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*"The state's bottom-line revenue growth rate was the lowest since FY 2009, excluding the expiration of the 1-cent temporary Sales Tax (FY 2014)."*

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

## Summary

The state's Fiscal Year 2017 ended on June 30th. The state will process year-end transactions through July 21 and continue its book closing process over the next several months.

Based on preliminary information received so far, this *Monthly Fiscal Highlights* provides an initial snapshot of FY 2017 revenues and spending, along with a revised estimate of the FY 2017 ending balance.

The following summarizes the state's financial status for FY 2017:

### Revenues

- June General Fund collections were \$24 million above forecast. During the month, the state saw significant forecast gains in the Sales Tax category, which was largely the result of increased estimated Sales Tax payments from large taxpayers. These gains were offset by losses across the state's other revenue categories.
- Year-to-date FY 2017 General Fund revenues were \$(17) million below the enacted budget forecast.
- FY 2017 General Fund revenues were \$20 million above FY 2016, or only 0.2% over the prior year (excluding the state's carry forward balance). The state saw varying performance among its main tax categories – however, the overall increase in tax collections was offset by growth in Urban Revenue Sharing and a reduction in one-time fund transfers, leading to minimal growth in bottom-line revenue collections.

- The state's bottom-line revenue growth rate was the lowest since FY 2009, excluding the expiration of the 1-cent temporary Sales Tax (FY 2014).
- FY 2017 General Fund revenues totaled \$9.79 billion. This amount consists of \$9.50 billion from current FY 2017 revenue collections and a \$284 million beginning balance that was carried forward from FY 2016.

### Spending

- Based on preliminary spending data from the state's General Accounting Office (GAO), FY 2017 General Fund spending is estimated to be \$9.56 billion, which is an increase of 0.5% over the prior year.
- FY 2017 expenditures were \$(75) million lower than the budgeted FY 2017 spending amount. This \$75 million of savings is allocated between 2 broad categories: \$55 million from ADOT highway construction projects and \$20 million from lower state agency spending.
- In terms of ADOT highway construction, the FY 2017 budget appropriated \$55 million to ADOT for 2 highway construction projects – \$30 million for the widening of Interstate 10 in Pinal County and \$25 million for upgrades to State Route 189 near the Mariposa Port of Entry. The enacted budget had assumed these monies would be expended during FY 2017, instead none of these funds were expended during the year as both projects are still in the planning phase.

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## Summary (Continued)

### Ending Balance

At the end of the Regular Session, FY 2017 was projected to have an ending balance of \$171 million.

The ending balance is now projected to be \$229 million. This revised estimate represents the FY 2017 revenue forecast loss of \$(17) million, and \$75 million of savings from lower than expected spending, for a net increase of \$58 million.

As noted above, the state’s revenue loss and spending savings are roughly equivalent, with the \$(17) million revenue loss mostly offsetting the \$20 million gained from lower agency spending. As such, the increase in the state’s projected ending balance is almost entirely due to artificial savings generated by the delay of ADOT highway construction spending.

The improved FY 2017 ending balance due to the delay in ADOT capital spending would, all else being equal, help to improve the state’s FY 2018 financial status. However, if the \$55 million of ADOT spending is simply shifted into FY 2018, the FY 2018 ending balance will be \$41 million. This level would be slightly higher than the budgeted FY 2018 ending balance of \$38 million.

The Executive Branch is required to provide a preliminary estimate of the FY 2017 ending balance by September 15, 2017. By law, the Department of Administration is required to publish its final FY 2017 accounting by December 1, 2017.

### Operating Fund Balance

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The ending FY 2017 operating balance was \$2.4 billion, compared to \$2.7 billion a year earlier. As of mid-July, the operating fund balance has fallen to \$1.3 billion, primarily due to large K-12 rollover payments that occur in the beginning of the fiscal year.

In addition, the state’s Budget Stabilization Fund (BSF) balance at the end of FY 2017 was approximately \$460 million.

### FY 2017 Revenue

As mentioned above, overall FY 2017 General Fund revenues were essentially flat, growing by only \$20 million or 0.2%. Excluding Urban Revenue Sharing and one-time fund transfers, “base” General Fund collections increased by 1.5% during the year.

Of the state’s 4 largest revenue sources, 2 posted forecast gains during the year while the remaining 2 had forecast losses.

The largest gain was in the Sales Tax category, which was \$55 million above forecast for the year. Most of these gains occurred in June, which was likely the result of an increase in estimated payments made by larger taxpayers due to technical reasons.

The biggest losses occurred in the Corporate Income Tax category, which declined by (35.5)% during the year and was \$(52) million below forecast. The significant decline is the result of reductions to the state’s Corporate Income Tax rate.

Table 1 displays the performance of these revenue categories as compared to the enacted forecast.

	<u>Budgeted</u>	<u>Prelim. Actual</u>	<u>Above/ (Below) Forecast</u>
Sales	3.2%	4.5%	\$55 M
Individual Income	3.8%	4.1%	\$12 M
Corporate Income	(26.3)%	(35.5)%	\$(52) M
Insurance Premium	5.1%	2.8%	\$(11) M

### Sales Tax

Sales and use tax revenue increased by 4.5% in FY 2017, which was \$54.6 million above the enacted budget forecast.

Sales tax collections by category for FY 2017 are shown in Table 2 below. The 5 major categories of the state’s sales tax shown in the table account for approximately 90% of total collections.

Retail	3.7%
Contracting	6.8%
Use	6.2%
Restaurant & Bar	6.7%
Utilities	(1.2)%

### Individual Income Tax

Individual Income Tax grew by 4.1% in FY 2017 and ended up \$12 million above the enacted budget forecast. Most of this forecast overage is related to Individual Income Tax withholding, which grew by 5.6%, the fastest growth rate since FY 2011. That rate of

## Summary (Continued)

growth is comparable to the 5.4% growth in Arizona's wage and salary income in calendar year (CY) 2016.

A January 1, 2017 increase in the minimum wage to \$10 an hour under Proposition 206 may have also served to increase FY 2017 withholding collections. A portion of added minimum wage revenues, though, may ultimately be refunded in FY 2018, depending on the extent that minimum wage workers can reduce taxes owed with exemptions, deductions and credits.

Individual Income Tax payments decreased (0.7)% during FY 2017, including a (3.0)% decrease in final payments. A recent report from the Nelson A. Rockefeller Institute of Government found that a majority of states experienced reductions in final payment collections in the 5 months from January to May 2017. Changes in final payments are often driven by capital gains income.

The Rockefeller report suggests that a portion of the nationwide negative trend in payments may reflect taxpayers deferring capital gains to Tax Year 2017, in anticipation of potential federal income tax reductions. This may have served to lower final payments associated with Tax Year 2016 income, which were due April 2017. This explanation appears to be consistent with a (4.1)% year-over-year decrease in the state's April 2017 final payments. Capital gains were likely also affected by poor stock market performance during CY 2016. Growth in the S&P 500 slowed to 1.5% in CY 2016, from 6.8% in CY 2015

### Corporate Income Tax

During FY 2017, Corporate Income Taxes were (35.5)% below FY 2016 and \$(52.4) million below the enacted forecast. The state collected \$368.1 million in Corporate Income Taxes during FY 2017, the lowest amount since FY 2002. Insurance Premium Tax has now overtaken Corporate Income Tax as the state's 3<sup>rd</sup> largest revenue category.

Without access to timely corporate tax return data, it is difficult to determine the exact reasons for the large decline in collections in FY 2017. The main reason for the (35.5)% decline in collections is likely previously enacted legislation, most notably the multi-year phase-in of the current 4.9% corporate tax rate and the 100% apportionment sales factor.

### Insurance Premium Tax

Insurance Premium Tax revenues grew 2.8% in FY 2017 and were \$(11) million below the enacted budget forecast. The FY 2017 rate of growth represented a significant slowdown from rates of over 9% in FY 2015 and FY 2016. The high growth in recent prior years was largely driven by increased Medicaid enrollment following a January 1, 2014 expansion of coverage.

Detailed data of FY 2017 collections by insurance line will not be available until September 2017. It is likely, though, that the FY 2017 slowdown in insurance premium tax collections again reflect Medicaid enrollment growth, which has slowed from 10.2% in FY 2015 and 8.3% in FY 2016 to 3.8% in FY 2017. A reduction in the tax rate for some insurance lines, from 2.0% CY 2015 to 1.95% in CY 2016, also contributed to the low growth of collections in FY 2017.

### **FY 2017 Spending**

FY 2017 General Fund spending is estimated to be \$9.56 billion, which is an increase of 0.5% above FY 2016. This spending level is \$(75) million below the amount assumed in the enacted budget.

Each year during the budget process, the projected spending levels assume a certain level of "revertments", which are appropriations to agencies which remain unspent. To the extent that the amount of agency revertments is more than assumed, the actual level of spending can be lower than projected in budget estimates.

## June Revenues

	General Fund Revenues (\$ in Millions)		
	<u>FY 2017 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2016</u>
June	\$ 1,305.8	\$ 23.7	\$ 125.7
Year-to-Date	\$ 9,504.0	\$ (17.4)	\$ 19.6

**Sales Tax** collections of \$419.5 million were 14.3% above June of last year and \$45.2 million above the forecast for the month. Total FY 2017 sales tax revenue of \$4.51 billion was 4.5% above the amount collected in FY 2016 and \$54.6 million above forecast.

However, as discussed in the *Summary* section, the surge in revenue in June was mainly for technical reasons. Absent this technical issue, Sales Tax revenue growth would have been 6.1% in June and 3.8% for all of FY 2017.

**Individual Income Tax** net revenues of \$402.2 million in June were \$26.9 million more than in the prior year and \$(1.0) million below forecast. Total FY 2017 revenues have grown by 4.1% and are \$11.9 million above forecast.

As indicated in *Table 4*, June withholding increased by 8.7% from last year. The monthly increase brings withholding tax collections for the fiscal year to 5.6% over the prior year. This amount is \$26.5 million above the forecast for the year.

June estimated and final payments of \$121.8 million were 2.3% above last year, but were \$(0.9) million below the forecast. Total FY 2017 payments were \$(26.8) million below the forecast and (0.7)% below FY 2016.

June Individual Income Tax refunds totaled \$(42.0) million – this compares to \$(40.3) million in June 2016 and a forecasted amount of \$(34.7) million. In total FY 2017 refunds have led to a \$12.2 million revenue increase compared to the enacted forecast.

	<u>June</u>	<u>YTD</u>
Withholding	8.7%	5.6%
Estimated/Final Payments	2.3%	(0.7)%
Refunds	4.1%	3.4%

**Corporate Income Tax** net collections were \$71.5 million in June, which was \$(23.5) million less than in the prior year and \$(1.1) million below the forecast. Total FY 2017 collections of \$368.1 million were (35.5)% below the prior year and \$(52.4) million below forecast. This decrease is

probably the result of the decline in the Corporate Income Tax rate.

**Insurance Premium Tax** collections of \$95.4 million in June were \$8.1 million above the prior year and \$6.6 million above the forecast. Total FY 2017 revenues are 2.8% above last year, but \$(11.4) million below forecast.

Prior month **tobacco and liquor tax** are not typically available for publication in the Monthly Fiscal Highlights. Through the end of May, year-to-date tobacco tax revenues are (6.6)% below FY 2016 and are \$(1.5) million below forecast. Year-to-date liquor collections through May are 2.7% above FY 2016 and \$0.3 million above forecast. Due to the late data, June collections are simply reported at the forecast level.

The **Lottery Commission** reports that June ticket sales were \$76.0 million, which is \$9.6 million, or 14.5%, above sales in June 2016. Total FY 2017 ticket sales were \$852.0 million, which is (2.2)% below last year's sales. The annual decrease reflects the one-time nature of January 2016 ticket sales associated with a record-breaking \$1.4 billion Powerball jackpot. In terms of General Fund collections, total FY 2017 lottery revenues are \$13.7 million above FY 2016 and \$9.9 million above forecast.

**Highway User Revenue Fund (HURF)** collections of \$122.2 million in June were up 5.9% compared to June of last year and were \$1.5 million above forecast. Total FY 2017 revenues are 3.6% above last year, but \$(10.2) million below forecast.

Due to delays in reporting final May revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For June, DOR has decreased the amount of prior General Fund revenue collections by \$(0.7) million, and the adjustment has been included in the reported total FY 2017 results.

Table 5

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

	Current Month					FY 2017 YTD (Twelve Months)				
	Actual June 2017	Change From June 2016		Budget Forecast		Actual June 2017	Change from June 2016		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use	\$419,465,208	\$52,509,057	14.3 %	\$45,227,093	12.1 %	\$4,506,161,067	\$192,018,307	4.5 %	\$54,604,067	1.2 %
Income - Individual	402,158,377	26,940,447	7.2	(1,049,732)	(0.3)	4,130,447,307	162,527,806	4.1	11,895,208	0.3
- Corporate	71,510,700	(23,535,999)	(24.8)	(1,108,309)	(1.5)	368,141,785	(202,405,912)	(35.5)	(52,374,015)	(12.5)
Property	2,916,203	(3,545,745)	(54.9)	(4,937,455)	(62.9)	32,538,497	(5,944,838)	(15.4)	(7,612,703)	(19.0)
Luxury - Tobacco	2,269,386	(424,993)	(15.8)	0	0.0	23,038,001	(1,882,657)	(7.6)	(1,505,498)	(6.1)
- Liquor	2,778,449	(392,787)	(12.4)	0	0.0	34,568,884	443,494	1.3	346,585	1.0
Insurance Premium	95,389,654	8,112,692	9.3	6,644,776	7.5	504,339,292	13,763,011	2.8	(11,440,808)	(2.2)
Other Taxes	34,705	(825,310)	(96.0)	(823,990)	(96.0)	2,740,742	(5,217,728)	(65.6)	(5,615,658)	(67.2)
<b>Sub-Total Taxes</b>	<b>\$996,522,683</b>	<b>\$58,837,361</b>	<b>6.3 %</b>	<b>\$43,952,383</b>	<b>4.6 %</b>	<b>\$9,601,975,576</b>	<b>\$153,301,485</b>	<b>1.6 %</b>	<b>(\$11,702,823)</b>	<b>(0.1) %</b>
<b>Other Revenue</b>										
Lottery	4,285,800	4,285,800	--	4,285,800	--	78,690,443	13,717,693	21.1	9,929,143	14.4
License, Fees and Permits	3,633,948	(317,237)	(8.0)	411,442	12.8	38,438,028	7,631,053	24.8	6,599,728	20.7
Interest	17,421,386	3,925,687	29.1	(42,738)	(0.2)	17,000,959	3,512,990	26.0	(697,941)	(3.9)
Sales and Services	14,028,489	(2,794,609)	(16.6)	(1,441,219)	(9.3)	41,941,206	(750,480)	(1.8)	(2,885,093)	(6.4)
Other Miscellaneous	53,177,872	(18,434,042)	(25.7)	(16,359,806)	(23.5)	85,986,721	(6,580,181)	(7.1)	(10,595,479)	(11.0)
Disproportionate Share	94,321,650	455,339	0.5	50	0.0	94,321,650	455,339	0.5	50	0.0
Transfers and Reimbursements	33,824,681	(18,666,928)	(35.6)	(7,884,755)	(18.9)	64,129,503	(18,522,269)	(22.4)	(8,759,397)	(12.0)
<b>Sub-Total Other Revenue</b>	<b>\$220,693,826</b>	<b>(\$31,545,990)</b>	<b>(12.5) %</b>	<b>(\$21,031,226)</b>	<b>(8.7) %</b>	<b>\$420,508,512</b>	<b>(\$535,854)</b>	<b>(0.1) %</b>	<b>(\$6,408,988)</b>	<b>(1.5) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$1,217,216,508</b>	<b>\$27,291,372</b>	<b>2.3 %</b>	<b>\$22,921,157</b>	<b>1.9 %</b>	<b>\$10,022,484,087</b>	<b>\$152,765,630</b>	<b>1.5 %</b>	<b>(\$18,111,811)</b>	<b>(0.2) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(55,298,514)	(4,828,993)	9.6	32	(0.0)	(663,582,168)	(57,947,842)	9.6	32	(0.0)
One-Time Transfers	143,900,000	103,200,700	253.6	729,948	0.5	145,091,548	(75,205,007)	(34.1)	729,948	0.5
<b>Sub-Total Other Adjustments</b>	<b>88,601,486</b>	<b>98,371,708</b>	<b>-- %</b>	<b>729,980</b>	<b>0.8 %</b>	<b>(518,490,620)</b>	<b>(133,152,848)</b>	<b>34.6 %</b>	<b>729,981</b>	<b>(0.1) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$1,305,817,994</b>	<b>\$125,663,079</b>	<b>10.6 %</b>	<b>\$23,651,137</b>	<b>1.8 %</b>	<b>\$9,503,993,468</b>	<b>\$19,612,782</b>	<b>0.2 %</b>	<b>(\$17,381,830)</b>	<b>(0.2) %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$122,166,630	\$6,814,314	5.9 %	\$1,546,274	1.3 %	\$1,405,447,990	\$48,695,852	3.6 %	(\$10,152,011)	(0.7) %

## Monthly Indicators

### NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 1.4% in the first quarter of 2017. This estimate reflects a slowdown from the growth of 2.1% experienced in the prior quarter. The slowdown relative to the prior quarter was primarily due to a deceleration in consumption expenditures and a decrease in inventory investment. Declining performance in these categories was partly offset by growth in net exports and residential and business investment. Economists expect a portion of the slowdown in GDP growth reflects temporary seasonal variations not fully removed from the estimates.

The Conference Board's **U.S. Consumer Confidence Index** increased by 1.1% to 118.9 in June, after falling during the prior 2 months from its 16-year high of 124.9 in March. The latest reading is 22.1% above the index in June 2016. The monthly increase 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 from 11.7% to 14.8% during the month. Growth in the overall index was limited by declining expectations of economic conditions 6 months into the future.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** decreased (0.1)% in May. The overall monthly increase was partly driven by a (3.0)% drop in energy prices. Core inflation (all items less food and energy) increased by 0.1% during the month. The index had reached year-over-year growth of 2.1% in February 2017, which is above the Federal Reserve Bank's (Fed) 2.0% annual inflation target. The index's annual growth, though, has since decreased to 1.4% in May, leaving the Fed greater flexibility in setting short-term interest rates.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, was unchanged in June and increased 1.6% above June 2016 prices. The energy index was a major contributor to the monthly decrease, declining by (1.6)%, mostly driven by a (2.8)% decrease in the gasoline index. A number of other indexes decreased, including airline fares, used cars, and wireless telephone services. Core inflation (all items less food and energy) increased 0.1% for the month. Other indexes that increased include shelter, medical care, motor vehicle insurance, and education.

The Conference Board's **U.S. Leading Economic Index** increased 0.3% in May to 127.0 and stands 3.5% above its May 2016 reading. Of the index's 10 components, 8

made positive contributions for the month. Interest rate spread made its typically strong contribution, and the average consumer expectations and Institute of Supply Management (ISM) index for new orders bolstered the increase as well. Building permits was the only negative contributor for the month, declining for the second month in a row.

### ARIZONA

#### Housing

Single-family housing construction is increasing. In May, Arizona's 12-month total of **single-family building permits** was 25,491, or 6.6% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 8.4%.

The 12-month total of multi-family building permits has started to increase again. In May, Arizona's total of 11,690 **multi-family building permits** was 26.3% more than in 2016. Nationwide multi-family permits were (6.7)% lower than in 2016.

#### Tourism

**Revenue per available room** was \$74.99 in May, which was 6.4% above the amount in May 2016. **Ridership** through Phoenix Sky Harbor Airport during the month was up 1.9% compared to May 2016.

#### Employment

In May, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This workload was (1.7)% below the level during the prior month and equal to the level in May 2016.

The **Average Hourly Earnings** received by private sector workers was \$25.11, which is (0.6)% below the average in the prior month. May earnings were 3.9% above the average in May 2016. This year-over-year growth for this month's reading is the first that has been below 4.0% during 2017.

The U.S. Department of Commerce Bureau of Economic Analysis quarterly releases estimates of annual **Personal Income** received in each state. This measure includes wages and salaries, proprietors' income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In the first quarter of 2017, Arizona personal income increased year-over-year by 3.8%, to \$283.1 billion. Overall growth in personal income largely mirrored that of its largest component, wages and salaries, which grew 3.9% during the same period. The latest wage and salary growth of 3.9% reflects a slowdown from growth of 4.8% during 2016.

## Monthly Indicators (Continued)

The Office of Economic Opportunity (OEO) reported that 19,802 **initial claims for unemployment insurance** were filed in May, a decrease of (2.5)% compared to the same month last year.

According to OEO, the state had a total of 28,864 **claimants receiving unemployment insurance benefits** in May, an increase of 12.2% from April. This figure is (7.5)% below the May 2016 level.

### State Agency Data

At the beginning of July 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 614,900 members.

Total monthly enrollment decreased by (800) members during June. The overall change in membership was largely driven by the Traditional and Proposition 204 population of low income parents and children, which collectively decreased by (1,100), or (0.1%), in June.

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 July 1, enrollment in the program reached 21,600, or 600 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In June 2017, the childless adult population decreased by (300), or (0.1)%. At 316,800, this population is 3.2% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment was largely unchanged in June and now totals 82,200 individuals. Enrollment is 2.4% 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 17,513 **TANF recipients** in the state in June, representing a (0.3)% monthly caseloads decrease from May. The year-over-year number of TANF recipients has declined by (13.1)%. The statutory lifetime limit on cash assistance is 12 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June, 911,845 people received food stamp assistance in the state, representing a decrease of (326) recipients over

May caseloads. Compared to June caseloads last year, the level of food stamp participation has declined by (5.2)%.

The **inmate population** was 42,313 as of June 30, 2017. This is a (1.5)% decrease since last June. The population increased by 0.3% since May 2017.

Based on information the Department of Child Safety provided for May 2017, **reports of child maltreatment** totaled 47,499 over the last 12 months, a decrease of (3.7)% over the prior year. There were 16,964 **children in out-of-home care** as of April 2017, or (10.1)% less than in April 2016. Compared to the prior month, the number of out-of-home children increased by 0.2%.

Table 6

## MONTHLY INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
<i>Employment</i>				
- Regular Unemployment Rate	May	5.1%	0.1%	(0.2)%
- Total Unemployment Rate (discouraged/underemployed)	1 <sup>st</sup> Q 2017	10.9%	0.1%	(0.8)%
- Initial Unemployment Insurance Claims	May	19,802	(14.4)%	(2.5)%
- Unemployment Insurance Recipients	May	28,864	12.2%	(7.5)%
- Non-Farm Employment - Total	May	2,747,000	(0.5)%	1.8%
Manufacturing	May	162,000	0.0%	1.6%
Construction	May	138,300	(0.7)%	3.4%
- Average Weekly Hours, Private Sector	May	34.4	(1.7)%	0.0%
- Average Hourly Earnings, Private Sector	May	\$25.11	(0.6)%	3.9%
<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	May	25,491	2.2%	6.6%
Multi-family	May	11,690	(2.8)%	26.3%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	May	6,878	9.2%	5.1%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	May	\$259,000	0.7%	9.7%
- Phoenix S&P/C Home Price Index (2000 = 100)	April	167.64	0.8%	5.7%
- Maricopa Pending Foreclosures	May	2,909	(2.9)%	(24.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	May	23,520	(2.7)%	(9.0)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	May	3,806,998	(0.8)%	1.9%
- National Park Visitors	January	586,991	(9.1)%	5.2%
- State Park Visitors	April	334,438	(15.3)%	29.1%
- Revenue Per Available Hotel Room	May	\$74.99	(22.0)%	6.4%
<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	May	1.7%	(3.3)%	(4.4)%
- Arizona Personal Income	1 <sup>st</sup> 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	July 1 <sup>st</sup>	1,873,008	0.0%	3.6%
Acute Care Traditional		1,077,666	(0.1)%	1.3%
Prop 204 Childless Adults		316,794	(0.1)%	3.2%
Other Prop 204		194,176	0.0%	6.6%
Adult Expansion		82,199	0.0%	2.4%
Kids Care I		21,626	2.7%	N/A
Long-Term Care – Elderly & DD		59,923	0.4%	2.8%
Emergency Services		120,624	(0.4)%	3.8%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	May	47,499	0.3%	(3.7)%
DCS Out-of-Home Children	April	16,964	0.2%	(10.1)%
Filled Caseworkers (1406 Budgeted)	June	1,345	2	(10)
- ADC Inmate Growth	June	42,313	0.3%	(1.5)%
- Department of Economic Security				
- TANF Recipients	June	17,513	(0.3)%	(13.1)%
- SNAP (Food Stamps) Recipients	June	911,845	0.0%	(5.2)%
- Judiciary Probation Caseload				
Non-Maricopa	March	19,130	52	486
Maricopa County	March	28,221	172	579
<b>United States</b>				
- Gross Domestic Product	1 <sup>st</sup> Q, 2017 (3 <sup>rd</sup> Estimate)	\$16.9 trillion	2.1%	1.4%
(Chained 2009 dollars, SAAR)				
- Consumer Confidence Index (1985 = 100)	June	118.9	1.1%	22.1%
- Leading Indicators Index (2010 = 100)	May	127.0	0.3%	3.5%
- Consumer Price Index, SA (1982-84 = 100)	June	243.9	0.0%	1.6%
- Personal Consumption Price Index (2009 = 100)	May	112.1	(0.1)%	1.4%

## JLBC Meeting

At its June 20, 2017 meeting, the Joint Legislative Budget Committee considered the following issues:

**Arizona Department of Administration – Review of FY 2018 Projects (Automation Projects Fund)** – The Committee gave a favorable review of \$3.0 million in total expenditures in FY 2018 for Arizona Strategic Enterprise Technology (ASET) projects, consisting of: \$1.0 million for Security, Privacy, and Risk; \$500,000 for Digital Government; and \$1,500,000 for Project Management. The favorable review included reporting requirements.

**Arizona Department of Administration – Review of 90/10 E-Licensing Project (Automation Projects Fund)** – The Committee gave a favorable review of \$595,500 appropriated from the Automation Projects Fund in FY 2018 for a 90/10 E-Licensing Project.

**Arizona Department of Administration/Arizona Department of Education – Review of AELAS Expenditure Plan (Automation Projects Fund)** – The Committee gave a favorable review of the expenditure plan of \$7.3 million from the Automation Projects Fund for the Arizona Education Learning and Accountability System (AELAS). The favorable review included numerous provisions, including reporting requirements.

**Arizona Department of Administration/Department of Environmental Quality – Review of myDEQ Expenditure Plan (Automation Projects Fund)** – The Committee gave a favorable review of the FY 2018 expenditure plan of \$3.2 million from the Automation Projects Fund for Phase 4 of the development of DEQ's web portal, myDEQ. The favorable review included reporting requirements.

**Arizona Department of Administration/Industrial Commission – Review of Claim Processing Project (Automation Projects Fund)** – The Committee gave a favorable review of \$1.0 million in proposed FY 2018 expenditures from the Automation Projects Fund for the Industrial Commission Claims Processing System Upgrade.

**Arizona Department of Administration/Department of Revenue – Review of Data Center Equipment Upgrade (Automation Projects Fund)** – The Committee gave a favorable review to \$5.5 million of DOR's \$11.0 million proposed expenditure plan from the Automation Projects Fund to replace DOR's data center hardware. DOR shall submit a Project Investment Justification (PIJ) to the Information Technology Advisory Committee (ITAC) for review and approval. Subsequent to ITAC review and approval, DOR may submit a request for the Committee to review the remaining \$5.5 million. DOR shall also contract with a third-party

consultant to provide quarterly third-party reviews of the project to the Chairman of JLBC, the Committee and JLBC Staff.

**Arizona Department of Administration – Review of Arizona Financial Information System Transaction Fee** – The Committee gave a favorable review of the proposed 32.5-cent transaction fee to state agencies for the operation of AFIS.

**Arizona Department of Administration – Review of Risk Management Deductible** – The Committee gave a favorable review of the proposed deductible increase from \$100 to \$2,500 for agencies with budgets of at least \$1.0 million.

**Arizona Health Care Cost Containment System – Review of Expenditure Plan for Targeted Investment Program** – The Committee gave a favorable review of the \$300.0 million expenditure plan for AHCCCS' Targeted Investments Program of incentive payments to health providers. AHCCCS will expend \$300.0 million in cumulative funding between FY 2018 and FY 2022, primarily from Federal Funds. The favorable review included reporting requirements.

**AHCCCS/Department of Economic Security/Department of Child Safety – Review of Capitation Rate Changes for Plan Years 2017 and 2018** – The Committee gave a favorable review CYE 2017 capitation rate adjustments for the Arizona Long Term Care System (ALTCS) and the Children's Rehabilitative Services Program and Calendar Year End (CYE) 2018 adjustments for the ALTCS-Developmental Disabilities program and the Comprehensive Medical and Dental program. The favorable review included a provision with reporting requirements.

**Attorney General – Review of FY 2018 Internet Crimes Against Children (ICAC) Expenditure Plan** – The Committee gave a favorable review of the AG's expenditure plan for the \$1.3 million FY 2018 appropriation to the ICAC Enforcement line item.

**Attorney General – Review of Uncollectible Debts** – The Committee gave a favorable review of the AG's FY 2017 list of \$50.9 million in uncollectible debt, excluding the \$5.6 million owned by National Century Financial Enterprises from this review.

**Department of Child Safety – Review of FY 2017 Third Quarter Benchmarks** – The Committee gave a favorable review of the report assessing DCS's progress towards meeting benchmarks for the number of caseworkers, the number of backlog and open reports, and the number of children in out-of-home-care.

## JLBC Meeting (Continued)

**Department of Child Safety – Review of Line Item Transfers** – The Committee gave a favorable review of the transfer of \$4.1 million from the General Fund and \$8.6 million in expenditure authority funds across several line items to Adoption Services, Emergency and Residential Placements, Training Resources, DCS Child Care Subsidies, and In-Home Mitigation.

**Department of Child Safety – Review of Retention Pay Expenditure Plan** – The Committee gave a favorable review of the \$1.7 million FY 2018 expenditure plan for the Retention Pay line item, which consists of: \$1.0 million for retention stipends, \$392,300 for program manager salary adjustments, and \$316,400 for one-time bonuses for individuals or groups of employees with excellent performance. The favorable review included provisions with reporting requirements.

**Arizona Department of Corrections – Review of Inmate Health Care Per Diem Change** – The Committee gave a favorable review to increase the inmate health care per diem from \$12.06 to \$12.54 with an additional provision.

**Department of Economic Security – Review of Developmental Disabilities Equity Expenditures** – The Committee gave a favorable review of DES' plan to expend \$14.5 million of equity monies on Division of Developmental Disabilities state-only programs.

**Arizona Department of Education – Review of Joint Technical Education District (JTED) Quarterly and Annual Reports** – The Committee gave a favorable review of ADE's December 31, 2016 and March 31, 2017 JTED quarterly reports. It also reviewed ADE's FY 2016 JTED annual report.

**Arizona Department of Environmental Quality – Review of Safe Drinking Water Expenditure Plan** – The Committee gave a favorable review of the ADEQ's expenditure plan for \$1.8 million from the Safe Drinking Water Program Fund for the Safe Drinking Water Program.

**Department of Public Safety – Review of BTSF Expenditure Plan** – The Committee gave a favorable review of the \$1.3 million expenditure plan for local support funded by the border Strike Task Force (BTSF). The plan allocates \$761,700 for BSTF local law enforcement positions and \$500,000 for border-related prosecution and jail costs.

**Department of Public Safety – Review of the Expenditure Plan for the GIITEM Fund Border Security and Law Enforcement Subaccount** – The Committee gave a favorable review of DPS' \$2.4 million FY 2018 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM). The expenditure plan includes distributions to all 15 county sheriffs, 4 municipalities, and the Arizona Department of Corrections.

## JCCR Meeting

At its June 20, 2017 meeting, the Joint Committee on Capital Review considered the following issues:

**Arizona Department of Administration – Review of FY 2018 Building Renewal Plan** – The Committee gave a favorable review of \$8,300,000 for building renewal projects. These monies were appropriated for FY 2018 from both the General Fund and the Capital Outlay Stabilization Fund. Reviewed projects include; preventative building maintenance, safety related projects, HVAC system upgrades, and other system improvements. The favorable review included provisions with reporting requirements.

**Arizona Department of Administration – Consider Recommending FY 2017 Partial Rent Exemption** – The Committee recommended a full rent exemption of \$(238,500) in FY 2017 and FY 2018 for the Secretary of State (SOS), as well as an ongoing rent exemption in future years unless the Legislature provides additional funding to the SOS to cover the cost of the Talking Book Library property.

**Arizona Department of Administration & State Department of Corrections – Review and Approval of Lease Purchase Refinancing** – The Committee gave a favorable review of the refinancing of a lease-purchase agreement that was issued in 2008 to fund additional ADC prison beds. The refinancing of \$43.4 million in outstanding principal is estimated to result in savings of \$985,400. The Committee also adopted a standard debt financing provision.

**Department of Corrections – Review of FY 2018 Building Renewal Plan and Capital Projects** – The Committee gave a favorable review of \$1,450,000 for the replacement of locking systems at ASPC – Eyman. The Committee also gave favorable review to \$5,464,300 for the FY 2018 Building Renewal Allocation Plan, which included equipment replacement and structural repairs. Reallocations of the FY 2016 and FY 2017 Building Renewal Plans were also reviewed by the Committee. The favorable review also included provisions with reporting requirements.

**Department of Emergency and Military Affairs – Review of Proposed Expenditures from the Military Installation Fund** – The Committee gave a favorable review of the department's plan to expend \$1.1 million from the Military Installation Fund. These funds will be used to acquire a 300-acre conservation easement near Fort Huachuca, to purchase 10 acres within the Davis-Monthan Air Force Base fence line, as well as to provide a grant to Pima County to purchase another piece of land. The Committee adopted provisions outlining terms

of the grant to Pima County as well as standard reporting requirements.

**Arizona Exposition and State Fair Board – Review of FY 2017 Capital Improvement Expenditures** – The Committee gave favorable review of 9 capital projects with an estimated total cost of \$303,000. The favorable review included provisions with reporting requirements

**Universities – Arizona State University – Review of Tempe Power Plant Indirect Financing Project** – The Committee held this item for future consideration.

**Universities – Northern Arizona University – Review of Recital Hall Financing Project** – The Committee gave a favorable review of a \$15,000,000 project to construct a 250-seat recital hall and to renovate existing space in the Performing and Fine Arts building. The project will be funded by a combination of system revenue bonds and gifts. The favorable review included the two standard university financing provisions.

## Summary of Recent Agency Reports

**Arizona Department of Administration – Report on Performance Standards for Health and Dental Plans** – Pursuant to A.R.S. § 38-658B, the Arizona Department of Administration (ADOA) submitted its report on performance standards for health and dental plans during Plan Year (PY) 2016. The number of performance measures varies by vendor. If a vendor fails to meet any of the measures within the specified performance range, the vendor is required to submit a Corrective Action Plan detailing why the measure was missed and any actions taken to address the issue and improve performance to meet the standard. A percentage of the vendor's annual payment, or a previously agreed upon amount, is then withheld by ADOA as a performance penalty. ADOA estimates that performance penalties paid to Benefit Services Division related to PY 2016 totaled \$360,000. (Geoffrey Paulsen)

**Arizona Department of Administration – Report on the Financial Status of the Special Employee Insurance Trust Fund** – Pursuant to A.R.S. § 38-654G, the Arizona Department of Administration (ADOA) submitted their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF). The actuarial assumptions used to develop HITF projections include healthcare trends (cost, utilization, and severity of services), enrollment trends, and revenue projections including legislative fund transfers. ADOA reported that the plan is actuarially sound for Plan Year (PY) 2016 and PY 2017. For PY 2018, however, the preliminary estimates for insurance benefits are not actuarially sound, as ADOA projects a cash-flow liquidity problem and virtually no ending balance for the end of PY 2018. This projection assumes the FY 2018 employer premium increase will not continue in FY 2019. For PY 2017, ADOA assumes a combined medical and pharmaceutical trend of 5.3%, which consists of medical costs increasing by 4.4% and pharmaceutical costs increasing by 8.4%. ADOA expects medical enrollment to increase by 1.7% for PY 2017 and 1.4% for PY 2018. (Geoffrey Paulsen)

**AHCCCS – Report on Graduate Medical Education Residency Positions** – Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on the number of residency positions funded by local, county, or tribal governments. The agency indicates that these contributions in FY 2017 provided \$265.7 million for 1,612 residency positions at 15 hospitals. The largest recipients included Maricopa Medical Center (\$57.6 million), Banner University Medical Center - Tucson (\$57.2 million), St. Joseph's Hospital - Phoenix (\$35.0 million), Banner University Medical Center - Phoenix (\$34.5 million), and Phoenix Children's Hospital (\$29.2 million).

The \$265.7 million in Total Funds includes local contributions of \$82.9 million and a federal match of \$182.8 million. The local government contributors included University of Arizona (\$53.7 million), Maricopa Integrated Health System (\$20.5 million), Arizona State University (\$7.7 million), and the Mohave County (\$1.0 million). (Patrick Moran)

**AHCCCS – Report on the FY 2016 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 annually report the amount of estimated Medicaid payments each hospital received for services provided to populations whose coverage is funded by the assessment.

AHCCCS estimates that hospitals received coverage payments of \$1.02 billion in FY 2016, or \$774.7 million above the \$250.2 million in assessments these hospitals paid. AHCCCS reports that all hospitals that served Medicaid patients in FY 2016 (except for 2 hospitals that closed) had coverage payments from Proposition 204 and Adult Expansion enrollees that exceeded the costs of their Hospital Assessment payment.

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 was not able to report the FY 2016 estimated Medicaid payments each hospital received by the August 1, 2016 reporting date in A.R.S. § 36-2903.08. (Patrick Moran)

**AHCCCS – Report on Interstate Agreement with Hawaii** – Pursuant to A.R.S. § 36-2925H, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the status of an Interstate Agreement with the State of Hawaii.

This report summarizes the continued activities associated with the agreement between AHCCCS and Hawaii for Medicaid data processing. In FY 2016, Arizona received \$6.9 million in revenues from Hawaii while spending \$7.8 million for staffing and automation costs associated with implementing the agreement. During FY 2016, the balance of 2 funds used for the agreement decreased by \$(920,600), from \$2.8 million to \$1.9 million. AHCCCS indicated

## Summary of Recent Agency Reports (Continued)

that expenditures exceeded revenues in FY 2017 due to a delay in when Hawaii reimburses the agency for services provided. AHCCCS has since been reimbursed for all contracted costs incurred during FY 2016. (Jon Stall)

**AHCCCS/Department of Health Services – Report on Reconciliation Payments** – Pursuant to the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the Arizona Health Care Cost Containment System (AHCCCS) submitted its report on reconciliation payments and penalties received and deposited during FY 2017. AHCCCS reports that during that 12-month period they deposited \$2.4 million into the General Fund and \$3.5 million into the Hospital Assessment Fund, and used \$9.3 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions.

In addition to amounts reported by AHCCCS, DHS reports that \$1.1 million was returned to the General Fund and \$1.6 million to the Federal government from reconciliation payments in FY 2017. Laws 2015, Chapters 19 and 195 transferred the administration of state contracts with Regional Behavioral Health Authorities (RBHAs) from DHS to AHCCCS on July 1, 2016. Reconciliation payments to DHS during FY 2017 are associated with Medicaid services provided prior to the transfer of administrative responsibilities to AHCCCS.

The state limits financial risks and profits for health plans and RBHAs for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made by health plans/RBHAs to the state if profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities. (Jon Stall)

**Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures** – A.R.S. § 41-199 requires the Attorney General (AG) to report quarterly on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund was created in FY 2015 with an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age-restricted areas. Monies in the fund are utilized to support the ICAC Task Force housed within the Phoenix Police Department which works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the fourth quarter of FY 2017, a total of \$753,700 in lottery revenues were deposited into the ICAC Enforcement Fund. Additionally, a total of \$187,300 was expended in the fourth quarter of FY 2017 to help pay for the operating costs of the ICAC Task Force. These expenditures are in addition to \$444,700 expended in the previous quarters, bringing total FY 2017 expenditures to \$632,000.

As reported by the AG, the FY 2017 expenditure plan for the ICAC Enforcement Fund allocates monies to the hiring of 4 new positions within the Phoenix Police Department; one-time equipment costs of the task force including computers, unmarked vehicles, educational materials, monitors, cameras, software, hardware, a forensic van, and a crime scene van; annual equipment costs including computers, software, and hardware; and law enforcement training.

As of June 30, 2017, the ICAC Enforcement Fund had a fund balance of \$1,921,600 and encumbrances of \$1,435,900. (Samuel Beres)

**Attorney General – Quarterly Reports on Legal Settlements** – Statute requires the Attorney General (AG) to report quarterly to the JLBC on the receipts to and disbursements from the Antitrust Enforcement Revolving Fund, the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the fourth quarter of FY 2017, the AG deposited a total of \$6.5 million into various consumer accounts. Of that amount, \$1.5 million into the CPCF Revolving Fund, \$4.8 million into the Consumer Restitution Subaccount, and \$252,700 into the Consumer Remediation Subaccount. No monies were deposited into the Antitrust Enforcement Revolving Fund or the General Fund this quarter. Only the \$252,700 deposit to the Consumer Remediation Subaccount requires JLBC review prior to expenditure.

**Deposits to the CPCF Revolving Fund**  
The AG deposited \$1.5 million in the fourth quarter of FY 2017 to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. Of that amount, \$930,000 was from a settlement with Johnson & Johnson Consumer Inc., and \$225,000 was derived from a settlement with Theranos Inc.

## Summary of Recent Agency Reports (Continued)

### *Johnson & Johnson*

Arizona sued McNeil Consumer Healthcare, a division of Johnson & Johnson, alleging that the company had engaged in deceptive and/or unfair acts and practices in connection with the advertisement or sale of pharmaceutical products. As a result of a settlement, the Attorney General obtained \$930,100, which is to be deposited into the Consumer Fraud Revolving Fund. The settlement also prohibits McNeil from engaging in these acts in the future.

### *Theranos*

Arizona sued Theranos, alleging that the company engaged in deceptive and unfair acts and practices in connection with the advertisement or sale of blood testing services.

### Deposits to the Consumer Restitution Subaccount

The AG deposited \$4.8 million in the fourth quarter of FY 2017 to the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$4.7 million was the result of the settlement with Theranos Inc., and \$111,000 came from small legal settlements under \$250,000 in value and interest income.

### Deposits to the Consumer Remediation Subaccount

The AG deposited \$252,700 in the fourth quarter of FY 2017 to the partially-appropriated Consumer Remediation Subaccount to rectify violations of consumer protection laws. All of these funds resulted from small legal settlements under \$250,000 in value and interest income. An expenditure plan must be reviewed by the JLBC before any funds are spent from this account. Those reviews have not yet occurred. (Samuel Beres)

### **Department of Child Safety – Monthly Report on Hiring –**

Pursuant to a FY 2017 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on its progress in hiring and retaining child safety staff through June 2017. (See Table 7 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training

and hotline staff) was 1,345 in June, or (61) 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 2 since May.

There were also 1,385 non-direct line child safety staff in June 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 decreased by (3) since May. (Patrick Moran)

### **Arizona Department of Corrections – Third-Party Report on Arizona Inmate Management System (AIMS) Replacement –**

Pursuant to a FY 2017 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) has provided a quarterly update of the AIMS Replacement project. The third-party reviewer continued to give a positive review of the fiscal status of the project and the quality of investment and problem solving occurring between the vendor and ADC. The review described the planned schedule as strained citing that certain deliverables and testing dates have not occurred as planned. (Micaela Larkin)

### **Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus and Other Placements –**

A footnote in the FY 2017 General Appropriation Act requires the Department of Economic Security (DES) to report on placements of developmentally-disabled (DD) clients into state-owned Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF-IID) or at the ATP-C campus in FY 2017. DES reports that there was 1 new permanent placement into a state-operated ICF-IID in Phoenix in FY 2017. This member was admitted to the Phoenix ICF-IID due to medical needs of the client that required 24-hour nursing support. There were no new placements into any other state-run ICF-IID or the ATP-C campus in FY 2017. (Patrick Moran)

<b>DCS Filled FTE Positions as of June 2017</b>			
	<b>Funded</b>	<b>June</b>	<b>Difference</b>
Caseworkers	1,190	1,072	(118)
Hotline Staff	76	71	(5)
Staff in Training	<u>140</u>	<u>202</u>	<u>62</u>
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,345</i>	<i>(61)</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>
<b>Grand Total <sup>1/</sup></b>	<b>2,917</b>	<b>2,730</b>	<b>(187)</b>

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

## Summary of Recent Agency Reports (Continued)

**Ombudsman-Citizens Aide Office – Annual Report –** Pursuant to A.R.S. § 41-1376, the Ombudsman-Citizens Aide is required to submit an annual report by January 1 summarizing their activities during the previous fiscal year (FY), and semiannually present this report before Legislative Council. The Ombudsman-Citizens Aide issued an annual report

for Calendar Year (CY) 2016 dated June 13, 2017. The CY 2016 annual report cites examples of cases in the office’s 3 focus areas: general complaints about state agencies, Department of Child Safety cases, and public access cases. DCS cases are 47.25% of total workload. (Steve Grunig)

## June Spending

June 2017 General Fund spending was \$674.3 million, which represents a decrease of \$(174.3) million below June 2016. The significant decline in June spending is due to the large amount of one-time spending that occurred in June 2016, which was largely payments to eliminate the Universities, DCS and DES “rollovers”.

Year to date, FY 2017 spending was \$9.56 billion, or \$(4.3) million below last year. This level of spending was \$(75) million below the amount assumed in the enacted budget. (See Tables 8 & 9).

- Universities’ spending decreased by \$(176.5) million during FY 2017. This is the result of: 1) removing \$200 million of one-time funding for the Universities’ to eliminate their payment deferral;

and 2) Funding increases to the Universities for operating and capital purposes.

- Year to date, the Department of Education spent \$135.5 million more than the prior year. This spending growth is mostly due to enrollment growth and standard inflation funding provided in the enacted budget.
- During FY 2017, Department of Health Services spending declined by \$(530.1) million, which reflects the transfer of the state’s Medicaid Behavioral Health program to AHCCCS.

	General Fund Spending (\$ in Millions)			YTD Change from FY 16
	June 17	Change From June 16	Year-to-Date	
<b>Agency</b>				
AHCCCS	145.4	27.5	1,749.7	552.2
Corrections	98.9	16.5	1,044.2	7.0
Child Safety	27.3	(7.6)	374.2	(49.0)
Economic Security	10.7	(39.7)	523.9	(3.8)
Education	270.3	(15.6)	4,080.9	135.5
Health Services	(2.8)	(20.8)	75.6	(530.1)
Public Safety	5.4	2.6	113.2	22.2
School Facilities Board	14.2	(25.8)	228.0	(2.7)
Universities	55.8	(99.9)	693.2	(176.5)
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>49.1</u>	<u>(11.5)</u>	<u>591.9</u>	<u>40.9</u>
<b>Total</b>	<b>674.3</b>	<b>(174.3)</b>	<b>9,558.9</b>	<b>(4.3)</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>June 17</b>	<b>Change from June 16</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 16</b>
Dept. of Admin./Automation Projects Fund	1,987.5	(4,089.7)	34,604.3	3,540.0
ADOA – Sale/Leaseback Debt Service	-	-	84,117.4	2.8
Office of Administrative Hearings	62.1	(1.7)	860.5	(1.2)
Commission of African-American Affairs	9.0	0.1	122.9	(3.9)
Department of Agriculture	833.2	199.2	9,160.5	919.9
AHCCCS	145,414.9	27,480.5	1,749,729.3	552,175.1
Attorney General	2,961.0	(180.4)	24,085.4	364.9
State Board of Charter Schools	94.3	22.2	1,010.4	(35.9)
Department of Child Safety	27,282.8	(7,583.0)	374,189.5	(49,032.7)
AZ Commerce Authority	1,791.7	(491.6)	21,680.9	(5,119.1)
Community Colleges	72.9	(2,613.3)	54,181.5	(73.6)
Corporation Commission	100.6	34.5	859.7	250.7
Department of Corrections	98,912.6	16,458.2	1,044,198.5	7,025.9
County Funding	-	-	14,000.5	8,000.0
AZ State Schools for the Deaf & Blind	1,212.4	56.7	21,120.4	(2,001.7)
Office of Economic Opportunity	98.3	98.3	963.4	963.4
Department of Economic Security	10,710.8	(39,733.1)	523,867.6	(3,824.8)
State Board of Education	95.3	8.7	925.1	(270.2)
Department of Education	270,300.9	(15,584.9)	4,080,893.6	135,515.8
DEMA	5,111.2	701.3	12,509.6	(1,932.0)
DEQ – WQARF	-	-	2,823.6	(4,176.4)
Office of Equal Opportunity	15.3	5.8	187.0	(0.3)
State Board of Equalization	67.7	13.2	575.4	31.7
Board of Executive Clemency	54.1	(23.0)	741.5	(167.6)
Department of Financial Institutions	320.8	118.3	2,925.0	(4.5)
Department of Fire, Bldg and Life Safety	2.4	(185.0)	0.1	(2,207.3)
Department of Forestry and Fire Management	664.3	(654.2)	10,576.5	1,831.6
Department of Gaming	-	-	1,979.5	185.1
Arizona Geological Survey	-	(53.7)	-	(936.9)
Governor/OSPB	573.8	(82.0)	8,954.2	(1,135.0)
Department of Health Services	(2,774.4)	(20,794.8)	75,641.5	(530,134.2)
Arizona Historical Society	191.7	6.5	3,151.2	(6.0)
Prescott Historical Society of AZ	81.2	15.4	824.3	(73.7)
Department of Housing	13.2	13.2	811.5	811.5
Independent Redistricting Comm.	86.5	(17.1)	1,053.7	(706.2)
Department of Insurance	509.2	67.0	5,078.1	8.6
Judiciary				
Supreme/Superior Court	2,653.7	64.6	96,001.6	5,270.9
Court of Appeals	1,509.7	169.5	14,222.5	(78.0)
Department of Juvenile Corrections	2,873.8	(617.9)	23,339.2	(2,330.0)

Table 9 (Continued)

Agency	June 17	Change from June 16	Year-to-Date	YTD Change from FY 16
State Land Department	1,026.7	(1,553.5)	11,626.6	(776.8)
Legislature				
Auditor General	(205.9)	(2,078.5)	17,936.1	(668.5)
House of Representatives	984.2	90.2	13,316.6	(366.4)
Joint Legislative Budget Comm.	221.2	43.1	2,309.5	47.7
Legislative Council	717.2	128.1	6,696.4	452.6
Senate	625.9	(61.1)	8,905.6	958.9
Mine Inspector	131.6	(7.9)	1,172.4	(8.0)
Nav. Streams & Adjudication	9.7	(1.1)	127.4	6.6
Occupational Safety and Health Review	-	-	-	(2.5)
Arizona State Parks Board	-	(5.2)	-	(423.0)
Phoenix Convention Center	-	-	20,449.0	-
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	5,375.2	2,630.7	113,244.4	22,221.7
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	4.5	4.3	1,563.2	(32.3)
Real Estate Department	201.6	(107.7)	2,454.3	(107.1)
Department of Revenue	3,575.4	1,324.4	31,262.9	564.8
Rio Nuevo Distribution	13,988.5	979.7	13,988.5	979.7
School Facilities Board	14,190.9	(25,827.9)	227,962.7	(2,658.8)
Secretary of State	870.4	(1,606.4)	25,123.9	10,274.6
Tax Appeals Board	18.7	(19.2)	267.0	4.3
Office of Tourism	-	-	7,112.0	8.3
Department of Transportation	12.5	(30.2)	50.5	7.6
Governor's Office on Tribal Relations	12.4	1.6	57.0	(0.6)
Universities				
Board of Regents	496.0	(9,079.1)	36,116.4	5,300.3
Arizona State University	25,437.3	8,689.8	298,397.6	(82,279.5)
Northern Arizona University	8,439.7	(28,007.0)	101,227.0	(30,185.4)
University of Arizona	21,457.6	(71,552.5)	257,491.1	(69,331.6)
Department of Veteran Services	620.6	(253.2)	5,920.9	(89.8)
Department of Water Resources	2,180.4	558.1	12,039.6	230.8
Department of Weights & Measures	-	(130.8)	0.8	(1,192.2)
Other - State Treasurer/JP Salaries	54.5	(60.5)	1,082.5	(190.5)
Other - ADOT Capital (Navajo Nation Projects)	-	(1,200.0)	1,500.0	300.0
Other - ADOT Capital (Local HURF Distribution)	-	-	30,000.0	30,000.0
Other	-	-	181.7	38.1
<b>Total</b>	<b>674,341.0</b>	<b>(174,304.2)</b>	<b>9,558,948.0</b>	<b>(4,270.5)</b>

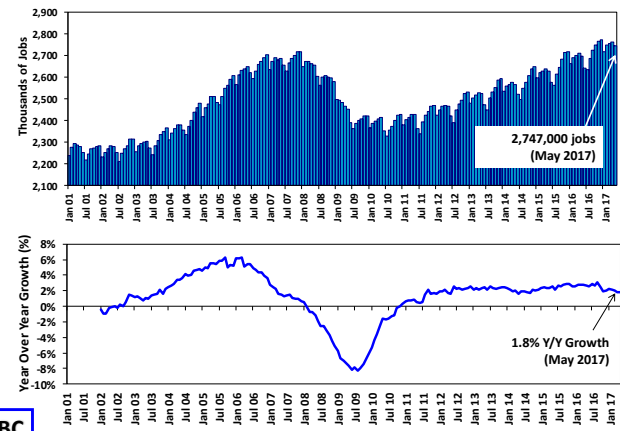
## Arizona Economic Trends

July 2017  
Appendix A

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

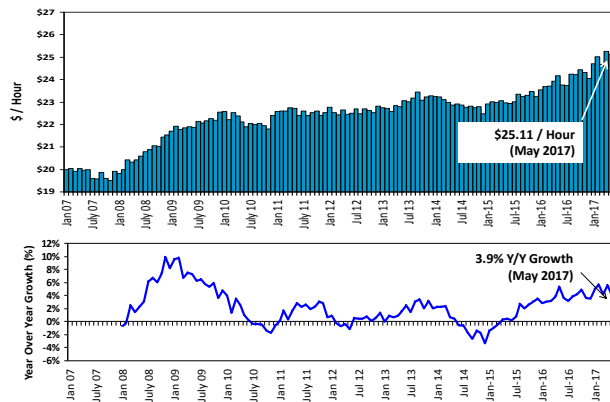
## Total Non-Farm Employment



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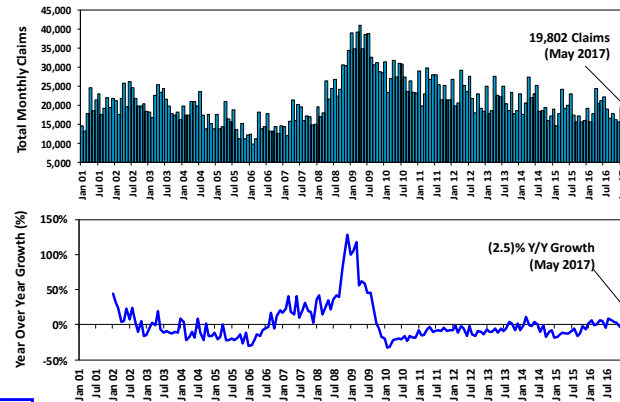
## Average Hourly Earnings – Private Sector



JLBC

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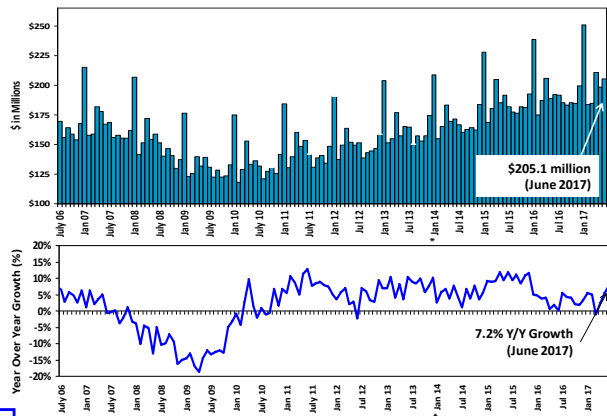
## Initial Claims for Unemployment Insurance



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## State Sales Tax Collections – Retail Category



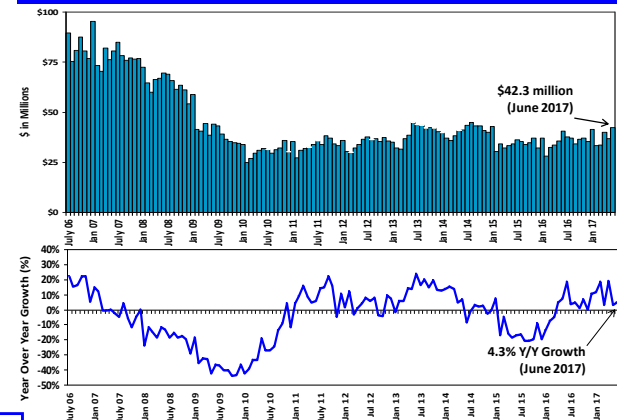
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Excludes temporary 1 c sales tax

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

5

## State Sales Tax Collections – Contracting Category

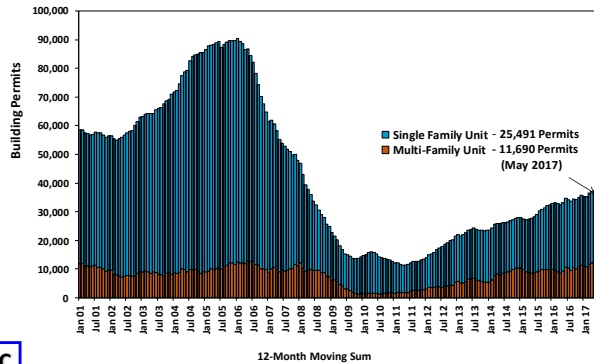


JLBC

Excludes temporary 1 c sales tax

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## Residential Building Permits



JLBC

12-Month Moving Sum

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