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“Year-to-date...FY 2018 General Fund revenues are 4.1% above the prior year and are \$20.2 million above forecast.”

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

Summary

September 2017 revenues were \$897.5 million, which was 2.7% above the prior year and \$20.0 million above forecast.

The state saw modest forecast gains in some of its larger revenue categories such as Sales Tax, Individual Income Tax and Insurance Premium Tax. These major tax categories have showed stronger performance than in the 1st quarter of FY 2017.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, FY 2018 General Fund revenues are 4.1% above the prior year and are \$20.2 million above forecast.

In comparison to September revenues of \$897.4 million, September 2017 spending was \$657.7 million, which is an increase of \$94.7 million from the prior year.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-October 2017 is \$1.21 billion.

In addition to the state’s operating fund, the Budget Stabilization Fund (BSF) has a balance of \$456.0 million.

October FAC Summary

The Finance Advisory Committee (FAC) met on October 12, 2017 to update its 4-sector revenue forecast. The FAC is a 14-member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC’s Consensus Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) models.

The JLBC Staff provided the FAC with a [presentation](#) on updated FY 2018 – FY 2021 budget projections. The updated projections were revised downward from the FY 2018 enacted budget projections for 2 main reasons: 1) FY 2017 revenue came in below forecast; 2) The forecasted FY 2018 and FY 2019 revenue growth rates have each fallen by approximately 0.2% compared to the enacted budget.

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Summary (Continued)

Given that the enacted FY 2018 budget projections had minimal room for error, the JLBC Staff is now projecting the state will have a budget shortfall. The state is expected to have a cash shortfall of \$(80) million in FY 2019.

This cash shortfall would be eliminated if the state's revenue growth improves slightly. In contrast, the shortfall could become worse if the state continues certain 1-time spending items from the FY 2018 budget.

In addition, the state's long-term financial projections are subject to several larger risks. This includes forecast

risks such as the impact of federal tax and health care changes. The state also faces pending litigation in a variety of areas (such as the AHCCCS hospital assessment and K-12 capital) that could significantly affect state spending levels. For more information, please see the [JLBC Staff Budget Update](#) for a narrative description of the current budget picture and the [October FAC meeting packet](#).

September Revenues

	<u>FY 2018 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2017</u>
September	\$ 897.5	\$ 20.0	\$ 23.5
Year-to-Date	\$ 2,384.4	\$ 20.2	\$ 96.6

Sales Tax collections of \$385.5 million were 6.8% above September 2016 and \$10.4 million above the forecast for the month. Year-to-date, collections have increased by 5.5% and are \$18.0 million above the enacted budget forecast.

September Sales tax collections by category are shown in *Table 2*. The 5 major categories of the state's sales tax shown in the table account for approximately 90% of total collections. Most of September's revenue gain can be attributed to the prime contracting and use tax categories.

	<u>Sept.</u>	<u>YTD</u>
Retail	6.9%	4.4%
Contracting	27.7%	15.9%
Use	22.2%	15.2%
Restaurant & Bar	4.3%	3.2%
Utilities	(4.5)%	0.6%

Individual Income Tax net revenues of \$428.2 million in September were \$19.2 million more than in the prior year and \$6.8 million above the forecast for the month. Year-to-date, revenue has grown 5.4% over the prior year.

As indicated in *Table 3*, September withholding increased by 5.2% from last year. The September withholding collections are \$8.7 million above the forecast. Year-to-date withholding collections are 5.3% above FY 2017.

September estimated and final payments of \$132.8 million were 6.2% above last year and \$1.6 million above the forecast. Year to date, payments are 4.4% above those collected during the same period of FY 2017.

September Individual Income Tax refunds totaled \$(17.6) million – this compares to \$(13.5) million in September 2016 and a forecasted amount of \$(14.2) million.

	<u>September</u>	<u>YTD</u>
Withholding	5.2%	5.3%
Estimated/Final Payments	6.2%	4.4%
Refunds	30.9%	0.6%

September Revenues (Continued)

Corporate Income Tax net collections were \$64.6 million in September, which was \$(14.0) million less than in the prior year and \$(0.2) million below forecast. Year to date, collections are \$(4.4) million below prior year collections.

Insurance Premium Tax collections of \$61.7 million in September were 23.2% above the prior year and \$6.5 million above the forecast. Much of the increase during the month reflects a timing issue of when taxes were collected from AHCCCS contractors. Year to date, collections are 4.2% above last year.

The **Lottery Commission** reports that September ticket sales were \$68.9 million, which is \$10.4 million, or 17.8%, above sales in September 2016. Year-to-date sales are 24.8% above the prior year. Much of the year-to-date increase has been driven by the large jackpots in Powerball (\$700 million) and Mega Millions (\$393 million) during August. Distributions of Lottery revenues for ticket sales that occurred from July through September are not expected to be deposited to the General Fund until October.

Prior month **tobacco and liquor tax** are not typically available for publication in the Monthly Fiscal Highlights. In August, tobacco tax revenues were 13.9% above the prior year and \$0.2 million above forecast. Liquor collections during the month were 2.1% above August 2016 and nearly equal to the forecast. Due to the late data, September collections are simply reported at the forecast level.

Highway User Revenue Fund (HURF) collections of \$120.6 million in September were up 4.4% compared to September of last year and were \$0.4 million above forecast. Year-to-date collections are 2.5% above last year.

Due to delays in reporting final August revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For September, DOR has increased the amount of prior General Fund revenue collections by \$0.9 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 September 2017

	Current Month					FY 2018 YTD (Three Months)				
	Actual September 2017	Change From September 2016		Budget Forecast		Actual September 2017	Change from September 2016		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$385,545,175	\$24,652,211	6.8 %	\$10,415,634	2.8 %	\$1,151,280,906	\$60,507,790	5.5 %	\$18,006,279	1.6 %
Income - Individual	428,215,100	19,161,588	4.7	6,815,128	1.6	1,130,360,923	57,819,073	5.4	7,787,062	0.7
- Corporate	64,577,236	(13,983,595)	(17.8)	(166,229)	(0.3)	81,290,985	(4,357,540)	(5.1)	500,742	0.6
Property	93,114	(152,684)	(62.1)	(66,285)	(41.6)	477,928	(286,899)	(37.5)	(206,756)	(30.2)
Luxury - Tobacco	1,855,939	(43,503)	(2.3)	0	0.0	5,827,317	107,793	1.9	34,262	0.6
- Liquor	1,988,568	178,977	9.9	0	0.0	7,261,768	341,044	4.9	117,144	1.6
Insurance Premium	61,720,349	11,639,265	23.2	6,523,095	11.8	154,836,724	6,255,557	4.2	4,462,951	3.0
Other Taxes	21,829	(12,643)	(36.7)	(398,615)	(94.8)	114,333	(1,019,398)	(89.9)	(996,898)	(89.7)
Sub-Total Taxes	\$944,017,309	\$41,439,616	4.6 %	\$23,122,727	2.5 %	\$2,531,450,883	\$119,367,420	4.9 %	\$29,704,787	1.2 %
<u>Other Revenue</u>										
Lottery	0	(11,176,465)	(100.0)	0	--	0	(12,801,793)	(100.0)	0	--
License, Fees and Permits	3,062,137	(91,887)	(2.9)	827,488	37.0	11,028,816	2,295,090	26.3	3,836,419	53.3
Interest	48,159	(103,967)	(68.3)	(9,058)	(15.8)	255,318	153,325	150.3	171,248	203.7
Sales and Services	2,100,233	(1,150,109)	(35.4)	(768,692)	(26.8)	4,830,849	(888,083)	(15.5)	(1,506,981)	(23.8)
Other Miscellaneous	4,281,153	1,412,729	49.3	1,063,470	33.1	3,356,467	(2,473,536)	(42.4)	(6,763,758)	(66.8)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	688,634	(5,444,838)	(88.8)	(4,197,998)	(85.9)	3,642,858	(4,311,178)	(54.2)	(5,194,249)	(58.8)
Sub-Total Other Revenue	\$10,180,316	(\$16,554,537)	(61.9) %	(\$3,084,791)	(23.3) %	\$23,114,309	(\$18,026,176)	(43.8) %	(\$9,457,322)	(29.0) %
TOTAL BASE REVENUE	\$954,197,625	\$24,885,079	2.7 %	\$20,037,936	2.1 %	\$2,554,565,192	\$101,341,244	4.1 %	\$20,247,464	0.8 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	(0.0)	(170,192,520)	(4,296,978)	2.6	0	(0.0)
One-Time Transfers	0	0	--	0	--	0	(461,600)	(100.0)	0	--
Sub-Total Other Adjustments	(56,730,840)	(1,432,326)	2.6 %	0	(0.0) %	(170,192,520)	(4,758,578)	2.9 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$897,466,785	\$23,452,753	2.7 %	\$20,037,936	2.3 %	\$2,384,372,672	\$96,582,666	4.2 %	\$20,247,464	0.9 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$120,553,430	\$5,130,531	4.4 %	\$394,767	0.3 %	\$354,040,983	\$8,542,818	2.5 %	(\$6,705,622)	(1.9) %

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 3.1% in the second quarter of 2017. That rate of growth was the highest since the first quarter of 2015. The latest estimate also reflects a rebound from the growth of 1.2% experienced in the prior quarter. The improvement relative to the prior quarter was primarily due to an acceleration in consumption expenditures and an increase in federal spending and inventory investment. Improvement in these categories was partly offset by a decrease in residential investment and state and local government spending.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (0.5)% to 119.8 in September. The latest reading is 15.7% above the index in September 2016. The modest decrease in September reflected a downgraded assessment of current economic conditions. The percentage of surveyed individuals that think jobs are currently plentiful minus the percent that think jobs are scarce fell from 16.0% to 14.5% during the month. Economists expect that a portion of the monthly decrease in confidence reflected damage caused by Hurricanes Harvey, Irma and Maria.

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 August. Monthly growth was boosted by energy prices, which grew 3.1% during the month. The index's year-over-year growth rate remained steady at 1.4% during the month, which is below the Federal Reserve Bank's 2.0% annual inflation target.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.5% in September and increased 2.2% above September 2016 prices. The index increase is primarily due to a 6.1% increase in the energy index, driven by a 13.1% increase in the gasoline index. Core inflation (all items less food and energy) increased 0.1%, and other increases include the indexes for shelter, motor vehicle insurance, and recreation. The indexes for new vehicles, household furnishings and medical care saw decreases for the month.

The Conference Board's **U.S. Leading Economic Index** increased 0.4% in August to 128.8 and stands 4.4% above its August 2016 reading. Of the index's 10 components, 8 made positive contributions for the month. The volatile building permits index reversed course from being last month's largest negative contributor to August's most positive. The Institute for Supply Chain Management (ISM) index for new orders and interest rate spread index made their consistently positive contributions, as did average consumer expectations. The average weekly claims index made a significant negative contribution.

ARIZONA

Housing

Single-family housing construction is increasing. In August, Arizona's 12-month total of **single-family building permits** was 26,472, or 10.5% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 9.6%.

The 12-month total of multi-family building permits has started to increase again. In August, Arizona's total of 10,756 **multi-family building permits** was 12.1% more than in 2016. Nationwide multi-family permits were 1.2% more than in 2016.

Tourism

Revenue per available room was \$57.49 in August, which was 6.6% above the amount in August 2016. **Ridership** through Phoenix Sky Harbor Airport during the month was up 4.8% compared to August 2016.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state added 36,400 **nonfarm jobs** in September over August. By way of comparison, the average job gain for September in the prior 10 years was 23,500.

Compared to September 2016, Arizona added 35,900 net new jobs in September this year, which was an increase of 1.3%. Through the first 9 months of 2017, the average year-over-year job growth rate is 1.8%. This is a significant slowdown from 2015 and 2016 when Arizona nonfarm employment grew by 2.6%.

Over the last quarter, the state's average job growth rate of 1.5% was only marginally higher than the nation's 1.4% growth rate. By contrast, during the first 6 months of 2017, Arizona's job growth outpaced the nation's by 0.5% (2.0% for Arizona compared to 1.5% for the U.S.).

The largest year-over-year job gains in September came from the following industries: Leisure and Hospitality Services (+12,100), Education and Health Services (+10,900), and Financial Activities (+5,200).

The state's regular **unemployment rate** decreased from 5.0% in August to 4.7% in September. This is the lowest recorded jobless rate since January 2008. Compared to September 2016, the jobless rate is down by (0.4)%. The U.S. unemployment rate decreased from 4.4% in August to 4.2% in September.

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'

Monthly Indicators (Continued)

income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments.

In the second quarter of 2017, Arizona personal income increased year-over-year by 3.9%, to \$290.3 billion. The largest component of personal income, wages and salaries, grew 4.2%. This rate reflects a slowdown from growth of 5.3% during the first quarter of 2017.

The latest estimates for personal income are preliminary and subject to revision. In its most recent estimates, the Bureau of Economic Analysis revised its prior estimate of 2017 first quarter personal income growth up from 3.8% to 4.4%.

OEO reported that 15,171 **initial claims for unemployment insurance** were filed in September, a decrease of (9.2)% compared to the same month last year, the largest year-over-year decrease for a month since October 2015.

According to OEO, the state had a total of 27,351 claimants receiving **unemployment insurance benefits** in September, a decrease of (13.3)% from August. This figure is (8.6)% below the September 2016 level.

In August, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.6 hours. This workload was (2.0)% below the level during the prior month and 1.5% above the level in August 2016.

The **Average Hourly Earnings** received by private sector workers was \$25.74, which is 1.2% above the average in the prior month. August earnings were 6.2% above the average in August 2016.

State Agency Data

At the beginning of October 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 612,900 members.

Total monthly enrollment increased by 400 during September and is 1.0% higher than a year ago. During this time, the Traditional and Proposition 204 populations of low income parents and children collectively decreased by (1,300), or (0.1)%.

Much of the enrollment growth during September was concentrated in the KidsCare program for children with family incomes above those in the Traditional population. Laws 2016, Chapter 112 reopened enrollment in KidsCare program in September 1, 2016. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by

August 2016. Through October 1, 2017, enrollment in the program reached 23,200, or 800 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In September 2017, the childless adult population increased by 500, or 0.2%. At 317,800, this population is 1.1% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 300 in September and now totals 82,500 individuals. Enrollment is 2.3% higher than a year ago. The federal government currently funds 95% of this population's cost.

There were 17,638 TANF **recipients** in the state in September, representing a (2.0)% monthly caseload decrease from August. The year-over-year number of TANF recipients has declined by (12.7)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In September, 912,786 people received food stamp assistance in the state, representing a (0.5)% decrease over August caseloads. Compared to September caseloads last year, the level of food stamp participation has declined by (6.7)%.

The inmate population was 42,222 as of September 30, 2017. This is a (0.1)% decrease since August, and a (1.1)% decrease since last year.

Based on information the Department of Child Safety provided for August 2017, **reports of child maltreatment** totaled 47,118 over the last 12 months, a decrease of (3.5)% over the prior year. There were 16,316 **children in out-of-home care** as of July 2017, or (10.3)% less than in July 2016. Compared to the prior month, the number of out-of-home children decreased by (1.9)%.

According to the most recent information from the Administrative Office of the Courts, the **Maricopa County probation caseload** was 28,605 as of August 2017. This was a decrease of (75) below the prior month, and a 822 increase since last August. In addition, the state's **non-Maricopa County probation caseload** was 19,100. This was an increase of 55 above the prior month, and a 249 increase since last August. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

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	September	4.7%	(0.3)%	(0.4)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2017	10.5%	(0.4)%	(0.8)%
- Initial Unemployment Insurance Claims	September	15,171	(16.8)%	(9.2)%
- Unemployment Insurance Recipients	September	27,351	(13.3)%	(8.6)%
- Non-Farm Employment - Total	September	2,762,200	1.3%	1.3%
Manufacturing	September	164,200	(0.4)%	2.8%
Construction	September	140,600	1.2%	2.3%
- Average Weekly Hours, Private Sector	August	34.6	(2.0)%	1.5%
- Average Hourly Earnings, Private Sector	August	\$25.74	1.2%	6.2%
<i>Sales</i>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	April	\$1,117 million	15.3%	5.4%
Furniture/Home Furnishings	April	\$342.9 million	4.1%	4.3%
Building Material/Lawn & Garden	April	\$463.6 million	26.6%	9.3%
<i>Building</i>				
- Residential Building Permits (12-month avg)				
Single-family	August	26,472	1.8%	10.5%
Multi-family	August	10,756	8.6%	12.1%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	August	5,662	1.7%	0.9%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	August	\$257,900	0.2%	6.1%
- Phoenix S&P/C Home Price Index (2000 = 100)	July	170.91	0.8%	5.6%
- Maricopa Pending Foreclosures	August	2,789	0.1%	(23.3)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	21,462	(0.4)%	(9.4)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	August	3,530,010	(5.1)%	4.8%
- National Park Visitors	June	1,843,162	21.3%	2.7%
- State Park Visitors	June	251,492	(8.3)%	11.6%
- Revenue Per Available Hotel Room	August	\$57.49	(1.7)%	6.6%
<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	August	5.1%	2.0%	(0.6)%
- Arizona Personal Income	2nd Q 2017	\$290.3 billion	0.9%	3.9%
- 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	October 1 st	1,871,037	0.0%	1.0%
Acute Care Traditional		1,074,196	(0.1)%	(1.4)%
Prop 204 Childless Adults		317,814	0.2%	1.1%
Other Prop 204		192,828	(0.1)%	4.7%
Adult Expansion		82,512	0.4%	2.3%
Kids Care I		23,199	3.6%	292.5%
Long-Term Care – Elderly & DD		60,439	0.3%	3.1%
Emergency Services		120,049	(0.1)%	0.5%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	August	47,118	0.1%	(3.5)%
DCS Out-of-Home Children	July	16,316	(1.9)%	(10.3)%
Filled Caseworkers (1406 Budgeted)	September	1,333	(5)	12
- ADC Inmate Growth	September	42,222	(0.1)%	(1.1)%
- Department of Economic Security				
- TANF Recipients	September	17,638	(0.2)%	(12.7)%
- SNAP (Food Stamps) Recipients	September	912,786	(0.5)%	(6.7)%
- Judiciary Probation Caseload				
Non-Maricopa	August	19,100	55	249
Maricopa County	August	28,605	(75)	822
United States				
- Gross Domestic Product	2 nd Q, 2017	\$17.0 trillion	2.2%	3.1%
(Chained 2009 dollars, SAAR)	(3 rd Estimate)			
- Consumer Confidence Index (1985 = 100)	September	119.8	(0.5)%	15.7%
- Leading Indicators Index (2010 = 100)	August	128.8	0.4%	4.4%
- Consumer Price Index, SA (1982-84 = 100)	September	246.4	0.5%	2.2%
- Personal Consumption Price Index (2009 = 100)	August	112.6	0.2%	1.4%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Telecommunications Program Office - Pursuant to A.R.S. § 41-712, the Arizona Department of Administration (ADOA) is required to submit an annual report on the Telecommunication Program Office (TPO), including the current rate structure of telecommunications charges, and payments made by all AZNet 2 participants for FY 2017 and FY 2018. AZNet 2 participants pay a variety of fees for different purposes, including a third-party vendor to operate and maintain the system, a separate third-party vendor who aggregates an agency's bills and manages expenses, as well as an amount paid to TPO for their administration of the system as a whole. In FY 2017, total charges paid by all entities were \$41.9 million. In FY 2018, the estimated total charges paid by all entities is \$42.0 million.

Pursuant to A.R.S. § 41-713, ADOA is additionally submitting their annual report on the Telecommunication Fund, which includes the sources and uses of received monies, for FY 2017, as well as estimates for FY 2018. The Telecommunication Fund primarily consists of monies paid by agencies, as well as other AZNet 2 participants, to TPO to administer the system as a whole. In FY 2017, the Telecommunication Fund received \$1.8 million from AZNet 2 participants to administer the system. In FY 2018, the Telecommunication Fund is also estimated to receive \$1.8 million from AZNet 2 participants to administer the system. (Rebecca Perrera)

Arizona Health Care Cost Containment System – Report on 340B Drug Program - Pursuant to A.R.S. § 36-2930.03, the Arizona Health Care Cost Containment System (AHCCCS) submitted a report on the feasibility of extending the state's 340B drug program reimbursement requirements to hospitals. AHCCCS submitted a previous version of this report on March 24, 2017, pursuant to the FY 2017 Health Budget Reconciliation Bill (Laws 2016, Chapter 122). AHCCCS' current submission is identical to its March 24, 2017 report, the findings of which are discussed below.

The federal 340B program allows safety net hospitals and other providers to obtain certain outpatient drugs from manufacturers at a discount. AHCCCS currently recoups 340B savings from non-hospital providers that participate in the 340B program by reimbursing them at the lesser of the discounted price or the actual price paid to the manufacturer. AHCCCS reports that recouping those 340B savings from participating hospitals would reduce General Fund costs of Medicaid by an estimated \$(2.7) million and \$(17.0) million in total funds annually. The report indicates that several hospitals independently estimated greater

impacts, but that those findings could not be reconciled with the agency's findings.

Prior rate studies conducted for the agency have found that reducing hospital reimbursement below current levels may negatively impact access to care. While recouping 340B savings from participating hospitals would lower drug costs to the state, AHCCCS concluded that any savings would be offset with provider rate increases to ensure network adequacy for no net impact. (Jon Stall)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures - A.R.S. § 41-199 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 first quarter of FY 2018, no lottery revenues have been deposited into the ICAC Enforcement Fund. A total of \$295,600 was expended in the first quarter of FY 2018 to help pay for the operating costs of the ICAC Task Force.

As reported by the AG, the FY 2018 expenditure plan for the ICAC Enforcement Fund allocates monies to fund 4 positions within the Phoenix Police Department, equipment costs including cameras, computers, subscriptions to forensic tools, and other information technology equipment, and law enforcement training.

As of September 30, 2017, the ICAC Enforcement Fund had a fund balance of \$1,772,400 and encumbrances of \$1,140,300. (Sam Beres)

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.

Summary of Recent Agency Reports (Continued)

In the first quarter of FY 2018, the AG deposited a total of \$384,400 into various consumer accounts. Of that amount, \$2,500 was deposited into the Antitrust Enforcement Revolving Fund, \$261,900 was deposited into the CPCF Revolving Fund, \$102,300 into the Consumer Restitution Subaccount, and \$17,700 into the Consumer Remediation Subaccount. No monies were deposited into the General Fund this quarter. Only the \$17,700 deposit to the Consumer Remediation Subaccount requires JLBC review prior to expenditure.

Deposits to the Antitrust Enforcement Revolving Fund

The AG deposited \$2,500 in the first quarter of FY 2018 to the appropriated Antitrust Enforcement Revolving Fund to pay for antitrust enforcement expenses undertaken by the AG. This amount was derived from legal settlement deposits of under \$250,000 in value.

Deposits to the CPCF Revolving Fund

The AG deposited \$261,900 in the first quarter of FY 2018 to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. This amount was derived from a national settlement with Nationwide Mutual Insurance Company. Due to a vulnerability in the company's application housing software, hackers were able to access the personal information of 1.27 million consumers nationwide. The settlement requires Nationwide to strengthen its security practices and software.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$102,300 in the first quarter of FY 2018 to the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. The full amount of these deposits came from small legal settlements under \$250,000 in value and interest income.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$17,700 of interest income in the first quarter of FY 2018 to the partially-appropriated Consumer Remediation Subaccount to rectify violations of consumer protection laws. An expenditure plan must be reviewed by the JLBC before any of these funds are spent from this account. That review has not yet occurred. (Sam Beres)

Auditor General – Report on Staff Retention, Recruitment, and Training – 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) practices related to staff retention, recruitment, and training for caseworkers, caseworker supervisors, case aides, program managers, and Office of Child Welfare Investigations (OCWI) staff.

The Auditor General made the following findings and recommendations:

- DCS' estimated turnover for the selected staff was approximately 30% in FY 2016 and FY 2017. Other private social services agencies in Arizona reported slightly higher turnover rates of 33%, while a survey of child welfare agencies in other states found that most agencies had turnover rates of 19% or lower. The Auditor General recommends that DCS improve the consistency of turnover data across its internal and external staffing reports.
- DCS is taking several steps to increase retention, including salary adjustments for case aides and caseworkers within existing department resources, as well as improvements in staff orientation, training, supervision and workload.
- The department could take additional actions to enhance recruitment, including hiring more caseworkers with a background in social work or related fields, using a realistic job preview video to ensure caseworkers have accurate expectations about the job prior to being hired, and improving its tools to assess a candidate's competencies for the position for which they are applying.
- DCS should conduct an evaluation of its tuition scholarship program for social work graduates from Arizona State University and Northern Arizona University to determine the program's impact on recruitment and retention. Approximately 50-65 new caseworkers per year are recruited out of these programs.
- The department should strengthen staff training by increasing the level of support for trainees, developing a formal training program for program managers that oversee DCS field offices, developing minimum continuous training requirements to be completed by staff annually, improving processes for monitoring training completion, and continuing to evaluate the efficacy of its training programs.

DCS agreed to 15 out of 16 recommendations made by the Auditor General, but for 7 recommendations DCS has decided to develop a different method of addressing the finding. For example, although the Auditor General recommended that DCS revise its minimum caseworker qualifications to include a preference for individuals with a social work or related degree and/or previous child welfare experience, DCS does not plan to revise these qualifications. Instead, the department will consider preference for applicants with a social work background without revising the formal qualifications for the position. (Patrick Moran)

Summary of Recent Agency Reports (Continued)

Department of Child Safety – Monthly Report on Hiring – Pursuant to a FY 2018 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on its progress in hiring and retaining child safety staff through September 2017. *(See Table 6 below.)*

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,333 in September, or (73) 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 (5) since August.

There were also 1,378 non-direct line child safety staff in September, or (133) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions were unchanged compared to August. (Patrick Moran)

County Attorneys – Report on Deferred Prosecution – Pursuant to A.R.S. § 11-362, each county attorney that oversees an established Deferred Prosecution Program shall submit an annual evaluation of their respective program that includes the following metrics:

- The number of persons who were enrolled in deferred prosecution programs during the previous fiscal year.
- The number of persons who successfully completed deferred prosecution programs during the previous fiscal year.
- If available, the number of persons who were enrolled in deferred prosecution programs during the previous fiscal year and who were subsequently convicted of a new felony offense.

Ten counties submitted reports for which indicated a total of at least 7,838 individuals were placed in a deferred prosecution program in FY 2017. Of these individuals and those already enrolled, 5,635 successfully

completed the program during FY 2017. In addition, one county submitted data covering calendar year 2016 which indicated 49 individuals enrolled in a deferred prosecution program and 26 successful completions. No counties submitted information on the number of participants in that were subsequently convicted of a new felony offense.

Deferred prosecution allows individuals who commit non-dangerous, non-serious crimes to avoid prosecution through the completion of a program that may involve restitution, community service, substance abuse treatment, counseling, or other means by which the individual can make amends for their crime. After the completion of the program, the charges are dismissed. (Geoffrey Paulsen)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund – Pursuant to A.R.S. § 13-2314.01 and A.R.S. § 13-2314.03, the Arizona Criminal Justice Commission (ACJC) is required to report quarterly on the Anti-Racketeering Revolving Fund (ARRF) by compiling Attorney General, department, agency, county attorney, and political subdivision reports into a single comprehensive report of sources and expenditures.

In FY 2017, ARRF received revenues totaling \$53.9 million and had expenditures totaling \$62.5 million (including monies from prior year balances). Revenues for investigating and prosecuting agencies were highest in Maricopa County in FY 2017 at \$30.2 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2017 with \$30.2 million in ARRF monies spent.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local

Table 6

DCS Filled FTE Positions as of September 2017

	<u>Funded</u>	<u>September</u>	<u>Difference</u>
Caseworkers	1,190	1,038	(152)
Hotline Staff	76	68	(8)
Staff in Training	<u>140</u>	<u>227</u>	<u>87</u>
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,333</i>	<i>(73)</i>
<i>Subtotal - Non-Direct Line Staff</i>	<i><u>1,511</u></i>	<i><u>1,378</u></i>	<i><u>(133)</u></i>
Grand Total ^{1/}	2,917	2,711	(206)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in the ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Josh Hope)

Department of Economic Security – Report on Reimbursement Rates for Developmental Disabilities Programs – Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) provided its annual report on the adequacy and appropriateness of Medicaid reimbursement rates for service providers that contract with the Division of Developmental Disabilities (DDD). The analysis was conducted by an independent consultant.

The consultant concluded that DDD provider rates are adequate based on measures of access to care. From FY 2009 to FY 2017, the number of units of service per user has increased by 8.6%, despite enrollment growth of 32.9%, indicating that the “provider network continues to respond positively to the demands placed upon it.” Over the same time period, the number of DDD providers has decreased from 1,081 to 624, or (42.3)%, but the consultant believes that the change is partly explained by provider contract changes rather than a net decrease in service providers. For example, DDD now contracts with agencies that recruit, train, and

oversee adult developmental homes instead of contracting directly with such homes, which has decreased the number of providers by 95 without materially changing the number of individual homes.

The analysis also found that all rates for the top 10 most used services are at least 80% of the benchmark rates (see Table 7). The benchmark rates were established in the division's rate rebase study from 2014. The consultant considers rates that exceed 80% of the benchmark rates to be adequate, but acknowledges that the benchmark rates may be less relevant in evaluating the provider rates given that the rate rebase was conducted prior to implementation of Proposition 206 minimum wage and paid sick leave requirements. The report also notes that most DDD provider rates are still below the rates that were in place in FY 2009. (Patrick Moran)

Department of Economic Security – Report on Annual Child Care Expenditures – A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2017 report shows that the average number of children served decreased to 28,654, or (4.5)% below FY 2016; the number of families served decreased by (5.2)%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) decreased by (5.2)%, child welfare-related placements decreased by (5.9)%, the number of Temporary

<u>Service</u>	<u>Ratio</u>	<u>FY 2017 Expenditures (\$ in M)</u>
Group Home	96.5%	\$248.7
Respite	80.6%	89.3
Habilitation	81.2%	88.0
Attendant Care	83.9%	84.9
Day Treatment & Training	101.7%	73.8
Nursing	80.8%-91.4%	46.3
Adult Developmental Home	94.1%	44.3
Day Treatment & Training, Intense	98.6%	32.7
Group Supported Employment	83.3%-101.7%	24.2
IDLA ^{1/}	101.7%	<u>22.8</u>
Total		\$754.9

^{1/} Independently Designated Living Arrangement

Summary of Recent Agency Reports (Continued)

Assistance for Needy Families-related children decreased by (7.2)%, and the number of children receiving transitional child care increased by 1.5%. The wait list for child care subsidies increased from 496 in FY 2016 to 3,565 in FY 2017.

The amount spent by DES on child care subsidies increased to \$129.4 million, virtually unchanged from FY 2016. The average monthly subsidy paid per child increased 4.7% to \$376.44. The total amount of co-payments collected decreased by (15.8)% from FY 2016 to \$6.4 million. (Chris Gustafson)

Arizona Department of Environmental Quality – Report on Progress of Water Quality Assurance Revolving Fund Sites – Pursuant to a FY 2018 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) is required to report the progress of each site listed on the Water Quality Assurance Revolving Fund (WQARF) registry. There are 11 potential steps in the WQARF process. At the end of FY 2017, DEQ reports 37 WQARF sites. In FY 2017, 6 sites were added to the registry and 3 were removed from the registry as the cleanup was completed. Early Response Actions were conducted at 10 sites in FY 2017 and work will be continued on each of these sites in FY 2018.

By the end of FY 2018, DEQ anticipates 36 WQARF sites, after 1 site is added and 2 are removed from the registry. At least 27 registry sites are planned for stage completion or advancement to the next stage of the WQARF process in FY 2018. In FY 2017, DEQ determined that 39 of 52 non-registry sites will not require further investigation or action. (Josh Hope)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2017 – Pursuant to an annual General Appropriation Act footnote, the Department of Environmental Quality (DEQ) is required to report by September 1 to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists total FY 2017 expenditures at \$12.1 million. Revenues totaled \$14.7 million, including \$2.8 million from Corporate Income Taxes, \$4.1 million in fees, \$614,500 recovered from responsible parties, and \$68,200 in other revenues. Unexpended funds at the end of FY 2017 totaled \$6.3 million.

In FY 2018, DEQ plans to spend \$15.7 million on the WQARF Program for 37 sites, including \$8.3 million for registry sites and preliminary investigations; \$7.4 million for administration; and \$440,000 for aid to municipalities and transfers to the Department of Health Services and the Department of Water Resources. (Josh Hope)

Department of Insurance – Annual Report on Insurance Premium Tax Credits – Pursuant to A.R.S. § 20-224I, the Arizona Department of Insurance is required to report by September 30 of each year on the amounts of insurance premium tax credits used in the previous fiscal year. The agency reports that a total of \$36.9 million in insurance premium tax credits were used in FY 2017. Of this amount, \$26.7 million consists of credits earned for donations made by insurance companies to private school tuition organizations that provide scholarships to children of low-income families or to disabled children. The dollar impacts of the specific credits are listed in *Table 8*, below. (Jon Stall)

Table 8

FY 2017 Insurance Premium Tax Credits
(\$ in millions)

<u>Credits:</u>	<u>Annual Cost</u>
Private School Tuition Organization	\$23.2
- Low Income Students ^{1/}	
New Employment	5.5
Health Insurance Premium ^{2/}	4.6
Private School Tuition Organization	3.5
- Disabled/Displaced Students ^{3/}	
Military Reuse Zone	<u>0.0</u>
Total Value of Credits	\$36.9

^{1/} Credit was capped at \$61.9 million in FY 2017 between corporate and insurance premium taxpayers.

^{2/} Credit is capped at \$5.0 million annually.

^{3/} Credits is capped at \$5.0 million annually between corporate income and insurance premium taxpayers.

JLBC Staff – County Flexible Revenue Report – The FY 2018 Revenue Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 312) permits counties with a population under 250,000 persons according to the 2010 Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2018,

Summary of Recent Agency Reports (Continued)

but limits this authority to no more than \$1,250,000 used for purposes other than the purpose of the revenue source. The FY 2018 Revenue BRB requires counties to report on their use of this provision.

Of the 12 eligible counties, 4 reported using the flexibility:

- Apache County: \$1.25 million from the Jail District and Sheriff's Department to the General Fund for law enforcement;
- Coconino County: \$1.25 million from the Jail District to the General Fund for law enforcement, retention incentives, and to pay down Public Safety Retirement System (PSPRS) debt;
- Mohave County: \$500,000 from the Landfill Closure Fund to the General Fund for general expenditures.
- Yuma County: \$51,000 from the Library District, County Attorney Other Grants Fund, and the Spousal Maintenance Fund to the General Fund, County Attorney Fund, and Clerk of the Superior Court Fund for general expenditures at the County Attorney's Office and for the cleaning and maintenance of the South County facility.

The following 8 eligible counties are not utilizing this provision: Cochise, Gila, Graham, Greenlee, La Paz, Navajo, Santa Cruz, and Yavapai Counties. (Josh Hope)

Department of Revenue – Report on Income Tax Credits – Pursuant to A.R.S. § 43-224, the Arizona Department of Revenue is required to report by September 30 of each year on the amounts of individual income and corporate income tax credits used during the prior fiscal year.

The agency reports that taxpayers used a total of \$438.7 million in individual income tax credits in FY 2017. Of the total amount used, \$147.3 million was for the "income taxes paid to other states" credit, \$109.0 million for school tuition organization credits, \$71.1 million for the charitable contributions credit, and \$46.2 million for the public school extracurricular activity fee credit. Use of the other 33 credits, including the Proposition 301 sales tax credit, totaled \$68.9 million in FY 2017. The number of claims and dollar impacts of credits are listed in *Table 9*, below.

Table 9

FY 2017 Individual Income Tax Credits
(\$ in millions)

Credits:	# of Claims	Annual Cost
Income Taxes Paid to Other States	69,922	\$147.3
School Tuition Organizations	145,728	109.0
Contributions to Charities	174,227	71.1
Public School Extracurriculars	168,921	46.2
Prop 301 Sales Tax Credit	612,889	29.9
Other Credits	<u>621,354</u>	<u>35.2</u>
Total Value of Credits	1,793,04	\$438.7
	1	

The Department of Revenue reports that taxpayers used a total of \$141.9 million in corporate income tax credits in FY 2017. Of the total amount used, \$96.2 million was for research and development credits and \$24.9 million was for school tuition organization credits. Use of the other 25 credits, including the credits for renewable energy production and new employment, totaled \$20.8 million in FY 2017. The number of claims and dollar impacts of credits are listed in *Table 10*, below. (Jon Stall)

Table 10

FY 2017 Corporate Income Tax Credits
(\$ in millions)

Credits:	# of Claims	Annual Cost
Research and Development	356	\$96.2
School Tuition Organizations	92	24.9
Renewable Energy Production	8	9.3
New Employment	26	6.1
Other Credits	<u>41</u>	<u>5.4</u>
Total Value of Credits	523	\$141.9

Secretary of State - Report on the Election Systems Improvement Fund – Pursuant to a General Appropriation Act footnote and A.R.S. § 41-129C, the Secretary of State (SOS) submitted a report on the expenditures from the Election Systems Improvement Fund to implement the Help America Vote Act. The expenditures in FY 2017 were \$1.2 million and are projected to be \$2.9 million in FY 2018 and \$2.5 million in FY 2019. SOS reports that FY 2017 expenditures were used as follows: 81.68% for voter registration, 0.18% on voter accessibility, 13.62% for administration, 3.53% on voter education, and 1% for telecommunication and training. (Micaela Larkin)

Summary of Recent Agency Reports (Continued)

Universities – Report on University Research

Infrastructure Income – Pursuant to A.R.S. § 15-1670, Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) are required to submit an annual report on the amount of the previous year's income from licensure and royalty payments and the sale or transfer of intellectual property developed by the university, and to deposit a portion of that income into the state General Fund. These payments were required in exchange for the General Fund paying a) the debt service on \$483 million of university research buildings constructed beginning in 2003 and b) 50% of the debt service on up to \$1 billion of additional university capital construction projects beginning in 2017.

Laws 2017, Chapter 328, amended A.R.S. § 15-1670 to clarify that for each royalty agreement entered into after April 30, 2017, the universities shall calculate their required distributions to the General Fund using net income for the first 3 years, and gross revenue thereafter. For agreements entered into prior to April 30, 2017, A.R.S. § 15-1670 specifies only that the distributions shall be calculated based on "income."

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

In terms of total FY 2017 gross royalties, ASU reported \$775,100, NAU reported \$45,000, and UA reported \$2.7 million.

All 3 universities reported zero net income for royalty agreements entered into before April 30, 2017.

ASU and NAU reported zero gross revenue from royalty agreements entered into after April 30, 2017, while UA reported \$26,300. Of this amount, UA reported net income of \$22,400, of which \$4,500 may be deposited to the General Fund. (Matt Beienburg)

Arizona State University – Report on the School of Civic and Economic Thought and Leadership

In conjunction with an annual state General Fund appropriation of \$3.0 million and a one-time \$1.0 million General Fund appropriation, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires Arizona State University (ASU) to operate the School of Civic and Economic Thought and Leadership (SCETL) and report on the school's 1) total

funding, 2) faculty and courses, 3) student enrollment, and 4) community events, initiatives, and publications.

ASU reports that 7 PhD faculty have joined the school, including its director, with 6 more faculty searches planned or underway.

Currently, 37 students are enrolled in the school's 4 courses offered in fall 2017. The school plans to offer 7 courses in the spring semester and anticipates Board of Regents approval of its proposed B.A. and minor programs also by that time. The school's original 2016 projections estimated enrollment of 100 students by the third year.

Undergraduate major requirements will include an internship, capstone experience, and coursework in 4 areas: the history of moral and political thought, political economy and the history of economic thought, American political and economic thought, and the possibilities and problems of leadership.

The school is currently developing a curriculum for an M.A. in education and leadership to prepare teachers in classical academies and intends to hire an associate director for graduate education to begin implementing the program.

The school's FY 2018 public affairs programming includes, among other activities, co-sponsoring with the Sandra Day O'Connor College of Law and the Cronkite School of Journalism a series on Free Speech and Intellectual Diversity in Higher Education and American Life.

The school is using its \$1.0 million of one-time funding to support its public affairs series and speakers, funded internships, an organized student learning trip to India, and the acquisition of original copies of significant historical works to present on permanent display and in conjunction with university events. The works will include *The Federalist*, *The Wealth of Nations*, *Washington's Farewell Address*, and an autographed work by Martin Luther King Jr., together totaling an estimated \$430,000.

The school reports a total of \$6.6 million of funding available in FY 2018, including the \$4.0 million of FY 2018 General Fund appropriations, \$2.3 million of unused funds from its FY 2017 General Fund appropriation, \$314,200 of university funds for public outreach and logistical support, and \$2,600 of foundation (donor) support. ASU reports that "the

Summary of Recent Agency Reports (Continued)

school is not yet at full operating capacity and thus the carried-forward [FY 2017] funds are being separately reserved for future school use."

ASU reports that the 2 existing centers receive "their own funding streams from the university and private sources, which will remain unchanged in the school." (Matt Beienburg)

University of Arizona- Report on the Center for the Philosophy of Freedom – In conjunction with an annual state General Fund appropriation of \$2.5 million and a one-time \$1.0 million General Fund appropriation, the FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires the University of Arizona (UA) to operate the Center for the Philosophy of Freedom and report on the school's 1) total funding, 2) faculty and courses, 3) student enrollment, and 4) community events, initiatives, and publications.

In September 2017, the Arizona Board of Regents approved the creation of a new department - the Department of Political Economy and Moral Science, which will house the Freedom Center plus the university's undergraduate major in Philosophy, Politics, and Economics, and Law as well as the university's high school outreach program.

The department reports receiving a total of \$3.9 million in funding for the Freedom Center in FY 2018, including the \$3.5 million of FY 2018 General Fund appropriations, \$90,500 in other appropriated and non-appropriated funds, and \$338,400 in donations from foundations and other private donors.

The Freedom Center currently has 7 faculty members who are collectively responsible for teaching 17 graduate and undergraduate courses. Of these courses, 8 unique undergraduate and 4 unique graduate courses were taught during the 2016-2017 academic year. These courses had total enrollment of 426 undergraduate students and 29 graduate students. The center has a total of 16 graduate students currently enrolled.

The department reports that its faculty have contributed to the publication of 5 books and dozens of other publications since the start of the 2016-17 academic year. Department faculty are also responsible for editing 2 journals.

The department reports that, in conjunction with major universities around the world, it has created a network of scholars to facilitate the sharing of best practices in

the teaching and research of philosophy, politics, and economics. Additionally, the Freedom Center continues to collaborate with high schools in Arizona and Mexico to provide a dual enrollment course on Ethics, Economy, and Entrepreneurship. A total of 28 teachers were trained in the summer of 2017 and 17 schools will offer the course during the 2017-2018 academic year. Over 550 students are expected to enroll in the course, with over 220 expected to receive UA credit. (Sam Beres)

September Spending

September 2017 General Fund spending was \$657.7 million, which is an increase of \$94.7 million above September 2016. (See Tables 11 & 12).

- Year-to-date, Department of Education (ADE) spending has increased by \$23.3 million compared to the prior year.
- School Facilities Board spending has increased by \$21.6 million so far during FY 2018 compared to the prior year. The agency received additional funding for the construction of 6 schools in the FY 2018 budget.

	General Fund Spending (\$ in Millions)			
	<u>Sept 17</u>	<u>Change From Sept 16</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 17</u>
Agency				
AHCCCS	152.6	36.6	547.6	122.3
Corrections	76.3	(17.4)	292.5	5.3
Child Safety	25.7	(8.2)	97.6	(5.6)
Economic Security	8.1	4.5	468.4	32.7
Education	290.7	82.2	1,721.8	23.3
Health Services	6.0	(0.9)	28.0	0.6
Public Safety	4.8	0.4	33.9	2.9
School Facilities Board	0.2	0.1	192.3	21.6
Universities	62.9	(1.8)	175.4	5.1
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>30.4</u>	<u>(0.8)</u>	<u>171.0</u>	<u>(11.7)</u>
Total	657.7	94.7	3,812.6	196.5

General Fund Spending				
(\$ in Thousands)				
Agency	Sept 17	Change from Sept 16	Year-to-Date	YTD Change from FY 17
Dept. of Admin./Automation Projects Fund	1,159.0	(9.8)	17,067.0	311.7
ADOA – Sale/Leaseback Debt Service	-	-	84,115.1	(2.3)
Office of Administrative Hearings	68.3	(4.8)	256.8	7.1
Commission of African-American Affairs	9.0	0.6	31.5	(0.2)
Department of Agriculture	1,059.2	407.4	2,802.9	389.3
AHCCCS	152,646.9	36,551.1	547,645.7	122,321.3
Attorney General	1,719.6	153.7	5,979.5	285.2
State Board of Charter Schools	128.5	62.4	312.2	58.4
Department of Child Safety	25,730.7	(8,172.1)	97,645.0	(5,571.5)
AZ Commerce Authority	1,866.7	-	5,450.1	-
Community Colleges	617.6	533.5	13,368.2	855.4
Corporation Commission	55.2	10.7	542.5	392.5
Department of Corrections	76,346.3	(17,392.7)	292,512.5	5,298.3
County Funding	-	-	-	(14,000.5)
AZ State Schools for the Deaf & Blind	556.1	(1,416.3)	6,064.8	(1,586.1)
Office of Economic Opportunity	31.4	31.4	134.3	(365.7)
Department of Economic Security	8,131.0	4,501.5	468,383.3	32,715.3
State Board of Education	63.1	(88.2)	261.9	(86.3)
Department of Education	290,668.0	82,188.9	1,721,795.8	23,253.5
DEMA	449.5	(502.5)	3,945.0	1,738.0
DEQ – WQARF	-	(2,823.6)	-	(2,823.6)
Office of Equal Opportunity	8.5	(10.3)	57.0	5.1
State Board of Equalization	6.5	(41.5)	188.5	21.9
Board of Executive Clemency	152.0	110.9	289.4	128.7
Department of Financial Institutions	203.5	(1.8)	496.7	(203.5)
Department of Fire, Bldg and Life Safety	-	(0.8)	-	3.1
Department of Forestry and Fire Management	666.4	369.3	3,514.6	1,538.6
Department of Gaming	-	-	1,779.5	-
Governor/OSPB	1,424.6	729.8	3,084.5	633.3
Department of Health Services	6,031.9	(877.8)	27,977.8	551.2
Arizona Historical Society	186.7	16.5	676.3	(134.9)
Prescott Historical Society of AZ	58.9	(11.1)	228.4	(1.2)
Department of Housing	-	(62.2)	248.9	4.3
Independent Redistricting Comm.	-	(102.7)	19.6	(274.5)
Department of Insurance	680.5	332.6	1,634.6	474.3
Judiciary				
Supreme/Superior Court	5,110.8	3,387.6	24,893.3	3,009.7
Court of Appeals	1,393.2	381.0	3,948.0	396.2
Department of Juvenile Corrections	436.3	(907.1)	5,628.4	(2,389.3)

Table 12 (Continued)

Agency	Sept 17	Change from Sept 16	Year-to-Date	YTD Change from FY 17
State Land Department	709.8	92.0	3,279.7	992.3
Legislature				
Auditor General	1,998.4	490.7	5,935.1	779.0
House of Representatives	982.4	14.5	3,485.3	305.3
Joint Legislative Budget Comm.	231.5	53.6	668.8	14.3
Legislative Council	367.8	192.5	1,917.4	507.3
Senate	636.6	(260.2)	2,356.0	(41.6)
Mine Inspector	152.8	75.6	362.0	77.7
Nav. Streams & Adjudication	14.0	5.2	39.0	4.4
Phoenix Convention Center	-	-	22,499.0	2,050.0
Comm. for Postsecondary Ed.	-	(347.4)	820.9	124.6
Department of Public Safety	4,764.4	385.2	33,936.9	2,897.1
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	81.4	(18.8)	336.8	(207.0)
Real Estate Department	367.8	206.0	828.5	141.3
Department of Revenue	4,235.2	2,419.8	8,664.2	1,848.9
School Facilities Board	194.0	124.1	192,318.8	21,578.7
Secretary of State	1,044.2	(4,370.6)	3,174.0	(7,769.1)
Tax Appeals Board	-	(18.6)	79.7	17.7
Office of Tourism	-	-	2,489.2	711.6
Department of Transportation	0.1	0.1	0.7	0.0
Governor's Office on Tribal Relations	0.7	0.4	6.0	(11.0)
Universities				
Board of Regents	609.1	(175.3)	982.9	(6,131.6)
Arizona State University	28,932.9	2,391.6	80,064.8	6,036.2
Northern Arizona University	9,805.9	(3,668.6)	27,153.2	1,890.0
University of Arizona	23,536.5	(299.7)	67,224.0	3,289.3
Department of Veteran Services	384.5	16.4	1,490.2	(37.8)
Department of Water Resources	911.8	53.9	3,177.3	391.2
Department of Weights & Measures	-	-	(1.0)	(1.0)
Other - State Treasurer/JP Salaries	36.7	14.3	290.0	108.0
Total	657,664.7	94,719.8	3,812,559.2	196,518.4

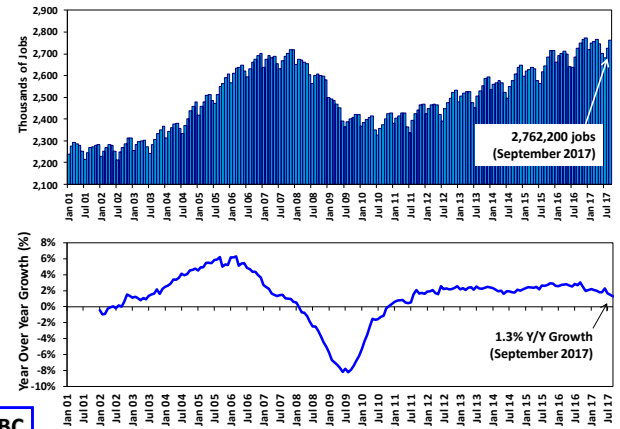
Arizona Economic Trends

October 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

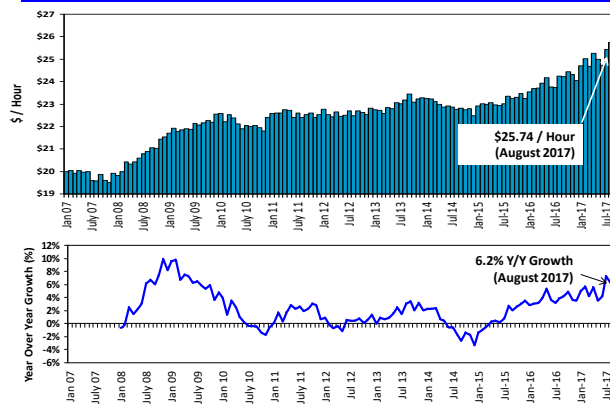
Total Non-Farm Employment



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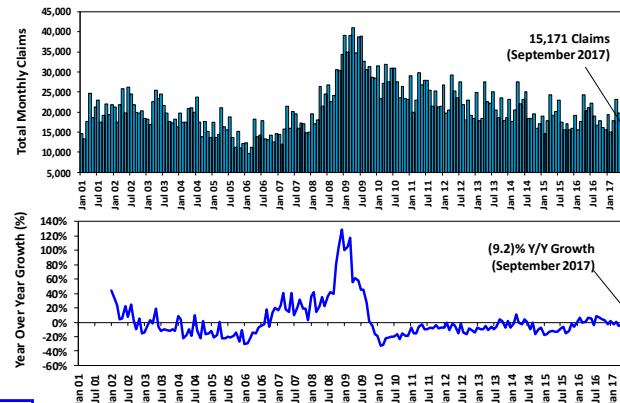
Average Hourly Earnings – Private Sector



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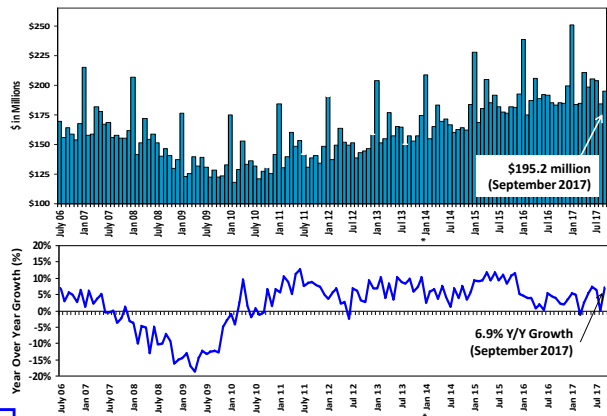
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



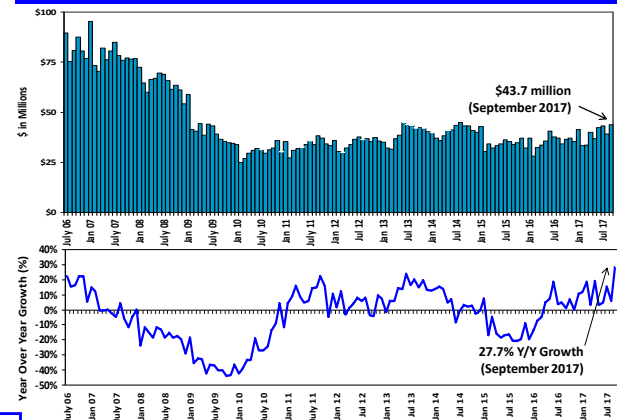
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Excludes temporary 1 ¢ sales tax

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

5

State Sales Tax Collections – Contracting Category

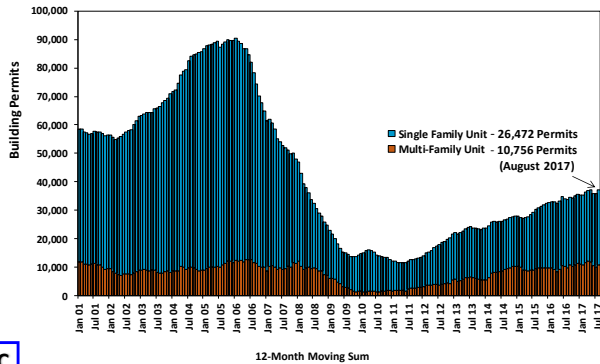


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Excludes temporary 1 ¢ sales tax

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Residential Building Permits



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