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“February was the seventh consecutive month of year-over-year growth in base General Fund revenue collections.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on March 31, 2011.

Summary



February was the seventh consecutive month of year-over-year growth in base General Fund revenue collections. General Fund revenues totaled \$422.7 million. Excluding the temporary 1-cent sales tax, these collections were 26.3% above last year.

While the February results show an upward trend in revenue collections, the 26.3% rate likely overestimates real economic activity. The February results were largely driven by growth in individual income tax collections compared to the prior year.

February individual income tax collections are usually difficult to interpret as the state begins to process refund checks. Since refund checks mostly offset withholding collections, the net collection amount is usually small and subject to significant fluctuation from the prior February depending on the pace of refund activity. For example, the state collected a net of \$52.0 million in individual income taxes in February. This amount represents a 278% increase, or \$38.2 million over net collections in February of the prior year.

The current forecast projects refunds to increase overall in the “refund season” (February - June) as compared to the prior year due to overwithholding by taxpayers. However, refunds are often distributed differently during this period.

While the individual income tax data in February is difficult to interpret, sales tax collections clearly showed positive signs for economic growth. Excluding the 1-cent

increase, sales tax collections in February were 6% above the prior year, marking the fifth consecutive month of growth in this category.

General Fund collections were \$42.7 million above forecast in February. Individual income taxes accounted for \$40.7 million of that amount. For the year-to-date, revenues are \$84.1 million above forecast.

In comparison to February revenue of \$422.7 million, February 2011 General Fund spending was \$405.0 million, or \$(134.8) million below last year. February expenditures were lower than the prior year due to changes to the ADE payment schedule from the prior year.

Fiscal year-to-date, General Fund revenues of \$5.34 billion have been offset by \$6.27 billion in spending.

Table of Contents

| | | | |
|---|---|---|----|
| Summary | 1 | • AXS – Interstate Agreement | 7 |
| February Revenues | 2 | • DES – Capitation Rates | 7 |
| Economic Indicators | 4 | • DES – CPS | 7 |
| Summary of Recent Agency Reports | | • ADE – Achievement Testing Costs | 8 |
| • ADOA – Performance Standards | 7 | • DHS – Capitation Rates | 8 |
| • AXS – Systematic Alien Verification | 7 | • State Mine Inspector – Abandoned Mines | 9 |
| • AXS – Capitation Rates | 7 | • ABOR – Financial Aid | 9 |
| • AXS – Healthcare Group | 7 | February Spending | 10 |

February Revenues

Table 1

General Fund Revenues (\$ in Millions)

| | <u>FY 2011 Collections</u> | <u>Difference From Budget Forecast</u> | <u>Difference From FY 2010</u> |
|--------------|--------------------------------|--|------------------------------------|
| February | \$ 422.7 | \$ 42.7 | \$ 185.6 |
| Year-to-Date | \$ 5,340.2 | \$ 84.1 | \$ 304.7 |

Sales Tax collections were \$338.8 million in February. Excluding the \$66.5 million from the temporary 1-cent increase, collections were \$272.3 million, or 6.0% above February 2010.

Table 2 displays the February growth rates for the largest categories.

Table 2

Sales Tax Growth Rates Compared to Prior Year

| | <u>February</u> | <u>YTD</u> |
|------------------|-----------------|------------|
| Retail | 10.4% | 2.3% |
| Contracting | 8.6% | (10.3)% |
| Utilities | (3.9)% | 0.7% |
| Use | 11.2% | 0.9% |
| Restaurant & Bar | (0.5)% | 2.9% |

Retail and contracting together account for about 60% of all sales tax revenues. Retail collections were very strong compared to February of last year, up 10.4%, or about \$12 million. Contracting was also strong compared to February of last year; however, losses earlier in the year continue to weigh down the year-to-date growth. While the past several months have suggested declines in Contracting may have reached bottom, February's collections of \$27.2 million are 63.0% below the \$73.4 million collected in February 2007.

Including the 1-cent increase, collections were \$19.6 million above the forecast year-to-date.

Individual Income Tax net revenues were \$52.0 million in February, or 278.2% above the prior year. Collections were \$40.7 million above the new forecast. Year-to-date, revenues have grown 12.0% and are \$55.5 million above forecast through February.

As indicated in Table 3 below, withholding tax payments increased by 9.5% in February and 7.0% year-to-date. This increase continues to be difficult to interpret due to changes in the state withholding rates last July. (See the August MFH for additional information.)

Since job growth has been nearly flat, the strong year-to-date withholding growth has led us to believe that taxpayers were being

overwithheld as a result of the change in the rates in July. If this were the case, refunds would be expected to grow during tax season.

In February, however, refunds were actually (4.9)% below the prior year and \$25.4 million less than the forecast amount.

Since March and April are generally the largest refund months, we will need additional data before interpreting the results.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year

| | <u>February</u> | <u>YTD</u> |
|-------------------------------|-----------------|------------|
| Withholding | 9.5% | 7.0% |
| Estimated + Final Payments | 10.1% | 0.5% |
| Refunds | (4.9)% | (9.4)% |

Corporate Income Tax net collections were \$7.0 million in February, or \$11.7 million more than the prior year. Collections were \$(12.8) million below the forecast. Year-to-date through February, revenues are up 90.8% and are \$6.3 million above forecast.

The **Lottery Commission** reports that February ticket sales were \$50.7 million, which is \$4.5 million, or 9.7%, above sales in the prior year. Year-to-date, ticket sales are \$374.3 million, which is 6.9% above last year's sales. The General Fund share of sales has increased significantly more than overall sales, however, due to changes in the distribution formula.

Non-General Fund

Tobacco Tax revenues were \$21.6 million in February. Collections were down (12.4)% compared to the prior year, and were \$2.8 million above the budget estimate for the month. Year-to-date collections are down (1.9)% and are \$1.3 million above the budget estimate.

Less than 10% of tobacco taxes are deposited directly into the General Fund. The remainder primarily goes to AHCCCS and the Department of Health Services to defray the General Fund

"Year-to-date
through
February,
[Corporate
Income Tax]
revenues are up
90.8%"

February Revenues (Continued)

cost of operating those programs, along with funding the Early Childhood Development and Health Board.

compared to February of last year. Year-to-date, revenues have grown 1.8%.

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$103.6 million in February were up \$3.2 million or 3.2%

Table 4

General Fund Revenue: Change from Previous Year and Enacted Budget Forecast February 2011

| | Current Month | | | | | FY 2011 YTD (Eight Months) | | | | |
|------------------------------------|-------------------------|------------------------------|---------------|---------------------|---------------|----------------------------|------------------------------|-----------------|---------------------|--------------|
| | Actual February 2011 | Change From February 2010 | | Forecast | | Actual February 2011 | Change from February 2010 | | Forecast | |
| | | Amount | Percent | Amount | Percent | | Amount | Percent | Amount | Percent |
| Taxes | | | | | | | | | | |
| Sales and Use w/o 1¢ * | \$272,340,889 | \$15,376,945 | 6.0 % | \$6,897,135 | 2.6 % | \$2,296,065,337 | \$27,158,825 | 1.2 % | \$12,495,462 | 0.5 % |
| Income - Individual | 51,980,954 | 38,236,541 | 278.2 | 40,664,840 | 359.4 | 2,008,916,653 | 215,767,195 | 12.0 | 55,516,487 | 2.8 |
| - Corporate | 7,028,620 | 11,675,045 | -- | (12,793,266) | (64.5) | 273,271,928 | 130,069,852 | 90.8 | 6,337,906 | 2.4 |
| Property | 405,889 | 80,711 | 24.8 | 5,889 | 1.5 | 12,182,365 | (215,592) | (1.7) | 148,298 | 1.2 |
| Luxury - Tobacco | 1,984,510 | 278,844 | 16.3 | (2,019,997) | (50.4) | 16,598,594 | (243,639) | (1.4) | (2,038,218) | (10.9) |
| - Liquor | 1,162,155 | (1,481,876) | (56.0) | 1,162,155 | -- | 18,738,004 | (55,342) | (0.3) | 2,474,629 | 15.2 |
| Insurance Premium | 1,385,066 | (344,623) | (19.9) | (914,934) | (39.8) | 178,827,658 | 3,339,800 | 1.9 | (804,198) | (0.4) |
| Estate | 0 | 0 | -- | 0 | -- | 437,372 | 52,544 | 13.7 | 0 | 0.0 |
| Other Taxes | 33,777 | (5,215) | (13.4) | (88,723) | (72.4) | 866,004 | 310,196 | 55.8 | (143,969) | (14.3) |
| Sub-Total Taxes | \$336,321,860 | \$63,816,372 | 23.4 % | \$32,913,099 | 10.8 % | \$4,805,903,916 | \$376,183,839 | 8.5 % | \$73,986,398 | 1.6 % |
| Other Revenue | | | | | | | | | | |
| Lottery | 6,405,640 | 6,405,640 | -- | 1,405,640 | 28.1 | 29,790,909 | 10,706,209 | 56.1 | 2,959,279 | 11.0 |
| License, Fees and Permits | 2,628,897 | 1,291,575 | 96.6 | 1,328,897 | 102.2 | 18,963,701 | 2,114,673 | 12.6 | 2,604,557 | 15.9 |
| Interest | (656,337) | (192,189) | 41.4 | (946,337) | -- | 1,882,475 | 1,235,421 | 190.9 | (957,526) | (33.7) |
| Sales and Services | 8,582,916 | 1,492,488 | 21.0 | 6,182,916 | 257.6 | 19,932,551 | (191,631) | (1.0) | 3,512,884 | 21.4 |
| Other Miscellaneous | 3,877,588 | 1,772,664 | 84.2 | 1,177,588 | 43.6 | 15,973,257 | (8,334,865) | (34.3) | 931,094 | 6.2 |
| Disproportionate Share | 0 | 0 | -- | 0 | -- | 27,146,306 | 27,146,306 | -- | 0 | 0.0 |
| Transfers and Reimbursements | 584,399 | (71,960) | (11.0) | (2,915,601) | (83.3) | 14,897,480 | (19,231,315) | (56.3) | (6,082,593) | (29.0) |
| Sub-Total Other Revenue | 21,423,103 | 10,698,218 | 99.8 % | 6,233,103 | 41.0 % | 128,586,679 | 13,444,799 | 11.7 % | 2,967,696 | 2.4 % |
| TOTAL BASE REVENUE | \$357,744,963 | \$74,514,590 | 26.3 % | \$39,146,202 | 12.3 % | \$4,934,490,595 | \$389,628,638 | 8.6 % | \$76,954,094 | 1.6 % |
| Other Adjustments | | | | | | | | | | |
| Urban Revenue Sharing | (39,500,543) | 12,886,509 | -- | 0 | 0.0 | (316,004,345) | 103,092,072 | -- | 0 | 0.0 |
| 1¢ TPT Increase* | 66,471,235 | 66,471,235 | -- | 3,561,065 | 5.7 | 543,918,504 | 543,918,504 | -- | 7,115,587 | 1.3 |
| Budget Plan Transfers | 37,974,543 | 31,717,644 | 506.9 | 0 | 0.0 | 177,798,082 | 3,442,801 | 2.0 | 0 | 0.0 |
| Leaseback Proceeds | 0 | 0 | -- | 0 | -- | 0 | (735,419,300) | (100.0) | 0 | -- |
| Sub-Total Other Adjustments | 64,945,235 | 111,075,388 | -- % | 3,561,065 | 5.8 % | 405,712,241 | (84,965,923) | (17.3) % | 7,115,587 | 1.8 % |
| TOTAL GENERAL FUND REVENUE | \$422,690,198 | \$185,589,978 | 78.3 % | \$42,707,267 | 11.2 % | \$5,340,202,836 | \$304,662,715 | 6.1 % | \$84,069,681 | 1.6 % |
| Non-General Funds | | | | | | | | | | |
| Highway User Revenue Fund | \$103,634,000 | \$3,212,000 | 3.2 % | \$1,705,545 | 1.7 % | \$798,556,000 | \$13,878,000 | 1.8 % | \$2,108,085 | 0.3 % |
| Tobacco Tax (All Funds Total) | \$21,591,112 | (\$3,052,209) | (12.4) % | \$2,881,096 | 15.4 % | \$213,907,982 | (\$4,188,644) | (1.9) % | \$1,299,055 | 0.6 % |

* Sales and Use line excludes revenue from the temporary 1¢ increase approved by the voter in May 2010. That revenue is shown under One-Time Revenues. Total February collections including the 1¢ increase were \$338.8 million. This amount is \$81.8 million, or 31.9%, above February 2009 and \$10.4 million, or 3.2%, above forecast. Year to date, total collections including the 1¢ increase were \$2.84 billion. This amount is \$571.1 million, or 25.2%, above February 2009 and \$19.6 million, or 0.7%, above forecast.

Economic Indicators

NATIONAL

“Contrary to what was previously reported, revised employment estimates now indicate that the state has just barely started to reverse an unprecedented 3-year streak of job losses.”

The Conference Board’s **U.S. Consumer Confidence Index** increased by 5.6 points in February to 70.4, the highest reading since February 2008. While the index is up by almost 52% year-over-year, it must be noted that this figure is inflated due to a recent change in the methodology used by the Conference Board. Nevertheless, the survey suggests that consumers are becoming increasingly more optimistic about their current and future economic outlook. It is not clear, however, to what extent the growing unrest in the Middle East and the fallout of the largest earthquake in Japan’s recorded history will influence consumer sentiments in the coming months.

The Conference Board’s **U.S. Index of Leading Economic Indicators** rose 0.8% in February, following a 0.1% increase in January, indicating that the economy will continue to expand despite ongoing problems in the housing market. A decrease in initial jobless claims, along with rising stock prices and a favorable interest-rate spread outweighed the negative effects of a decrease in building permits.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, rose by 0.5% in February, following a 0.4% increase in both January and December. The recent CPI increase is almost exclusively driven by rising energy and food prices. The price of gasoline and food increased by 4.7% and 0.6%, respectively, in February. Core inflation, which excludes energy and food, remains subdued, although it has been inching up in each of the last 4 months.

ARIZONA

Employment

As a result of the recent annual revision of employment data, known as “benchmarking,” the Arizona Department of Commerce now reports that the state suffered considerably higher job losses in 2010 than previous estimates had indicated.

Prior to the March release of revised employment data, the state’s job market was generally believed to have turned a corner in the fall of 2010, as monthly reports at that time showed modest but growing job gains. The revised data, however, shows that instead of adding an average of 21,000 jobs per month,

year-over-year, in the last 5 months of 2010, the state actually lost an average of (22,000) jobs per month over the same period. For the year as a whole, the state had on average (27,100) fewer jobs per month than previously reported.

The March revision indicates that the streak of year-over-year losses did not end in August of 2010, as previously reported, but instead continued through the remainder of the year. January’s net job gain of 700 positions marked the end of 35 consecutive months of year-over-year job losses. The state saw another 5,300 year-over-year job gain in February. The revised data indicates that there were (330,300) fewer jobs in the state last month than at the outset of the last recession in December 2007. Contrary to what was previously reported, revised employment estimates now indicate that the state has just barely started to reverse an unprecedented 3-year streak of job losses.

The state’s unemployment rate was also revised in March and the new estimates indicate that the state’s job market was far more adversely affected by the recession than previous reports had shown. For example, under the previous estimates, the state’s jobless rate never exceeded 9.7% during the recession, whereas revised data now indicates that the unemployment rate was 10% or higher for 12 consecutive months, beginning in July 2009. As a result of the revision, the state’s jobless rate during the recession was about half a percentage point higher than previously estimated. The March release of revised unemployment data indicates that the jobless rate in the state has remained at 9.6% in each of the prior 4 months.

The state’s unemployed filed a total of 19,880 **initial claims for unemployment insurance** in February, a (31.7)% decrease over the prior month, more than twice the average decline observed for the same month in the 10-year period leading up to the last recession. Also, February marked the first time since March 2008 when initial jobless were less than 20,000. Prior to the recession, February initial claims were typically less than 14,000. Compared to the same month in the prior year, first-time claims in February were down by (15.1)%, the 16th consecutive month with year-over-year declines.

Economic Indicators (Continued)

Claims peaked in April 2009 when more than 41,000 individuals filed for initial jobless benefits. See [Tracking Arizona's Recovery](#), for additional historical information.

Housing

In February, the number of new Maricopa County **foreclosure notices** decreased (24.8)% from January levels to 5,102.

The number of Maricopa County **pending foreclosures** decreased in February. The February total of 39,153 is (23.9)% below the peak in December 2009 (51,466). See [Tracking Arizona's Recovery](#), for additional historical information.

While foreclosure notices and pending foreclosures continue their decline from recent highs, they continue to be a major influence on existing home sales and the respective prices. In the Metropolitan Phoenix area in February, there were a total of 8,565 **existing single-family home sales** that resulted in a **median resale home price** of \$133,100. Relative to the prior year, the number of sales is up 8.1%, while prices are (8.2)% lower. Of the existing sales, 42.6%, or 3,650 were foreclosures.

State Agency Data

In March **AHCCCS caseloads** equaled 1.34 million members, a (0.4)% decrease over the prior month. AHCCCS caseloads are currently (1.4)% below March 2010 levels. Total enrollment reached its peak in June 2010, and has declined slowly since then. The FY 2011 budget funded a projected March 2011 caseload growth of 5.4% above March 2010 levels, for a total of 1.43 million members.

There were 42,336 **TANF recipients** in the state in February, a monthly caseload decrease of (3.3)%. Year-over-year, the number of TANF recipients has declined by (47.7)%. This decline is the result of changes to the statutory lifetime limit a person may receive cash assistance. Beginning in July, recipients can only receive benefits for a maximum of 36 months in a lifetime. Previously, the maximum had been 60 months. This change resulted in a caseload decline of approximately (16,000) recipients. The FY 2011 budget assumed caseloads of approximately 70,000 in FY 2011.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In February, there were a total 1.1 million food stamp recipients in the state, a (0.9)% decrease over the prior month. Compared to the same month last year, food stamp participation was up by 2.4%. The number of food stamp recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Correction's (ADC) inmate population** declined to 40,063 inmates between October and December 2010. Relative to the prior period the population has decreased by (83), and compared to a year ago the population has declined by (413) inmates.

"AHCCCS caseloads are currently (1.4)% below March 2010 levels."

Economic Indicators (Continued)

Table 5

ECONOMIC 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 | | | | |
| - Unemployment Rate (SA) | February | 9.6% | 0.0% | (0.6)% |
| - Initial Unemployment Insurance Claims | February | 19,880 | (31.7)% | (15.1)% |
| - Unemployment Insurance Claimants | January | 69,106 | 5.3% | (29.6)% |
| - Non-Farm Employment - Total | February | 2.39 million | 1.0% | 0.2% |
| Manufacturing | February | 148,200 | 0.1% | 0.3% |
| Construction | February | 104,100 | (2.2)% | (4.5)% |
| - Average Weekly Hours, Manufacturing | January | 40.2 | (1.2)% | 2.3% |
| - Contracting Tax Receipts (3-month average) | Dec-Feb | \$30.9 million | (8.7)% | (0.6)%* |
| - Retail Sales Tax Receipts (3-month average) | Dec-Feb | \$152.0 million | 1.1% | 6.1%* |
| - Residential Building Permits (3-month moving average) | | | | |
| Single-unit | Nov-Feb | 663 | 9.2% | (38.3)% |
| Multi-unit | Nov-Feb | 191 | 30.5% | (1.7)% |
| - Greater Phoenix Existing Home Sales | | | | |
| Single-Family | February | 8,565 | 2.9% | 8.1% |
| Townhouse/Condominium | February | 1,460 | 10.6% | 12.3% |
| - Greater Phoenix Median Home Sales Price | | | | |
| Single-Family | February | \$133,100 | 1.1% | (8.2)% |
| Townhouse/Condominium | February | \$85,000 | 0.0% | (17.9)% |
| - Foreclosure Activity, Maricopa County | | | | |
| Foreclosure Notices (Notice of Trustee's Sales Recorded) | February | 5,102 | (24.8)% | (32.9)% |
| Pending Foreclosures (Active Notices) | February | 39,153 | (2.0)% | (22.3)% |
| - Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100) | January | 101.54 | (1.5)% | (9.1)% |
| - Arizona Months Supply of Housing, (ARMLS) | February | 5.7 months | (0.9) months | (0.7) months |
| - Phoenix Sky Harbor Air Passengers | January | 3.26 million | (2.1)% | 6.1% |
| - Arizona Average Natural Gas Price (\$ per thousand cubic feet) | December | \$6.64 | 10.5% | (0.7)% |
| - Arizona Consumer Confidence Index (1985 = 100) | 1 st Quarter 2011 | 62.8 | 11.5% | 25.1% |
| - Arizona Coincident Index (July 1992 = 100) | January | 178.22 | 0.3% | 0.3% |
| - Arizona Personal Income | 4 th Quarter 2010 | \$226.7 billion | 1.1% | 3.3% |
| - Arizona Population | April 1, 2010 | 6.39 million | N/A | N/A |
| - AHCCCS Recipients | March | 1,338,942 | (0.4)% | (1.4)% |
| - TANF Recipients | February | 42,336 | (3.3)% | (47.7)% |
| - SNAP (Food Stamps) Recipients | February | 1,064,128 | (0.9)% | 2.4% |
| - ADC Inmate Growth (3-month average) | Jan-Mar | 40,063 | (83) inmates | (413) inmates |
| - Probation Caseload (Adult/Juvenile) | | | | |
| Non-Maricopa | January | 19,527 | (68) | (237) |
| Maricopa County | January | 26,112 | 19 | (2,792) |
| United States | | | | |
| - Gross Domestic Product (Chained 2005 dollars, SAAR) | 4th Quarter 2010 (Final Estimate) | \$13.4 trillion | 3.1% | 2.8% |
| - Consumer Confidence Index (1985 = 100) | February | 70.4 | 8.6% | 51.7% |
| - Leading Indicators Index (2004 = 100) | February | 113.4 | 0.8% | 5.8% |
| - U.S. Semiconductor Billings (3-month moving average) | Nov-Jan | \$4.70 billion | 2.1% | 24.5% |
| - Consumer Price Index, SA (1982-84 = 100) | February | 222.27 | 0.5% | 2.2% |

*Adjusted for 1¢ sales tax

Summary of Recent Agency Reports

Arizona Department of Administration – Semi-annual Report on Performance Standards –

A.R.S. § 38-658 requires the Arizona Department of Administration to produce a semi-annual report on the state's self-insured employee health plan's prior year performance. The report for the plan year (PY) ending September 30, 2010 shows trends in utilization of services and pharmaceuticals, and vendor performance standards. For PY 2010, vendors missed 13 performance standards in at least 1 month. In total, vendors paid \$109,400 in penalties for missed standards, with United Healthcare paying the highest penalty (\$65,900). (Ben Beutler)

AHCCCS – Report on Systematic Alien Verification for Entitlements Program –

Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) provided its latest quarterly reports on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), verified the immigration status of 11,003 individuals between July 1, 2010 and September 30, 2010. During this period, AHCCCS and DES did not identify any fraudulent documents using the SAVE program. (Amy Upston)

AHCCCS – Report on Preliminary Capitation Rate Changes –

Pursuant to a FY 2011 General Appropriation Act footnote, AHCCCS has submitted preliminary actuarial estimates of the capitation rate increases for FY 2012.

On April 1, 2011, AHCCCS will implement a (5)% rate reduction for most provider rates. Relative to the April 1 rates, AHCCCS has indicated that they are working toward a goal

of 0% growth in capitation rates for FY 2012. The Senate-approved FY 2012 budget also assumes no capitation rate adjustment. Based on the current configuration of the Acute Care program, AHCCCS anticipates a moderate increase in utilization. AHCCCS intends to offset the utilization increases by holding provider rates flat with possible reductions in some service categories and possible benefit limits. AHCCCS is unable to provide preliminary estimates for the Children's Rehabilitative Services (CRS) program or the Arizona Long Term Care System (ALTCSS) program at this time since this is the first year that AHCCCS is developing the capitation rate for the CRS program and the ALTCSS program is currently out for bid. (Amy Upston)

AHCCCS – Report on Healthcare Group –

Pursuant to A.R.S. § 36-2912AA, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual financial audit for Healthcare Group (HCG). AHCCCS reports that HCG had \$9.0 million in unpaid prior year obligations and other liabilities at the end of FY 2010. This is a \$(1.8) million decrease from FY 2009. AHCCCS reports that the decrease is primarily attributable to a \$2.0 million operating income surplus resulting from actuarially sound rates.

AHCCCS also reports that as of December 2010, total statewide HCG medical plan enrollment was 9,033, with participating members from 3,316 private employers. Since December 2008, enrollment has decreased by (7,789) people. AHCCCS attributes the enrollment decreases to the economic downturn. (Amy Upston)

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 data processing. The proceeds for this agreement are deposited into a special fund. This fund had an ending FY 2010 balance of \$1,249,621. A.R.S. § 36-2926 limits these funds to technology projects and Information Technology (IT) staff recruitment. (Aaron Galeener)

Department of Economic Security – Report on Preliminary Capitation Rate Changes –

Pursuant to a FY 2011 General Appropriation Act footnote, the Department of Economic Security (DES) has submitted preliminary actuarial estimates of Medicaid Long Term Care Developmental Disabilities program capitation rate changes for FY 2012.

The Senate budget plan (SB 1612) assumes capitation rate growth of 0% for the Developmental Disabilities Long Term Care program. The preliminary capitation rate review provided by DES estimates the FY 2012 capitation rate would not change materially from FY 2011. Unlike AHCCCS and DHS, DES is not implementing April 1st provider rate reductions. (Aaron Galeener)

Department of Economic Security (DES) – Semi-Annual Report on CPS Financial and Program

Accountability – Pursuant to A.R.S. § 8-818, DES has submitted its semi-annual financial and program accountability report. This is the first report DES has submitted since April 2008. The report includes 7 measures specifically identified in statute, as well as 12 other measures requested by the JLBC. According to the report, out-of-home placements increased from 10,341 in July to 10,495 in December. Caseloads are above the department's goals and turnover for Child Protective Services (CPS)

Summary of Recent Agency Reports (Continued)

Specialists was approximately 25.6% annually. Employee satisfaction is stable at a 3.5 rating out of 5.0. The highlights of this report, covering the first 6 months of FY 2011, are summarized below.

- The CPS Training Academy had 120 new case managers in training as of December 2010.
- As of December 2010, the number of filled positions was 764 of 970 authorized and funded positions, excluding those in training. This figure is 75 higher than last July. Considering only filled positions, caseloads per worker are considerably higher than caseload goals, with investigations at 15 (goal: 10), in-home at 29.7 (goal: 19), and out-of-home at 25 (goal: 16).
- DES reports that annualized case manager turnover during the first 6 months of FY 2011 was 25.6%, with 141 case managers leaving the Division of Children, Youth and Families (DCYF). The turnover rate varies by district, from a high of 53.8% in District 6 to a low of 14.7% in the CPS Hotline. The report also shows that 135 new case managers were hired over the same time period.
- Employee satisfaction remains steady at an average rating of 4.5 on a scale of 5, for training in the CPS Academy and 3.5 for overall employee satisfaction.
- The percent of CPS dependency cases denied or dismissed in the last 6 months remained at the same level (0.1%) as the previous 6 months, while the percent of Office of Administrative Hearing's decisions affirming CPS case findings decreased from 93.8% to 90.0%. The percent of complaints validated by the Ombudsman increased from 4.6% to 5.0% (6 of 131 complaints).
- The number of children in out-of-home family placements increased from 8,649 in June to 8,750 in December, while the number of congregate care placements declined from 1,251 to 1,250. DES also reports that from June to December the number of children aged 0-3 in shelter care decreased from 14 to 12, the number of children aged 0-6 in group homes decreased from 12 to 11, and the number of children in shelter care for more than 21 days decreased from 365 to 320. The December numbers are labeled as preliminary.
- At its September 28, 2005 meeting, the Committee asked DES to report on the participation of faith-based organizations in providing services. DES reports that they expect the division's partnerships with faith-based organizations to continue to grow in FY 2011. The division partnered with churches for the Season of Service campaign, which includes helping churches to engage their congregations in acts of service to expose them to the needs of their communities. In addition, the division participated in a Faith Summit with the focus of providing the community with information about the needs of foster youth as the age out of foster care. (Aaron Galeener)

Department of Education – Report on Achievement Testing Costs – The Arizona Department of Education (ADE) recently reported changes in Achievement Testing costs, as required by a footnote in the General Appropriation Act. The report indicates that contract costs for the Arizona Instrument to Measure Standards (AIMS) tests will be \$14,278,200 in FY 2012, which would be \$(722,800) less than the original contract amount of \$15,001,000. The reduction is due

primarily to reduced counts and lower scoring and program management costs. ADE anticipates that the revised \$14,278,200 total will be funded with \$6,190,400 in Federal Funds and \$8,087,800 in state funds. (Steve Schimpp)

Department of Health Services – Report on Preliminary Capitation Rate Changes – Pursuant to a FY 2011 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted preliminary actuarial estimates of Medicaid Behavioral Health Services (BHS) capitation rate changes for FY 2012.

On April 1, 2011, DHS will implement a (5)% reduction in provider rates. This reduction would not be applied against some services, such as prescription drugs, resulting in a net capitation rate reduction of (3.12)%. Relative to the April 1 rates, DHS has indicated that they are working toward a goal of 0% capitation growth in FY 2012. Based on the current configuration of the BHS program, DHS anticipates some increases to utilization. In addition to maintaining the provider rate decrease, DHS states that it is possible that other reductions may have to be made in order to keep rates flat.

In addition, DHS states that the proposed suspension of coverage for individuals eligible for Proposition 204 services would require an adjustment to capitation rates effective October 1, 2011. DHS does not know the impact of changes in coverage, but states that a significant increase in rates is possible, if those individuals who continue to receive coverage have a high rate of utilization.

The Senate budget plan (SB 1612) assumes BHS capitation rate changes of 0% relative to the capitation rates that will be established on April 1. (Art Smith)

Summary of Recent Agency Reports (Continued)

State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions –

The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to locate, inventory, classify, and eliminate public safety hazards at abandoned mines. A.R.S. § 27-131 created the Abandoned Mines Safety Fund (AMSF) to fund the program. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the AMSF, and the expenditures by the fund during the preceding fiscal year.

For FY 2010, the State Mine Inspector has recently reported that the AMSF had revenues of \$600. The State Mine Inspector secured 43 mine sites during FY 2010, at a total cost of \$2,700. The Mine Inspector has completed preliminary planning for an additional 46 mine sites in FY 2011, with an estimated cost of \$52,900. The Mine Inspector financed these activities through the fund's carry-forward balance. (Ted Nelson)

Arizona Board of Regents – Report on University System's Financial Aid

– Pursuant to A.R.S. § 15-1650, the Arizona Board of Regents is required to submit an annual report on financial aid. Highlights from the FY 2010 report include:

- Approximately \$1.5 billion in total financial aid was provided to students.
- Of this amount, \$752.7 million (48.8%) came from federal sources, \$524.0 million (34.1%) came from state institutional sources, \$259.4 million (16.9%) came from private sources, and \$2.6 million (0.2%) came from state scholarships, grants and loans. (The private sources amount includes \$14.1 million Arizona Financial Aid Trust, which is a combination of both state and institutional sources of aid.)

- A total of 109,134 students received aid, including 84,919 undergraduate students and 24,215 graduate students.
- Of the undergraduate students receiving aid, 20,867 received non-need-based gift aid, 41,928 received need-based gift aid, and 34,810 were awarded miscellaneous types of non-gift aid (i.e. work study). Some students received multiple types of aid.
- The average aid package was \$10,488, which includes both need and non-need-based aid.
- 52.3% of undergraduate students and 54.2% of graduate students have debt.
- Upon graduation, the average undergraduate student debt was \$19,946, while the average graduate student debt was \$42,097.

(Leatta McLaughlin)

February Spending

“February 2011 spending of \$405.0 million was \$(134.8) million lower than February 2010.”

FY 2011 Spending

February 2011 spending of \$405.0 million was \$(134.8) million lower than February 2010 (See *Table 6*).

- In February, the Arizona Department of Education spending was \$(220.5) million lower than the prior year. February expenditures were lower due to ADE rolling over the monthly payment to school districts.
- University spending was \$58.4 million in February, or \$(15.2) million lower than the prior year. The decreased expenditure amount reflects the rollover being spread out over the course of the fiscal year.
- School Facilities Board spending was \$31.3 million higher than February of the

prior year. This reflects changes to the debt service schedule.

- In February, Department of Health Services (DHS) spending was \$39.6 million, or \$30.3 million higher than the prior year. The increased expenditure amount reflects transfers to AHCCCS for the Medicaid state match in the behavioral health program.

| Agency | Feb 11 | Change from Feb 10 | Year to Date | YTD Change from FY 10 |
|-------------------------|---------------|---------------------------|---------------------|------------------------------|
| AHCCCS | 124.1 | 21.2 | 1,014.3 | 66.8 |
| Corrections | 57.1 | (1.6) | 592.0 | 25.3 |
| Economic Security | 7.1 | 24.5 | 463.1 | (43.9) |
| Education | 62.9 | (220.5) | 2,584.4 | (416.3) |
| Health Services | 39.6 | 30.3 | 380.1 | (22.6) |
| Public Safety | 1.6 | - | 33.4 | (6.6) |
| School Facilities Board | 33.6 | 31.3 | 67.0 | (36.9) |
| Universities | 58.4 | (15.2) | 664.4 | (44.0) |
| Leaseback Debt Service | - | - | 52.1 | 52.1 |
| Other | <u>20.6</u> | <u>(4.8)</u> | <u>423.5</u> | <u>(48.9)</u> |
| Total | 405.0 | (134.8) | 6,274.3 | (475.0) |

| Agency | General Fund Spending (\$ in Thousands) | | | YTD Change from FY 10 |
|---|--|----------------------------|--------------|--------------------------|
| | February 11 | Change from February 10 | Year-to-Date | |
| Department of Administration | 1,067.8 | 189.3 | 14,524.1 | 1,852.2 |
| Department of Admin Sale/Leaseback D/S | - | - | 52,066.9 | 52,066.9 |
| Office of Administrative Hearings | 43.4 | 32.0 | 663.8 | (6.1) |
| Department of Agriculture | 458.7 | 162.7 | 5,938.8 | (393.9) |
| AHCCCS | 124,069.4 | 21,196.0 | 1,014,330.9 | 66,824.9 |
| Arizona Commission on the Arts | 35.0 | (76.8) | 449.3 | (114.1) |
| Attorney General | 106.2 | (908.3) | 11,787.0 | (1,777.6) |
| AZ Capital Post Conviction Public Defender | 52.3 | 9.9 | 476.4 | 18.7 |
| State Board of Charter Schools | 38.9 | (7.3) | 525.5 | 4.3 |
| Board of Chiropractic Examiners | - | - | - | (148.0) |
| Department of Commerce | 107.1 | 90.2 | 2,813.4 | 445.5 |
| Community Colleges | - | - | 99,319.7 | - |
| Corporation Commission | 100.7 | 53.6 | 436.7 | 58.3 |
| Department of Corrections | 57,053.7 | (1,566.9) | 592,050.0 | 25,280.5 |
| Board of Cosmetology | - | - | - | (252.0) |
| AZ Criminal Justice Commission | - | - | - | 4.6 |
| AZ State Schools for the Deaf & Blind | 344.1 | (815.4) | 15,034.4 | (28.2) |
| Department of Economic Security | 7,123.2 | 24,509.2 | 463,133.5 | (43,944.5) |
| Department of Education | 62,888.2 | (220,487.9) | 2,584,383.7 | (416,309.0) |
| DEMA | 435.8 | 88.1 | 7,748.0 | 1,701.0 |
| Department. of Environmental Quality | - | (342.0) | - | (3,796.6) |
| DEQ – WQARF | - | - | 7,000.0 | - |
| Office of Equal Opportunity | 8.8 | (7.6) | 129.3 | (27.7) |
| State Board of Equalization | 17.8 | (9.2) | 450.3 | (6.5) |
| Board of Executive Clemency | 43.3 | 3.3 | 619.6 | (96.4) |
| Department of Financial Institutions | 155.3 | 14.2 | 1,950.1 | (410.2) |
| Department of Fire, Life, Bldg Safety | 121.5 | 33.5 | 1,523.7 | (227.1) |
| Office of the State Forester | 195.7 | 195.7 | 1,957.1 | 1,957.1 |
| Board of Funeral Directors | - | - | - | (100.0) |
| Arizona Geological Survey | 96.6 | 21.7 | 499.7 | (97.0) |
| Government Information Tech. | 34.2 | 7.1 | 342.2 | 24.9 |
| Governor | 252.4 | 146.7 | 4,781.5 | (669.8) |
| Gov. - OSPB | 142.0 | 12.5 | 1,340.7 | (84.6) |
| Department of Health Services | 39,621.2 | 30,297.9 | 380,114.0 | (22,567.5) |
| Arizona Historical Society | 179.6 | 11.3 | 4,601.4 | 1,480.1 |
| Prescott Historical Society of AZ | 163.3 | 130.4 | 539.5 | 32.2 |
| Independent Redistricting Comm. | - | - | - | (26.1) |
| Commission on Indian Affairs | 13.7 | 13.6 | 45.0 | (26.2) |
| Department of Insurance | 302.3 | (8.5) | 4,062.0 | (128.2) |
| Judiciary | | | | |
| Supreme Court | 680.3 | (329.8) | 15,336.0 | 2,420.8 |
| Superior Court | 1,021.9 | (8,423.7) | 47,438.0 | (14,255.2) |
| Court of Appeals | 888.3 | (19.6) | 10,719.6 | 554.1 |
| Department of Juvenile Corrections | 3,155.4 | (150.5) | 38,228.4 | (9,364.1) |
| State Land Department | 143.2 | 283.6 | 2,341.3 | (9,466.1) |
| Law Enforcement Merit System | 4.6 | 1.2 | 51.0 | (3.2) |

| Agency | February 11 | Change from February 10 | Year-to-Date | YTD Change from FY 10 |
|---|------------------|-------------------------|--------------------|-----------------------|
| Auditor General | 1,139.8 | 1,063.6 | 12,277.2 | 2,009.0 |
| House of Representatives | 800.5 | (125.3) | 8,448.1 | (329.8) |
| Joint Legislative Budget Comm. | 147.7 | (27.4) | 1,490.0 | (173.4) |
| Legislative Council | 327.0 | 40.2 | 3,380.1 | (292.4) |
| Senate | 612.0 | (35.4) | 5,977.9 | (254.5) |
| Department of Liquor Licenses | - | (.6) | 3.2 | (737.2) |
| Board of Medical Student Loans | - | (34.7) | 343.8 | (458.1) |
| Mine Inspector | 57.7 | (30.7) | 798.7 | (138.3) |
| Department of Mines & Mineral Resources | 14.0 | (9.0) | 807.1 | 354.6 |
| Nav. Streams & Adjudication | 4.9 | (.6) | 101.6 | 1.8 |
| OSHA | - | (6.7) | - | (14.4) |
| Arizona State Parks Board | - | - | 20,000.0 | (1,900.3) |
| Pioneers' Home | 167.3 | 167.3 | 984.5 | 984.5 |
| Board of Psychologist Examiners | - | - | 25.0 | (275.0) |
| Comm. for Postsecondary Ed. | - | (879.9) | 610.4 | (1,642.0) |
| Department of Public Safety | 1,575.0 | (38.9) | 33,438.7 | (6,645.5) |
| Arizona Department of Racing | 130.0 | (1.7) | 3,431.3 | (603.1) |
| Radiation Regulatory Agency | 8.9 | 4.5 | 1,031.3 | (40.0) |
| Arizona Rangers Pension | - | (1.2) | 8.2 | (1.1) |
| Real Estate Department | 140.0 | (1.8) | 2,053.9 | (366.0) |
| Department of Revenue | 3,330.7 | 4,568.7 | 29,480.5 | 7,191.0 |
| School Facilities Board | 33,636.4 | 31,319.5 | 67,028.3 | (36,931.1) |
| Secretary of State | 571.8 | (29.5) | 11,308.9 | 4,399.4 |
| Tax Appeals Board | 16.9 | - | 184.4 | (3.4) |
| Office of Tourism | - | - | - | (200.0) |
| Department of Transportation | 11.4 | 8.7 | 36.5 | (3.5) |
| State Treasurer | - | (178.4) | - | (1,908.0) |
| Universities | | | | |
| Board of Regents | 2,299.4 | 2,271.9 | 15,753.9 | (4,061.5) |
| Arizona State University | 25,366.2 | (7,851.1) | 293,750.0 | (18,049.5) |
| Northern Arizona University | 8,551.9 | (2,668.3) | 98,909.0 | (6,094.0) |
| University of Arizona | 22,135.0 | (6,906.4) | 256,009.3 | (15,782.6) |
| Veterinary Medical Examiners Board | - | - | - | (250.0) |
| Department of Veteran Services | 2,181.9 | 886.3 | 9,230.1 | 3,040.0 |
| Department of Water Resources | 189.4 | (1,205.0) | 4,786.6 | (7,378.7) |
| Department of Weights & Measures | 80.6 | 5.9 | 772.2 | (95.4) |
| Other | 293.5 | 515.5 | 2,087.2 | (18,720.1) |
| Grand Total | 404,955.8 | (134,830.3) | 6,274,300.4 | (474,968.4) |