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“Year-to-date...FY 2018 General Fund revenues are 5.0% above the prior year.”

Summary

August 2017 revenues totaled \$707.6 million, which was (6.2)% below the prior year. This amount was \$(48.1) million below the enacted budget forecast. These forecast losses eliminated the July forecast gains, leaving the state’s revenue collections essentially at forecast through the first 2 months of the fiscal year.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, FY 2018 General Fund revenues are 5.0% above the prior year.

The August decline in revenues and related forecast losses mostly occurred in the state’s larger revenue categories, including Individual Income Tax, Corporate Income Tax and Insurance Premium Tax.

These losses, however, were largely due to technical timing changes in the receipt of taxes for these categories. In months with smaller collection levels (such as August), these timing issues can generate significant changes in revenue growth rates and forecast gains/losses.

Individual Income Tax (IIT) revenues declined by (5.7)% and were (\$24.7) million below forecast. This is likely due to August 2017 having one less major processing day for IIT withholding than August 2016.

Corporate Income Tax collections declined by \$(11.9) million during August and generated a forecast loss of \$(8.8) million. As noted in prior *Monthly Fiscal Highlights*, Corporate collections can be volatile in smaller collections months, such as August.

In comparison to August revenues of \$707.6 million, August 2017 spending was \$785.2 million, which is a decrease of \$(50.2) million from the prior year.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-September 2017 is \$1.17 billion.

In addition to the operating fund, the state’s Budget Stabilization Fund (BSF) has a balance of \$458.6 million.

Table of Contents

Summary	
August Revenues	2
Monthly Indicators	4
JLBC Meeting	7
JCCR Meeting	8
Summary of Recent Agency Reports	
• DCS – Foster Care & Medicare Report	9
• DCS – Monthly Hiring Report	9
• DCS – CHILDS Replacement Report.....	9
• DES – Filled FTE Positions for DDD Report.....	9
• ADE – Data System Report.....	10
• Governor – Youth Education Success.....	10
• DHS – Public Health Emergencies Fund.....	10
• Supreme Court – Automation Projects	10
August Spending	12
Arizona Economic Trends	Appendix A

August Revenues

	<u>FY 2018 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2017</u>
August	\$ 707.6	\$ (48.1)	\$ (46.5)
Year-to-Date	\$ 1,486.0	\$ (0.7)	\$ 72.2

Sales Tax collections of \$374.0 million were 3.0% above August 2016 and \$(3.9) million below the forecast for the month. Year-to-date, collections have increased by 4.9% and are \$7.6 million above the enacted budget forecast.

Sales tax collections by category for August 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>August</u>	<u>YTD</u>
Retail	(0.1)%	3.2%
Contracting	5.7%	10.5%
Use	18.0%	11.8%
Restaurant & Bar	(0.4)%	2.6%
Utilities	7.7%	3.5%

Individual Income Tax net revenues of \$334.7 million in August were \$(20.2) million less than in the prior year and \$(24.7) million below the forecast for the month. Year-to-date, revenue has grown 5.7% over the prior year.

As indicated in *Table 3*, August withholding decreased by (5.7)% from last year. This decrease was likely driven by a drop in the number of major processing days during the month compared to August 2016. The August withholding collections are \$(24.9) million below the forecast. Year-to-date withholding collections are 5.3% above FY 2017.

August estimated and final payments of \$21.2 million were (8.5)% below last year and \$(2.3) million below the forecast. Year to date, payments are (0.6)% below those collected during the same period of FY 2017.

August Individual Income Tax refunds totaled \$(16.7) million – this compares to \$(18.6) million in August 2016 and a forecasted amount of \$(19.3) million.

	<u>August</u>	<u>YTD</u>
Withholding	(5.7)%	5.3%
Estimated/Final Payments	(8.5)%	(0.6)%
Refunds	(9.8)%	(8.8)%

Corporate Income Tax net collections were \$(7.1) million in August, as refunds were greater than payments. Collections were \$(11.9) million below the prior year and \$(8.8) million below the forecast. Year to date, collections are \$9.6 million above the prior year.

Insurance Premium Tax collections of \$50.6 million in August were (31.6)% below the prior year and \$(6.5) million below the forecast. The large decrease relative to last year was primarily due to delays in processing collections in July 2016 until August 2016. Year to date, collections are (5.5)% below last year.

The **Lottery Commission** reports that August ticket sales were \$93.8 million, which is \$36.0 million, or 62.3%, above sales in August 2016. Increased ticket sales were driven by the large jackpots in Powerball (\$700 million) and Mega Millions (\$393 million) during the month. Distributions of Lottery revenues for ticket sales that occurred in August are not expected to be deposited to the General Fund until the close of the first quarter in FY 2018.

Prior month **tobacco and liquor tax** are not typically available for publication in the Monthly Fiscal Highlights. In July, tobacco tax revenues were (5.4)% below the prior year and \$(0.1) million below forecast. Liquor collections during the month were 3.9% above July 2016 and \$0.2 million above forecast. Due to the late data, August collections are simply reported at the forecast level.

Highway User Revenue Fund (HURF) collections of \$114.3 million in August were up 2.7% compared to August of last year and were \$(3.6) million below forecast.

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

Table 4

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

	Current Month					FY 2018 YTD (Two Months)				
	Actual August 2017	Change From August 2016		Budget Forecast		Actual August 2017	Change from August 2016		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$373,970,308	\$10,824,925	3.0 %	(\$3,875,522)	(1.0) %	\$765,741,631	\$35,861,479	4.9 %	\$7,596,545	1.0 %
Income - Individual	334,741,567	(20,198,313)	(5.7)	(24,689,303)	(6.9)	701,341,884	37,853,546	5.7	167,996	0.0
- Corporate	(7,125,090)	(11,923,832)	--	(8,800,441)	--	16,696,751	9,609,057	135.6	649,973	4.1
Property	86,148	(20,910)	(19.5)	(116,183)	(57.4)	384,814	(134,215)	(25.9)	(140,471)	(26.7)
Luxury - Tobacco	1,958,250	106,857	5.8	0	0.0	3,820,058	(24)	(0.0)	(117,058)	(3.0)
- Liquor	2,113,853	78,622	3.9	0	0.0	5,309,651	198,518	3.9	153,595	3.0
Insurance Premium	50,562,505	(23,320,629)	(31.6)	(6,509,411)	(11.4)	93,116,375	(5,383,708)	(5.5)	(2,060,144)	(2.2)
Other Taxes	33,272	(494,259)	(93.7)	(302,856)	(90.1)	92,504	(1,006,755)	(91.6)	(598,282)	(86.6)
Sub-Total Taxes	\$756,340,812	(\$44,947,539)	(5.6) %	(\$44,293,715)	(5.5) %	\$1,586,503,668	\$76,997,897	5.1 %	\$5,652,154	0.4 %
<u>Other Revenue</u>										
Lottery	0	(20,453)	(100.0)	0	--	0	(1,625,328)	(100.0)	0	--
License, Fees and Permits	4,058,513	(129,184)	(3.1)	805,105	24.7	7,966,680	2,386,977	42.8	3,008,931	60.7
Interest	5,304	12,215	--	(4,764)	(47.3)	207,159	257,292	--	180,307	671.5
Sales and Services	1,873,402	583,034	45.2	(40,692)	(2.1)	2,730,616	262,027	10.6	(738,289)	(21.3)
Other Miscellaneous	1,062,143	18,925	1.8	(3,543,735)	(76.9)	(924,685)	(3,886,266)	--	(7,827,229)	--
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	986,407	(547,747)	(35.7)	(1,011,120)	(50.6)	2,954,224	1,133,660	62.3	(996,251)	(25.2)
Sub-Total Other Revenue	\$7,985,769	(\$83,210)	(1.0) %	(\$3,795,207)	(32.2) %	\$12,933,994	(\$1,471,638)	(10.2) %	(\$6,372,531)	(33.0) %
TOTAL BASE REVENUE	\$764,326,581	(\$45,030,749)	(5.6) %	(\$48,088,921)	(5.9) %	\$1,599,437,661	\$75,526,259	5.0 %	(\$720,378)	(0.0) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	0.0	(113,461,680)	(2,864,652)	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 %	(113,461,680)	(3,326,252)	3.0 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$707,595,741	(\$46,463,075)	(6.2) %	(\$48,088,921)	(6.4) %	\$1,485,975,981	\$72,200,007	5.1 %	(\$720,378)	(0.0) %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$114,332,724	\$2,985,821	2.7 %	(\$3,576,630)	(3.0) %	\$233,487,553	\$3,412,287	1.5 %	(\$7,100,389)	(3.0) %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 3.0% 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 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** increased by 2.4% to 122.9 in August. The latest reading is 20.7% above the index in August 2016 and is at its second highest level since December 2000. The bulk of the increase in August reflected an improved assessment of current economic conditions. The percentage of surveyed individuals that think jobs are plentiful minus the percent that think jobs are scarce rose to 18.1% during the month, the largest gap since 2001.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.1% in July. The monthly increase was spread across most major product categories, excluding energy products. The 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 0.4% in August and increased 1.9% above August 2016 prices. The index increase is primarily due to a 2.8% increase in the energy index, driven by a 6.3% increase in the gasoline index. Core inflation (all items less food and energy) increased 0.2%, and other increases include the indexes for shelter, motor vehicle insurance, and recreation. The indexes for airlines fares and used cars and trucks were the most significant decreases for the month.

The Conference Board's **U.S. Leading Economic Index** increased 0.3% in July to 128.3 and stands 3.9% above its July 2016 reading. Of the index's 10 components, 8 made positive contributions for the month. The typically volatile building permits index reversed course from last month to be the month's sole negative contributor. The Institute for Supply Chain Management (ISM) index for new orders and interest rate spread index made their consistently positive contributions. The average weekly claims, stock prices, and consumer expectations indexes also made modest positive contributions.

ARIZONA

Housing

Single-family housing construction is increasing. In July, Arizona's 12-month total of **single-family building permits** was 26,010, or 8.9% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 10.4%.

The 12-month total of multi-family building permits has started to decrease. In July, Arizona's total of 9,906 **multi-family building permits** was (2.9)% less than in 2016. Nationwide multi-family permits were 0.2% more than in 2016.

Tourism

Revenue per available room was \$58.51 in July, which was 3.3% above the amount in July 2016. **Ridership** through Phoenix Sky Harbor Airport during the month was up 0.8% compared to July 2016.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state added 41,900 **nonfarm jobs** in August over July. Almost 80% of the job gains were related to state and local education. The state typically adds jobs in August when schools end their summer recess. The average job gain for August in the prior 10 years was 45,400.

Compared to August 2016, Arizona added 35,900 net new jobs in August this year, which an increase of 1.3%. Job growth has been trending down since the second quarter of 2017. To provide some perspective, the year-over-year growth rate has been below 2% in 5 of the last 6 months. The last time the state added fewer than 35,900 jobs to the payrolls was in July 2011. The largest year-over-year job gains in August came from the following industries: Leisure and Hospitality Services (+13,300), Education and Health Services (+8,800), and Financial Activities (+5,200).

The state's year-over-year job increase during the first 8 months of calendar year (CY) 2017 is 1.9%. That rate represents a slowdown from the annual growth of 2.6% in CY 2016. If the current trend of slowing job growth continues for the remainder of the year, Arizona will experience the lowest annual job gains since 2011, when nonfarm employment increased by 1.1%.

The state's regular **unemployment rate** decreased from 5.1% in July to 5.0% in August. Compared to August 2016, the jobless rate is down by (0.1)%. The state's unemployment rate has remained at or near 5.0% over the last 12 months. The U.S. unemployment rate increased from 4.3% in July to 4.4% in August.

Monthly Indicators (Continued)

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the “regularly” unemployed, the measure also includes persons who are available to work but stopped looking for a job (“discouraged workers”), and persons who had to settle for part-time employment (“underemployed workers”).

The Arizona rate averaged 10.5% 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.

In July, the **Average Weekly Hours** worked by individuals in Arizona’s private sector was 35.4 hours. This workload was 2.0% above the level during the prior month and 3.2% above the level in June 2016.

The **Average Hourly Earnings** received by private sector workers was \$25.37, which is 2.6% above the average in the prior month. July earnings were 6.9% above the average in July 2016, which represents the highest year-over-year growth since May 2009.

State Agency Data

At the beginning of September 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 612,500 members.

Total monthly enrollment decreased by (2,600) during August and is 1.6% higher than a year ago. Most of the monthly decrease was concentrated in the Traditional and Proposition 204 populations of low income parents and children. Collectively, enrollment in these populations decreased by (1,600), or (0.1)% in August.

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 September 1, 2017, enrollment in the program reached 22,400, or 200 more than the prior month’s enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In August 2017, the childless adult population decreased by (900), or (0.3)%. At 317,300, this population is 1.4% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (300) in August and now totals 82,200 individuals. Enrollment is 2.2% higher than a year ago. The federal government currently funds 95% of this population’s cost.

There were 18,004 TANF **recipients** in the state in August, representing a 3.4% monthly increase from July. The year-over-year number of TANF recipients has declined by (6.6)%. The statutory lifetime limit on cash assistance increased to 24 months in August.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In August, 917,460 people received food stamp assistance in the state, representing a 0.6% increase over July. Compared to August 2016, the level of food stamp participation has declined by (6.1)%.

The **inmate population** was 42,284 as of August 31, 2017. This is a 0.1% increase since last month, and a (1.1)% decrease since last August.

Based on information the Department of Child Safety provided for July 2017, **reports of child maltreatment** totaled 47,061 over the last 12 months, a decrease of (3.7)% over the prior year. There were 16,635 **children in out-of-home care** as of June 2017, or (9.0)% less than in June 2016. Compared to the prior month, the number of out-of-home children decreased by (1.2)%.

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	August	5.0%	(0.1)%	(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	August	2,722,000	1.6%	1.3%
Manufacturing	August	164,400	0.4%	2.8%
Construction	August	139,100	(0.4)%	0.7%
- Average Weekly Hours, Private Sector	July	35.4	2.0%	3.2%
- Average Hourly Earnings, Private Sector	July	\$25.37	2.6%	6.9%
<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	July	26,010	2.2%	8.9%
Multi-family	July	9,906	(4.9)%	(2.9)%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	July	5,565	(9.3)%	(15.6)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	July	\$257,386	(0.2)%	7.3%
- Phoenix S&P/C Home Price Index (2000 = 100)	June	169.94	0.8%	5.8%
- Maricopa Pending Foreclosures	July	2,785	(4.2)%	(24.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	21,553	(2.3)%	(8.8)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	July	3,720,599	(0.9)%	0.8%
- 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	July	\$58.51	(10.0)%	3.3%
<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	3.0%	0.8%	(1.5)%
- 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	September 1 st	1,870,632	(0.1)%	1.6%
Acute Care Traditional		1,075,350	(0.1)%	(0.8)%
Prop 204 Childless Adults		317,302	(0.3)%	1.4%
Other Prop 204		192,945	(0.3)%	4.9%
Adult Expansion		82,205	(0.4)%	2.2%
Kids Care I		22,389	1.0%	N/A
Long-Term Care – Elderly & DD		60,256	0.4%	3.1%
Emergency Services		120,185	(0.2)%	1.7%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	July	47,061	(0.5)%	(3.7)%
DCS Out-of-Home Children	June	16,635	(1.2)%	(9.0)%
Filled Caseworkers (1406 Budgeted)	August	1,338	(19)	(20)
- ADC Inmate Growth	August	42,284	0.1%	(1.1)%
- Department of Economic Security				
- TANF Recipients	August	18,004	3.4%	(6.6)%
- SNAP (Food Stamps) Recipients	August	917,460	0.6%	(6.1)%
- Judiciary Probation Caseload				
Non-Maricopa	May	19,164	0	639
Maricopa County	May	28,644	197	955
United States				
- Gross Domestic Product	2 nd Q, 2017	\$17.0 trillion	2.2%	3.0%
(Chained 2009 dollars, SAAR)	(2 nd Estimate)			
- Consumer Confidence Index (1985 = 100)	August	122.9	2.4%	20.7%
- Leading Indicators Index (2010 = 100)	July	128.3	0.3%	3.9%
- Consumer Price Index, SA (1982-84 = 100)	August	245.0	0.4%	1.9%
- Personal Consumption Price Index (2009 = 100)	July	112.4	0.1%	1.4%

JLBC Meeting

At its September 19, 2017 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Review of E-Procurement Project (Automation Projects Fund) – The Committee failed to pass a motion to give a favorable review of \$8.7 million in proposed FY 2018 expenditures from the Automation Projects Fund for the replacement of the state’s e-procurement system.

Arizona Department of Administration – Review of Human Resources Information (Automation Projects Fund) - The Committee gave a favorable review of \$500,000 in proposed FY 2018 expenditures from the Automation Projects Fund for a feasibility study to replace the state’s Human Resource Information System. The favorable review included provisions with reporting requirements.

Arizona Department of Administration/Department of Child Safety – Review of CHILDS (Automation Projects Fund) – The Committee gave a favorable review of \$7.6 million from the Automation Projects Fund for the Children’s Information Library and Data Source (CHILDS) replacement project. The remaining \$6,284,400 would be reviewed by the Committee at a future meeting once ADOA/DCS have finalized contract awards for technical integration and document management. The favorable review included a provision with reporting requirements.

Arizona Department of Administration/Arizona State Lottery Commission – Review of Arizona State Lottery Commission IT System Replacement Project (Automation Projects Fund) – The Committee gave a favorable review of \$2.9 million in proposed FY 2018 expenditures from the Automation Projects Fund for an Information Technology (IT) system replacement project. The favorable review included provisions with reporting requirements.

Arizona Department of Administration/Department of Public Safety – Review of the Microwave System Upgrade Project (Automation Projects Fund) – The Committee gave a favorable review of \$1.0 million in proposed expenditures from the Automation Projects Fund for continued work on the ongoing projects to convert the statewide radio system’s microwave backbone from analog to digital technology. DPS will request Committee review of the remaining \$1.5 million at a later date.

Arizona Department of Administration/Department of Public Safety – Review of Criminal Justice Information System Replacement (Automation Projects Fund) - The Committee gave a favorable review of \$2.3 million in

proposed FY 2018 expenditures from the Automation Projects Fund for upgrades to the Criminal Justice Information System. This is the first year of a \$5.1 million 3-year project. The Committee included a provision stating that the favorable review does not constitute endorsement of General Fund appropriations to pay for future development costs or operating costs. The favorable review also included a provision with reporting requirements.

Arizona Department of Administration – Consider Approval of Maximum Lodging Reimbursement Rates - The Committee approved ADOA’s proposal to adopt the Federal Fiscal Year (FFY) 2018 lodging rates. As part of the approval, the Committee included a provision stating that Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement rates.

Arizona Board of Regents – Review of FY 2018 Tuition Revenues – The Committee gave a favorable review of ABOR’s FY 2018 expenditure plan for tuition revenues beyond the amount appropriated by the Legislature and all non-appropriated tuition and fee revenue expenditures.

Department of Child Safety – Review of Line Item Transfers – The Committee gave a favorable review of General Fund and Expenditure Authority line item transfers for FY 2017.

Department of Child Safety – Review of FY 2017 Fourth Quarter Benchmarks – The Committee gave a favorable review of the report assessing DCS’ progress towards meeting benchmarks for the number of caseworkers, caseload standards, the number of backlog cases and open reports, and for reducing the number of children in out-of-home care.

Arizona Department of Corrections – Review of FY 2017 Bed Capacity Report – The Committee gave a favorable review of ADC’s bed capacity report detailing the bed capacity changes in FY 2017 and the proposed changes in FY 2018.

Department of Public Safety – Review of the Revised Expenditure Plan for the Gang Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount – The Committee gave a favorable review of DPS’ revised \$1.1 million GIITEM expenditure plan. The plan reallocates grants evenly to Cochise, Santa Cruz, and Yuma Counties (\$350,000 each).

JCCR Meeting

At its September 19, 2017 meeting, the Joint Committee on Capital Review considered the following issues:

Game & Fish Department – Review of FY 2017 Capital Improvement Projects – The Committee gave a favorable review of: 1) \$360,000 for further design work on the Sterling Springs Fish Hatchery; 2) \$497,000 for the construction of new boathouses and boat lifts. The favorable review included reporting requirement provisions regarding transfer of monies, expending unallocated monies, and review of the FY 2018 building renewal appropriation.

State Parks Board – Review of Rockin' River Ranch State Park Project – The Committee gave a favorable review of \$4.0 million to for the development of the new Rockin' River Ranch State Park. These monies were appropriated in FY 2018 from the State Parks Revenue Fund for construction costs, which will be used for a sanitary system, park infrastructure, amenities, flood protection, demolition of existing facilities, and landscaping. The favorable review included provisions with reporting requirements.

State Parks Board – Review of FY 2018 Capital Expenditure Plan and Reallocation of Prior Year Capital Funding – The Committee gave a favorable review of \$1,275,000 for 8 capital projects. These monies were appropriated in FY 2018 from the State Parks Revenue Fund. Reviewed projects include: cabin installation, fire suppression system replacement, roof replacement, and other projects. The favorable review included provisions with reporting requirements. The Committee favorably reviewed \$652,800 of State Parks Revenue Fund monies reallocated from prior year capital funding for wastewater and sanitary system replacement and compost toilet replacement at state parks.

Arizona Department of Transportation – Review of Building Renewal Allocation Plan – The Committee gave a favorable review of \$4,732,300 for the FY 2018 Building Renewal Allocation Plan, which included projects for safety improvements, compliance, and roofing replacements around the state. The plan also includes remodels and building systems improvements (HVAC, electrical, and plumbing). These monies were appropriated for FY 2018 from the State Highway Fund and the State Aviation Fund. The favorable review included provisions with reporting requirements.

Arizona Department of Transportation – Review of FY 2017 Vehicle Wash Systems Project – The Committee gave a favorable review of \$2,479,600 for 6 new vehicle wash systems. Majority of these monies were appropriated in FY 2018 for vehicle wash projects and

\$134,800 was from remaining expenditure authority from a FY 2015 non-lapsing appropriation. The favorable review included a provision with a reporting requirement for reallocation of monies.

Universities – Arizona State University – Review of Building Renewal and Renovation Projects – The Committee gave a favorable review of \$35,000,000 in system revenue bond issuances for renovation projects, including fire and life safety, HVAC, elevator systems, upgrading laboratory facilities, and converting spaces for classroom and office use. The favorable review included provisions with reporting requirements.

Universities – Northern Arizona University – Review of FY 2018 Capital Improvement Plan for One-Time Appropriation – The Committee gave a favorable review of \$3,202,800 for capital improvement projects. These monies were NAU's share of a one-time appropriation to universities in FY 2018, which will be used for 3 projects: replacement of fume hood control valves, underground utility improvements, and fire life safety. The Committee also adopted a provision with a reporting requirement.

Universities – University of Arizona – Consider Approval of Renovations of School of Animal and Comparative Biomedical Science (Building 90) – The Committee approved the request for a \$18,000,000 bond issuance for the renovation of the School of Animal and Comparative Biomedical Sciences Building (Building 90). Renovations include: HVAC repair and replacement, structural repairs, and plumbing and electrical repair. The approval included the two standard university financing provisions and a reporting requirement.

Universities – University of Arizona – Review of Honors College Complex Project – The Committee gave favorable review of a \$136,800,000 Honors College Community Project. The construction plan issues \$42,100,000 in system revenue bonds and uses \$11,200,000 from the Parking Reserve Fund to cover \$53,300,000 in total costs to the university, which includes construction of a recreation center, a dining facility, academic space, and parking areas. The private developer will collect dorm fees to pay for the remaining \$83,000,000 housing facility. The favorable review includes standard university financing provisions.

Summary of Recent Agency Reports

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

1. There were 15,800 children eligible for Medicaid in foster care at the end of the fourth quarter, down (3.7)% from 16,408 at the end of the third quarter of FY 2017.
2. The percentage of foster care children eligible for Medicaid decreased from 96% at the end of the third quarter of FY 2017 to 95% at the end of the fourth quarter of FY 2017.
3. The amount of non-Medicaid expenditures for behavioral health inpatient facilities and behavioral health residential facilities used by DCS to supplement Medicaid behavioral health placement services was \$1,296,200 in the fourth quarter of FY 2017.
4. The amount of non-Medicaid behavioral health counseling/psychiatric services expenditures used by DCS to supplement Medicaid behavioral health services was \$106,200 in the fourth quarter of FY 2017. (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 August 2017. (See Table 6 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,338 in August, or (68) 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 (19) since July.

There were also 1,378 non-direct line child safety staff in August 2017, 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 decreased by (7) compared to July. (Patrick Moran)

Department of Child Safety – Third-Party Report on CHILDS Replacement Project – Pursuant to a FY 2015 General Appropriation Act footnote, the Department of Child Safety (DCS) provided an independent third-party assessment of the status of the Children’s Information Library and Data Source (CHILDS) Replacement Project for the first quarter of FY 2018.

The vendor concluded that overall the CHILDS replacement project is positioned to be successful. The vendor evaluated several indicators of plan viability, including plan completeness, timeline, and staffing levels and skill sets. Of the 10 metrics gauging plan viability, the vendor concluded that 8 metrics indicated “strong health” while 2 metrics indicated “moderate health.” The vendor also evaluated project management practice, including communication risks to the project, project scope, and resource management, and concluded that the project exhibited strong health on 6 of 9 measures and moderate health on the remaining 3 measures.

To ensure that the project remains on track, the vendor recommends that DCS continue to refine its resources needs for the project, develop detailed schedules for each project component, and continue to enhance quality assurance across all components of the project. (Patrick Moran)

Department of Economic Security – Report on Filled FTE Positions for Developmental Disabilities Programs – Pursuant to a FY 2018 General Appropriation Act footnote, the Department of Economic Security has submitted its report on the number of filled FTE

Table 6

DCS Filled FTE Positions as of August 2017

	<u>Funded</u>	<u>August</u>	<u>Difference</u>
Caseworkers	1,190	1,059	(131)
Hotline Staff	76	68	(8)
Staff in Training	140	211	71
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,338</i>	<i>(68)</i>
<i>Subtotal - Non-Direct Line Staff</i>	<i>1,511</i>	<i>1,378</i>	<i>(133)</i>
Grand Total ^{1/}	2,917	2,716	(201)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

Positions for case managers and non-case managers within the Division of Developmental Disabilities (DDD) as of June 30, 2017.

Table 7 below shows the total number of filled positions by classification. A total of 2,034 FTE Positions were filled in DDD as of June 30, 2017, including 1,083 case management FTE Positions and 951 non-case management FTE Positions. By comparison, the FY 2017 budget appropriates 2,165.1 FTE Positions across DDD line items, including 1,227.6 case management FTE Positions and 937.5 non-case management FTE Positions. DES is required to submit an expenditure plan to the Committee for its review if the department intends to hire non-case manager positions beyond the 951 FTE Positions included in the report. (Patrick Moran)

<u>Classification</u>	<u>FTE Positions</u>
Case Management	1,083
Direct Care	748
Managed Care	<u>203</u>
Total	2,034

Department of Education – Report on Education Learning and Accountability System – Pursuant to A.R.S. § 18-104, the Arizona Department of Education (ADE) must contract with an independent third-party vendor to provide additional oversight on the development of ADE’s Arizona Education Learning and Accountability System (AELAS). The vendor’s most recent quarterly review, based on its July site visit, was received on August 24, 2017.

The new report indicates that the now-implemented data collection portion of AELAS (“AzEDS”) is working well and has won the *Network Product Guide* Gold Award for “Best IT Products and Services for Education” in 2017. The reviewers also commended ADE’s IT Portfolio Manager for “a very sophisticated set of planning spreadsheets that capture project assignments, project costs by deliverable, and projections for future project costs.”

The review notes that ADE is converting legacy SAIS applications and moving older SAIS servers to the “cloud.” It describes this process as having “gone well” and states that the “servers were more compatible than expected.”

While the previous review indicated that ADE intended to discontinue the statewide Opt-In SSIS program after calendar year 2018 due to fiscal instability, the current review notes that “finances have leveled off such that ADE may be able to sustain the program for a longer period of time.”

The report also suggests that ADE “jointly pursue with other states/organizations an effort to secure grant dollars to leverage Ed-Fi [the underlying data standards/structure of AELAS] as a central component to meet the financial data gathering requirements of [Every Student Succeeds Act (ESSA)] reporting.” The reviewers suggest their own staff may be able to help facilitate discussions with other states and organizations. (Matt Beienburg)

Office of the Governor – Report on Donations to the Youth Education Success Fund – Pursuant to Laws 2016, Chapter 248, the Office of the Governor reported the receipt of \$150,000 in philanthropic donations to the Youth Education Success Fund to improve education outcomes for foster youth. Chapter 248 appropriates \$500,000 to the Office of the Governor to be used as matching funds for philanthropic donations to the Youth Education Success Fund, provided that an accounting of the donations be made to the JLBC by the Office of the Governor. The donations were determined to have qualified for matching funds.

As a result, the reported donations will be matched with \$150,000 in General Fund monies. An additional \$350,000 in General Fund monies is available to match any additional donations received. The donations and General Fund matching monies are in addition to the \$1,000,000 appropriation from the General Fund for deposit in the Youth Education Success Fund also provided in Chapter 248. (Patrick Moran)

Department of Health Services – Report on Public Health Emergencies Fund FY 2017 Spending – Pursuant to A.R.S. § 36-122, created by Laws 2017, Chapter 309, the Arizona Department of Health Services (DHS) is required to report to JLBC any expenditures from the Public Health Emergencies Fund by September 1 of each year. Monies in the fund are spent on responses to public health emergencies in the state as declared by the Governor. As of August 28, 2017, the fund had expenditures of \$2,631. (Morgan Dorcheus)

Supreme Court – Report on Current and Future Automation Projects – Pursuant to a FY 2018 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2018 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2018 will be approximately \$23.9 million. Of this

Summary of Recent Agency Reports (Continued)

amount, approximately \$2.4 million, or 10%, will be spent on 8 new or ongoing projects; \$14.1 million, or 59%, will be spent on shared infrastructure; and \$7.4 million, or 31%, will be spent on ongoing automation support.

New Projects:

- Begin development of redesigned Fines, Fees and Restitution Enforcement (FARE) data warehouse (\$260,000).

Continuing Projects:

- Update outdated software within the statewide case management system in limited jurisdiction courts (\$746,100).
- Update the Adult Probation Enterprise Tracking System (APETS) to extend the life of the application (\$121,600).
- Update the Juvenile On-Line Tracking System (JOLTS) in the remaining 4 counties without the update (\$146,600).
- Rollout new e-filing for the general jurisdiction (Superior Court) case management system in rural counties (\$690,300).
- Construct external web service that moves case information into the Arizona Judicial Automated Case System (AJACS) (\$200,000).
- Construct central repository of court case data and documents to ease public access (\$70,000).
- Streamline and standardize the E-Bench program that allows judges to access relevant electronic documents while in court (\$181,700).

The top 3 funding sources for automation projects included in this plan are the Judicial Collection Enhancement Fund (\$8.8 million), the Grants & Other Special Revenues Fund (\$6.6 million), and the General Fund (\$3.4 million). Together these 3 funds comprise 78.5% of the proposed funding in FY 2018. (Geoffrey Paulsen)

August Spending

August 2017 General Fund spending was \$785.2 million, which is a decrease of \$(50.2) million below August 2016. (See Tables 8 & 9).

- Year-to-date, Department of Education (ADE) spending has decreased by \$(58.9) million compared to the prior year. This change reflects the timing of payments to schools, as overall ADE spending increased in the FY 2018 budget.
- School Facilities Board spending has increased by \$21.5 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>August 17</u>	<u>Change From August 16</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 17</u>
Agency				
AHCCCS	149.5	30.9	395.0	85.8
Corrections	150.4	49.8	216.2	22.7
Child Safety	36.3	(1.3)	57.9	(11.5)
Economic Security	7.2	(4.1)	453.8	21.7
Education	221.1	(26.5)	1,431.1	(58.9)
Health Services	9.5	(4.1)	21.9	1.4
Public Safety	5.1	0.7	29.2	2.5
School Facilities Board	0.2	(170.4)	192.1	21.5
Universities	58.0	1.6	112.5	6.8
Leaseback Debt Service	84.1	84.1	84.1	(0.0)
Other	<u>63.8</u>	<u>(10.9)</u>	<u>140.6</u>	<u>(10.7)</u>
Total	785.2	(50.2)	3,134.4	81.3

General Fund Spending				
(\$ in Thousands)				
Agency	August 17	Change from August 16	Year-to-Date	YTD Change from FY 17
Dept. of Admin./Automation Projects Fund	2,671.2	488.2	15,908.0	321.5
ADOA – Sale/Leaseback Debt Service	84,115.1	84,115.1	84,115.1	(2.3)
Office of Administrative Hearings	136.5	12.4	188.5	11.9
Commission of African-American Affairs	13.4	0.9	22.4	(0.8)
Department of Agriculture	1,062.0	54.4	1,743.7	(18.1)
AHCCCS	149,496.1	30,915.6	394,998.8	85,770.2
Attorney General	2,449.5	4.8	4,259.9	131.5
State Board of Charter Schools	113.0	20.3	183.6	(4.0)
Department of Child Safety	36,350.0	(1,289.1)	57,855.2	(11,458.4)
AZ Commerce Authority	1,791.7	-	3,583.4	-
Community Colleges	181.0	109.7	12,750.7	322.0
Corporation Commission	81.2	16.2	487.3	381.7
Department of Corrections	150,369.0	49,767.0	216,166.1	22,690.8
County Funding	-	(14,000.5)	-	(14,000.5)
AZ State Schools for the Deaf & Blind	3,228.5	(540.1)	5,508.7	(169.8)
Office of Economic Opportunity	51.3	(448.7)	102.9	(397.1)
Department of Economic Security	7,206.6	(4,135.5)	453,777.9	21,739.4
State Board of Education	156.4	65.3	198.7	1.9
Department of Education	221,102.9	(26,487.1)	1,431,127.7	(58,935.4)
DEMA	2,943.7	2,259.9	3,495.5	2,240.6
Office of Equal Opportunity	28.5	(4.4)	48.4	15.5
State Board of Equalization	58.3	(12.7)	182.0	63.4
Board of Executive Clemency	90.4	30.5	137.4	17.8
Department of Financial Institutions	181.0	(107.7)	293.2	(201.7)
Department of Fire, Bldg and Life Safety	-	5.0	-	3.9
Department of Forestry and Fire Management	999.6	182.2	2,848.2	1,169.3
Department of Gaming	-	-	1,779.5	-
Governor/OSPB	870.0	(82.9)	1,660.0	(96.6)
Department of Health Services	9,515.3	(4,105.1)	21,945.9	1,429.0
Arizona Historical Society	274.5	(28.9)	489.6	(151.3)
Prescott Historical Society of AZ	107.2	21.6	169.5	9.9
Department of Housing	80.0	(46.4)	248.9	66.6
Independent Redistricting Comm.	0.1	(68.4)	19.6	(171.8)
Department of Insurance	571.0	85.4	954.1	141.7
Judiciary				
Supreme/Superior Court	2,741.5	(693.5)	19,782.5	(377.9)
Court of Appeals	1,519.1	28.7	2,554.8	15.2
Department of Juvenile Corrections	3,380.7	(187.6)	5,192.1	(1,482.1)

Table 9 (Continued)

Agency	August 17	Change from August 16	Year-to-Date	YTD Change from FY 17
State Land Department	1,446.3	557.3	2,570.0	900.3
Legislature				
Auditor General	2,415.2	227.0	3,936.7	288.4
House of Representatives	1,548.6	228.1	2,502.9	290.8
Joint Legislative Budget Comm.	246.9	(49.1)	437.3	(39.3)
Legislative Council	645.0	57.6	1,549.6	314.8
Senate	1,072.2	213.8	1,719.4	218.6
Mine Inspector	118.9	6.7	209.2	2.2
Nav. Streams & Adjudication	12.4	(3.8)	25.0	(0.7)
Phoenix Convention Center	22,499.0	-	22,499.0	2,050.0
Comm. for Postsecondary Ed.	607.9	302.9	820.9	471.9
Department of Public Safety	5,055.8	715.8	29,172.5	2,511.9
Public Safety Personnel Retirement System	1,000.0	1,000.0	6,000.0	-
Radiation Regulatory Agency	152.9	0.3	255.4	(188.2)
Real Estate Department	266.1	(43.9)	460.7	(64.7)
Department of Revenue	2,698.2	(445.4)	4,428.9	(570.9)
School Facilities Board	189.2	(170,372.0)	192,124.8	21,454.7
Secretary of State	1,063.9	(383.7)	2,129.8	(3,398.5)
Tax Appeals Board	26.8	0.5	79.7	36.3
Office of Tourism	-	-	2,489.2	711.6
Department of Transportation	0.5	(0.2)	0.7	(0.0)
Governor's Office on Tribal Relations	0.8	(8.8)	5.3	(11.4)
Universities				
Board of Regents	23.3	(6,119.3)	373.8	(5,956.2)
Arizona State University	26,473.7	2,730.0	51,131.9	3,644.5
Northern Arizona University	9,424.8	2,883.2	17,347.3	5,558.6
University of Arizona	22,106.9	2,057.7	43,687.5	3,589.1
Department of Veteran Services	703.2	32.3	1,105.7	(54.2)
Department of Water Resources	1,381.1	301.2	2,265.5	337.3
Department of Weights & Measures	-	-	(1.0)	(1.0)
Other - State Treasurer/JP Salaries	36.7	1.2	253.3	93.7
Total	785,152.6	(50,166.1)	3,134,361.0	81,265.0

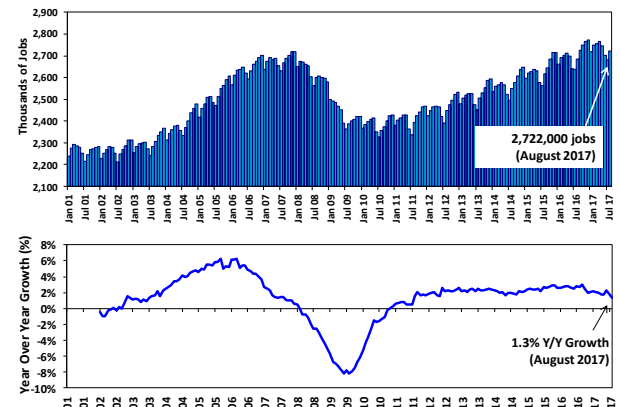
Arizona Economic Trends

September 2017
Appendix A

Page:

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

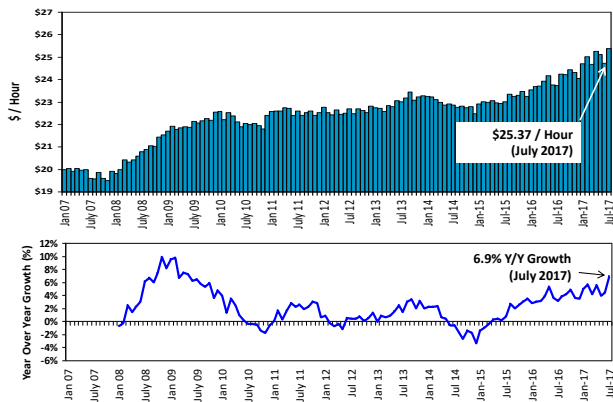
Total Non-Farm Employment



JLBC

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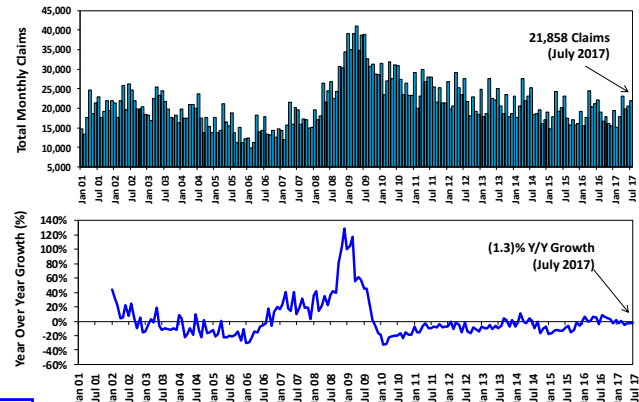
Average Hourly Earnings – Private Sector



JLBC

3

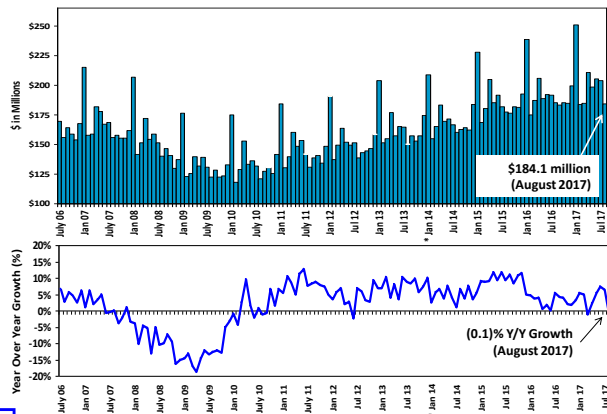
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



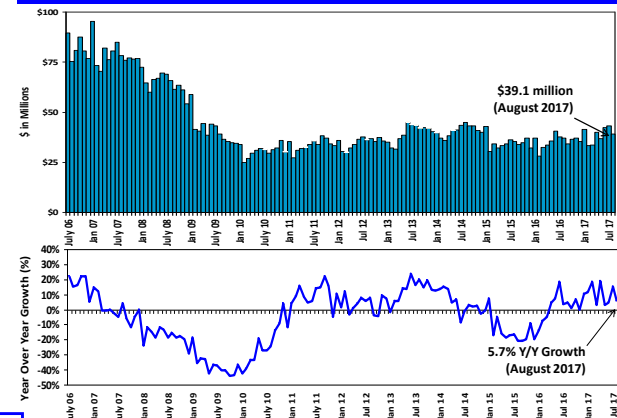
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Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

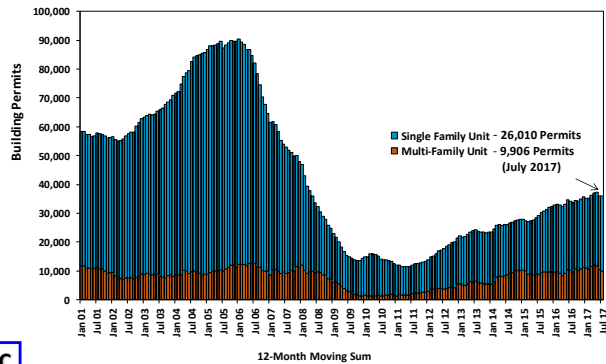


JLBC

Excludes temporary 1 c sales tax

6

Residential Building Permits



JLBC

12-Month Moving Sum

7