>Change</u>
ICF/ID ^{1/}	13,395	13,510	0.9%
Nursing Home Level II	15,846	17,137	8.1%
Nursing Home Level III	18,433	19,078	3.5%
Nursing Home Level IV	33,458	33,458	0.0%
Behavioral Health Residential Facility	24,425	28,166	15.3%

^{1/} Intermediate Care Facility for Individuals with Intellectual Disabilities.

Summary of Recent Agency Reports (Continued)

The review also recommends considering alternative funding strategies to sustain the maintenance and development of AELAS:

- Charge districts a per student user fee
- As allowed by Laws 2016, Chapter 317:
- Pursue sale of AELAS components to other state education agencies
- Pursue sale and co-ownership with private software/sales company
- Release a request for proposal (RFP) for privatization of ongoing AELAS support and maintenance

The review notes that ADE has improved the AELAS help desk service and that "significant progress has been made to reduce average ticket backlog and resolution time" since the October 2016 review identified concerns in this area.

The third-party reviewers have estimated an expected annual savings from AELAS of \$40 million per year. This estimate is based on a broad assumption that the system would produce more accurate student counts, saving roughly 1% of the approximately \$4 billion of school payments processed by the system. It is difficult to validate this estimate, however, as it would require making the calculation using both the old and new systems simultaneously. (Matt Beienburg)

Department of Education – Report on Federal Monies for English Learners – Pursuant to A.R.S. § 15-756.10, paragraph 3, the Department of Education (ADE) recently submitted a report that includes an itemized list of all federal monies received by the department for English language learners in FY 2017. ADE received \$14.4 million in federal Title III (Language Instruction for Limited English Proficient and Immigrant Students) funding for FY 2017. Of that amount, approximately \$13.7 million was distributed directly to school districts and charter schools. The remaining \$0.7 million was used for state administration, technical assistance, and to meet federal set-aside requirements for immigrant education. (Steve Schimpp)

Department of Public Safety – Quarterly Report on the GIITEM Fund – Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. In FY 2017, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. Additionally, due to the non-lapsing nature of the GIITEM Fund appropriations, DPS also has access to unused prior-year appropriations. During the third quarter of FY 2017 DPS expended \$104,200 primarily for equipment and other

operating costs related to DPS' support of local law enforcement that participate in the GIITEM Task Force. These expenditures bring the year-to-date total to \$2.4 million, of which \$247,900 has been expended from the FY 2016 GIITEM Fund appropriation.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$559,900 in criminal fine and fee revenues in the third quarter of FY 2017, bringing the year-to-date revenue total to \$1.5 million. DPS expended \$612,800 in the third quarter for grants to 9 local law enforcement agencies and the Arizona Department of Corrections for detention liaison officers, GIITEM Border District positions, and other border security purposes. (Eric Billings)

May Spending

May 2017 General Fund spending was \$636.6 million, which represents a decrease of \$(9.4) million below May 2016. (See Tables 8 & 9). Year-to-date, General Fund spending is \$8.88 billion, or \$163.9 million above the prior year.

	<u>May 17</u>	Change From <u>May 16</u>	<u>Year-to-Date</u>	YTD Change from FY 16
Agency				
AHCCCS	178.2	89.0	1,604.3	524.7
Corrections	85.4	1.1	945.3	(9.4)
Child Safety	24.4	(9.4)	344.7	(43.6)
Economic Security	8.2	(29.7)	508.6	31.3
Education	239.3	13.8	3,810.6	151.1
Health Services	7.0	(4.1)	78.4	(509.3)
Public Safety	2.7	0.9	107.9	19.6
School Facilities Board	0.1	(0.2)	213.8	23.2
Universities	55.4	(72.5)	637.4	(76.5)
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>35.9</u>	<u>1.7</u>	<u>543.4</u>	<u>52.8</u>
Total	636.6	(9.4)	8,878.5	163.9

General Fund Spending				
(\$ in Thousands)				
Agency	May 17	Change from May 16	Year-to-Date	YTD Change from FY 16
Dept. of Admin./Automation Projects Fund	1,898.4	(2,631.3)	32,616.9	7,629.6
ADOA – Sale/Leaseback Debt Service	-	-	84,117.4	2.8
Office of Administrative Hearings	61.4	(9.0)	798.4	0.5
Commission of African-American Affairs	8.9	(8.4)	113.9	(4.0)
Department of Agriculture	958.2	186.5	8,327.3	720.8
AHCCCS	178,198.8	88,992.6	1,604,314.4	524,694.6
Attorney General	1,740.6	(225.3)	21,124.4	545.4
State Board of Charter Schools	72.3	3.0	916.1	(58.1)
Department of Child Safety	24,428.0	(9,406.7)	344,719.5	(43,636.9)
AZ Commerce Authority	1,791.7	(416.6)	19,889.6	(4,626.7)
Community Colleges	227.8	82.7	54,705.3	3,136.4
Corporation Commission	45.1	9.5	759.1	216.2
Department of Corrections	85,383.5	1,097.2	945,285.9	(9,432.3)
County Funding	-	-	14,000.5	8,000.0
AZ State Schools for the Deaf & Blind	225.5	(461.4)	19,908.0	(2,058.4)
Office of Economic Opportunity	49.2	49.2	549.2	549.2
Department of Economic Security	8,175.7	(29,691.0)	508,593.2	31,344.6
State Board of Education	67.7	(32.7)	829.9	(278.9)
Department of Education	239,259.9	13,834.0	3,810,592.7	151,100.7
DEMA	576.6	(208.9)	7,398.4	(2,633.3)
DEQ – WQARF	-	-	2,823.6	(4,176.4)
Office of Equal Opportunity	19.1	5.6	171.7	(6.1)
State Board of Equalization	43.8	8.8	507.7	18.5
Board of Executive Clemency	53.3	(6.8)	687.4	(144.6)
Department of Financial Institutions	262.6	(7.6)	2,604.3	(122.9)
Department of Fire, Bldg and Life Safety	0.1	(168.1)	(2.2)	(2,022.4)
Department of Forestry and Fire Management	1,666.9	1,315.5	9,912.3	2,485.8
Department of Gaming	125.0	125.0	1,979.5	185.1
Arizona Geological Survey	-	(69.7)	-	(883.2)
Governor/OSPB	654.9	(462.3)	8,380.4	(1,053.0)
Department of Health Services	7,005.8	(4,088.1)	78,415.9	(509,339.4)
Arizona Historical Society	188.2	(28.7)	2,959.5	(12.5)
Prescott Historical Society of AZ	66.6	3.3	743.1	(89.1)
Department of Housing	38.6	38.6	798.3	798.3
Independent Redistricting Comm.	67.5	(51.7)	967.2	(689.1)
Department of Insurance	389.7	34.4	4,568.9	(58.3)
Judiciary				
Supreme/Superior Court	12,524.7	1,645.6	93,348.0	5,206.3
Court of Appeals	1,058.9	(141.0)	12,712.8	(247.5)
Department of Juvenile Corrections	1,425.2	(268.7)	20,465.5	(1,712.1)

Table 9 (Continued)

Agency	May 17	Change from May 16	Year-to-Date	YTD Change from FY 16
State Land Department	2,083.3	1,441.4	10,599.9	776.7
Legislature				
Auditor General	1,612.3	1,897.5	18,142.0	1,410.0
House of Representatives	1,011.0	32.4	12,332.4	(456.6)
Joint Legislative Budget Comm.	165.3	3.5	2,088.3	4.6
Legislative Council	388.2	5.3	5,979.2	324.5
Senate	727.6	77.2	8,279.7	1,020.1
Mine Inspector	86.4	(1.8)	1,040.8	(0.1)
Nav. Streams & Adjudication	8.4	0.1	117.7	7.7
Occupational Safety and Health Review	-	-	-	(2.5)
Arizona State Parks Board	-	-	-	(417.8)
Phoenix Convention Center	-	-	20,449.0	-
Comm. for Postsecondary Ed.	4.8	4.8	1,396.8	-
Department of Public Safety	2,704.0	868.9	107,869.1	19,591.0
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	35.9	35.4	1,558.6	(36.6)
Real Estate Department	177.7	(16.5)	2,252.6	0.6
Department of Revenue	1,306.4	688.2	27,687.5	(759.6)
School Facilities Board	104.3	(239.1)	213,771.7	23,169.1
Secretary of State	603.4	(485.5)	24,253.6	11,881.0
Tax Appeals Board	17.5	17.5	248.3	23.5
Office of Tourism	-	-	7,112.0	8.3
Department of Transportation	-	-	38.0	30.9
Governor's Office on Tribal Relations	4.9	(1.1)	44.6	(2.2)
Universities				
Board of Regents	(11.7)	(699.3)	35,620.4	14,379.4
Arizona State University	25,494.7	(81,638.5)	272,960.3	(90,969.2)
Northern Arizona University	8,439.7	2,487.8	92,787.3	(2,178.4)
University of Arizona	21,457.6	7,377.3	236,033.5	2,220.9
Department of Veteran Services	435.4	(151.5)	5,300.2	163.4
Department of Water Resources	936.1	(113.3)	9,859.3	(327.4)
Department of Weights & Measures	-	(4.2)	0.8	(1,061.4)
Other - State Treasurer/JP Salaries	51.8	(24.2)	1,028.0	(130.0)
Other - ADOT Capital (Navajo Nation Projects)	-	-	1,500.0	1,500.0
Other - ADOT Capital (Local HURF Distribution)	-	-	30,000.0	30,000.0
Other	-	-	497.6	360.8
Total	636,605.1	(9,390.1)	8,878,453.2	163,880.4

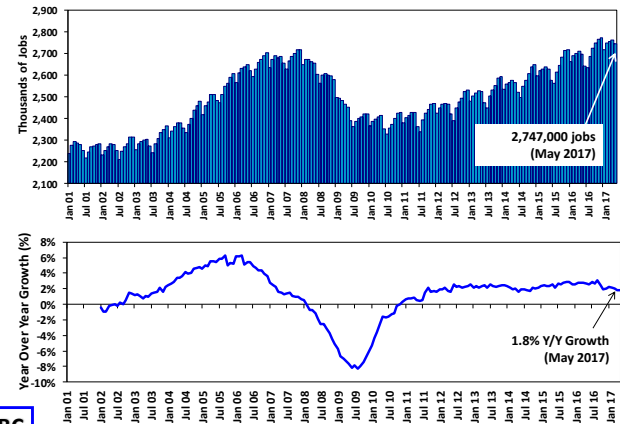
Arizona Economic Trends

June 2017
Appendix A

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- 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

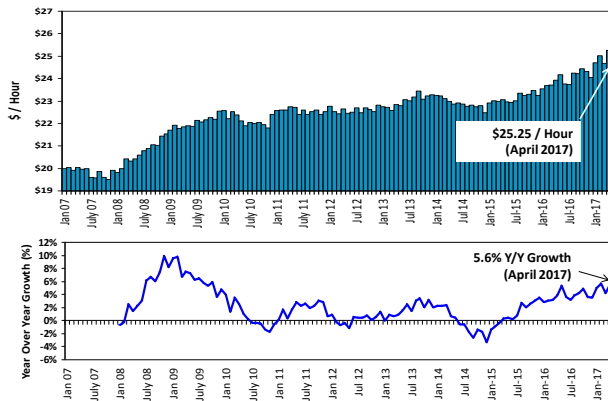
Total Non-Farm Employment



JLBC

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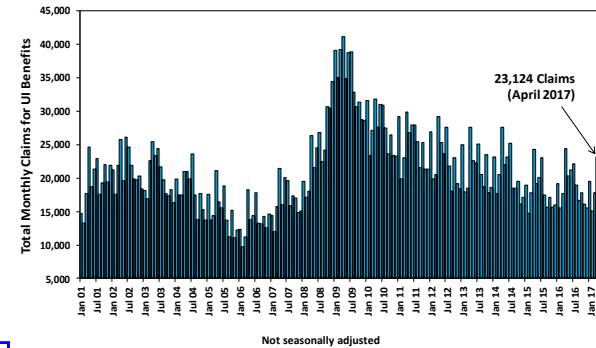
Average Hourly Earnings – Private Sector



JLBC

3

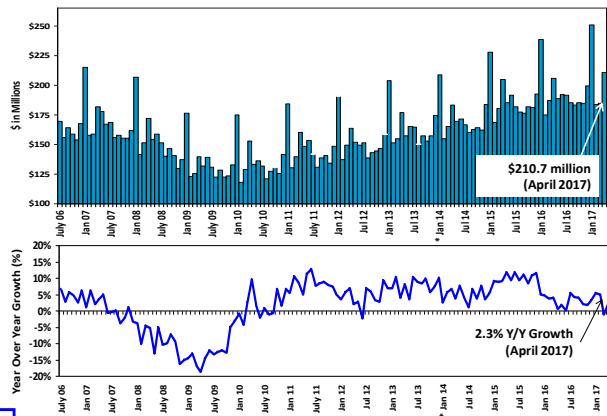
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



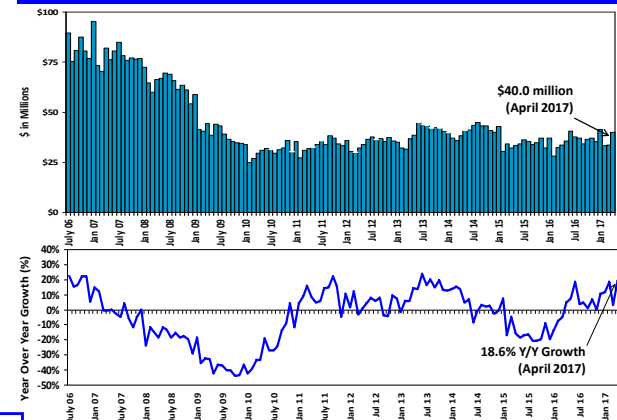
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Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

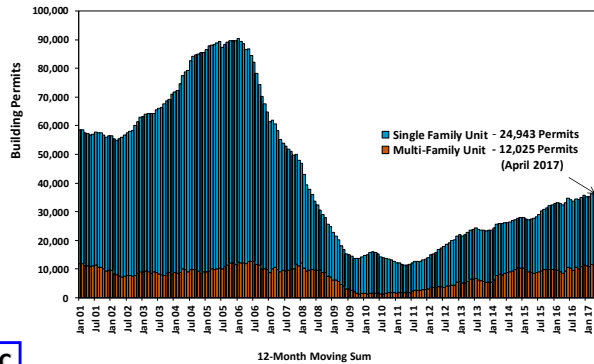


JLBC

Excludes temporary 1 c sales tax

6

Residential Building Permits



JLBC

12-Month Moving Sum

7