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"Year-to-date...FY 2018 General Fund revenues are 7.2% above the prior year and are \$257.9 million above forecast."

Summary

February General Fund revenue collections were \$412.8 million, which was 1.6% above the prior year and \$10.2 million above forecast.

February is the beginning of the state's tax filing season, and is typically one of the smaller overall collection months. This is due to the minimal amount of tax payments being processed and significant amount of refunds being issued.

In addition, the variation in refund activity can cause significant fluctuations in Individual Income Tax collections. While February saw strong Income Tax withholding growth (\$14 million above forecast), this was entirely offset by a significant increase in refunds (forecast loss of \$32 million).

After also factoring in minimal gains from tax payments, in total the Individual Income Tax category declined by (28)% below the prior year and posted a forecast loss of \$(16) million.

In terms of potential trends over the next several months, recent data (through mid-March) shows that the number of refunds issued so far by the state during the filing season has increased by 4.9%. However, without information on the average size of refunds, it is difficult to draw any conclusions on the level of refund activity over the remainder of the filing season.

In addition, significant payment activity usually does not begin to occur until late

March or early April, so little will be known about that component of Individual Income Tax for several more weeks.

In terms of the state's other major revenue categories, Sales Tax collections increased by 8.9% during the month and were \$9.0 million above forecast. The reasons behind the significant Sales Tax growth are unclear, however, as information on Sales Tax categories (such as retail) was not available from the Department of Revenue at this time.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, FY 2018 General Fund revenues are 7.2% above the prior year and are \$257.9 million above forecast.

In comparison to February revenues of \$412.8 million, February 2018 spending was \$612.1 million, which is a decrease of \$(10.6) million below the prior year.

Fiscal year-to-date, General Fund revenues of \$6.33 billion have been exceeded by \$7.23 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-March 2018 is \$1.78 billion.

In addition to the state's operating fund, the Budget Stabilization Fund (BSF) has a balance of \$457 million.

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February Revenues

	General Fund Revenues (\$ in Millions)		
	<u>FY 2018 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2017</u>
February	\$ 412.8	\$ 10.2	\$ 6.3
Year-to-Date	\$ 6,330.6	\$ 257.9	\$ 445.7

Sales Tax collections (preliminary estimate) of \$382.6 million were 8.9% above February 2017 and \$9.0 million above the forecast for the month. Year to date, collections have increased by 6.2% and are \$55.3 million above forecast.

Individual Income Tax net revenues of \$47.8 million in February were \$(18.6) million less than in the prior year and \$(15.7) million below the forecast for the month. Year to date, revenue has grown 10.2% over the prior year.

As indicated in *Table 2*, February withholding revenues increased by 9.6% from last year and were \$14.3 million above the forecast. A portion of the monthly increase may reflect impacts of increasing the state minimum wage by \$0.50 (to \$10.50) on January 1, 2018. Year-to-date withholding collections are 6.6% above FY 2017.

February estimated and final payments of \$24.7 million were 16.5% above last year and \$2.4 million above the forecast. Year to date, payments are 29.0% above FY 2017 and \$137.6 million above the forecast. As discussed more in previous issues of the *Monthly Fiscal Highlights*, there are several potential reasons for the large year-to-date increase in payments, such as a recent federal limit placed on State and Local Tax deductions and strong stock market growth in 2017. The primary cause of high year-to-date payment growth may not be clear until the April tax season concludes.

February Individual Income Tax refunds totaled \$(330.3) million – this compares to \$(277.3) million in February 2017 and a forecasted amount of \$(297.9) million. Year to date, refunds have led to a \$(21.4) million revenue decrease compared to the enacted forecast.

Corporate Income Tax net collections were \$5.4 million in February, which was \$7.7 million more than in the prior year and \$8.1 million above the forecast. Year to date, collections are \$(14.2) million below prior year collections and \$20.0 million above the enacted forecast.

Insurance Premium Tax collections of \$5.0 million in February were (49.8)% below the prior year, but \$3.0 million above the forecast. Year to date, collections are (2.6)% below last year and \$(7.6) million below the forecast.

The **Lottery Commission** reports that February ticket sales were \$81.2 million, which is \$2.8 million, or 3.6%, above sales in February 2017. Year-to-date sales are 18.6% above the prior year. In terms of General Fund collections, year-to-date lottery revenues are \$6.6 million above the prior year and \$6.2 million above the forecast.

Highway User Revenue Fund (HURF) collections of \$123.5 million in February were up 6.7% compared to February of last year and were \$4.2 million above forecast. Year-to-date collections are 3.9% above last year.

Due to delays in reporting final January revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For February, DOR has increased the amount of prior General Fund revenue collections by \$0.3 million, and the adjustment has been included in the reported year-to-date results.

	Individual Income Tax Growth Rates Compared to Prior Year	
	<u>February</u>	<u>YTD</u>
Withholding	9.6%	6.6%
Estimated/Final Payments	16.5%	29.0%
Refunds	19.1%	12.6%

Table 3

General Fund Revenue: Change from Previous Year and Budget Forecast February 2018

	Current Month					FY 2018 YTD (Eight Months)				
	Actual February 2018	Change From February 2017		Baseline Forecast		Actual February 2018	Change from February 2017		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$382,600,000	\$31,351,278	8.9 %	\$8,966,078	2.4 %	\$3,140,315,042	\$182,332,456	6.2 %	\$55,333,680	1.8 %
Income - Individual	47,844,156	(18,598,520)	(28.0)	(15,687,887)	(24.7)	3,067,672,064	283,977,766	10.2	193,638,015	6.7
- Corporate	5,385,603	7,735,294	--	8,147,158	--	159,932,023	(14,228,954)	(8.2)	19,992,016	14.3
Property	1,869,008	654,984	54.0	1,565,380	515.6	22,261,367	1,435,598	6.9	(184,844)	(0.8)
Luxury - Tobacco	1,753,969	(72,470)	(4.0)	0	0.0	14,686,300	(364,742)	(2.4)	(555,091)	(3.6)
- Liquor	2,834,057	384,620	15.7	0	0.0	23,767,202	1,151,673	5.1	1,115,301	4.9
Insurance Premium	5,002,323	(4,959,898)	(49.8)	2,993,435	149.0	213,032,689	(5,658,333)	(2.6)	(7,580,705)	(3.4)
Other Taxes	1,678,218	1,652,692	--	1,552,006	--	2,891,337	1,507,495	108.9	958,809	49.6
Sub-Total Taxes	\$448,967,333	\$18,147,980	4.2 %	\$7,536,169	1.7 %	\$6,644,558,024	\$450,152,960	7.3 %	\$262,717,181	4.1 %
<u>Other Revenue</u>										
Lottery	0	(17,992,300)	(100.0)	0	--	51,316,237	6,579,894	14.7	6,193,204	13.7
License, Fees and Permits	2,339,756	(163,407)	(6.5)	(993,869)	(29.8)	26,481,637	1,500,926	6.0	2,868,844	12.1
Interest	5,061	2,478	96.0	(221,169)	(97.8)	276,099	179,459	185.7	(291,398)	(51.3)
Sales and Services	11,427,739	435,103	4.0	1,603,709	16.3	22,292,763	417,736	1.9	(360,850)	(1.6)
Other Miscellaneous	(6,180,091)	(5,235,047)	553.9	(9,117,234)	--	8,467,190	(11,400,814)	(57.4)	(18,770,203)	(68.9)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	12,112,088	11,680,925	--	11,387,792	--	30,105,512	9,982,166	49.6	5,493,515	22.3
Sub-Total Other Revenue	\$19,704,553	(\$11,272,248)	(36.4) %	\$2,659,229	15.6 %	\$138,939,438	\$7,259,367	5.5 %	(\$4,866,888)	(3.4) %
TOTAL BASE REVENUE	\$468,671,886	\$6,875,733	1.5 %	\$10,195,398	2.2 %	\$6,783,497,462	\$457,412,326	7.2 %	\$257,850,293	4.0 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	(0.0)	(453,846,720)	(11,458,608)	2.6	0	(0.0)
One-Time Transfers	900,000	900,000	--	0	0.0	900,000	(291,548)	(24.5)	0	0.0
Sub-Total Other Adjustments	(55,830,840)	(532,326)	1.0 %	0	(0.0) %	(452,946,720)	(11,750,156)	2.7 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$412,841,046	\$6,343,406	1.6 %	\$10,195,399	2.5 %	\$6,330,550,742	\$445,662,170	7.6 %	\$257,850,294	4.2 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$123,478,427	\$7,751,779	6.7 %	\$4,244,821	3.6 %	\$959,258,954	\$35,720,310	3.9 %	(\$214,425)	(0.0) %

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 2.5% in the fourth quarter of 2017. This estimate reflects a slow down from the +3% growth during the prior 2 quarters. The modest slowdown was primarily due to a decrease in inventory investment. Declining performance in that category was partly offset by a pick up in consumption expenditures, exports, business and residential investment, and government spending.

The Conference Board's **U.S. Consumer Confidence Index** increased by 5.2% to 130.8 in February. The latest reading is 12.7% above the index in February 2017 and is at its highest level since November 2000. The increase in February reflected greater consumer optimism about near-term economic expectations and improvement in consumer assessments about current conditions. The percentage of surveyed individuals that think jobs are currently plentiful minus the percent that think jobs are scarce rose from 20.8% to 24.7% during the month, which was the highest reading since 2001. Economists expect the large rise in confidence was partly driven by higher paychecks resulting from reductions to federal income tax rates in 2018.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.4% in January. Monthly growth was widespread, but was led by 3.0% growth in energy prices. Despite the monthly increase, the index's year-over-year growth rate remained at 1.7% during the month. That rate remains below the Federal Reserve Bank's (Fed) 2.0% annual inflation target. The index for core inflation (all items less food and energy) was 1.5% above the reading in January 2017.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.2% in February and increased 2.2% above January 2018 prices. The monthly index increase had a variety of positive contributors including the indexes for shelter, apparel and motor vehicle insurance. Core inflation (all items less food and energy) increased 0.2% for the month, along with increases in the indexes for household furnishings, education and personal care. The indexes for communication, new vehicles and medical care saw decreases for the month.

The Conference Board's **U.S. Leading Economic Index** increased 1.0% in January to 108.1 and stands 6.2% above its January 2017 reading. The strongest positive contributor for the month was the building permits index,

followed by the indexes for stock prices and Institute for Supply Management (ISM) new orders. Of the index's 10 components, 8 made positive contributions for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In January, Arizona's 12-month total of **single-family building permits** was 27,921, or 14.6% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 9.6%.

The 12-month total of multi-family building permits has been up and down. In January, Arizona's total of 10,608 **multi-family building permits** was (3.3)% less than in 2017. Nationwide multi-family permits were 1.2% more than in 2017.

Tourism

Revenue per available room was \$80.96 in January, which was 4.6% above the amount in January 2017. **Ridership** through Phoenix Sky Harbor Airport during the month was up 2.7% compared to January 2017.

Employment

As a result of the annual benchmarking revision of establishment survey data, the Office of Economic Opportunity (OEO) reported in March that Arizona added on average 4,500 more jobs per month in 2016 than previous estimates had indicated. The average monthly revision in 2017 was +21,600 jobs. Based on the benchmark revision, the state had a net increase of 63,900 (+2.4%) nonfarm jobs in 2017.

The latest estimate of **nonfarm employment** showed that the state shed (46,800) jobs in January compared to December 2017. Job losses typically occur in January when the holiday season comes to an end. The average job reduction for the month of January in the prior 10 years was (56,600). Compared to January 2017, nonfarm employment was up by 2.2%, or 60,200 jobs.

The household survey data used to estimate the state's **unemployment rate** was also recently revised. January's seasonally adjusted jobless rate of 4.8% was 0.1% higher than in the prior month. Compared to a year ago, the unemployment rate is down by (0.4)%. The U.S. unemployment rate in January was 4.1%.

OEO reported that 14,230 initial claims for unemployment insurance were filed in February, a decrease of (5.3)% compared to the same month last year.

Monthly Indicators (Continued)

According to OEO, the state had a total of 20,475 claimants receiving unemployment insurance benefits in February, a decrease of (6.1)% from January. This figure is (12.3)% below the February 2017 level.

In January, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.8 hours. This workload was the same as the level during the prior month, as well as 0.3% above the level in January 2017. The **Average Hourly Earnings** received by private sector workers was \$25.40, which is (0.6)% below the average in the prior month. Year-over-year growth in earnings slowed from 6.2% in December to 2.8% in January. Year-over-year growth dropped below 5.0% for the first time since June 2017.

State Agency Data

At the beginning of March 2018, the total **AHCCCS caseload** was 1.80 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 536,700 members.

Total monthly enrollment decreased by (13,800) during February and is (4.0)% lower than a year ago. The monthly decrease was spread across most populations.

The Traditional and Proposition 204 populations of low income parents and children comprised the largest part of the decrease, collectively falling (10,300), or (0.8)% from the prior month. Parent and child enrollment in the Traditional and Proposition 204 populations is (5.0)% lower than a year ago.

Laws 2016, Chapter 112 reopened enrollment in KidsCare program in September 1, 2016. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by August 2016. Through March 1, 2018, enrollment in the program was 25,200, or 1,500 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In February 2018, the childless adult population decreased by (2,100), or (0.7)%. At 305,600, this population is (3.4)% lower than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (1,100) in February and now totals 77,100 individuals. Enrollment is (5.4)% lower than a year ago. The federal share of this population's cost decreased from 95% to 94% in January 2018.

There were 15,573 **TANF recipients** in the state in February, representing a (2.2)% monthly caseload decrease from January. The year-over-year number of TANF recipients has declined by (15.0)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February, 846,187 people received food stamp assistance in the state, representing a (2.3)% decrease below January. Compared to February 2017, the level of food stamp participation has declined by (8.7)%.

The **inmate population** was 41,730 as of February 28, 2018. This is a (0.1)% decrease since January, and a (1.1)% decrease since last February.

Based on information the Department of Child Safety provided for January 2018, **reports of child maltreatment** totaled 47,407 over the last 12 months, a decrease of (1.2)% over the prior year. There were 15,117 **children in out-of-home care** as of December 2017, or (11.9)% less than in December 2016. Compared to the prior month, the number of out-of-home children decreased by (1.6)%.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County **probation caseload** was 28,527 as of December 2017. This was an increase of 241 above the prior month, and a 575 increase since last December. In addition, the state's non-Maricopa County probation caseload was 19,127. This was an increase of 51 above the prior month, and a 147 increase since last December. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

Table 4

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	January	4.8%	0.1%	(0.4)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2017	9.5%	(0.4)%	(1.3)%
- Initial Unemployment Insurance Claims	February	14,230	(23.2)%	(5.3)%
- Unemployment Insurance Recipients	February	20,475	(6.1)%	(12.3)%
- Non-Farm Employment - Total	January	2,791,400	(1.8)%	2.2%
Manufacturing	January	168,800	(0.6)%	4.9%
Construction	January	148,900	(1.5)%	8.8%
- Average Weekly Hours, Private Sector	January	34.8	0.0%	0.3%
- Average Hourly Earnings, Private Sector	January	\$25.40	(0.6)%	2.8%
<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	January	27,921	1.7%	14.6%
Multi-family	January	10,608	5.9%	(3.3)%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	January	5,313	42.2%	(0.1)%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	January	\$269,000	1.3%	12.1%
- Phoenix S&P/C Home Price Index (2000 = 100)	December	173.82	0.2%	5.6%
- Maricopa Pending Foreclosures	January	3,030	(0.6)%	(5.5)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	January	21,664	8.3%	(11.0)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	January	3,585,024	(3.7)%	2.7%
- National Park Visitors	December	792,536	(14.3)%	22.7%
- State Park Visitors	February	280,299	0.8%	7.8%
- Revenue Per Available Hotel Room	January	\$80.96	37.9%	4.6%
<i>General Measures</i>				
- Arizona Leading Index -- 6 month projected growth	December	0.6%	(5.9)%	(2.3)%
- Arizona Personal Income	3rd Q 2017	\$290.2 billion	0.7%	2.4%
- Arizona Population	July 2017	7,016,270	N/A	1.6%
- 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	March 1 st	1,795,009	(0.8)%	(4.0)%
Acute Care Traditional		1,030,826	(0.8)%	(6.6)%
Prop 204 Childless Adults		305,584	(0.7)%	(3.4)%
Other Prop 204		181,739	(0.8)%	5.2%
Adult Expansion		77,098	(1.4)%	(5.4)%
Kids Care I		25,154	6.3%	65.1%
Long-Term Care – Elderly & DD		61,298	0.4%	3.9%
Emergency Services		113,308	(1.8)%	(6.2)%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	January	47,407	(0.1)%	(1.2)%
DCS Out-of-Home Children Filled Caseworkers (1406 Budgeted)	December	15,117	(1.6)%	(11.9)%
- ADC Inmate Growth	February	1,305	(2)	(39)
- Department of Economic Security	February	41,730	(0.1)%	(1.1)%
- TANF Recipients	February	15,573	(2.2)%	(15.0)%
- SNAP (Food Stamps) Recipients	February	846,187	(2.3)%	(8.7)%
- Judiciary Probation Caseload				
Non-Maricopa	January	19,127	51	147
Maricopa County	January	28,527	241	575
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	4 th Q, 2017 (2 nd Estimate)	\$17.3 trillion	2.5%	2.5%
- Consumer Confidence Index (1985 = 100)	February	130.8	5.2%	12.7%
- Leading Indicators Index (2016 = 100)	January	108.1	1.0%	6.2%
- Consumer Price Index, SA (1982-84 = 100)	February	249.6	0.2%	2.2%
- Personal Consumption Price Index (2009 = 100)	January	114.1	0.4%	1.7%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Building Renewal Spending – Pursuant to an FY 2018 Capital Outlay Bill (Laws 2017, Chapter 306) footnote, the Arizona Department of Administration (ADOA) reported the status of all building renewal projects and building renewal expenditures. As of December 31, 2017, ADOA has spent \$22.3 million of its \$27.0 million FY 2017 building renewal appropriation. The majority of FY 2017 projects are complete with the remaining projects in progress encumbering an additional \$3.9 million. In addition, ADOA has spent \$2.5 million of its \$8.3 million FY 2018 building renewal appropriation. The majority of FY 2018 projects are in progress encumbering an additional \$2.2 million. (Rebecca Perrera)

Arizona Health Care Cost Containment System – Report on Arnold v. Sarn – Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on its implementation of the *Arnold v. Sarn* joint agreement. The state has been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population in Maricopa County. In January 2014, a joint agreement was filed with the court to terminate the lawsuit, and the agreement received court approval in February 2014.

The agreement requires availability of certain behavioral health services for individuals with a serious mental illness in Maricopa County ("class members"). These services include assertive community treatment teams, peer support services, supported employment, supportive housing, and crisis services. AHCCCS continues to comply with these service capacity requirements. The agency is also working with a consultant to ensure that services are delivered in accordance with best practices prescribed by the federal Substance Abuse and Mental Health Services Administration.

AHCCCS estimates that the annual cost of providing *Arnold v. Sarn* services is approximately \$58 million, including \$28 million from the General Fund. The General Fund amounts consists of:

- \$4.9 million for Assertive Community Treatment teams
- \$0.5 million for Peer Support Services
- \$0.6 million for Supported Employment
- \$21.6 million for Supported Housing, which consists of \$11.2 million for rental subsidies and \$10.4 million for support services

The agreement also limits the census of class members at the Arizona State Hospital (ASH) to 55 members. AHCCCS reports that there are currently 55 members receiving treatment at ASH. (Patrick Moran)

Arizona Health Care Cost Containment System – Report on Proposition 206 – Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on the impact of Proposition 206 minimum wage increases on contracted providers for the Arizona Long Term Care System (ALTCs). ALTCs includes persons who are elderly or physically disabled (EPD) that are funded within AHCCCS' budget as well as persons with an intellectual or developmental disability (DD) that are funded within the Department of Economic Security's (DES) budget.

The network adequacy study was conducted by a consultant contracted with AHCCCS. The main findings of the study were as follows:

- Based on measures of client access to care currently used by AHCCCS, the initial minimum wage increased to \$10.00 in January 2017 "has not had a significant direct impact to date on access to services." The existing indicators include cases where certain in-home services were requested but not delivered within the timeframe requested ("critical service gaps"), lack of after-hours availability of providers, member grievances associated with lack of provider availability, and provider terminations or reduction in services due to provider rates. The consultant reported that each of these indicators suggested the access to care issues remained rare after initial implementation of Proposition 206 minimum wage increases.
- The consultant did find, however, that Proposition 206 and Proposition 414 "have added fiscal stress to providers." For EPD providers, wages for direct care workers increased by 9.4% for home and community-based services (HCBS), 12.4% for assisted living facilities, and 5.2% for nursing facilities. DD providers experienced similar increases ranging from 6.1% to 8.6% for HCBS. Many EPD and DD providers also reported high turnover and challenges in filling vacancies.
- There are differences in utilization of services and distance from providers across regions that predated Proposition 206. The consultant recommended that these differences be used as the baseline to analyze the effects of Proposition 206 going forward.

Summary of Recent Agency Reports (Continued)

The consultant made recommendations to AHCCCS in evaluating and addressing Proposition 206 costs in the future, including improved verification of self-reported data from health plans, developing a new measure to serve as a "leading" indicator of access to care issues, ongoing analysis of utilization trends, value-based payments to providers that successfully lower turnover, and conducting additional provider surveys. (Patrick Moran)

AHCCCS, DES, & DCS – Report on Preliminary Actuarial Estimates for FY 2019 Capitation Rate Changes – Pursuant to FY 2018 General Appropriation Act footnotes, the Arizona Health Care Cost Containment System (AHCCCS) submitted a report on preliminary Medicaid capitation rate increases for contract year (CYE) 2019. Their submission includes information for AHCCCS, the Department of Economic Security (DES), and the Department of Child Safety (DCS).

In their report, AHCCCS provided information on components of potential CYE 2019 capitation rate changes. The report does not include a projection of overall capitation rate growth. Potential changes include:

- Administrative savings resulting from competitive bidding of contracts for integrated physical and behavioral health services. Since release of this report, AHCCCS awarded the contracts to 7 integrated managed care organizations for coverage from FY 2019 through FY 2023. The winning bids do appear to result in some administrative savings and the JLBC Staff is working with AHCCCS to estimate those savings.
- Increases based on medical expense and utilization trends. The agency's actuaries will continue to analyze trends through the summer of 2018.
- Modifications to rate differentials for hospitals, nursing facilities, integrated clinics and other providers that meet requirements under a value-based performance program. In the long run, AHCCCS expects that the rate differential program will incentivize provider behavior that reduces capitation rate growth.
- Rate increases for home and community based services for added labor costs of federal regulations implemented in recent years.
- Annualization of mid-year rate increases for the long term care program to reimburse providers for added costs of increasing the minimum wage on January 1, 2018 under Proposition 206 and Proposition 414. The mid-year increase previously received a favorable review at the JLBC meeting held on January 9, 2018.

- Annualization of other mid-year rate increases favorably reviewed at the January 9, 2018 JLBC meeting, including increases for medication assisted treatment, a rebase of inpatient hospital reimbursement, and newborn screening. (Jon Stall)

Department of Child Safety – Quarterly Report on Foster Care and Medicaid – Laws 2013, Chapter 220, as amended by Laws 2016, Chapter 273, requires the Department of Child Safety (DCS) to report on foster care and Medicaid eligibility. During the second quarter of FY 2018, DCS reports the following data in foster care and Medicaid eligibility:

1. There were 14,481 children eligible for Medicaid in foster care at the end of the second quarter, which represents approximately 96% of children in out-of-home care.
2. The amount of non-Medicaid expenditures for behavioral health inpatient facilities and behavioral health residential facilities was \$1,006,500 in the second quarter of FY 2018.
3. The amount of non-Medicaid behavioral health counseling/psychiatric services expenditures was \$142,200 in the second quarter of FY 2018. (Patrick Moran)

Department of Child Safety – Third-Party Report on CHILDS Replacement Project – Pursuant to an 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 second quarter of FY 2018.

The vendor concluded that overall the CHILDS replacement project continues to be positioned for success. The report includes evaluations of 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" and 2 metrics indicated "moderate health." The report also includes evaluations of project management practice, such as communication risks to the project, project scope, and resource management. The vendor concluded that the project management exhibited strong health on 7 of 9 measures and moderate health on the remaining 2 measures.

The report noted that DCS is still finalizing its procurement of a "technical integrator" for the

Summary of Recent Agency Reports (Continued)

project, which represents a delay of 6 months compared to DCS' original project schedule. (Patrick Moran)

Department of Child Safety – Monthly Report on Hiring – Pursuant to an FY 2018 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on its progress in hiring and retaining child safety staff through February 2018. (See *Table 5 below*.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,305 in February, or (101) 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 (2) since January.

There were also 1,411 non-direct line child safety staff in February, or (100) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions increased by 8 compared to January. (Patrick Moran)

Arizona Department of Corrections – Third-Party Report on Adult Inmate Management System (AIMS) Replacement – Pursuant to an FY 2017 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) provided quarterly updates of the AIMS Replacement project for the period ending November 30, 2017. The third-party reviewer continues to report a stable fiscal status and cooperation between the vendor and department. The review described challenges with the sentence calculation module and data conversion. The department and vendor have dedicated additional staff to addressing the module development and data error issues. The review suggested areas where the vendor and staff should focus their validation efforts. As of February 2018, ADC projects activating the system by June 30, 2018. (Micaela Larkin)

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

In the second quarter of FY 2018, the ARRF received revenues totaling \$11.5 million and had expenditures totaling \$5.2 million. Revenues for investigating and prosecuting agencies were highest in Maricopa County at \$7.2 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total in the quarter with \$2.1 million in ARRF monies spent.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Josh Hope)

Department of Education – Override Report – Pursuant to A.R.S. § 15-249.04, the Arizona Department of Education (ADE) has reported FY 2018 data on school district budget overrides. Overrides permit school districts to generate and spend additional monies from local property taxes if approved by voters. The ADE report indicates that 94 districts statewide have Maintenance and

Table 5

DCS Filled FTE Positions as of February 2018

	<u>Funded</u>	<u>February</u>	<u>Difference</u>
Caseworkers	1,190	1,072	(118)
Hotline Staff	76	63	(13)
Staff in Training	<u>140</u>	<u>170</u>	<u>30</u>
<i>Subtotal - Direct Line</i>	1,406	1,305	(101)
<i>Subtotal - Non-Direct Line Staff</i>	<u>1,511</u>	<u>1,411</u>	<u>(100)</u>
Grand Total ^{1/}	2,917	2,716	(201)

^{1/} Excludes 276.2 Attorney General Staff.

Summary of Recent Agency Reports (Continued)

Operation (M&O) overrides pursuant to A.R.S. § 15-481 in FY 2018, 2 have “Special Program” overrides pursuant to A.R.S. § 15-482, and 25 have “District Additional Assistance” overrides pursuant to A.R.S. § 15-481. The total amounts budgeted for overrides for FY 2018 include \$492.0 million for both types of M&O overrides combined and \$83.4 million for District Additional Assistance overrides. (Steve Schimpp)

Judiciary – Report on Probation Officer Pay Adjustments

– Pursuant to an FY 2018 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) reported on the county-approved salary adjustments provided to probation officers since the last report on September 30, 2016.

According to the AOC, 9 of the 15 Arizona counties increased the salary range from FY 2017 to FY 2018 for at least one of their probation job categories. The increases ranged from 3% to 21%.

The AOC reports that the General Fund allocation to counties for probation and drug courts increased \$2.4 million in FY 2017, or 8% overall (see *Table 6 for details*).

The report indicates that the number of state-funded Adult Probation officers increased from 259.8 in FY 2016 to 275.8 in FY 2017, or 6.2%. The number of Juvenile Probation officers decreased from 70.2 to 66.4, or (5.3)%. These numbers include both case-carrying and non-case-carrying officers.

AOC reports that the average statewide salary for Adult Probation officers decreased from \$46,200 in FY 2016 to \$45,800 in FY 2017. The average statewide salary for Juvenile Probation officers increased from \$46,200 in FY 2016 to \$46,800 in FY 2017. These salaries include both case-carrying and non-case-carrying officers. (Geoffrey Paulsen)

Table 6

FY 2017 General Fund Allocation by County ^{1/}

<u>County</u>	<u>Change over 2016</u>	<u>% Change</u>
Apache	\$ (6,410)	(0.9)
Cochise	436,256	34.0
Coconino	183,181	8.5
Gila	24,067	3.7
Graham	120,239	12.7
Greenlee	28,705	8.1
La Paz	16,562	6.0
Maricopa	(124,900)	(69.0)
Mohave	126,887	6.5
Navajo	(19,969)	(1.5)
Pima	925,452	10.8
Pinal	257,516	7.5
Santa Cruz	38,083	4.9
Yavapai	397,497	12.2
Yuma	4,134	0.1
Total	\$2,407,300	8.0

^{1/} Includes Standard and Intensive Probation, Interstate Compact and Drug Court Allocations

February Spending

February 2018 General Fund spending was \$612.1 million, which is a decrease of \$(10.6) million below February 2017. (See Tables 7 & 8).

- Year-to-date, Department of Education (ADE) spending has increased by \$76.6 million compared to the prior year.
- School Facilities Board spending has increased by \$48.7 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>Feb 18</u>	<u>Change From Feb 17</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 17</u>
Agency				
AHCCCS	157.1	54.3	1,280.9	113.9
Corrections	79.3	(7.5)	740.1	49.1
Child Safety	17.4	(18.4)	239.8	(28.6)
Economic Security	5.2	(12.8)	523.8	37.1
Education	262.2	36.4	3,107.4	76.6
Health Services	6.8	2.6	63.3	5.2
Public Safety	2.4	(1.2)	68.2	3.3
School Facilities Board	0.1	(41.6)	261.6	48.7
Universities	58.2	8.6	470.8	21.0
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>23.4</u>	<u>(31.0)</u>	<u>387.9</u>	<u>(22.8)</u>
Total	612.1	(10.6)	7,227.9	303.5

General Fund Spending				
(\$ in Thousands)				
Agency	February 18	Change from February 17	Year-to-Date	YTD Change from FY 17
Dept. of Admin./Automation Projects Fund	1,394.8	17.3	25,778.7	(1,566.5)
ADOA – Sale/Leaseback Debt Service	-	-	84,115.1	(2.3)
Office of Administrative Hearings	31.5	(34.0)	622.4	33.8
Commission of African-American Affairs	8.9	(10.9)	91.0	5.1
Department of Agriculture	605.6	36.3	6,567.4	482.9
AHCCCS	157,086.1	54,320.8	1,280,945.5	113,865.1
Attorney General	1,701.0	57.0	16,701.5	1,686.8
State Board of Charter Schools	79.8	12.3	710.8	53.9
Department of Child Safety	17,387.4	(18,429.0)	239,833.7	(28,642.7)
AZ Commerce Authority	1,791.7	44.1	14,483.6	44.1
Community Colleges	252.2	(11.4)	40,877.2	1,070.2
Corporation Commission	65.3	29.3	1,415.8	804.5
Department of Corrections	79,291.7	(7,488.7)	740,115.3	49,121.7
County Funding	-	-	15,650.7	1,650.2
AZ State Schools for the Deaf & Blind	850.8	(1,615.1)	15,677.5	(672.9)
Office of Economic Opportunity	31.2	31.2	327.0	(449.2)
Department of Economic Security	5,227.7	(12,843.4)	523,826.4	37,097.4
State Board of Education	89.5	32.7	728.2	117.9
Department of Education	262,201.8	36,383.7	3,107,382.4	76,555.4
DEMA	1,714.5	1,753.3	7,696.7	2,089.6
DEQ – WQARF	-	-	2,823.6	-
Office of Equal Opportunity	12.8	3.5	127.9	(6.1)
State Board of Equalization	25.7	(0.9)	392.7	(15.7)
Board of Executive Clemency	55.1	14.1	648.1	144.8
Department of Financial Institutions	146.7	(50.5)	1,363.5	(496.1)
Department of Fire, Bldg and Life Safety	-	-	-	2.4
Department of Forestry and Fire Management	514.0	114.4	6,694.8	2,309.6
Department of Gaming	-	-	1,779.5	(75.0)
Governor/OSPB	641.0	254.5	8,103.3	1,920.4
Department of Health Services	6,776.9	2,645.1	63,315.1	5,219.6
Arizona Historical Society	202.1	(7.1)	1,701.4	(495.6)
Prescott Historical Society of AZ	57.1	(2.3)	559.9	33.7
Department of Housing	-	(60.3)	246.0	(334.9)
Independent Redistricting Comm.	-	(40.6)	0.8	(757.7)
Department of Insurance	336.8	(93.9)	3,659.6	427.5
Judiciary				
Supreme/Superior Court	2,417.1	139.3	60,484.7	1,389.9
Court of Appeals	1,113.0	89.3	9,803.6	815.0
Department of Juvenile Corrections	(259.7)	(1,115.0)	12,757.1	(1,731.8)

Table 8 (Continued)

Agency	February 18	Change from February 17	Year-to-Date	YTD Change from FY 17
State Land Department	612.8	8.3	7,585.2	819.7
Legislature				
Auditor General	1,624.1	54.5	14,814.6	1,992.7
House of Representatives	1,178.2	(77.4)	9,496.7	902.5
Joint Legislative Budget Comm.	205.6	45.3	1,702.1	193.3
Legislative Council	450.7	(96.4)	4,402.1	(182.9)
Senate	788.6	45.9	6,285.3	567.5
Mine Inspector	80.6	6.0	806.4	71.6
Nav. Streams & Adjudication	9.0	(2.9)	87.6	1.0
Phoenix Convention Center	-	-	22,499.0	2,050.0
Comm. for Postsecondary Ed.	-	-	1,646.8	254.8
Department of Public Safety	2,405.4	(1,172.2)	68,217.7	3,268.3
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	0.3	0.3	646.9	(581.1)
Real Estate Department	156.2	10.2	1,732.1	31.6
Department of Revenue	2,269.7	(364.2)	19,723.0	0.7
School Facilities Board	102.7	(41,626.5)	261,638.8	48,710.5
Secretary of State	795.3	(26.1)	10,188.8	(9,530.2)
Tax Appeals Board	8.9	(25.0)	190.9	4.2
Office of Tourism	-	-	6,400.8	213.6
Department of Transportation	0.6	(36.4)	29.6	(8.1)
Governor's Office on Tribal Relations	0.6	2.0	16.9	(17.2)
Universities				
Board of Regents	76.1	4,866.0	5,635.5	(8,850.1)
Arizona State University	26,688.3	2,003.9	213,506.0	16,096.4
Northern Arizona University	9,051.1	614.7	72,408.5	4,967.1
University of Arizona	22,384.2	1,072.6	179,287.7	8,795.3
Department of Veteran Services	403.0	12.6	3,772.7	83.8
Department of Water Resources	858.1	142.4	10,332.2	3,548.0
Department of Weights & Measures	-	-	(1.0)	(1.8)
Other - State Treasurer/JP Salaries	86.4	20.7	757.1	(0.4)
Other - ADOT Capital	-	(30,000.0)	-	(31,500.0)
Other	-	(219.7)	125.0	(56.7)
Total	612,086.6	(10,566.2)	7,227,948.1	303,543.4

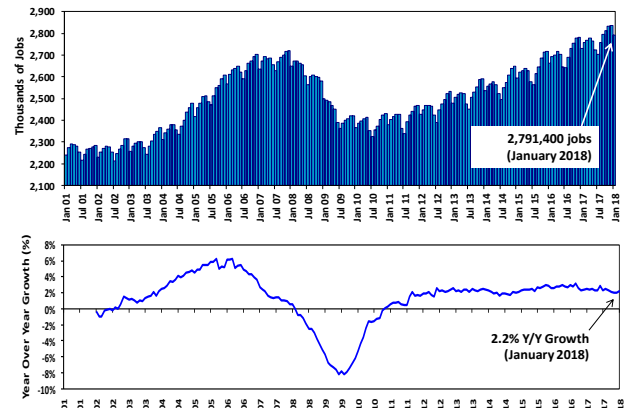
Arizona Economic Trends

March 2018
Appendix A

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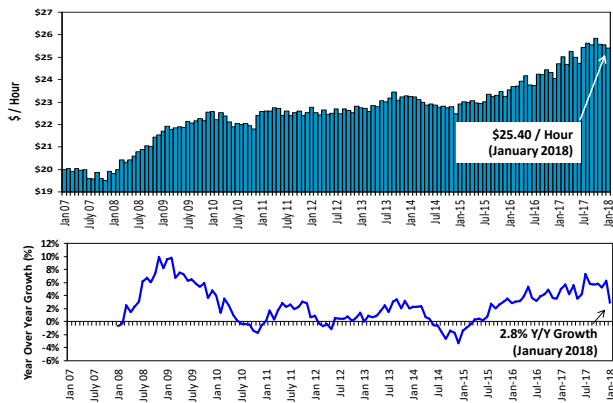
- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits

Total Non-Farm Employment



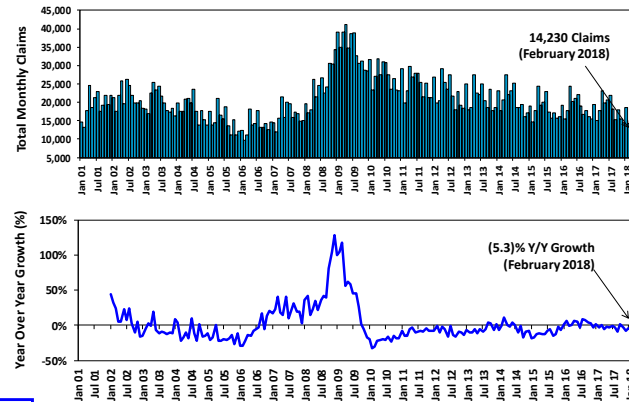
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Average Hourly Earnings – Private Sector



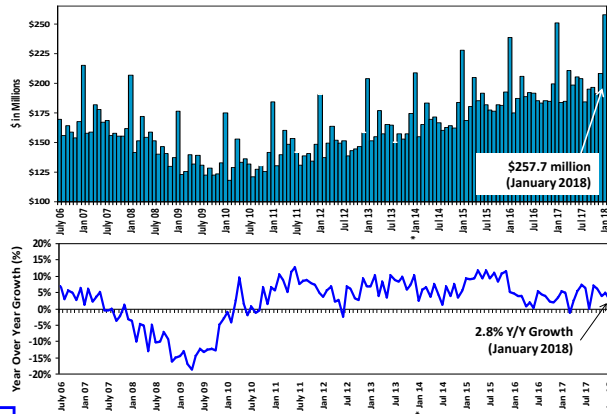
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Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



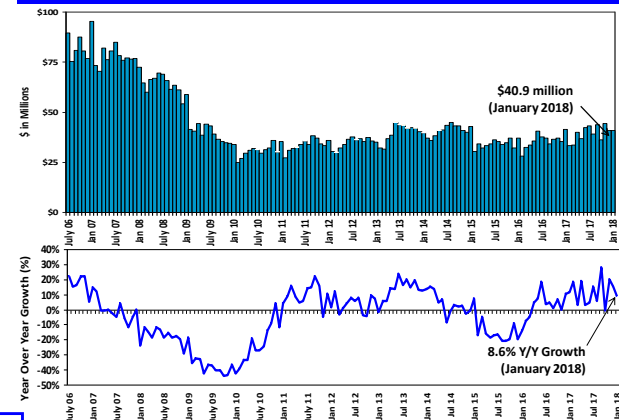
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Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

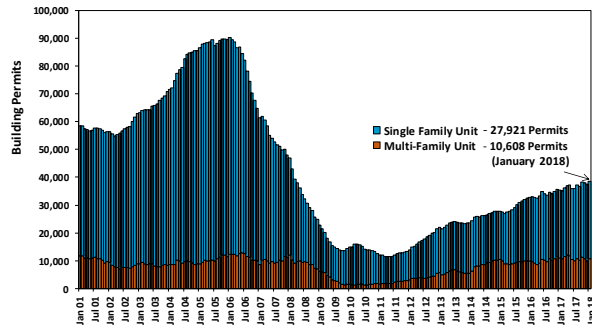


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Excludes temporary 1 c sales tax

6

Residential Building Permits



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12-Month Moving Sum

7