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“Year-to-date...FY 2018 General Fund revenues are 6.2% above the prior year and are \$261.7 million above forecast.”

Summary

March General Fund revenue collections of \$531.1 million were (5.5)% below the prior year and \$(1.6) million below forecast.

Sales, Individual Income and Corporate Income Taxes all posted healthy gains over March 2017. Insurance Premium Taxes (IPT), however, declined sharply from March 2017. The IPT losses are likely due to a timing issue and are expected to be recouped in April.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, FY 2018 General Fund revenues are 6.2% above the prior year and are \$261.7 million above forecast.

As we have described in prior reports, the large year-to-date forecast gain has been driven by a 56.7% increase in Individual Income Tax payments in December and January. In part, this increase may be due to tax filers increasing payments prior to the cap of State and Local Tax (SALT) deductions taking place in federal Tax Year 2018. While taxpayers may have paid early so as to benefit their federal return, the underlying state income tax liability has not changed. As a result, the early payments may be accompanied by larger than expected refunds this spring.

Given that we are in the middle of tax filing season, we are not yet able to make any definitive conclusions about the growth pattern in refunds. So far in filing season, refunds are not significantly outpacing last

year’s results. The Department of Revenue, however, will probably continue to process refunds for another 6 weeks.

April FAC Summary

The [Finance Advisory Committee](#) (FAC) met on April 11, 2018 to update its 4-sector revenue forecast. The FAC is a 13-member panel of private and public-sector economists and their views serve as one of the 4 equal inputs into JLBC’s Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) econometric models.

The FAC heard presentations on General Fund Revenue collections, the U.S. and Arizona economy, and state cash flows. The JLBC Staff provided members with revised [FY 2018 – FY 2021](#) revenue estimates based on the updated April 4-sector revenue forecast.

In comparison to the January base revenue forecast, the April FAC projections are significantly higher for FY 2018, increasing from 4.3% to 5.6%. In part, this revision reflects the growth in Individual Income Tax payments discussed above. The projected revenue growth rates for FY 2019 through FY 2021 were largely unchanged (See [Table 1](#)).

Based on year-to-date growth, legislative budget discussions had already envisioned incorporating most of this forecast revision. The updated 4-sector April forecast would raise the projection by another \$51 million.

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Summary (Continued)

Table 1
Comparison of January and April FAC Forecasts

	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>	<u>FY 21</u>
January	4.3%	3.6%	4.3%	4.5%
April	5.6%	3.7%	4.2%	4.5%

pupil amount anticipated for FY 2018 because of projected growth in Proposition 301 sales tax revenues and land trust earnings for FY 2019.

Classroom Site Fund Report

The JLBC Staff is required to annually determine by March 30 of each year the estimated K-12 Classroom Site Fund (CSF) per pupil amount for the upcoming budget year. The CSF is funded from the Proposition 301 0.6¢ sales tax and from K-12 trust land endowment earnings.

Under these parameters, public schools will receive \$423 per weighted pupil from the CSF for FY 2019. The \$423 per pupil amount would be higher than the \$386 per

March Revenues

Table 2

	General Fund Revenues (\$ in Millions)		
	<u>FY 2018 Collections</u>	<u>Difference From Enacted Forecast</u>	<u>Difference From FY 2017</u>
March	\$ 531.1	\$ (1.6)	\$ (30.6)
Year-to-Date	\$ 6,867.1	\$ 261.7	\$ 420.5

Sales Tax collections of \$381.0 million were 8.0% above March of last year and \$0.5 million above the forecast for the month. March tax collections reflect sales activities that occurred in February. Year-to-date, collections are up by 6.4% and are \$56.1 million above forecast.

Sales tax collections by category for March are shown in *Table 3*. The 5 major categories of the state's sales tax shown in the table account for approximately 90% of total collections.

Table 3
Sales Tax Growth Rates Compared to Prior Year

	<u>March</u>	<u>YTD</u>
Retail	6.8%	4.9%
Contracting	15.9%	14.3%
Use	9.7%	9.1%
Restaurant & Bar	7.6%	6.2%
Utilities	5.1%	2.7%

Individual Income Tax net revenues of \$123.0 million in March were \$17.2 million more than in the prior year and \$0.3 million above the forecast for the month. Year-to-date, revenue has grown 10.4% over the prior year.

As indicated in *Table 4*, March withholding revenues increased by 2.5% from last year and were \$(2.7) million below the forecast. Year-to-date withholding collections are 6.1% above FY 2017.

March estimated and final payments of \$77.1 million were 11.8% above last year and \$4.7 million above the forecast. Year-to-date, payments are 27.2% above FY 2017 and \$142.6 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

March Revenues (Continued)

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.

March Individual Income Tax refunds totaled \$(342.3) million – this compares to \$(341.9) million in March 2017 and a forecasted amount of \$(340.6) million. Year to date, refunds are \$23.1 million higher than expected.

Table 4

**Individual Income Tax Growth Rates
Compared to Prior Year**

	<u>March</u>	<u>YTD</u>
Withholding	2.5%	6.1%
Estimated/Final Payments	11.8%	27.2%
Refunds	0.1%	7.2%

Corporate Income Tax net collections were \$22.0 million in March, which was \$2.3 million more than in the prior year and \$(8.2) million below the forecast. Year-to-date, collections are \$(11.0) million below prior year collections and \$12.7 million above the enacted forecast.

Insurance Premium Tax collections of \$44.2 million in March were (62.7)% below the prior year. Much of this decline is likely due to a timing issue in which collections received in March were recorded in the state's accounting system in April. Year-to-date, collections are (23.7)% below last year and \$(4.7) million below the forecast.

The **Lottery Commission** reports that March ticket sales were \$100.0 million, which is \$16.4 million, or 19.6%, above sales in March 2017. Much of the growth in ticket sales was in the Mega Millions and Powerball games, which each had large jackpots during the month. Year-to-date sales are 18.7% 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 \$117.8 million in March were up 1.1% compared to March of last year and were \$(3.3) million below forecast. Year-to-date collections are 3.6% above last year.

Due to delays in reporting final February revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For March, DOR has increased the amount of prior General Fund revenue collections by \$5.5 million, and the adjustment has been included in the reported year-to-date results.

Table 5

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

	Current Month					FY 2018 YTD (Nine Months)				
	Actual March 2018	Change From March 2017		Baseline Forecast		Actual March 2018	Change from March 2017		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$381,015,049	\$28,089,701	8.0 %	\$554,498	0.1 %	\$3,521,549,267	\$210,641,333	6.4 %	\$56,107,355	1.6 %
Income - Individual	123,022,855	17,208,940	16.3	330,096	0.3	3,190,878,750	301,370,537	10.4	194,151,942	6.5
- Corporate	22,020,857	2,296,347	11.6	(8,213,549)	(27.2)	182,849,867	(11,035,620)	(5.7)	12,675,454	7.4
Property	181,881	(433,187)	(70.4)	608,178	--	22,443,248	1,002,411	4.7	423,335	1.9
Luxury - Tobacco	1,698,895	149,711	9.7	0	0.0	16,379,289	(220,938)	(1.3)	(560,997)	(3.3)
- Liquor	3,027,030	218,380	7.8	0	0.0	26,678,936	1,254,756	4.9	1,000,004	3.9
Insurance Premium	44,243,335	(74,344,369)	(62.7)	2,850,030	6.9	257,276,024	(80,002,702)	(23.7)	(4,730,675)	(1.8)
Other Taxes	1,877,368	671,074	55.6	1,812,854	--	4,768,705	2,178,569	84.1	2,771,663	138.8
Sub-Total Taxes	\$577,087,271	(\$26,143,404)	(4.3) %	(\$2,057,892)	(0.4) %	\$7,222,824,085	\$425,188,346	6.3 %	\$261,838,080	3.8 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	51,316,237	6,579,894	14.7	6,193,204	13.7
License, Fees and Permits	4,399,889	568,564	14.8	354,576	8.8	30,881,527	2,069,490	7.2	3,223,419	11.7
Interest	(19,028)	(11,788)	162.8	(242,952)	--	257,071	167,671	187.6	(534,350)	(67.5)
Sales and Services	1,620,642	(432,107)	(21.1)	(178,885)	(9.9)	23,913,405	(14,371)	(0.1)	(539,735)	(2.2)
Other Miscellaneous	4,965,152	(2,007,262)	(28.8)	2,258,193	83.4	17,704,048	(9,136,370)	(34.0)	(12,240,304)	(40.9)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	(251,082)	(1,166,464)	--	(1,740,738)	--	29,859,430	8,820,701	41.9	3,757,776	14.4
Sub-Total Other Revenue	\$10,715,573	(\$3,049,057)	(22.2) %	\$450,194	4.4 %	\$153,931,717	\$8,487,015	5.8 %	(\$139,989)	(0.1) %
TOTAL BASE REVENUE	\$587,802,844	(\$29,192,461)	(4.7) %	(\$1,607,699)	(0.3) %	\$7,376,755,802	\$433,675,361	6.2 %	\$261,698,091	3.7 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	(0.0)	(510,577,560)	(12,890,934)	2.6	0	(0.0)
One-Time Transfers	0	0	--	0	--	900,000	(291,548)	(24.5)	0	0.0
Sub-Total Other Adjustments	(56,730,840)	(1,432,326)	2.6 %	0	(0.0) %	(509,677,560)	(13,182,482)	2.7 %	0	(0.0) %
TOTAL GENERAL FUND REVENUE	\$531,072,004	(\$30,624,788)	(5.5) %	(\$1,607,699)	(0.3) %	\$6,867,078,242	\$420,492,879	6.5 %	\$261,698,091	4.0 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$117,774,893	\$1,252,474	1.1 %	(\$3,341,721)	(2.8) %	\$1,077,033,848	\$36,972,784	3.6 %	(\$3,556,145)	(0.3) %

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 2.9% in the fourth quarter of 2017. This quarterly growth follows on +3% growth during the prior 2 quarters. Growth during the period was led by increases in consumer purchases of durable goods and business and residential investment. Additionally, growth of government spending accelerated to its highest rate since the second quarter of 2015.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (1.8)% in March. The latest reading is 2.2% above the index in March 2017, but fell slightly from its 17 year high of 130.0 in February. The decrease in March largely reflected a downward revision in consumer expectations about the economy for the coming months. Despite the decline, overall confidence remains relatively high. The percentage of surveyed individuals that think jobs are currently plentiful minus the percent that think jobs are scarce rose from 24.9% to 25.0% during the month, which was the highest reading since 2001. Economists expect that volatile stock market performance that followed the March survey's completion may restrain the index in April.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.2% in February. Monthly growth was led by 0.2% growth in core inflation (all items less food and energy). This was partly offset by price decreases of (0.1)% in the food and energy categories. The index's year-over-year growth rate increased from 1.7% in January to 1.8% in February. That rate is approaching the Federal Reserve Bank's (Fed) 2.0% annual inflation target.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, decreased (0.1)% in March and increased 2.4% above March 2018 prices. A (4.9)% decrease in the gasoline index was the main negative contributor to the monthly decrease. Positive contributors, such as the indexes for shelter, medical care and food, were not strong enough to offset the gasoline index effect. Core inflation (all items less food and energy) increased 0.2% for the month, along with increases in the indexes for personal care, motor vehicle insurance and airline fares, as well as those mentioned above. The indexes for apparel, communication and used vehicles saw decreases for the month.

The Conference Board's **U.S. Leading Economic Index** increased 0.6% in February to 108.7 and stands 6.5% above its February 2017 reading. The strongest positive

contributor for the month was the average manufacturing workweek index, followed by the indexes for average weekly initial claims and Institute for Supply Management (ISM) new orders. These increases more than offset declines in the indexes for stock prices and building permits. Of the index's 10 components, 8 made positive contributions for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In February, Arizona's 12-month total of **single-family building permits** was 28,130, or 14.8% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 9.5%.

The 12-month total of multi-family building permits has been up and down. In February, Arizona's total of 11,100 **multi-family building permits** was 3.3% more than in 2017. Nationwide multi-family permits were 3.0% more than in 2017.

Tourism

Revenue per available room was \$111.95 in February, which was 7.0% above the amount in February 2017. **Ridership** through Phoenix Sky Harbor Airport during the month was up 3.2% compared to February 2017.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state added 12,300 net new **nonfarm jobs** in March compared to the prior month. This was more than the 10-year average net job gain for March of 8,000 jobs. Most of the month-over-month job gains occurred in the Leisure and Hospitality sector (+7,100), followed by the Trade, Transportation and Utilities sector (+2,000)

Compared to the same month in the prior year, Arizona added 68,600 net new jobs in March, which is a year-over-year increase of 2.5%. This was the largest such gain since July 2017. The largest year-over-year job gains in March came from the following industries: Education and Health Services (+14,300), Trade, Transportation and Utilities (+10,800) and Construction (+10,800).

The state's regular **unemployment rate** remained unchanged at 4.9% in March. The U.S. unemployment rate was 4.1% in March, the same jobless rate as in the prior 5 months.

Monthly Indicators (Continued)

In February, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.7 hours. This workload was (0.3)% below the level during the prior month, but 1.5% above the level in February 2017.

The **Average Hourly Earnings** received by private sector workers was \$25.75, which is (0.1)% below the average in the prior month. Year-over-year growth in earnings slowed from 3.4% in January to 2.8% in February.

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 fourth quarter of 2017, Arizona personal income increased year-over-year by 5.6%, to \$298.0 billion. That was the third highest growth rate of any state during the time period. The largest component of personal income, wages and salaries, grew 6.7%. This rate reflects an acceleration from growth of 3.0% and 3.8% during the third and second quarters of 2017, respectively. The higher wage and salary data appears to be consistent with growth of 5.7% in average hourly earnings and growth of 5.6% in withholding collections during the same quarter.

State Agency Data

At the beginning of April 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 540,100 members.

Total monthly enrollment increased by 3,300 during March but was (3.8)% lower than a year ago. The monthly increase was partly concentrated in the Traditional population of low income parents and children. This population grew 2,300, or 0.2% from the prior month. Parent and child enrollment in the Traditional population is (6.1)% 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 April 1, 2018, enrollment in the program was 27,900, or 2,700 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In March 2018, the childless adult population

decreased by (300), or (0.1)%. At 305,300, this population is (3.8)% lower than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (500) in March and now totals 76,600 individuals. Enrollment is (6.6)% lower than a year ago. The federal share of this population's cost decreased from 95% to 94% in January 2018.

There were 15,090 **TANF recipients** in the state in March, representing a (3.1)% monthly caseload decrease from February. The year-over-year number of TANF recipients has declined by (15.2)%. 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 March, 849,249 people received food stamp assistance in the state, representing a 0.4% increase over February. Compared to March 2017, the level of food stamp participation has declined by (8.2)%.

The **inmate population** was 41,888 as of March 31, 2018. This is a 0.4% increase since February, and a (1.1)% decrease since last March.

Based on information the Department of Child Safety provided for February 2018, **reports of child maltreatment** totaled 47,487 over the last 12 months, a decrease of (0.3)% over the prior year. There were 15,139 **children in out-of-home care** as of January 2018, or (11.9)% less than in January 2017. Compared to the prior month, the number of out-of-home children increased by 0.1%.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County **probation caseload** was 28,628 as of February 2018. This was an increase of 101 above the prior month, and a 579 increase since last February. In addition, the state's non-Maricopa County probation caseload was 19,068. This was a decrease of (59) below the prior month, and a decrease of (10) since last February. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

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>
Arizona				
<i>Employment</i>				
- Regular Unemployment Rate	March	4.9%	0.0%	(0.2)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2017	9.5%	(0.4)%	(1.3)%
- Initial Unemployment Insurance Claims	March	16,525	16.1%	(7.4)%
- Unemployment Insurance Recipients	February	20,475	(6.1)%	(12.3)%
- Non-Farm Employment - Total	March	2,838,100	0.4%	2.5%
Manufacturing	March	170,400	0.6%	5.5%
Construction	March	151,600	0.6%	7.7%
- Average Weekly Hours, Private Sector	February	34.7	(0.3)%	1.5%
- Average Hourly Earnings, Private Sector	February	\$25.75	(0.1)%	2.8%
<i>Building</i>				
- Residential Building Permits (12-month avg) Single-family	February	28,130	0.7%	14.8%
Multi-family	February	11,100	4.6%	3.3%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	February	6,765	27.3%	2.1%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	February	\$269,000	0.0%	9.4%
- Phoenix S&P/C Home Price Index (2000 = 100)	January	174.38	0.3%	5.9%
- Maricopa Pending Foreclosures	February	3,014	(0.5)%	(5.4)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	February	21,771	0.5%	(12.1)%
<i>Tourism</i>				
- Phoenix Sky Harbor Air Passengers	January	3,461,583	(3.4)%	3.2%
- 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	February	\$111.95	38.3%	7.0%
<i>General Measures</i>				
- Arizona Leading Index -- 6 month projected growth	January	3.2%	(1.5)%	(1.1)%
- Arizona Personal Income	4 th Q 2017	\$298.0 billion	1.3%	5.6%
- 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	April 1 st	1,798,258	0.2%	(3.8)%
Acute Care Traditional		1,033,088	0.2%	(6.1)%
Prop 204 Childless Adults		305,252	(0.1)%	(3.8)%
Other Prop 204		181,278	(0.3)%	5.2%
Adult Expansion		76,568	(0.7)%	(6.6)%
Kids Care I		27,863	10.8%	61.3%
Long-Term Care – Elderly & DD		61,623	0.5%	3.9%
Emergency Services		112,586	(0.6)%	(6.9)%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	February	47,487	0.1%	(0.3)%
DCS Out-of-Home Children	January	15,139	0.1%	(11.9)%
Filled Caseworkers (1406 Budgeted)	March	1,316	11	(38)
- ADC Inmate Growth	March	41,888	0.4%	(1.1)%
- Department of Economic Security				
- TANF Recipients	March	15,090	(3.1)%	(15.2)%
- SNAP (Food Stamps) Recipients	March	849,249	0.4%	(8.2)%
- Judiciary Probation Caseload				
Non-Maricopa	February	19,068	(59)	(10)
Maricopa County	February	28,628	101	579
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	4 th Q, 2017 (3 rd Estimate)	\$17.3 trillion	2.6%	2.9%
- Consumer Confidence Index (1985 = 100)	March	127.7	(1.8)%	2.2%
- Leading Indicators Index (2016 = 100)	February	108.7	0.6%	6.5%
- Consumer Price Index, SA (1982-84 = 100)	March	249.5	(0.1)%	2.4%
- Personal Consumption Price Index (2009 = 100)	February	114.3	0.2%	1.8%

JLBC Summary

At its April 18, 2018 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Environmental Quality – Review of Vehicle Emissions Contract Modifications –

The Committee gave a favorable review to the modifications to the vehicle emissions inspection contract with Gordon Darby. ADEQ did not seek Committee review prior to implementing the contract amendments. The favorable review included provisions requiring ADEQ to report to the Committee on how it will revise procedures to ensure timely submissions to the Committee for all JLBC requirements.

Department of Child Safety – Review of Line Item Transfers –

The Committee gave a favorable review of General Fund and Expenditure Authority line item transfers for FY 2018. The transfers include a \$7.7 million General Fund transfer into the Adoption Services line item in FY 2018 to address higher-than-budgeted caseload growth in FY 2018. Most of the transfer would be financed from reductions in Foster Home Placement expenditures associated with declining Out-of-Home caseloads. Also included is a transfer of \$1.5 million into In-Home mitigation from Out-of-Home Support Services to use federal monies on in-home services.

Department of Child Safety – Review of FY 2018 Third Quarter Benchmarks –

The Committee gave a favorable review of the report assessing DCS' progress towards meeting benchmarks for the number of caseworkers, caseload standards, the number of backlog cases and open reports, and for reducing the number of children in out-of-home care.

Arizona Department of Administration – Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan –

The Committee gave a favorable review of the FY 2018 expenditure plan of \$18.0 million from the Emergency Telecommunication Services Revolving Fund, including \$8.6 million for wireless services, \$8.5 million for wire services, and \$900,000 for administrative costs.

Arizona Department of Administration/Arizona State Lottery Commission – Review of Server Migration and Hardware Refresh (Automation Projects Fund) –

The Committee gave a favorable review of the FY 2018 expenditure plan of \$597,400, including \$472,400 for server migration and \$125,000 for a hardware refresh. The favorable review included provisions stating that a favorable review does not commit the Legislature

to ongoing funding. Another provision requires the Lottery to submit a Project Investment Justification (PIJ) to ADOA Arizona Strategic Enterprise Technology Office (ASET) for review and approval prior to expending any monies.

Department of Economic Security – Review of Information Technology Security Plan (Automation Projects Fund) –

The Committee gave a favorable review of \$1.1 million in proposed expenditures for information technology security addressing 4 areas of concern identified in an April 2017 Auditor General report: employee access, data security, external access, and email threats. DES will not spend the remaining \$987,400 of the total \$2.2 million appropriation.

Arizona Department of Education – Review of State Aid Correction for Chino Valley Unified –

The Committee gave a favorable review of the expenditure plan providing the Chino Valley Unified School District (VCUSD) with \$143,500 in corrected state aid funding due to a settlement in Arizona Tax Court regarding property taxes paid in prior years by Drake Cement, LLC.

Arizona Department of Education – Review of Joint Technical Education District Quarterly and Annual Reports –

The Committee gave a favorable review of ADE's December 2017 quarterly JTED report and FY 2017 annual JTED report.

Northern Arizona University – Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation –

The Committee gave a favorable review of NAU's report on the expenditures and performance of its grant recipient, Translational Genomics Research Institute (TGen). NAU receives \$3.0 million annually from the General Fund, which it then grants to TGen. The majority of the funding (\$1.7 million) was used on research capital in 2017, which is used to support projects funded by other grants. In 2017, TGen report receiving 22 grants, publishing 128 academic articles, and being awarded 12 patents.

Summary of Recent Agency Reports

Arizona Health Care Cost Containment System – Quarterly Report on the Comprehensive Medical and Dental Program (CMDP) – Pursuant to Laws 2016, Chapter 273, the Arizona Health Care Cost Containment System (AHCCCS) is required to report quarterly on the financial and program accountability trends of CMDP, the foster care medical program. AHCCCS' most recent report covers State Fiscal Year 2017. AHCCCS reports the following findings:

- The percentage of CMDP children receiving behavioral health services in June 2017 was 73.2%.
- The services utilized by the highest percentage of CMDP members using services in June 2017 included support services (95.6%), treatment services (52.9%), and rehabilitation services (15.8%). Support services for foster children include case management, peer support, and transportation to appointments. Treatment services include individual and group counseling as well as behavioral health diagnostic evaluations. Rehabilitation services include living skills training, cognitive rehabilitation (such as memory training or anger management), and behavioral health education and prevention activities.
- The services that accounted for the greatest share of CMDP program costs in June 2017 included support services (39%), treatment services (19%), and inpatient services (14%). Inpatient services primarily consist of inpatient psychiatric services provided by hospitals. (Patrick Moran)

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 receives 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 third quarter of FY 2018, \$450,000 in lottery revenues have been deposited into the ICAC Enforcement Fund. A total of \$74,900 was expended in the third quarter of FY 2018 to help pay for the

operating costs of the ICAC Task Force. These expenditures are in addition to \$428,600 expended in previous quarters, bringing total FY 2018 expenditures to \$503,600.

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

As of March 31, 2018, the ICAC Enforcement Fund had a fund balance of \$2.0 million and encumbrances of \$692,000. (Sam Beres)

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

In the third quarter of FY 2018, the AG deposited a total of \$2.0 million into various consumer accounts. Of that amount, \$1.5 million was deposited into the CPCF Revolving Fund, \$361,300 into the Consumer Restitution Subaccount, and \$87,400 into the Consumer Remediation Subaccount. No monies were deposited into the Antitrust Enforcement Revolving Fund or General Fund this quarter. Only the \$87,400 deposit to the Consumer Remediation Subaccount requires JLBC review prior to expenditure.

Deposits to the CPCF Revolving Fund

The AG deposited \$1.5 million to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. Of this amount, \$1.0 million was derived from a settlement with General Motors, LLC (GM). The AG had sued GM for its failure to disclose safety defects. An additional \$6.2 million from this settlement will be paid to a Claims Administrator to provide restitution to consumers. An additional \$336,800 was derived from a settlement with Boehringer Ingelheim Pharmaceuticals, Inc., which the AG had sued for deceptive practices in marketing several drugs. The remaining \$201,300 in deposits to the fund were generated from legal settlements under \$250,000.

Summary of Recent Agency Reports (Continued)

Deposits to the Consumer Restitution Subaccount

The AG deposited \$361,300 to the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. The full amount of these deposits came from legal settlements under \$250,000 in interest income.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$87,400 from legal settlements under \$250,000 and interest income to the partially-appropriated Consumer Remediation Subaccount to rectify violations of consumer protection laws. An expenditure plan must be reviewed by the JLBC before any of these funds are spent from this account. That review has not yet occurred. (Sam Beres)

Auditor General – Report on Arizona Families F.I.R.S.T. –

Pursuant to the FY 2017 Human Services Budget Reconciliation Bill (Laws 2016, Chapter 123), the Auditor General reported on the Department of Child Safety’s (DCS) Arizona Families F.I.R.S.T. (AFF) program. AFF provides substance abuse treatment and supportive services to families for whom substance abuse is a barrier to permanency.

The Auditor General made the following findings:

- The AFF program utilizes best practices in rendering substance abuse treatment services to families involved with DCS, including family-centered treatment services, peer recovery coaches, and motivational interviewing. These best practices are typically incorporated into DCS’ contracts with AFF providers.
- DCS has implemented oversight of the AFF program, including monthly progress reports, review of invoices to ensure contractual compliance, quarterly collaborative meetings with stakeholders to improve service delivery, and semi-annual site visits with AFF providers. Statute also requires the program to be evaluated annually.

The report recommended that DCS could improve its oversight by conducting periodic reviews of underlying documentation for delivered services. DCS agreed to the auditors’ recommendation. (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 March 2018. (See Table 7 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,316 in March, or (90) 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. Total direct line staff increased by 11 positions since February.

There were also 1,412 non-direct line child safety staff in March, or (99) 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 1 compared to February. (Patrick Moran)

	<u>Funded</u>	<u>March</u>	<u>Difference</u>
Caseworkers	1,190	1,104	(86)
Hotline Staff	76	65	(11)
Staff in Training	<u>140</u>	<u>147</u>	<u>7</u>
Subtotal - Direct Line	1,406	1,316	(90)
Subtotal - Non-Direct Line Staff	<u>1,511</u>	<u>1,412</u>	<u>(99)</u>
Grand Total ^{1/}	2,917	2,728	(189)

^{1/} Excludes 276.2 Attorney General Staff.

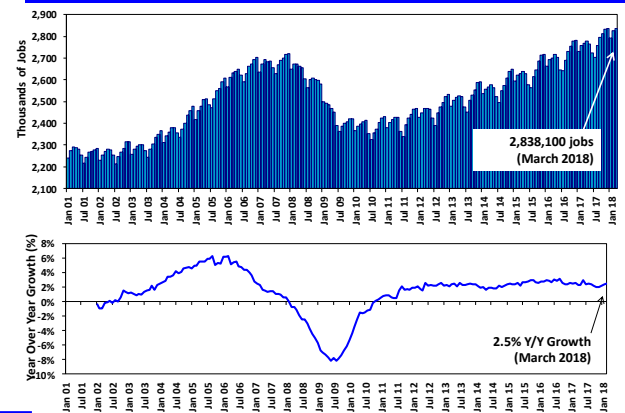
Arizona Economic Trends

April 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

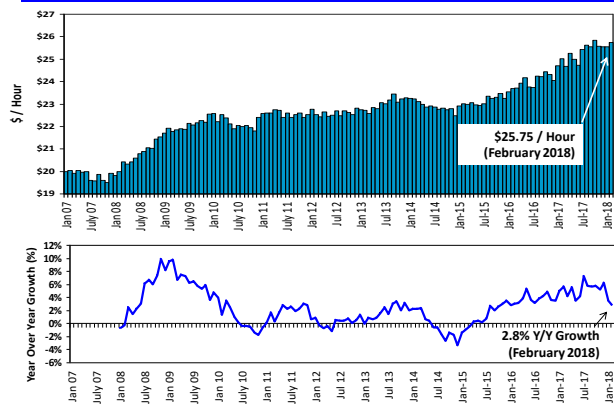
Total Non-Farm Employment



JLBC

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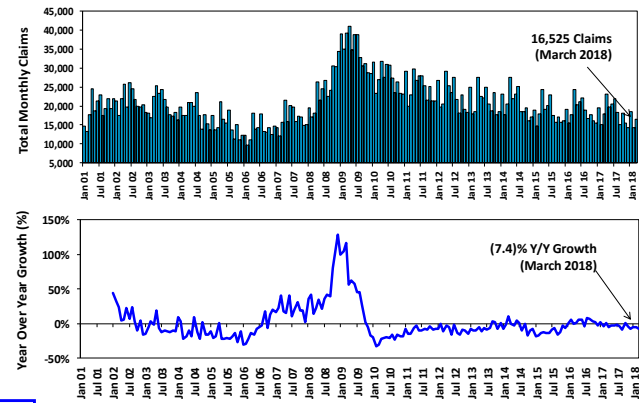
Average Hourly Earnings – Private Sector



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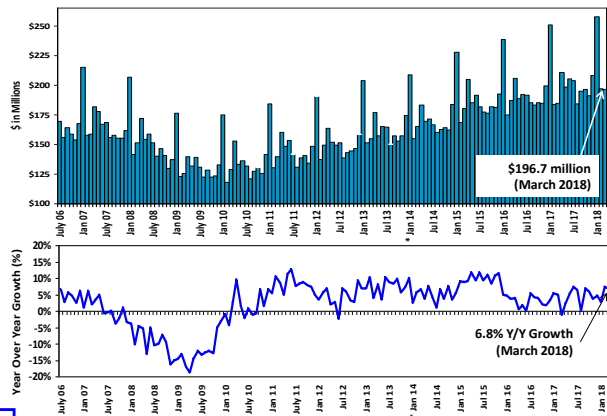
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



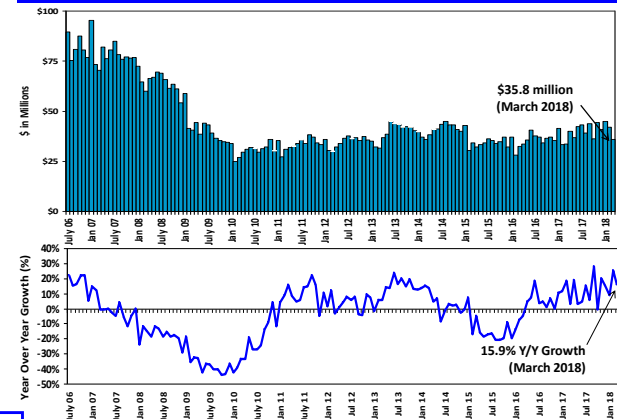
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Excludes temporary 1 c sales tax

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

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State Sales Tax Collections – Contracting Category

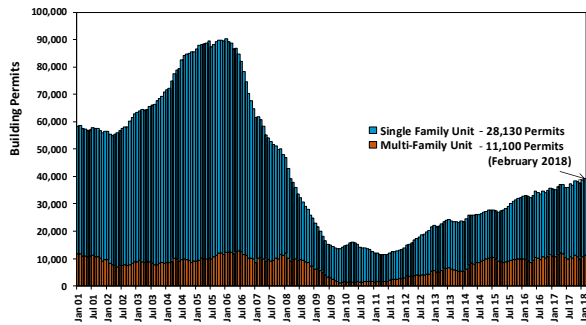


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Excludes temporary 1 c sales tax

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Residential Building Permits



JLBC

12-Month Moving Sum

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