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*“Year-to-date,  
base General  
Fund revenues  
are 4.9%  
above the  
prior year and  
are \$87.5  
million above  
the enacted  
budget  
forecast.”*

This report has been  
prepared for the Arizona  
Legislature by the Joint  
Legislative Budget  
Committee Staff on  
April 20, 2015.

## Summary

March General Fund revenues totaled \$595.4 million, which is an increase of 0.5% above March 2014. March collections were \$51.3 million above the enacted budget forecast.

There is insufficient data in the middle of tax filing season to determine if the March results are due to the short-term timing of returns or represent a real gain. April data will help, but not entirely resolve this issue.

One contributing factor to the forecast overage was the Corporate Income Tax, which did not decline as much as expected. Compared to March 2014, Corporate Income Tax had been forecasted to decline as the state began to feel the impact of several tax reductions being phased in during FY 2015 – FY 2018. The impact of these tax reductions, however, may be delayed due to the timing of corporation filings.

In addition, the March results were helped by the Individual Income Tax category, which grew by 14.3% and was \$36.0 million above the enacted forecast for the month. The gain was a combination of higher withholding and higher final payments. The latter may be a function of when filers submitted returns more than a permanent increase.

Year-to-date, base General Fund revenues are 4.9% above the prior year and are \$87.5 million above the enacted budget forecast. These amounts exclude Urban Revenue Sharing and one-time adjustments.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-April 2015 is \$1.7 billion. In addition, the state's Budget Stabilization Fund has a balance of \$456.8 million.

### April FAC Summary

The [Finance Advisory Committee](#) (FAC) met on April 9, 2015 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. economy, and state cash flows. The JLBC Staff provided members with revised [FY 2015 – FY 2018](#) fiscal estimates based on the updated April 4-sector revenue forecast, the enacted spending amounts signed by the Governor in the March budget and additional legislation subsequently signed by the Governor.

In comparison to the January base revenue forecast, the April FAC projections are more optimistic in FY 2015 and FY 2016 and more cautious in FY 2017 and FY 2018 (*See Table 1*).

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## Summary (Continued)

Upward revisions to FY 2015 and FY 2016 growth likely reflect year-to-date collection growth and general improvements to the economy. Downward revisions to FY 2017 and FY 2018 may reflect the potential of higher interest rates and a tighter job market to moderate economic growth.

**Table 1**

**Comparison of January and April FAC Forecasts**

	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
January	4.3%	3.3%	4.4%	5.1%
April	4.8%	3.7%	4.1%	4.8%

As a result of the April 4-sector forecast and other legislation, the enacted March budget's projected FY 2016 ending balance would slightly increase from \$450,000 to \$3 million. This updated estimate includes the impact of the enacted \$31 million tax conformity legislation.

The projected FY 2018 balance of \$33 million under the enacted March budget spending plan becomes an \$(18) million shortfall under the revised April figures and the conformity legislation.

### Classroom Site Fund Report

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 \$327 per weighted pupil from the CSF for FY 2016. The \$327 per pupil amount would be higher than the \$295 per pupil amount anticipated for FY 2015 because of projected growth in Proposition 301 sales tax revenues and land trust earnings for FY 2016.

## March Revenues

Table 2 General Fund Revenues (\$ in Millions)			
	<u>FY 2015 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2014</u>
March	\$ 595.4	\$ 51.3	\$ 2.9
Year-to-Date	\$ 6,166.4	\$ 87.5	\$ 199.2

**Sales Tax** collections of \$347.4 million were 6.6% above March of last year and \$11.6 million above the forecast for the month. Year to date, collections have increased by 4.2% and are \$21.5 million above forecast. March collections reflect February transactions.

*Table 3* includes the major categories of the state's sales tax, which together account for approximately 90% of total collections. The retail category, which makes up roughly half of sales tax collections, increased by 9.1% in March compared to the same month in the prior year. Year to date, retail collections are up by 4.1%. Due to technical adjustments, however, this figure understates the underlying growth rate of 6.1%.

Collections from contracting activity declined by (5.1)% in March, following a (17.4)% decline in the prior month. Year to date, contracting collections are down by (1.4)%.

As discussed in last month's *Monthly Fiscal Highlights*, some of the retail increase and the contracting reduction may be related to a new law that went into effect at the beginning of the current calendar year. Under this legislation, service contractors that do work related to maintenance, repair or replacement of existing property are exempt from the prime contracting tax, beginning January 1, 2015. Instead, such contractors are now required to pay the retail transaction privilege tax on materials that they purchase as a part of the service contract.

Use tax collections increased by 19.1% in March and are up by 27.3% for the first 9 months of FY 2015. After a technical adjustment, however, the underlying year-to-date growth rate would be 3.1%.

The impact of the Super Bowl and related activity is most notable in smaller categories, such as the amusement and hotel/motel sales tax categories. With the Super Bowl occurring on February 1<sup>st</sup>, the related revenue impact from the event likely occurred in both February and March collections (January and February sales, respectively)

Amusement sales tax collections of \$8.0 million were 114% higher than in March 2014. Collections from the hotel/motel category were \$11.0 million in March, a year-over-year increase of 20%.

**Table 3  
Sales Tax Growth Rates  
Compared to Prior Year**

	<u>March</u>	<u>YTD</u>
Retail	9.1%	4.1%
Contracting	(4.9)%	(1.4)%
Use	19.1%	27.3%
Restaurant & Bar	9.8%	9.2%
Utilities	(1.5)%	(0.3)%
Hotel/Motel	20.0%	16.8%
Amusement	113.6%	21.4%

**Individual Income Tax** net revenues were \$135.3 million in March, which was 14.3% more than the prior year. Collections were \$36.0 million above the forecast for the month. Year-to-date, revenue has grown 6.0% over the prior year and is \$63.5 million above forecast.

As indicated in *Table 4*, withholding increased 8.4% in March and was \$21 million above forecast. The March collections bring withholding tax collections for the fiscal year to 3.0% over the prior year. This amount is \$6.2 million above the budgeted forecast.

March estimated and final payments were 17.4% above last year, and were \$14.5 million above the forecast. While March is the second month of tax filing season, estimated and final payments are typically most concentrated in April. Year-to-date, payments have grown 6.8% over the prior year.

March refunds totaled \$(281.9) million, which was 7.7% above last year and approximately equal to the forecast. Year-to-date, a decline in the level of refunds has resulted in a gain of \$34.1 million compared to the enacted forecast. However, this gain may be more a function of the timing of processing and taxpayer filing rather than a change in taxpayer liability.

## March Revenues (Continued)

**Table 4**  
**Individual Income Tax Growth Rates**  
**Compared to Prior Year**

	<u>March</u>	<u>YTD</u>
Withholding	8.4%	3.0%
Estimated +		
Final Payments	17.4%	6.8%
Refunds	7.7%	(4.2)%

**Corporate Income Tax** net collections were \$75.3 million in March, which was (4.0)% less than March 2014. Collections for the month were \$17.7 million above the enacted forecast. Year-to-date, net collections are up 11.2% compared to the prior year. While Corporate Income Tax collections have grown significantly during FY 2015, these gains follow losses seen during FY 2014, when Corporate Income Tax collections fell by (13.1)%.

As mentioned in the summary section, the forecast assumed March 2015 collections would decline more rapidly compared to the prior year. This decline is due to the estimated impact of the tax reductions being phased in during FY 2015 – FY 2018 (which corresponds to Tax Years 2014 – 2018).

The 4-year phase-in started with tax year (TY) 2014. A business may begin its tax year any time between January and December. If a company has a January – December 2014 tax year, for example, its TY 2014 state taxes are due in April 2015. The JLBC Staff methodology has been to assume that the first year of the 4-year phase-in would fully occur in FY 2015.

Based on further research and discussions with the Department of Revenue (DOR), however, a majority of the first year impact of the phase-in may not occur until FY 2016. Most large corporations receive a 6-month extension to file their returns. As a result, their TY 2014 returns are not filed until October 2015 (FY 2016). To avoid a penalty, corporations must either have made estimated payments equal to their prior year liability or 90% of their current year liability.

While a corporation would reduce its tax bill more quickly if it filed in April than in October, the state tax filing may be largely driven by the much larger federal liability. If there is no incentive to file a federal return sooner, in this circumstance, the state may not experience the impact of TY 2014 CIT reductions until October 2015 (FY 2016). If a corporation's tax year 2014 began after January 2014, the tax reduction revenue loss may occur post-October 2015.

The magnitude of this potential shift cannot be determined in advance with any certainty. Given both the variability in the start of the tax year and filing extensions, the full impact of the first year of the tax reductions may not be known for more than 12-15 months.

**Insurance Premium Tax** collections of \$66.3 million in March were (26.6)% below the prior year and \$(14.5) million below forecast. Year-to-date, collections are \$(9.4) million below forecast. The monthly and year-to-date shortfalls though, may be the result of delays in processing March collections.

**Highway User Revenue Fund (HURF)** collections of \$108.4 million in March were up \$5.3 million, or 5.1% compared to March of last year. Collections for the month were \$3.2 million above forecast. Year-to-date collections are 3.4% above FY 2014, and are \$12.7 million above forecast.

The recent trend of above forecast HURF collections is likely the result of the dramatic decline in gas prices during FY 2015, which tends to increase gas consumption and collections of the state's fixed price-per-gallon gas tax.

Table 5

## General Fund Revenue: Change from Previous Year and Budget Forecast March 2015

	Current Month					FY 2015 YTD (Nine Months)				
	Actual March 2015	Change From				Actual March 2015	Change from			
		March 2014		Budget Forecast			March 2014		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$347,376,257	\$20,903,468	6.4 %	\$11,602,909	3.5 %	\$3,126,872,139	\$126,075,051	4.2 %	\$21,531,802	0.7 %
Income - Individual	135,296,012	16,903,297	14.3	35,950,951	36.2	2,586,752,113	146,305,484	6.0	63,577,006	2.5
- Corporate	75,288,234	(3,120,194)	(4.0)	17,737,220	30.8	402,111,213	40,636,720	11.2	11,604,391	3.0
Property	998,948	360,257	56.4	498,948	99.8	22,415,005	10,773,321	92.5	2,453,097	12.3
Luxury - Tobacco	2,292,569	363,815	18.9	355,195	18.3	16,966,646	(2,334,660)	(12.1)	(446,481)	(2.6)
- Liquor	2,804,051	492,555	21.3	120,256	4.5	24,384,480	119,798	0.5	(27,414)	(0.1)
Insurance Premium	66,254,010	(24,006,488)	(26.6)	(14,483,718)	(17.9)	247,340,104	(1,354,884)	(0.5)	(9,397,971)	(3.7)
Other Taxes	955,070	(688,916)	(41.9)	320,070	50.4	5,816,776	2,014,975	53.0	1,083,121	22.9
<b>Sub-Total Taxes</b>	<b>\$631,265,151</b>	<b>\$11,207,794</b>	<b>1.8 %</b>	<b>\$52,101,831</b>	<b>9.0 %</b>	<b>\$6,432,658,476</b>	<b>\$320,622,630</b>	<b>5.2 %</b>	<b>\$90,377,550</b>	<b>1.4 %</b>
<b><u>Other Revenue</u></b>										
Lottery	5,952,800	(6,532,450)	(52.3)	952,800	19.1	30,542,600	(7,261,000)	(19.2)	(784,000)	(2.5)
License, Fees and Permits	2,241,664	42,352	1.9	(258,336)	(10.3)	22,907,816	1,710,948	8.1	(124,690)	(0.5)
Interest	1,949	14,927	--	1,949	--	23,311	20,072	619.7	5,983	34.5
Sales and Services	2,124,796	58,609	2.8	(375,204)	(15.0)	22,162,008	214,471	1.0	(1,803,849)	(7.5)
Other Miscellaneous	(28,279)	(2,193,167)	--	(3,028,279)	--	16,013,256	2,701,197	20.3	(3,727,867)	(18.9)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,631,544	4,342,467	--	1,881,544	68.4	37,635,310	(12,588,214)	(25.1)	3,543,909	10.4
<b>Sub-Total Other Revenue</b>	<b>\$14,924,475</b>	<b>(\$4,267,261)</b>	<b>(22.2) %</b>	<b>(\$825,525)</b>	<b>(5.2) %</b>	<b>\$129,284,301</b>	<b>(\$15,202,526)</b>	<b>(10.5) %</b>	<b>(\$2,890,513)</b>	<b>(2.2) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$646,189,626</b>	<b>\$6,940,533</b>	<b>1.1 %</b>	<b>\$51,276,306</b>	<b>8.6 %</b>	<b>\$6,561,942,777</b>	<b>\$305,420,104</b>	<b>4.9 %</b>	<b>\$87,487,037</b>	<b>1.4 %</b>
<b><u>Other Adjustments</u></b>										
Urban Revenue Sharing	(50,744,642)	(4,035,312)	8.6	0	0.0	(456,701,780)	(35,828,577)	8.5	0	0.0
One-Time Transfers	0	0	--	0	--	61,154,456	(70,391,693)	(53.5)	0	(0.0)
<b>Sub-Total Other Adjustments</b>	<b>(50,744,642)</b>	<b>(4,035,312)</b>	<b>8.6 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(395,547,324)</b>	<b>(106,220,270)</b>	<b>36.7 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$595,444,984</b>	<b>\$2,905,221</b>	<b>0.5 %</b>	<b>\$51,276,306</b>	<b>9.4 %</b>	<b>\$6,166,395,453</b>	<b>\$199,199,834</b>	<b>3.3 %</b>	<b>\$87,487,037</b>	<b>1.4 %</b>
<b><u>Non-General Funds</u></b>										
Highway User Revenue Fund	\$108,362,658	\$5,278,666	5.1 %	\$3,216,986	3.1 %	\$951,773,563	\$31,094,540	3.4 %	\$12,680,959	1.4 %

## 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 2.2% in the fourth quarter of 2014. This estimate is a deceleration from the 5.0% growth during the third quarter. The decrease relative to third quarter growth was primarily due to an increase in imports, a decrease in federal defense spending and a slowdown in nonresidential fixed investment. Positive contributions came primarily from consumer spending and state and local spending.

The Conference Board's **U.S. Consumer Confidence Index** increased by 2.5% to 101.3 in March. The index stands 20.7% above its March 2014 level. The March increase was primary due to greater optimism about personal income and employment conditions 6 months out. A modest increase in gas prices may have moderated the overall increase in confidence.

The Conference Board's **U.S. Leading Economic Index** increased by 0.2% in February and 6.2% since February 2014. Of the index's 10 components, 7 made positive contributions during the month. Movement in interest rates, stock market performance and building permits were the largest positive contributors to the index while initial unemployment claims were a negative influence. Improvement in building permits for multifamily units more than offset a slump in permits for single-family units.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased by 0.2% in February from the prior month—the first increase since October 2014. The index's annual growth stands at 0.3%, which is well below the Federal Reserve Bank's 2% annual inflation target. While a (19.9)% year-over-year decrease in energy prices has drastically reduced the overall index, the year-over-year growth in the core index (all items except food and energy) stands at 1.4% in February.

### ARIZONA

#### Housing

The **median price of a single family home** was \$217,000 in March, a 1.0% increase from February. The price is 8.6% higher than March of last year.

Single family housing construction continues to weaken, while multi-family construction continues to expand

strongly. Arizona's 12-month total of **single-family building permits** is 17,591, or (3.3)% less than a year ago. The comparable single-family permit growth rate for the entire U.S. is 1.5% above last year. *See Appendix A – Tracking Arizona's Recovery for historical information.*

In contrast, the 12-month total of multi-family building permits has increased significantly since last year. Arizona's total of 9,896 **multi-family building permits** is 58.6% above last year. Arizona's rate of increase is greater than the comparable multi-family permit growth for the U.S. as a whole which is 9.2% above last year.

#### Employment

The state's regular **unemployment rate** decreased from 6.5% in February to 6.2% in March, the lowest jobless rate since June 2008. The U.S. unemployment rate remained unchanged at 5.5% in March.

According to the latest employment report released by the Department of Administration, the state added 5,600 **Nonfarm jobs** in March compared to the prior month. This was less than half of the 10-year average job gain for March of 11,400 jobs. Most of the job gains (+5,400) occurred in the Leisure and Hospitality industry.

Compared to the same month in the prior year, Arizona added 64,700 net new jobs in March. This represents a year-over-year job growth rate of 2.6%. The largest year-over-year job gains in March came from the following industries: Education and Health Services (+15,100), Professional and Business Services (+13,700), and Trade, Transportation and Utilities (+11,800).

In February, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 35.1 hours. This workload is (0.3)% below the February 2014 level.

The **Average Hourly Earnings** received by these private sector workers was \$22.98, which is 0.3% above the average in the prior month. The year-over-year growth rate continued to recover somewhat from (1.8)% in January to reach (1.1)% in February. The average hourly earnings nationwide in March 2015 were 2.1% above the average from a year prior.

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



## Monthly Indicators (Continued)

supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In the fourth quarter of 2014, Arizona personal income increased at an annual rate of 4.5%, to \$259.0 billion.

### Tourism

State Park Service visitations were 266,800 in February 2015, which is an 11.9% increase over February 2014. Revenue per available room increased 15.8% during this time.

### State Agency Data

At the beginning of April 2015, the total **AHCCCS** caseload was 1.62 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 359,300 members.

Total monthly enrollment increased 1.5% in April, the second consecutive month of growth following several months of flat or decreasing enrollment. The slowdown in prior months may have been exacerbated by a change in the length of eligibility redetermination.

The overall increase in April was spread across most AHCCCS populations. Enrollment in the Traditional population of the lowest income parents and children increased 5,800 in April to a level of 959,400 members. The April level represents an increase of 0.6% since last month and a 6.1% increase since last year.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In April 2015, the childless adult population increased by 2,300, or 0.8%. Since January 2014, the childless adult population has increased by 213,600 to reach a level of 281,400. The state share of the Proposition 204 physical health cost is paid through a hospital assessment while the behavioral health costs are paid through the General Fund.

The state also opted to expand adult Medicaid coverage to 133% of FPL. The 100% - 133% enrollment increased by 8,900 in April and now totals 50,900 individuals enrolled since January 2014. The federal government is currently paying 100% of this cost.

There were 25,747 **Temporarily Assistance to Needy Families (TANF) recipients** in the state in February, representing a (4.4)% decrease in monthly caseloads from January. The year-over-year number of TANF recipients has declined by (16.4)%. The current statutory lifetime limit on cash assistance is 24 months, but will decline to 12 months in July 2016.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. This February, there were 1.0 million food stamp recipients in the state, representing a (1.1)% decrease from January caseloads. Compared to February of last year, food stamp participation declined by (2.5)%.

At the end of March 2015, the **Arizona Department of Corrections** reported at total inmate population of 42,245. This is a 0.4% increase from the previous month, and a 2.0% increase since March 2014.

Table 6

## MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	March	6.2%	(0.3)%	(0.8)%
- Total Unemployment Rate (discouraged/underemployed)	4 <sup>th</sup> Q 2014	14.7%	(0.4)%	(1.3)%
- Initial Unemployment Insurance Claims	February	14,673	(22.4)%	(16.9)%
- Unemployment Insurance Recipients	December	30,402	(2.0)%	(12.7)%
- Non-Farm Employment - Total	March	2.63 million	0.2%	2.6%
Manufacturing	March	156,100	(0.3)%	(0.3)%
Construction	March	126,700	0.6%	1.5%
- Average Weekly Hours, Private Sector	February	35.1	2.0%	(0.3)%
- Average Hourly Earnings, Private Sector	February	\$22.98	0.3%	(1.1)%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	December	\$872.2 million	2.8%	8.7%
Furniture/Home Furnishings	December	\$351.9 million	13.7%	8.4%
Building Material/Lawn & Garden	December	\$323.8 million	(2.9)%	7.0%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	February	17,591	0.5%	(3.3)%
Multi-family	February	9,896	(4.3)%	58.6%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	March	6,921	27.4%	11.1%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	March	\$217,000	1.0%	8.6%
- Phoenix S&P/C Home Price Index (2000 = 100)	January	147.98	0.0%	2.6%
- Maricopa Pending Foreclosures	February	5,680	0.1%	(28.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	February	27,334	0.8%	(7.8)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	February	3.30 million	(4.9)%	4.7%
- National Park Visitors	December	605,350	(34.9)%	20.5%
- State Park Visitors	February	266,769	42.5%	11.9%
- Revenue Per Available Hotel Room	February	\$97.16	19.2%	15.8%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	1st Q 2015	79.1	N/A	14.8%
- Arizona Coincident Index (July 1992 = 100)	December	191.31	0.3%	2.8%
- Arizona Leading Index -- 6 month projected growth	December	3.5%	(0.2)%	0.4%
- Arizona Personal Income	4 <sup>th</sup> Q 2014	\$259.0 billion	4.6%	4.5%
- Arizona Population	July 2014	6.73 million	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	Dec 09/July 10	AA- / Aa3	N/A	N/A
Outlook	Nov 13	Positive	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	April	1,617,412	1.5%	17.4%
Acute Care Traditional		959,367	0.6%	6.1%
Prop 204 Childless Adults		281,381	0.8%	55.7%
Other Prop 204		171,727	1.8%	14.3%
Adult Expansion		50,924	21.2%	263.7%
Kids Care I		1,288	(21.1)%	(38.6)%
Kids Care II		0	0.0%	(100.0)%
Long-Term Care – Elderly & DD		56,842	0.3%	3.5%
Emergency Services		95,883	4.2%	33.4%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Dec. 2014	48,710	0.8%	12.0%
DCS Out-of-Home Children	December	17,102	0.4%	13.9%
Filled Caseworkers (1406 Budgeted)	February	1,396	1	206
- ADC Inmate Growth	March	42,245	0.4%	2.0%
- Department of Economic Security				
- TANF Recipients	February	25,747	(4.4)%	(16.4)%
- SNAP (Food Stamps) Recipients	February	1,009,924	(1.1)%	(2.5)%
- Judiciary Probation Caseload				
Non-Maricopa	February	17,889	7	618
Maricopa County	February	26,629	126	1,560
<b>United States</b>				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	4 <sup>th</sup> Q, 2014 (3 <sup>rd</sup> Estimate)	\$16.3 trillion	2.4%	2.2%
- Consumer Confidence Index (1985 = 100)	March	101.3	2.5%	20.7%
- Leading Indicators Index (2010 = 100)	February	121.4	0.2%	6.2%
- Consumer Price Index, SA (1982-84 = 100)	January	234.7	(0.7)%	(0.1)%
- Personal Consumption Price Index (2009 = 100)	February	108.5	0.2%	0.3%



## JLBC Meeting

At its March 31, 2015 meeting, the Joint Legislative Budget Committee considered the following issues:

**Arizona Department of Administration/Department of Child Safety – Children's Information Library and Data Source (CHILDS) (Automation Projects Fund)** – The Committee gave a favorable review of the \$313,000 in proposed FY 2015 expenditures from the Automation Projects Fund (APF) for the Department of Child Safety's (DCS) Children's Information Library and Data Source (CHILDS) replacement as part of the Phase 1 Planning project. The Committee added technical provisions to its favorable review.

**Arizona Department of Administration/Arizona Department of Corrections – Adult Information Management System FY 2015 (Automation Projects Fund)** – The Committee gave a favorable review of the \$8.0 million in proposed FY 2015 expenditures from the APF for the second year of funding for the replacement of the inmate tracking system at the Arizona Department of Corrections.

**Arizona Department of Administration/Department of Child Safety – Transition Funding Expenditure Plan (Moving Expenses)** – The Committee gave a favorable review of \$1,593,400 in relocation expenses from the \$19.5 million transition appropriation to establish DCS. These monies are to be used to assist in the relocation of DCS to 3003 North Central Avenue in Phoenix.

**Arizona Department of Administration/Department of Economic Security – Transition Funding Expenditure Plan (Data Center)** – The Committee gave a favorable review of the \$4.0 million for the final phase of the DES data center relocation. The Committee added technical provisions to its favorable review.

**Arizona Department of Administration – Emergency Telecommunication Services Revolving Fund (ETSF) Expenditure Plan** – The Committee gave a favorable review of the \$5.5 million wireless portion of the FY 2015 ETSF expenditure plan.

**Attorney General – Quarterly Report on Legal Settlements** – The Committee gave a favorable review of the Attorney General's (AG) allocation of legal settlements among the various funds. In the second quarter of FY 2015, the AG deposited \$538,900 to the Consumer Protection – Consumer Fraud (CPCF) Revolving Fund, \$21,100 to the Restitution Subaccount, and \$10,000 to the Remediation Subaccount. The review included the provision that the AG return to the Committee if it intends to expend any of the monies the state received from the McKesson Corporation settlement.

**Northern Arizona University – Expenditure and Performance Report on Nonprofit Biotechnology Research Appropriation** – The Committee gave a favorable review of NAU's performance report resulting from an annual appropriation of \$3.0 million to NAU from FY 2015 through FY 2019 for distribution to a biomedical research entity.

**Automobile Theft Authority – Proposed Expenditures from the Reimbursable Programs Line Item** – The Committee gave a favorable review to expend up to \$5,000, donated by the National Insurance Crime Bureau (NICB), in FY 2015 to support the Arizona Vehicle Task Force through the purchase of 2 trailers. The trailers will be used to help transport large pieces of scrap metal to the Department of Public Safety for further analysis and storage.

**AHCCCS/Department of Health Services/Department of Economic Security/Department of Child Safety – Proposed Capitation Rates Changes** – The Committee gave a favorable review to the revised FY 2015 capitation rates for the state's Medicaid system.

## JCCR Meeting

At its April 1, 2015 meeting, the Joint Committee on Capital Review considered the following issues:

**Department of Economic Security/Department of Child Safety – Joint Occupancy Buildings** – The Committee gave a favorable review of the plan for DES to retain ownership of the 7 joint occupancy buildings. The plan includes a requirement that DES/DCS amend their intergovernmental facility services agreement to ensure DCS' continued right to use the joint occupancy buildings. The favorable review included provisions specifying additional joint occupancy requirements for each agency and how the proceeds from the sale of a joint occupancy building are to be distributed between the agencies.

**Arizona Department of Corrections – Revised FY 2014 and FY 2015 Building Renewal Allocation Plans** – The Committee gave a favorable review to revisions of the FY 2014 and FY 2015 Building Renewal Plans. For the FY 2014 plan, \$1,702,500 in savings from perimeter and lock upgrades will be re-allotted to other projects. For the FY 2015 building renewal plan, monies for the conversion from evaporative cooling to air conditioning at ASPC – Eyman are to be used at ASPC – Tucson instead. The favorable review includes the provision requiring ADC to report any changes in the spending plan to JLBC, including reallocations between projects and non-emergency use of contingency monies. If there is significant change of scope in the reallocation reported by ADC, the JLBC Staff shall recommend ADC request Committee review of the reallocation.

**Arizona Exposition and State Fair Board – FY 2015 Capital Improvement Expenditures** – The Committee gave a favorable review to Arizona Exposition and State Fair's \$285,000 expenditure plan from the Arizona Exposition and State Fair Fund for 4 capital projects: \$110,000 for a home arts building fire alarm system, \$75,000 for an emergency generator, \$50,000 for a boiler, and \$50,000 for home arts evaporative coolers.

**Arizona Game and Fish Department – FY 2014 Building Renewal Allocation Plan** – The Committee gave a favorable review of the Arizona Game and Fish Department's FY 2014 Building Renewal Allocation Plan for \$297,100 from the Game Fish Fund, including: \$166,100 for Tucson regional office remodeling, \$35,000 for a Tonto Creek fish hatchery septic system, \$52,200 for deposit in the State Headquarters Major Maintenance Fund, and \$43,800 for preventative maintenance. The FY 2014 Capital Outlay Bill (Laws 2013, 1<sup>st</sup> Special Session, Chapter 8) appropriated a total of \$547,600 from the Game Fish Fund for building renewal. The bill specified the appropriation in FY 2014 is available through the end of FY 2015.

**Arizona Department of Transportation – De-Icer Buildings Project** – The Committee gave a favorable review of the Arizona Department of Transportation's (ADOT) \$2,280,000 expenditure plan from the State Highway Fund for the construction of 5 buildings to house de-icer chemicals, bulk sand, and cinders used during winter months to de-ice highways. The buildings are to be located at Camp Verde, Fredonia, Kayenta, St. John, and Three Way. The favorable review includes the provision requiring ADOT to report any project reallocations above \$100,000 to the Committee.

**Arizona Department of Administration – Consider Recommending FY 2015 Partial Rent Exemptions** – The Committee recommended a partial rent exemption for \$66,900 for ADOA and \$13,100 for the Department of Public Safety due to the demolition of 2 of their buildings. The Committee also recommended that a \$20,000 partial exemption for the Registrar of Contractors be replaced by a corresponding rent payment from the Governor's Office of Faith and Community Partnerships in FY 2015.

## Summary of Recent Agency Reports

### **Arizona Department of Administration – Report on State Surplus Materials Revolving Fund Excess Revenue**

Pursuant to a FY 2015 General Appropriation Act footnote, all State Surplus Materials Revolving Fund revenues received by the Arizona Department of Administration (ADOA) in excess of the \$2.4 million appropriation from the State Surplus Materials Revolving Fund in FY 2015 are appropriated to ADOA. Prior to expending the additional State Surplus Materials Revolving Fund receipts, ADOA is required to report the intended use of the monies to the Joint Legislative Budget Committee.

Monies appropriated to the State Surplus Property Sales Proceeds line item are used to reimburse agencies for the sale of surplus materials and are funded out of the State Surplus Materials Revolving Fund. ADOA has reported that an additional \$560,000 from the State Surplus Materials Revolving Fund will be used in FY 2015 to reimburse agencies for the sale of surplus materials, and that current revenues to the fund can sustain the increased amount of reimbursements.

In addition, last year ADOA reported that the Surplus Property Management Program experienced an increase in proceeds from the sale of materials and that the Surplus Materials Revolving Fund would receive \$575,000 above the appropriated amount in FY 2014. ADOA has reported that it was only necessary for the program to utilize \$475,000 of the projected \$575,000 increase in expenditure authority in FY 2014. (Rebecca Perra)

**Department of Education – Education Learning and Accountability System** - Pursuant to a General Appropriation Act footnote, the Arizona Department of Education (ADE) must contract with an independent third-party vendor to provide additional oversight on the development of ADE's Education Learning and Accountability System (ELAS). The vendor is required to submit quarterly reports that evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The vendor's most recent quarterly report was issued on December 29, 2014.

From a technical perspective, the report observes that ELAS information technology (IT) projects continue to make progress in replacing the Student Accountability Information System (SAIS), which computes state financial aid payments to schools, and the Student Information System (SIS), which allows schools to input student data, like daily student attendance counts, into SAIS. The report notes that more work is needed to improve the accuracy of student data that is transmitted to ADE from schools as well as the efficiency and frequency of those transmissions. These shortcomings are partly attributed to delays by vendors in modifying districts' Student Information Systems to meet ADE's data standards. The report recommends that ADE give priority to completing a data governance

process that will better manage the data integrity of ELAS. As mentioned in the last report, the teaching and learning components of ELAS, such as content management, learning management, and teacher observation tools, are still not fully functional for district use.

The report also discusses that non-technology "policies and decisions necessary to deploy ELAS systems, and to integrate ELAS capabilities into the leadership and support of districts, schools, and teachers is not keeping pace with the technical work." For example, the teaching component of ELAS, the Content Management System (CMS), is now capable of storing content, but ADE program teams have loaded little content into CMS that could be used by schools. These program teams also do not have a strategy for curating uploaded materials and aligning them with learning goals. The same problem exists with assessments.

Another example mentioned in the report involves the communication of ELAS. While ADE's IT staff continue to communicate with schools about how to use ELAS, ADE's program groups with instructional and administration expertise are needed to show instructional leaders how to use the data within the ELAS for student learning. The report warns that without adequate data literacy, neither ADE nor school staff will be able to use ELAS effectively; although, the report acknowledges that progress is being made in this area as Arizona is now one of the first states in which teacher training and certification programs incorporate data literacy and usage of ELAS into the curriculum.

The report indicates that the ADE-ELAS team "has matured into a group to which the rest of the nation looks for leadership in technical areas." It notes, however, that the amount of work to be completed for implementation of the data collection portion of ELAS by the next fiscal year is "immense."

The report recommends that the state develop a long-term plan as it relates to governance, funding, and staff if ELAS is to remain a sustainable tool that schools see as reliable and permanent. (Matt Gress)

**Department of Education – Override Report** - Pursuant to A.R.S. § 15-249.04, the Arizona Department of Education (ADE) has reported FY 2015 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 in FY 2015, 94 districts statewide have Maintenance and Operation (M&O) overrides pursuant to A.R.S. § 15-481, 9 have "Special Program" overrides pursuant to A.R.S. § 15-482, and 23 have "District Additional Assistance" overrides pursuant to A.R.S. § 15-481. The total amounts budgeted for overrides for FY 2015 include \$394,167,700 for both types of M&O overrides combined and \$74,201,000 for District Additional Assistance overrides. (Steve Schimpp)

## March Spending

March 2015 General Fund spending of \$455.3 million was \$(22.9) million less than March 2014. Year-to-date, spending is \$7.51 billion, or \$439.8 million above last year. (See Tables 7 & 8).

- Year-to-date, the Department of Education has spent \$122.0 million more than the prior year.
- Year-to-date, Department of Health Services spending has increased by \$64.7 million compared to the prior year. This increase is in part due to the restoration of childless adult Medicaid coverage, which is entirely paid for with General Fund monies in the Department of Health Services.
- During FY 2015, Department of Public Safety spending has increased by \$33.6 million compared to the prior year. This increase is mostly due to the shift of \$30.0 million of Highway Patrol funding from the Highway User Revenue Fund to the General Fund in the FY 2015 budget.

**Table 7**

	General Fund Spending (\$ in Millions)			
	<u>March 15</u>	<u>Change From March 14</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 14</u>
<b>Agency</b>				
AHCCCS	65.6	(20.6)	1,006.1	18.5
Corrections	67.4	(1.3)	713.2	19.8
Child Safety	161.0	161.0	240.9	240.9
Economic Security	(157.1)	(160.5)	477.0	(114.8)
Education	203.3	(14.5)	3,076.6	122.0
Health Services	15.1	1.3	563.4	64.7
Public Safety	1.6	(0.1)	57.3	33.6
School Facilities Board	1.1	1.0	174.5	(13.9)
Universities	46.2	2.5	632.9	28.3
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>51.1</u>	<u>8.3</u>	<u>482.5</u>	<u>40.7</u>
<b>Total</b>	<b>455.3</b>	<b>(22.9)</b>	<b>7,508.5</b>	<b>439.8</b>

Table 8

General Fund Spending (\$ in Thousands)				
Agency	March 15	Change from March 14	Year-to-Date	YTD Change from FY 14
Dept. of Admin./Automation Projects Fund	3,634.4	(575.5)	47,463.6	14,121.0
ADOA – Sale/Leaseback Debt Service	-	-	84,123.7	3.9
Office of Administrative Hearings	36.0	(19.9)	638.3	0.8
Commission of African-American Affairs	9.4	9.4	16.6	16.6
Department of Agriculture	791.5	245.0	5,872.6	159.3
AHCCCS	65,628.9	(20,570.9)	1,006,138.1	18,531.3
Attorney General	1,660.0	189.6	16,170.6	1,015.6
State Board of Charter Schools	109.2	68.6	685.9	72.3
Department of Child Safety	160,980.7	160,980.7	240,878.8	240,878.8
AZ Commerce Authority	2,625.0	-	23,850.0	225.0
Community Colleges	297.9	(1,543.7)	53,829.1	1,109.6
Corporation Commission	50.1	13.8	456.7	103.8
Department of Corrections	67,379.2	(1,285.3)	713,154.3	19,769.5
County Funding	-	-	7,650.5	500.0
AZ State Schools for the Deaf & Blind	1,469.5	537.0	15,575.2	(751.3)
Dept. of Econ. Security/Dept. of Child Safety	(157,132.8)	(160,457.8)	476,976.3	(114,820.7)
Department of Education	203,292.0	(14,465.8)	3,076,631.0	122,017.3
DEMA	427.0	(927.4)	6,354.6	575.7
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	13.9	12.9	114.6	(24.9)
State Board of Equalization	30.8	9.9	401.1	(9.5)
Board of Executive Clemency	55.1	(23.6)	676.2	64.0
Department of Financial Institutions	225.0	(9.8)	2,238.9	82.8
Department of Fire, Bldg and Life Safety	95.1	(62.3)	1,522.6	46.7
State Forester	2,377.9	2,184.4	5,444.2	3,011.1
Arizona Geological Survey	49.6	(218.8)	696.9	(32.7)
Governor/OSPB	920.5	573.8	8,037.4	1,142.1
Department of Health Services	15,137.2	1,349.1	563,382.0	64,655.9
Arizona Historical Society	191.1	(7.5)	2,440.7	45.5
Prescott Historical Society of AZ	85.1	33.3	640.4	128.8
Independent Redistricting Comm.	74.8	15.1	801.3	(213.3)
Commission of Indian Affairs	1.3	(2.0)	42.3	2.6
Department of Insurance	334.5	(26.8)	3,858.8	(26.4)
Judiciary				
Supreme/Superior Court	11,085.9	1,291.6	70,946.9	2,548.6
Court of Appeals	1,423.4	383.4	10,655.3	444.0
Department of Juvenile Corrections	4,223.4	1,156.7	30,202.1	1,431.5

**Table 8 (Continued)**

<b>Agency</b>	<b>March 15</b>	<b>Change from March 14</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 14</b>
State Land Department	1,039.2	138.2	9,039.9	665.8
Legislature				
Auditor General	2,027.9	613.9	15,232.9	1,372.1
House of Representatives	1,836.2	787.3	10,411.4	1,296.6
Joint Legislative Budget Comm.	256.6	108.8	1,765.0	272.0
Legislative Council	608.0	224.4	6,661.8	1,648.1
Senate	922.4	225.3	6,507.7	434.8
Mine Inspector	115.3	27.9	875.6	(1.8)
Nav. Streams & Adjudication	38.3	11.4	147.3	33.6
Occupational Safety and Health Review	-	-	0.9	(1.4)
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	163.3	163.5	1,185.6	5.9
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	1,566.6	(107.3)	57,273.8	33,591.7
Public Safety Personnel Retirement System	-	-	6,000.0	1,000.0
Arizona Department of Racing	-	-	1,869.6	(6.3)
Radiation Regulatory Agency	61.5	12.7	1,093.4	17.2
Real Estate Department	232.3	93.2	1,914.4	93.2
Department of Revenue	7,496.8	2,654.7	38,547.4	1,285.3
School Facilities Board	1,146.4	1,048.5	174,477.5	(13,908.8)
Secretary of State	1,703.1	955.2	11,587.7	2,800.4
Tax Appeals Board	22.0	3.7	203.3	3.6
Office of Tourism	-	(2,068.5)	8,393.3	2,057.1
Universities				
Board of Regents	682.1	(215.4)	22,984.8	3,666.9
Arizona State University	21,559.2	1,918.8	284,608.2	17,269.0
Northern Arizona University	7,315.5	753.0	96,334.6	6,777.2
University of Arizona	16,666.4	70.0	228,927.3	630.1
Department of Veteran Services	533.9	163.8	3,553.1	(179.5)
Department of Water Resources	1,290.1	412.5	8,450.7	748.3
Water Infrastructure Finance Authority	-	-	1,000.0	1,000.0
Department of Weights & Measures	134.1	40.4	997.6	125.7
Other - JP Salaries Distribution	27.7	(87.2)	713.6	21.9
Other	189.4	185.4	227.9	216.4
<b>Total</b>	<b>455,324.1</b>	<b>(22,903.1)</b>	<b>7,508,506.9</b>	<b>439,805.6</b>



## Tracking Arizona's Recovery

April 2015

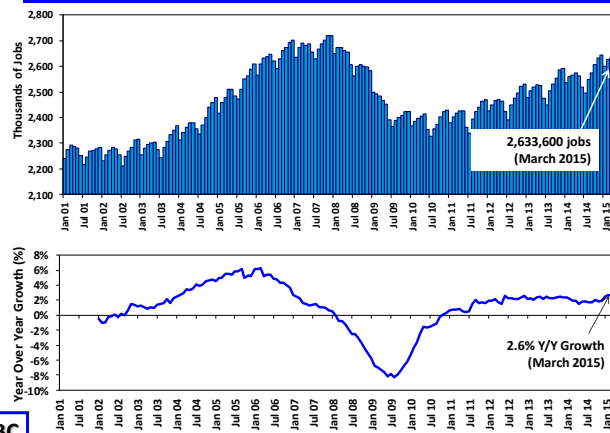
JLBC

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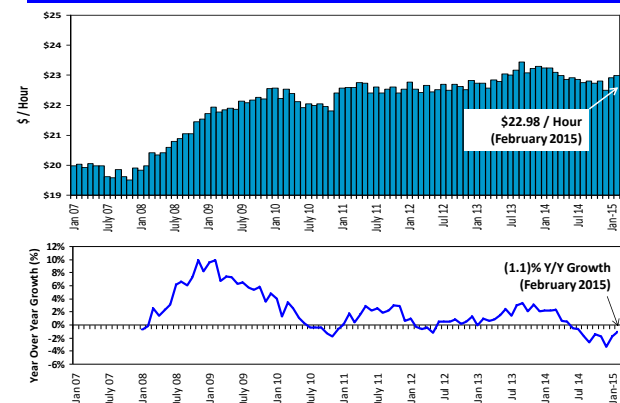
## Total Non-Farm Employment



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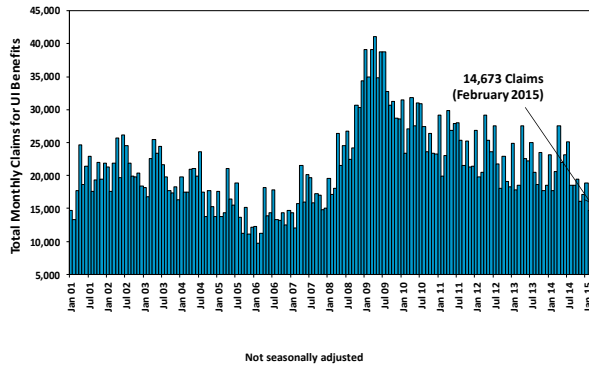
## Average Hourly Earnings – Private Sector



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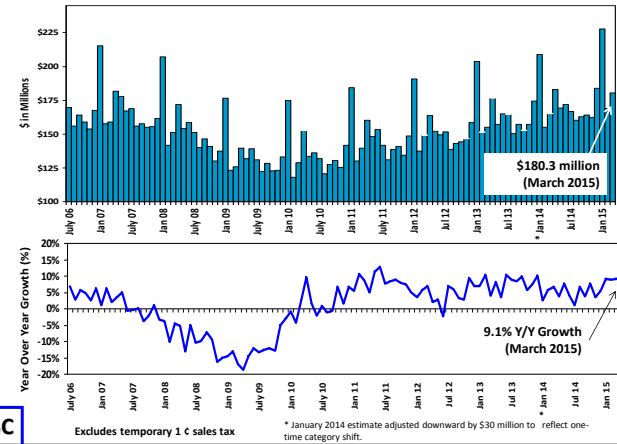
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## Initial Claims for Unemployment Insurance



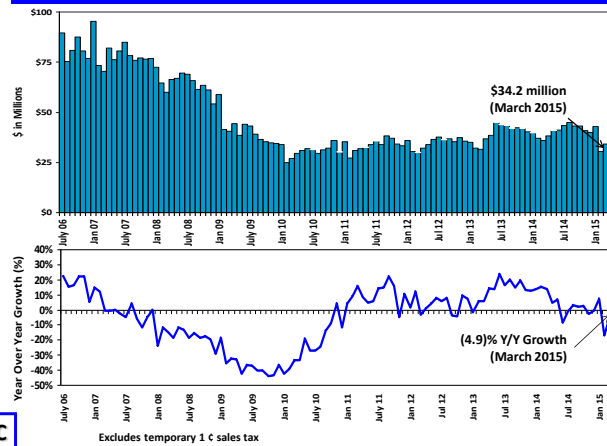
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## State Sales Tax Collections – Retail Category



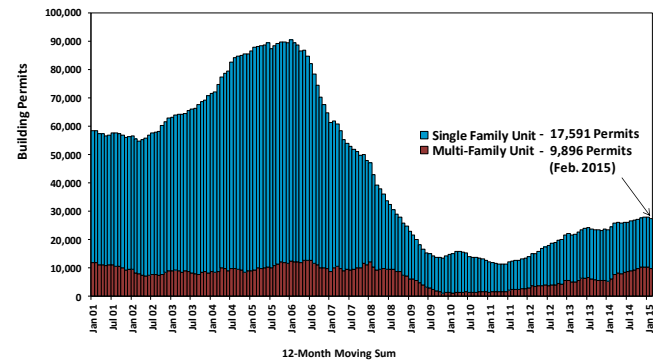
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