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"July 2017 revenues totaled \$778.3 million and were \$47.3 million above the enacted budget forecast."

Summary

July 2017 revenues totaled \$778.3 million and were \$47.3 million above the enacted budget forecast. Total revenues during the month grew by 18.0% above the prior year. That year-over-year growth rate is the highest since November 2015, but was partly driven by variability in the timing of collections.

Compared to 2016, the July gains occurred in all major tax categories. In particular, Individual Income Tax collections grew 18.8% and were \$24.9 million above forecast. Withholding collections in this category were helped by 2 more processing days compared to July 2016.

Corporate collections increased \$21.6 million, from \$2.2 million in July 2016 to \$23.8 million in July 2017. That increase was the category's largest year-over-year dollar amount growth since May 2015. While the increase was significant, Corporate collections tend to be very volatile in smaller collection months.

In comparison to July revenue collections of \$778.3 million, July 2017 spending was \$2.37 billion, which is an increase of \$125.3 million from the prior year.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-August 2017 is \$1.35 billion.

In addition, the state Budget Stabilization Fund (BSF) has a balance of \$434.9 million. This balance has declined from its previous FY 2017 level of approximately \$460 million due to the temporary use of BSF monies.

The FY 2018 General Appropriation Act authorized a bridge loan for the Department of Economic Security, allowing the agency to use up to \$25 million of BSF monies to provide funding for reimbursement grants. The funding is required to be paid back by September 1, 2017.

FY 2017 Ending Balance Update

Further FY 2017 data has reduced the projected ending balance from \$229 million as reported in the July *Monthly Fiscal Highlights* to the current estimate of \$218 million. This amount remains above the budgeted ending balance of \$171 million. As was reported last month, the overage is primarily due to \$55 million in FY 2017 General Fund highway construction funding that will not be expended until future years.

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on August 21, 2017.

July Revenues

	<u>FY 2018 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2017</u>
July	\$ 778.3	\$ 47.3	\$ 118.6
Year-to-Date	\$ 778.3	\$ 47.3	\$ 118.6

Sales Tax collections of \$391.7 million were 6.8% above July of last year and \$11.4 million above the forecast for the month.

Sales tax collections by category for July 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.

	<u>July</u>	<u>YTD</u>
Retail	6.3%	6.3%
Contracting	15.2%	15.2%
Use	6.9%	6.9%
Restaurant & Bar	5.6%	5.6%
Utilities	(0.4)%	(0.4)%

Individual Income Tax net revenues of \$366.6 million in July were \$58.1 million more than in the prior year and \$24.9 million above forecast.

As indicated in *Table 3*, July withholding increased by 18.0% from last year. This increase was likely driven by an increase in the number of major processing days during the month compared to July 2016. The July withholding collections are \$25.5 million above the forecast.

July estimated and final payments of \$22.4 million were 8.1% above last year and \$0.8 million above the forecast.

July Individual Income Tax refunds totaled \$(16.2) million – this compares to \$(17.5) million in July 2016 and a forecasted amount of \$(14.7) million.

	<u>July</u>	<u>YTD</u>
Withholding	18.0%	18.0%
Estimated/Final Payments	8.1%	8.1%
Refunds	(7.8)%	(7.8)%

Corporate Income Tax net collections were \$23.8 million in July, which was \$21.5 million more than in the prior year and \$9.5 million above the forecast. Collections tend to be volatile in small collection months.

Insurance Premium Tax collections of \$42.6 million in July were 72.9% above the prior year and \$4.4 million above the forecast. The large increase relative to last year was primarily due to delays in processing collections in July 2016.

The **Lottery Commission** reports that July ticket sales were \$72.8 million, which is \$0.3 million, or 0.4%, above sales in July 2016. Distributions of Lottery revenues for ticket sales that occurred in July are not expected to be deposited to the General Fund until the close of the first quarter in FY 2018.

Highway User Revenue Fund (HURF) collections of \$119.2 million in July were up 0.4% compared to July of last year and were \$(3.5) million below forecast.

Collections for the **Other Miscellaneous** category were reported as \$(2.0) million in July. This amount was \$(3.9) million below collections in July 2016 and \$(4.3) million below the forecast. The July decrease is largely driven by a technical timing issue that is expected to be offset in later months.

Table 4

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

	Current Month					FY 2018 YTD (One Months)				
	Actual July 2017	Change From July 2016		Budget Forecast		Actual July 2017	Change from July 2016		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$391,718,305	\$24,983,536	6.8 %	\$11,419,049	3.0 %	\$391,718,305	\$24,983,536	6.8 %	\$11,419,049	3.0 %
Income - Individual	366,600,317	58,051,858	18.8	24,857,299	7.3	366,600,317	58,051,858	18.8	24,857,299	7.3
- Corporate	23,821,841	21,532,889	--	9,450,414	65.8	23,821,841	21,532,889	--	9,450,414	65.8
Property	298,666	(113,305)	(27.5)	(24,288)	(7.5)	298,666	(113,305)	(27.5)	(24,288)	(7.5)
Luxury - Tobacco	1,978,866	10,177	0.5	0	0.0	1,978,866	10,177	0.5	0	0.0
- Liquor	3,042,203	(33,699)	(1.1)	0	0.0	3,042,203	(33,699)	(1.1)	0	0.0
Insurance Premium	42,553,870	17,936,922	72.9	4,449,266	11.7	42,553,870	17,936,922	72.9	4,449,266	11.7
Other Taxes	59,232	(512,496)	(89.6)	(295,427)	(83.3)	59,232	(512,496)	(89.6)	(295,427)	(83.3)
Sub-Total Taxes	\$830,073,300	\$121,855,881	17.2 %	\$49,856,314	6.4 %	\$830,073,300	\$121,855,881	17.2 %	\$49,856,314	6.4 %
<u>Other Revenue</u>										
Lottery	0	(1,604,875)	(100.0)	0	--	0	(1,604,875)	(100.0)	0	--
License, Fees and Permits	3,908,167	2,516,161	180.8	2,203,826	129.3	3,908,167	2,516,161	180.8	2,203,826	129.3
Interest	201,855	245,077	--	185,071	--	201,855	245,077	--	185,071	--
Sales and Services	857,214	(321,008)	(27.2)	(697,597)	(44.9)	857,214	(321,008)	(27.2)	(697,597)	(44.9)
Other Miscellaneous	(1,986,828)	(3,905,191)	--	(4,283,494)	--	(1,986,828)	(3,905,191)	--	(4,283,494)	--
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,967,817	1,681,407	587.1	14,869	0.8	1,967,817	1,681,407	587.1	14,869	0.8
Sub-Total Other Revenue	\$4,948,225	(\$1,388,429)	(21.9) %	(\$2,577,325)	(34.2) %	\$4,948,225	(\$1,388,429)	(21.9) %	(\$2,577,325)	(34.2) %
TOTAL BASE REVENUE	\$835,021,525	\$120,467,453	16.9 %	\$47,278,989	6.0 %	\$835,021,525	\$120,467,453	16.9 %	\$47,278,989	6.0 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	(0.0)	(56,730,840)	(1,432,326)	2.6	0	(0.0)
One-Time Transfers	0	(461,600)	(100.0)	0	--	0	(461,600)	(100.0)	0	--
Sub-Total Other Adjustments	(56,730,840)	(1,893,926)	3.5 %	0	(0.0) %	(56,730,840)	(1,893,926)	3.5 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$778,290,685	\$118,573,527	18.0 %	\$47,278,989	6.5 %	\$778,290,685	\$118,573,527	18.0 %	\$47,278,989	6.5 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$119,154,829	\$426,466	0.4 %	(\$3,523,758)	(2.9) %	\$119,154,829	\$426,466	0.4 %	(\$3,523,758)	(2.9) %

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 2.6% in the second quarter of 2017. This estimate 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. Improvement in these categories was partly offset by a decrease in residential investment. Economists expect a portion of the acceleration in GDP growth reflects temporary seasonal variations not fully removed from the prior quarter estimates.

The Conference Board's **U.S. Consumer Confidence Index** increased by 3.2% to 121.1 in July. The increase restored a portion of the decreases that occurred over the prior 3 months. The latest reading is 25.2% above the index in July 2016. The monthly increase reflected an improved assessment of current economic conditions as well as greater optimism about economic prospects over the next 6 months. The percent of surveyed individuals that think jobs are plentiful minus the percent that think jobs are scarce reached a 16-year high during July.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** was essentially flat in June. The overall index reached year-over-year growth of 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 0.1% in July and increased 1.7% above July 2016 prices. The energy index saw a slight net decrease, with the gasoline index remaining the same. A number of other indexes declined, including those for new vehicles, communication, and household furnishings.

The Conference Board's **U.S. Leading Economic Index** increased 0.6% in June to 127.8 and stands 4.0% above its June 2016 reading. Of the index's 10 components, 8 made positive contributions for the month. The building permits index made the largest positive contribution, and the Institute for Supply Chain Management (ISM) index for new orders and interest rate spread index made their consistently positive contributions. The average weekly unemployment claims index was the sole negative contributor for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In June, Arizona's 12-month total of **single-family building permits** was 25,453, or 5.0% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 8.6%.

The 12-month total of multi-family building permits started to decrease again. In June, Arizona's total of 10,416 **multi-family building permits** was (1.1)% less than in 2016. Nationwide multi-family permits were flat compared to 2016.

Tourism

Revenue per available room was \$65.01 in June, which was 5.1% above the amount in June 2016. **Ridership** through Phoenix Sky Harbor Airport during the month was up 0.9% compared to June 2016.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state lost (20,900) **nonfarm jobs** in July over June. The state typically experiences job losses in July when schools are in recess. The average job loss for July in the prior 10 years was (24,500).

Compared to July 2016, Arizona added 45,000 net new jobs in July, or an increase of 1.7%. The largest year-over-year job gains came from the following industries: Leisure and Hospitality Services (+16,600), Education and Health Services (+11,000), and Financial Activities (+6,000).

The state's average year-over-year job increase during the 7 months of calendar year (CY) 2017 has been 2.0%. That rate represents a slowdown from the annual growth of 2.6% in CY 2016. Of the 11 major industries, 5 have experienced falling job growth rates since the start of the calendar year. Job growth has particularly slowed in Professional and Business Services (from 3.8% in CY 2016 to 1.7% year-to-date in CY 2017) and Construction (from 5.2% in CY 2016 to 2.8% in CY 2017).

The state's regular **unemployment rate** was unchanged at 5.1% in July. Compared to July 2016, the jobless rate is down by (0.1)%. The state's unemployment rate has fluctuated between 5.0% and 5.1% during the last 12 months. The U.S. unemployment rate declined from 4.4% in June to 4.3% in July.

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**.

Monthly Indicators (Continued)

Besides the “regularly” unemployed, the measure also includes persons who are available to work but stopped looking for a job (“discouraged workers”), and persons who had to settle for part-time employment (“underemployed workers”).

The Arizona rate averaged 10.5% from the second quarter of 2016 through the second quarter of 2017. This rate is (0.4)% below the reading issued for the prior period. The state’s 10.5% rate was the fifth highest of any state. The national average for the measure was 9.2% during the quarter.

OEO reported that 21,858 **initial claims for unemployment insurance** were filed in July, a decrease of (1.3)% compared to the same month last year.

According to OEO, the state had a total of 32,403 **claimants receiving unemployment insurance benefits** in July, an increase of 13.7% from June. This figure is (7.7)% below the July 2016 level.

In June, 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 1.7% above the level in June 2016.

The **Average Hourly Earnings** received by private sector workers was \$24.73, which is (1.5)% below the average in the prior month. June earnings were 4.0% above the average in June 2016. Year-over-year growth has reached at least 4.0% in 5 of 6 months in 2017.

State Agency Data

At the beginning of August 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 615,100 members.

Total monthly enrollment increased by 300 members during July and is 2.8% higher than a year ago. Enrollment of the Traditional and Proposition 204 populations of low income parents and children decreased by (1,900), or (0.1)%, in July. This decline was offset by increases in other populations.

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 August 1, enrollment in the program reached 22,200, or 500 more than the prior month’s enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In July 2017, the childless adult population increased by 1,400, or 0.5%. At 318,200, this population is 2.2% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 300 in July and now totals 82,500 individuals. Enrollment is 3.1% higher 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 17,419 **TANF recipients** in the state in July, representing a (0.5)% monthly caseloads decrease from June. The year-over-year number of TANF recipients has declined by (5.9)%. The statutory lifetime limit on cash assistance in July was 12 months, however beginning in August 2017, the lifetime limit will increase to 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. The July caseload of 912,033 was flat compared to June. Compared to July caseloads last year, the level of food stamp participation has declined by (5.8)%.

The **Department of Corrections inmate population** was 42,229 as of July 31, 2017. This is a (1.5)% decrease since last July. The population decreased by (0.2)% since June 2017.

Based on information the Department of Child Safety provided for June 2017, **reports of child maltreatment** totaled 47,269 over the last 12 months, a decrease of (3.8)% over the prior year. There were 16,831 **children in out-of-home care** as of May 2017, or (9.6)% less than in May 2016. Compared to the prior month, the number of out-of-home children decreased by (0.8)%.

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	July	5.1%	0.0%	(0.1)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2017	10.5%	(0.4)%	(0.8)%
- Initial Unemployment Insurance Claims	July	21,858	6.2%	(1.3)%
- Unemployment Insurance Recipients	July	32,403	13.7%	(7.7)%
- Non-Farm Employment - Total	July	2,681,500	(0.8)%	1.7%
Manufacturing	July	163,800	(0.4)%	2.5%
Construction	July	140,100	1.2%	1.7%
- Average Weekly Hours, Private Sector	June	34.9	1.5%	1.7%
- Average Hourly Earnings, Private Sector	June	\$24.73	(1.5)%	4.0%
<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	June	25,453	(0.1)%	5.0%
Multi-family	June	10,416	(10.9)%	(1.1)%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	June	6,133	(10.8)%	(12.9)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	June	\$257,900	(0.4)%	7.5%
- Phoenix S&P/C Home Price Index (2000 = 100)	May	168.66	0.6%	5.7%
- Maricopa Pending Foreclosures	June	2,908	0.0%	(21.5)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	June	22,069	(6.2)%	(10.4)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	June	3,754,306	(1.4)%	0.9%
- National Park Visitors	January	586,991	(9.1)%	5.2%
- State Park Visitors	May	273,765	(18.1)%	14.3%
- Revenue Per Available Hotel Room	June	\$65.01	(13.3)%	5.1%
<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	June	2.9%	0.8%	(1.2)%
- Arizona Personal Income	1st Q 2017	\$283.1 billion	1.0%	3.8%
- Arizona Population	July 2016	6,931,071	N/A	1.7%
- State Debt Rating				
Standards & Poor's/Moody's	May	AA / Aa2	N/A	N/A
Outlook	May	Stable	N/A	N/A
<i>Agency Measures</i>				
- AHCCCS Recipients	August 1 st	1,873,260	0.0%	2.8%
Acute Care Traditional		1,076,461	(0.1)%	0.3%
Prop 204 Childless Adults		318,224	0.5%	2.2%
Other Prop 204		193,483	(0.4)%	5.7%
Adult Expansion		82,530	0.4%	3.1%
Kids Care I		22,162	2.5%	N/A
Long-Term Care – Elderly & DD		60,003	0.1%	2.8%
Emergency Services		120,396	(0.2)%	2.9%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	June	47,269	(0.5)%	(3.8)%
DCS Out-of-Home Children	May	16,831	(0.8)%	(9.6)%
Filled Caseworkers (1406 Budgeted)	July	1,355	22	(11)
- ADC Inmate Growth	July	42,229	(0.2)%	(1.5)%
- Department of Economic Security				
- TANF Recipients	July	17,419	(0.5)%	(5.9)%
- SNAP (Food Stamps) Recipients	July	912,033	0.0%	(5.8)%
- Judiciary Probation Caseload				
Non-Maricopa	April	19,164	34	639
Maricopa County	April	28,447	226	758
United States				
- Gross Domestic Product	2 nd Q, 2017	\$17.0 trillion	2.1%	2.6%
(Chained 2009 dollars, SAAR)	(1 st Estimate)			
- Consumer Confidence Index (1985 = 100)	July	121.1	3.2%	25.2%
- Leading Indicators Index (2010 = 100)	June	127.8	0.6%	4.0%
- Consumer Price Index, SA (1982-84 = 100)	July	244.1	0.1%	1.7%
- Personal Consumption Price Index (2009 = 100)	June	112.3	0.0%	1.4%

JCCR Meeting

At its July 25, 2017 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona State University – Review of Tempe Power Plant Indirect Financing Project – The Committee gave a favorable review of a \$21.0 million bond issuance to fund the construction of a second combustion turbine on the Tempe campus. The debt will be issued by Sun Devil Energy Center, LLC, which is a subsidiary of an ASU component unit, the Arizona Capital Facilities Finance Corporation (ACFFC). The Committee added a standard university financing provision.

Summary of Recent Agency Reports

AHCCCS – Report on the FY 2017 Hospital Assessment – Pursuant to A.R.S. § 36-2901.08, the Arizona Health Care Cost Containment System (AHCCCS) is required to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of the Federal Poverty Level) and the entire Proposition 204 population. In addition, A.R.S. § 36-2903.08 requires AHCCCS to report by August 1 annually the amount each hospital contributed to the assessment.

The assessment is calculated by multiplying the number of discharges reported on each hospital's 2011 Medicare Cost Report by the hospital's per-inpatient discharge rate. In FY 2017, the average discharge rate for all providers was approximately \$358. From July 1, 2016 to June 30, 2017, AHCCCS collected \$264.5 million in assessments from 70 hospitals. *Table 6* below lists how much each peer hospital contributed in FY 2017. The percentage splits for each hospital provider peer group roughly match the splits from FY 2016.

A.R.S. § 36-2903.08 additionally requires AHCCCS to report by August 1 annually the amount of estimated Medicaid payments each hospital received for services provided to populations whose coverage is funded by the assessment. Due to reporting lags between providers and AHCCCS health plan contractors, payments can take upwards of 3-6 months before paid claims appear in AHCCCS' database. Because of this lag, AHCCCS will report the FY 2017 estimated Medicaid payments each hospital received from coverage funded by the assessment by January 31, 2018. (Patrick Moran)

Arizona Health Care Cost Containment System – Quarterly Report on the Comprehensive Medical and Dental Program (CMDP) – Pursuant to Laws 2013, Chapter 220, the Arizona Health Care Cost Containment System (AHCCCS) is required to report quarterly on the financial and program accountability trends of CMDP, the foster care medical program. AHCCCS' most recent report covers Contract Year Ending (CYE) 2016, or October 1, 2015 through

Table 6

Hospital Provider Peer Group (# of hospitals) ^{1/}	FY 2017 Contributions	% of Total
Urban Acute Providers (29)	\$ 161,453,346	61.0%
Medium Pediatric Intensive General Acute Hospitals (6)	45,967,680	17.4%
Non-CAH Rural Acute Providers (13)	31,540,080	11.9%
Pediatric-Intensive General Acute Hospitals (2)	20,036,258	7.6%
Critical Access Hospital (CAH) Providers (10)	3,457,520	1.3%
Large Psychiatric Provider (4)	1,791,680	0.7%
Long-Term Care Provider (6)	253,716	0.1%
TOTAL	\$ 264,500,280	100.0%

^{1/} In FY 2017, 70 hospitals participated in the hospital assessment.

Summary of Recent Agency Reports (Continued)

September 30, 2016. AHCCCS reports the following findings:

- The percentage of CMDP children receiving behavioral health services in September 2016 was 64.3%.
- The services utilized by the highest percentage of CMDP members using services in September 2016 included support services, (95.2%), treatment services (54.0%), and rehabilitation services (12.8%). Support services for foster children include case management, peer support, and transportation to appointments. Treatment services include individual and group counseling as well as behavioral health diagnostic evaluations. Rehabilitation services include living skills training, cognitive rehabilitation (such as memory training or anger management), and behavioral health education and prevention activities.
- The services that accounted for the greatest share of CMDP program costs in September 2016 included support services (42%), treatment services (19%), and inpatient services (16%). Inpatient services primarily consist of inpatient psychiatric services provided by hospitals. (Patrick Moran)

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 July 2017. (See Table 7 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,357 in June, or (49) fewer staff than the number of funded positions. Most of the difference between funded positions and filled positions was driven by lower-than-budgeted staffing of caseworkers, which was partly offset by higher-than-budgeted staff in training. Total direct line staff increased by 22 since June.

There were also 1,385 non-direct line child safety staff in July 2017, or (126) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions remained unchanged compared to June. (Patrick Moran)

Department of Child Safety (DCS) – Semi-Annual Progress Report – Pursuant to A.R.S. § 8-818, DCS has submitted its semi-annual financial and program accountability report covering the period of January 2017 through June 2017.

According to the report, out-of-home placements decreased by (2.5)% from 17,174 in January to 16,751 in June. Caseloads are above the department’s goals and caseworker turnover was approximately 31.8%. Employee satisfaction was a 2.3 rating on a 5 point scale, compared to a statewide average of 2.6. The contents of this report, covering the last 6 months of FY 2017, are summarized below.

- The Training Academy had 374 new caseworkers in training as of June 2017. During the time period from January 2017 to June 2017, 229 caseworkers graduated from the Training Academy, or 9 more graduates than in the previous 6-month period.
- DCS reports that annualized caseworker turnover during July - December 2016 was 31.8%, up from a 30.4% annualized rate in the last report.
- The percent of Office of Administrative Hearings decisions affirming DCS case findings decreased from 95.0% to 57.8%. The percent of complaints validated by the Ombudsman decreased from 32.0% to 26.5%.
- The number of congregate care placements decreased from 2,394 to 2,354, a (1.7)% decrease. DCS also reports that from July to December the number of children aged 0-3 in

Table 7

DCS Filled FTE Positions as of July 2017

	<u>Funded</u>	<u>July</u>	<u>Difference</u>
Caseworkers	1,190	1,059	(131)
Hotline Staff	76	71	(5)
Staff in Training	<u>140</u>	<u>227</u>	<u>87</u>
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,357</i>	<i>(49)</i>
<i>Subtotal - Non-Direct Line Staff</i>	<i><u>1,511</u></i>	<i><u>1,385</u></i>	<i><u>(126)</u></i>
Grand Total ^{1/}	2,917	2,742	(175)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

shelter care declined from 18 to 2, the number of children aged 0-6 in group homes decreased from 102 to 84, and the number of children in shelter care for more than 21 days decreased from 980 to 782.

- Since the last report, workload per caseworker declined from 18 to 14 for investigations (goal: 13), 39 to 32 for in-home cases (goal: 33), and 28 to 25 for out-of-home cases (goal: 20).

Table 8 provides a historical view of workload by caseworker responsibility since 2008; it also displays how much workload exceeds the caseload standard in the “percent above workload standard” line. (Patrick Moran)

Corporation Commission/WIFA – Small Water Systems Fund FY 2017 Spending Report – Pursuant to a footnote in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 150), the Corporation Commission and the Water Infrastructure Finance Authority (WIFA) are required to jointly file a report detailing the FY 2017 expenditures from the Small Water Systems Fund for emergency grants to interim operators of small water systems. Chapter 117 also appropriated \$500,000 in one-time funds from the General Fund for these emergency grants.

Through the end of FY 2017, the commission has approved and WIFA has processed 1 emergency grant application for Acme Water Company and appointed Walden Meadows Community Co-op as interim manager, allowing up to \$202,914 for repairs to Acme Water Company’s Thunderbird Meadows water system. Actual expenditures for this grant through the end of the FY 2017 totaled \$125,317. (Jeremy Gunderson)

Department of Corrections – Report on Health Care Credits Taken Against Payments to Health Care Vendor – The state can seek Medicaid reimbursement for the costs of outside medical care for eligible inmates. To receive reimbursement, the care is paid by the Arizona

Health Care Cost Containment System (AHCCCS). The Department of Corrections (ADC) pays the state match portion, and AHCCCS covers the federal portion. Since ADC already pays for all health care of inmates in state facilities in the inmate health care services contract, the total dollar amount of Medicaid expenditures is offset on subsequent invoices by the vendor. The savings to the department is the federal portion.

A.R.S. § 35-142.01 allows the department in the current fiscal year to take credit against payments for the total expenditures paid for hospitalization and outside medical care from the current fiscal year or previous years. The statute requires a report by July 1 for the credits taken for the previous fiscal year.

For FY 2017, the department took \$12.0 million in credits. The department paid \$1.6 million for the state match, and received \$10.4 million in net savings. Of the net savings, \$462,400 was for services rendered in FY 2015, \$4.7 million was for services rendered in FY 2016, and \$5.3 million was for services rendered in FY 2017. ADC utilizes the net savings to augment funding for the inmate health care contracted services. (Micaela Larkin)

Department of Corrections – Report on Transition Release Program – Pursuant to A.R.S. § 31-285, the Arizona Department of Corrections (ADC) has submitted its annual report that details the cost reductions that are directed to the department from the Transition Program. The Transition Program, as established by A.R.S. § 31-281, allows certain inmates the opportunity to be released 3 months prior to their release date. Statute requires for each bed day saved a transfer of at least \$17 to the program.

ADC reports that an average of 596.5 inmates participated each quarter in the program. In FY 2017, the department reports that 1,062 participants

	Caseworker Workload									
	<u>Dec. 2008</u>	<u>Dec. 2009</u>	<u>Dec. 2010</u>	<u>Dec. 2011</u>	<u>Dec. 2012</u>	<u>Dec. 2013</u>	<u>Dec. 2014</u>	<u>Dec. 2015</u>	<u>Dec. 2016</u>	<u>June 2017</u>
Investigations	15	15	15	15	15	16	16	25	18	14
In-Home Cases	28	27	30	32	33	47	42	43	39	32
Out-of-Home Children	24	23	25	27	36	25	29	30	28	25
Percent Above Workload Standard	9%	9%	15%	22%	48%	28%	37%	54%	36%	17%
Total Case-Carrying Caseworkers	818	761	764	781	750	983	1,019	953	975	1,066
Caseworkers Required by Standard	890	829	879	955	1,107	1,263	1,397	1,466	1,329	1,245

Summary of Recent Agency Reports (Continued)

successfully completed the Transition Program and their term of community supervision while an additional 706 participants completed the Transition Program and continued their term of community supervision. A total of 140 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is responsible for 99,993 bed days saved at the statutorily-mandated rate of \$17 per day, \$1.7 million was transferred from the State Department of Corrections Revolving Fund to the transition program. (Micaela Larkin)

Department of Environmental Quality – Third-Party Report on E-Licensing Project – Pursuant to a FY 2015 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) provided a quarterly update on its E-Licensing project. The vendor gave an overall favorable evaluation of DEQ's progress in incorporating recommendations from the previous third-party report and provided 5 recommendations. Over 25% of DEQ's 28,000 annual transactions are now being managed online. The vendor indicated that this has resulted in significantly reduced time for permit issuances and data reporting. Customer adoption rates for myDEQ are also steadily increasing. As of July 2017, the overall average adoption rate is at 59%. The vendor continued its recommendation to create a DEQ Data Governance Board, which would make decisions relating to data management, data quality assurance, data analysis and business intelligence, and data security. The vendor also emphasized that DEQ should focus on finalizing the long planned transition of myDEQ to ADOA's cloud infrastructure. (Josh Hope)

JLBC Staff – Public Programs Eligibility Report – As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

Universities – At the 3 universities, 163,859 students registered for the spring 2017 semester. Of the total students registered, the universities were able to verify the legal immigration status of 149,962 students. Additionally, the universities reported that 17,540 of these students did not require verification because they have either not requested or received in-state tuition or state-supported financial aid. The universities reported that no students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security – The department reported that 7,066 applications were received for child care assistance during the reporting period of

December 1, 2016 to May 31, 2017. Of this number, 13 were denied because criteria for citizenship or legal residency were not met.

Community Colleges – Statewide, the Community Colleges reported a total of 196,194 students classified as in-state for the spring 2017 semester. They reported 389 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 73,156 students applied for financial aid. Of those who applied, the community colleges reported that 47 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education – The department reported that 10,142 people applied for instruction in Arizona Adult Education during the reporting period of December 1, 2016 to May 31, 2017. Of this amount, 498 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. The Arizona Adult Education program is funded with a combination of state and Federal Funds. (Samuel Beres)

School Facilities Board – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 15-2158, the School Facilities Board (SFB) is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is currently operated by the Governor's Office of Education. As of the end of FY 2017, 3 schools have been approved financing through the program – Academy of Math and Science, Arizona Agribusiness and Equine Center, and Great Hearts. However, only one school has issued a guaranteed financing, Academy of Math and Science in an amount of \$23.5 million. To date, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$104,362,981 and has a leverage ratio of 0.22 (based on only issued financings). (Rebecca Perrera)

Arizona Department of Transportation – Report on Cost to Link Local Governments, State Agencies, and Other Users with the New MVD Automated System – Pursuant to a FY 2017 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) reported on the cost to link local governments, state agencies, and other users with the new automated system for the Motor Vehicle Division (MVD).

The MVD's modernization of its information system will allow all customers to maintain their existing interfaces, but in order to improve reliability and

Summary of Recent Agency Reports (Continued)

performance, those interfaces will require modernization.

ADOT did not comply with the reporting requirement to provide a cost estimate. ADOT stated that the cost to modernize interfaces for each agency will depend on their available resources. However, the department does provide an estimate for the number of hours that will be required to modernize all customer interfaces, as shown in *Table 9* below. (Ben Murphy)

Arizona Department of Transportation – Annual Report on Motor Vehicle Division Wait Times – Pursuant to a FY 2017 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) reported to the Legislature on Motor Vehicle Division (MVD) field office customer wait times. Between arrival at an MVD office and departure, the average customer experience time decreased from 53.3 minutes in FY 2016 to 35.0 minutes in FY 2017. Average customer experience times in metropolitan areas ranged from 27.0 minutes in the Avondale office to 44.7 minutes in the Southeast Mesa office in FY 2017.

In non-metropolitan areas, the average customer experience time decreased from 32.3 minutes in FY 2016 to 30.7 minutes in FY 2017.

The number of customers visiting MVD field offices declined by (2.8)% from 2.94 million customer visits in FY 2016 to 2.86 million in FY 2017.

The average turnaround time for vehicle registration renewal by mail decreased by (59)% from 2.9 days in FY 2016 to 1.2 in FY 2017. Beginning in January 2016, vehicle registration renewal by mail has been performed by a private third-party partner. (Ben Murphy)

Arizona Department of Transportation – Annual Report on ServiceArizona Retained Fees – Pursuant to a FY 2018 General Appropriation Act footnote, the Arizona Department of Transportation (ADOT) reported on the state’s share of fees retained by the ServiceArizona vendor in the prior fiscal year.

Laws 2011, Chapter 190 allowed ADOT to negotiate through a competitive bidding process with vendors for

support of ServiceArizona (the state’s registration renewal website). Previously, compensation for the ServiceArizona vendor was detailed in statute. ADOT is currently in the midst of a 4.5-year contract with the vendor that has an option for up to 5 one-year extensions.

Under the ServiceArizona contract, the website vendor agreed to compensation equal to roughly half the fees it collects, which includes the vehicle license tax, registration fees and title fees, among others. The other half of the fees belong to the state. The state’s share of the fees is retained and managed by the ServiceArizona vendor. The ServiceArizona vendor is paid a 1% administrative fee for managing the state’s share of fees and disburses funds directly to vendors on behalf of the state, as directed by ADOT.

In FY 2017, the state’s half of the fees totaled \$12.9 million. The vendor spent \$14.0 million in FY 2017 on behalf of ADOT, an amount greater than the yearly revenues due to a carry-forward balance from prior years. The majority of these monies (\$10.7 million) were spent on development of the Motor Vehicle Modernization (MvM) automation project, which updates the Motor Vehicle Department (MVD) computer system. The new system will provide MVD customer service representatives with a suite of new applications for motor vehicle transactions. The cost of the MvM project is estimated to be \$56.0 million.

The project began in FY 2014 and is expected to be complete in FY 2020. Besides funding for MvM project development, the remaining \$3.3 million was spent as follows:

- \$1.4 million for solution deployment and operations.
- \$651,100 for data conversion/cleansing and analytics.
- \$417,800 for portal enhancements.
- \$398,700 for legacy system support.
- \$168,200 for organizational change management.
- \$129,100 for contract administration.
- \$95,300 for a fuel tax licensing application.

(Ben Murphy)

	State Agencies	Local Governments	Others	Total
Number of Customers	12	23	25	60
Number of Interfaces	40	53	27	120
Number of Hours	6,600	2,520	3,690	12,810

Summary of Recent Agency Reports (Continued)

Arizona Board of Regents – Report on University Retention and Graduation Rates – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to submit an annual report on retention and graduation rates at each university campus. ABOR reports retention and graduation rates based on the federal government's definitions, which track the outcomes of first-time, full-time, degree-seeking students after 1 year for retention rates and after 6 years for graduation rates.

This methodology excludes outcomes of students who begin at an Arizona university but transfer to another in-state or out-of-state institution to continue their education.

- Fall 2016 retention rates reflect the percentage of first-time, full-time, degree-seeking students who initially enrolled in fall 2015 and who re-enrolled in the same university in fall 2016.
 - Arizona State University (ASU) 84%; Northern Arizona University (NAU) 76%; and the University of Arizona (UA) 81%.
- Six-year graduation rates reflect the percentage of first-time, full-time, degree-seeking students who received their degree within 6 years of their initial fall enrollment at the same university. The report shows the percentage of students who enrolled in fall 2010 who graduated from the same university within 6 years.
 - ASU 67%; NAU 53%; UA 60%.

(Matt Beienburg)

Universities – Report on One-Time Appropriations – Pursuant to a footnote in the FY 2018 General Appropriation Act (Laws 2017, Chapter 305, Section 131), the universities are to report by August 1, 2017 on the intended use of the following one-time General Fund appropriations in FY 2018:

- Arizona State University (ASU): \$7.6 million
- Northern Arizona University (NAU): \$3.2 million
- University of Arizona (UA): \$4.2 million

Additionally, Section 131 requires review by the Joint Committee on Capital Review (JCCR) of any expenditure of these monies for capital improvements.

ASU has reported that it intends to use \$1.0 million of its appropriation in support of the School of Civic and Economic Thought and Leadership as required by Chapter 305, while the remainder will support investment in salaries and benefits for faculty.

NAU intends to use its appropriation to provide infrastructure improvements to its underground utilities,

fire life safety systems, and renovations of lab infrastructure.

UA intends to use \$1.0 million of its appropriation in support of the Center for Philosophy of Freedom as required by Chapter 305. The remaining funds will be used to upgrade its financial system, update its main website, and to make cyber security upgrades. (Samuel Beres)

University of Arizona – Geological Survey Services Retained – Pursuant to the FY 2017 Agency Consolidation Budget Reconciliation Bill (Laws 2016, Chapter 128), the University of Arizona (UA) has submitted a report describing the services of the Arizona Geological Survey (AZGS) that were maintained in FY 2017.

UA reports that AZGS has fulfilled many, but not all, of its statutory responsibilities in FY 2017. AZGS is awaiting appointment of the Mineral and Natural Resources Education Museum Advisory Council in order to outline the museum's operations. Additionally, the Arizona Board of Regents says it lacks a mechanism for establishing and collecting fees for various AZGS services, as allowed by statute. (Samuel Beres)

July Spending

July 2017 General Fund spending was \$2.37 billion, which is an increase of \$125.3 million above July 2016. (See Tables 10 & 11).

- During the beginning of the fiscal year, the state can see significant fluctuations in spending. The state makes several large disbursements in the beginning of the fiscal year, such as the K-12 rollover payment, certain Medicaid spending, and debt service for the ADOA sale-leaseback and SFB new construction financing.
- Depending on when these transactions occur, the state can see either significant growth or declines in the amount of spending that occurs in July each year.

	<u>July 17</u>	<u>Change From July 16</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 17</u>
Agency				
AHCCCS	245.5	54.9	245.5	54.9
Corrections	65.8	(27.1)	65.8	(27.1)
Child Safety	19.5	(12.2)	19.5	(12.2)
Economic Security	442.4	21.7	442.4	21.7
Education	1,210.0	(32.4)	1,210.0	(32.4)
Health Services	12.4	5.5	12.4	5.5
Public Safety	24.1	1.8	24.1	1.8
School Facilities Board	191.9	191.8	191.9	191.8
Universities	54.5	5.3	54.5	5.3
Leaseback Debt Service	0.0	(84.1)	0.0	(84.1)
Other	<u>99.4</u>	<u>0.1</u>	<u>99.4</u>	<u>0.1</u>
Total	2,365.5	125.3	2,365.5	125.3

General Fund Spending				
(\$ in Thousands)				
Agency	July 17	Change from July 16	Year-to-Date	YTD Change from FY 17
Dept. of Admin./Automation Projects Fund	13,236.8	(166.7)	13,236.8	(166.7)
ADOA – Sale/Leaseback Debt Service	-	(84,117.4)	-	(84,117.4)
Office of Administrative Hearings	52.0	(0.6)	52.0	(0.6)
Commission of African-American Affairs	9.0	(1.7)	9.0	(1.7)
Department of Agriculture	681.8	(72.5)	681.8	(72.5)
AHCCCS	245,502.8	54,854.6	245,502.8	54,854.6
Attorney General	1,810.4	126.7	1,810.4	126.7
State Board of Charter Schools	70.6	(24.4)	70.6	(24.4)
Department of Child Safety	19,499.3	(12,175.3)	19,499.3	(12,175.3)
AZ Commerce Authority	1,791.7	-	1,791.7	-
Community Colleges	12,569.6	212.3	12,569.6	212.3
Corporation Commission	406.1	365.6	406.1	365.6
Department of Corrections	65,797.1	(27,076.1)	65,797.1	(27,076.1)
AZ State Schools for the Deaf & Blind	2,280.2	370.3	2,280.2	370.3
Office of Economic Opportunity	51.6	51.6	51.6	51.6
Department of Economic Security	442,413.3	21,716.9	442,413.3	21,716.9
State Board of Education	42.3	(63.4)	42.3	(63.4)
Department of Education	1,210,024.8	(32,448.3)	1,210,024.8	(32,448.3)
DEMA	551.8	(19.3)	551.8	(19.3)
Office of Equal Opportunity	20.0	19.9	20.0	19.9
State Board of Equalization	123.7	76.2	123.7	76.2
Board of Executive Clemency	47.0	(12.7)	47.0	(12.7)
Department of Financial Institutions	112.2	(94.0)	112.2	(94.0)
Department of Fire, Bldg and Life Safety	-	(1.1)	-	(1.1)
Department of Forestry and Fire Management	1,848.6	987.2	1,848.6	987.2
Department of Gaming	1,779.5	-	1,779.5	-
Governor/OSPB	790.0	(13.7)	790.0	(13.7)
Department of Health Services	12,430.6	5,534.1	12,430.6	5,534.1
Arizona Historical Society	215.2	(122.4)	215.2	(122.4)
Prescott Historical Society of AZ	62.3	(11.7)	62.3	(11.7)
Department of Housing	168.9	112.9	168.9	112.9
Independent Redistricting Comm.	19.6	(103.4)	19.6	(103.4)
Department of Insurance	383.1	56.3	383.1	56.3
Judiciary				
Supreme/Superior Court	17,041.0	315.6	17,041.0	315.6
Court of Appeals	1,035.7	(13.5)	1,035.7	(13.5)
Department of Juvenile Corrections	1,811.4	(1,294.6)	1,811.4	(1,294.6)

Table 11 (Continued)

Agency	July 17	Change from July 16	Year-to-Date	YTD Change from FY 17
State Land Department	1,123.6	342.9	1,123.6	342.9
Legislature				
Auditor General	1,521.5	61.3	1,521.5	61.3
House of Representatives	954.2	62.7	954.2	62.7
Joint Legislative Budget Comm.	190.4	9.8	190.4	9.8
Legislative Council	904.6	257.2	904.6	257.2
Senate	647.2	4.8	647.2	4.8
Mine Inspector	90.3	(4.5)	90.3	(4.5)
Nav. Streams & Adjudication	12.6	3.1	12.6	3.1
Phoenix Convention Center	22,499.0	2,050.0	22,499.0	2,050.0
Comm. for Postsecondary Ed.	213.0	169.0	213.0	169.0
Department of Public Safety	24,116.7	1,796.1	24,116.7	1,796.1
Public Safety Personnel Retirement System	5,000.0	(1,000.0)	5,000.0	(1,000.0)
Radiation Regulatory Agency	102.5	(188.4)	102.5	(188.4)
Real Estate Department	194.6	(20.8)	194.6	(20.8)
Department of Revenue	1,730.7	(125.6)	1,730.7	(125.6)
School Facilities Board	191,935.6	191,826.6	191,935.6	191,826.6
Secretary of State	1,065.9	(3,014.8)	1,065.9	(3,014.8)
Tax Appeals Board	52.9	35.7	52.9	35.7
Office of Tourism	2,489.2	711.6	2,489.2	711.6
Department of Transportation	0.1	0.1	0.1	0.1
Governor's Office on Tribal Relations	4.5	(2.6)	4.5	(2.6)
Universities				
Board of Regents	350.5	163.0	350.5	163.0
Arizona State University	24,658.2	914.5	24,658.2	914.5
Northern Arizona University	7,922.5	2,675.5	7,922.5	2,675.5
University of Arizona	21,580.6	1,531.4	21,580.6	1,531.4
Department of Veteran Services	402.5	(86.5)	402.5	(86.5)
Department of Water Resources	884.4	36.1	884.4	36.1
Department of Weights & Measures	(1.0)	(1.0)	(1.0)	(1.0)
Other - State Treasurer/JP Salaries	216.6	92.5	216.6	92.5
Total	2,365,543.4	125,267.0	2,365,543.4	125,267.0

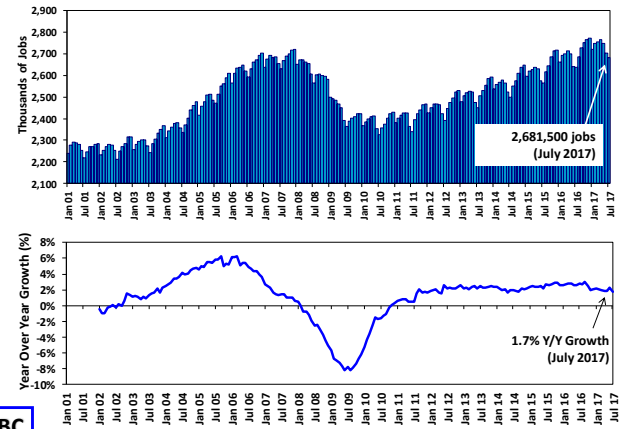
Arizona Economic Trends

August 2017
Appendix A

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- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits

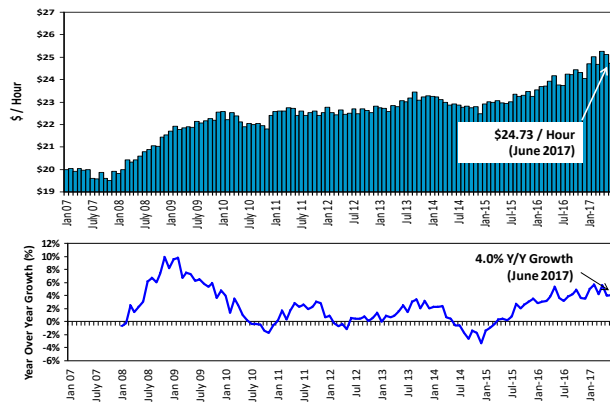
Total Non-Farm Employment



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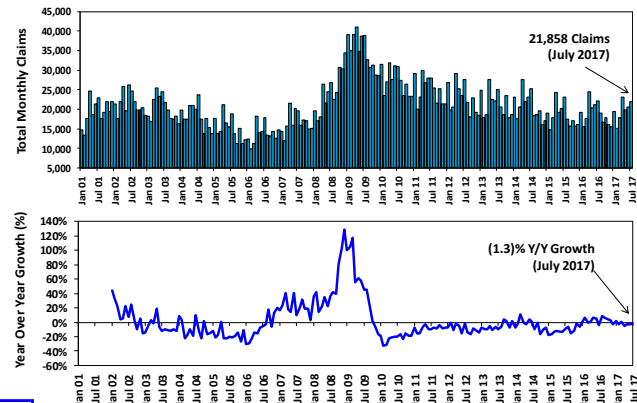
Average Hourly Earnings – Private Sector



JLBC

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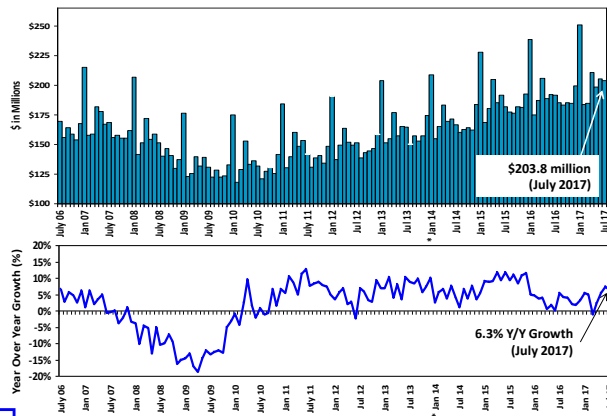
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



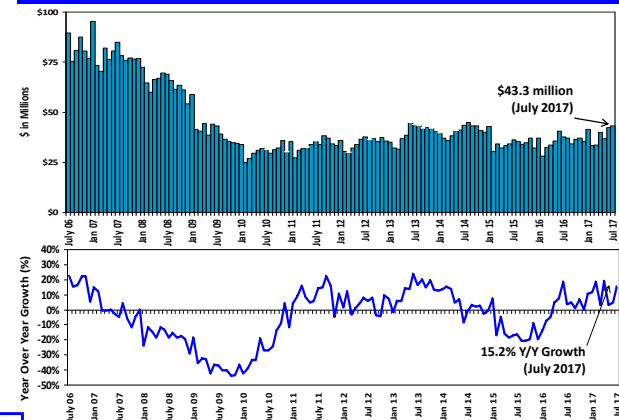
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Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

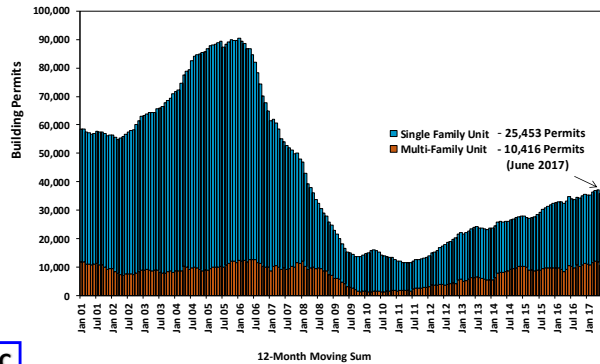


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Excludes temporary 1 c sales tax

6

Residential Building Permits



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12-Month Moving Sum

7