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“Year-to-date, base General Fund revenues are 3.0% above the prior year, and are \$27.0 million above the Baseline forecast.”

Summary

March 2016 General Fund collections of \$696.9 million were 17.0% above the prior year, and were \$(5.0) million below the Baseline forecast.

The large overall revenue growth rate was entirely due to one-time fund transfers which were enacted as part of the FY 2016 budget. Excluding those transfers, the state's ongoing revenues were essentially unchanged from the prior year.

Within ongoing revenues, 2 of the state's large revenue categories (Individual Income Tax and Insurance Premium Tax) posted significant changes from March 2015, but for technical timing reasons that are unrelated to overall economic activity.

The significant decline in Individual Income Taxes was the result of a large increase in the amount of refunds processed – most refunds are processed and sent to taxpayers only on Wednesday of each week and March 2016 had one additional Wednesday compared to the prior year.

In terms of the significant increase in Insurance Premium Tax, the state's new accounting system has allowed certain transactions to be processed in March that were usually done in April. With certain transactions being pulled into March, it would be expected that the April 2016 results for the category would show an offsetting decline.

Year-to-date, base General Fund revenues are 3.0% above the prior year, and are \$27.0 million above the Baseline forecast.

In comparison to revenue collections of \$696.9 million, March 2016 spending was \$569.7 million, which is an increase of \$114.4 million from the prior year.

Fiscal year-to-date, General Fund revenues of \$6.49 billion have been offset by \$7.48 billion of expenditures.

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 2016 is \$2.7 billion. In addition, the state's Budget Stabilization Fund has a balance of \$460.0 million.

April FAC Summary

The [Finance Advisory Committee](#) (FAC) met on April 13, 2016 to update its 4-sector revenue forecast. The FAC is a 14-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 2016 – FY 2019](#) revenue estimates based on the updated April 4-sector revenue forecast.

In comparison to the January base revenue forecast, the April FAC projections are higher for FY 2016 but lower for FY 2017 and FY 2018. The projected revenue growth rate for FY 2019 remains unchanged (See [Table 1](#)).

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Summary (Continued)

The upward revision to FY 2016 was primarily due to an increase in UA's "low scenario" model owing to the fact that year-to-date collections are known for all but the last 3 months of the current fiscal year. The downward revision to FY 2017 was also mostly attributable to UA's "low scenario" model, which incorporates the risk of a mild national recession occurring in the latter half of 2016 that would be caused by slowing global growth and a significant stock market decline.

Table 1

Comparison of January and April FAC Forecasts

	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>
January	3.5%	4.0%	4.6%	4.6%
April	3.9%	3.4%	4.0%	4.6%

Compared to the January Baseline, the estimates under the April FAC update would reduce revenues by \$(8) million in FY 2017, \$(66) million in FY 2018, and \$(69) million in FY 2019. Under the assumed January Baseline spending level, the projected cash balance would increase from \$625 million to \$660 million in FY 2017, primarily due to a higher carry forward balance from FY 2016.

Department of Education – 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 \$332 per weighted pupil from the CSF for FY 2017. The \$332 per pupil amount would be higher than the \$327 per pupil amount anticipated for FY 2016 because of projected growth in Proposition 301 sales tax revenues and land trust earnings for FY 2017.

March Revenues

	<u>FY 2016 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2015</u>
March	\$ 696.9	\$ (5.0)	\$ 101.2
Year-to-Date	\$ 6,485.2	\$ 27.0	\$ 318.6

Sales Tax collections of \$353.2 million were 1.6% above March of last year but \$(11.6) million below forecast for the month. Year to date, sales tax collections are up by 2.6% compared to last year and \$(32.1) million below forecast.

Table 3 below includes the major categories of the state's sales tax, which together account for approximately 90% of total collections.

Among the major sales tax categories, use tax and restaurant and bar categories performed well in March. The use tax category increased by 6.6%, year over year, whereas the restaurant and bar sales tax grew 6.3%.

March marked the fourteenth consecutive month of positive year-over-year retail collections and negative year-over-year contracting collections. This pattern had largely been explained by the change in the taxation of construction materials under the 2013 "TPT Simplification" legislation, during the twelve months following initial implementation. Beginning in January 2015, the tax base for building materials changed from contracting to retail. Continued decreases in contracting collections following the 12 month phase-in of TPT Simplification are surprising given the 7.2% year-over-year growth in construction employment.

	<u>March</u>	<u>YTD</u>
Retail	3.8%	7.4%
Contracting	(5.2)%	(15.3)%
Use	6.6%	(0.3)%
Restaurant & Bar	6.3%	5.6%
Utilities	4.7%	2.3%

Individual Income Tax net revenues were \$67.6 million in March, which were \$(67.7) million less than the prior year and \$(9.1) million below forecast for the month. Year-to-date, revenue has grown 3.6% over the prior year.

As indicated in Table 4, withholding decreased by (2.7)% below last year and was \$(1.3) million below the forecast. The monthly decrease is largely explained by a reduction in processing days relative to March 2015. Year-to-date withholding collections are 2.7% above FY 2015.

March estimated and final payments of \$67.6 million were 1.0% above last year and \$(0.1) million below the

forecast. Year-to-date, payments are 21.1% above those collected during the same period of FY 2015.

March Individual Income Tax refunds totaled \$(340.9) million – this compares to \$(281.9) million in March 2015 and a forecasted amount of \$(333.2) million. The increase in refunds during the month was largely the result of an increase in the number of refund batches processed relative to March 2015.

	<u>March</u>	<u>YTD</u>
Withholding	(2.7)%	2.7%
Estimated/Final Payments	1.0%	21.1%
Refunds	20.9%	13.0%

Corporate Income Tax net collections were \$71.9 million in March, which was \$(3.4) million less than in the prior year and \$(1.3) million below the forecast. Year to date, collections are \$(39.5) million below prior year collections. This decrease is probably the result of the decline in the Corporate Income Tax rate.

The **Lottery Commission** reports that February ticket sales were \$70.6 million, which is \$(7.1) million, or (9.1)%, below sales in February 2015. Year-to-date ticket sales are \$589.0 million, which is 20.9% above last year's sales. General Fund distributions associated with the February sales are not expected to occur until April.

Insurance Premium Tax collections of \$126.5 million in March were \$60.2 million above the prior year and \$10.6 million above the forecast. The large increase above March 2015 collections is likely the result of shorter processing times of payments received during the month. Year-to-date, collections are 29.2% above last year.

Highway User Revenue Fund (HURF) collections of \$119.0 million in March were up 9.8% compared to March of last year and were \$9.8 million above forecast. Year-to-date collections are 6.0% above last year.

Due to the implementation of a new accounting system, DOR has made **technical adjustments** to prior month collection figures. For March, DOR has increased the amount of prior General Fund revenue collections by \$13,200, 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 2016

	Current Month					FY 2016 YTD (Nine Months)				
	Actual March 2016	Change From March 2015		Baseline Forecast		Actual March 2016	Change from March 2015		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$353,201,322	\$5,584,451	1.6 %	(\$11,559,711)	(3.2) %	\$3,209,791,649	\$82,688,896	2.6 %	(\$32,081,148)	(1.0) %
Income - Individual	67,619,406	(67,676,606)	(50.0)	(9,108,717)	(11.9)	2,680,231,886	93,479,773	3.6	47,393,603	1.8
- Corporate	71,913,922	(3,374,312)	(4.5)	(1,287,248)	(1.8)	362,653,359	(39,457,854)	(9.8)	12,156,715	3.5
Property	1,239,161	240,213	24.0	(572,186)	(31.6)	24,825,658	2,410,652	10.8	(751,615)	(2.9)
Luxury - Tobacco	2,070,451	(222,118)	(9.7)	0	0.0	18,020,677	1,054,131	6.2	240,329	1.4
- Liquor	3,064,747	260,696	9.3	0	0.0	24,925,338	540,857	2.2	22,902	0.1
Insurance Premium	126,501,590	60,247,580	90.9	10,647,923	9.2	319,588,376	72,248,273	29.2	5,926,465	1.9
Other Taxes	32,934	(922,136)	(96.6)	(1,343,639)	(97.6)	4,147,212	(1,669,563)	(28.7)	(1,743,749)	(29.6)
Sub-Total Taxes	\$625,643,533	(\$5,862,232)	(0.9) %	(\$13,223,579)	(2.1) %	\$6,644,184,156	\$211,295,165	3.3 %	\$31,163,501	0.5 %
<u>Other Revenue</u>										
Lottery	0	(5,952,800)	(100.0)	0	--	27,544,450	(2,998,150)	(9.8)	1,833,547	7.1
License, Fees and Permits	2,622,883	381,219	17.0	119,031	4.8	22,357,963	(549,854)	(2.4)	(189,421)	(0.8)
Interest	4,820	2,871	147.3	2,773	135.5	18,213	(5,099)	(21.9)	3,231	21.6
Sales and Services	12,313,773	10,188,976	479.5	10,280,703	505.7	22,831,679	669,671	3.0	1,826,901	8.7
Other Miscellaneous	1,407,678	1,435,957	--	682,800	94.2	21,646,737	5,633,482	35.2	(2,353,745)	(9.8)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,710,520	(2,921,023)	(63.1)	(2,835,781)	(62.4)	21,227,566	(14,438,697)	(40.5)	(5,306,860)	(20.0)
Sub-Total Other Revenue	\$18,059,674	\$3,135,200	21.0 %	\$8,249,526	84.1 %	\$115,626,608	(\$11,688,647)	(9.2) %	(\$4,186,348)	(3.5) %
TOTAL BASE REVENUE	\$643,703,207	(\$2,727,032)	(0.4) %	(\$4,974,054)	(0.8) %	\$6,759,810,764	\$199,606,519	3.0 %	\$26,977,152	0.4 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(50,469,528)	275,114	--	(6)	0.0	(454,225,749)	2,476,033	--	(13)	0.0
One-Time Transfers	103,653,355	103,653,355	--	0	0.0	179,597,255	116,473,752	184.5	0	0.0
Sub-Total Other Adjustments	53,183,827	103,928,469	-- %	(6)	(0.0) %	(274,628,494)	118,949,785	-- %	(13)	0.0 %
TOTAL GENERAL FUND REVENUE	\$696,887,034	\$101,201,437	17.0 %	(\$4,974,060)	(0.7) %	\$6,485,182,270	\$318,556,304	5.2 %	\$26,977,140	0.4 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$119,020,434	\$10,657,776	9.8 %	\$9,825,987	9.0 %	\$1,008,946,259	\$57,172,695	6.0 %	\$16,296,774	1.6 %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 1.4% in the fourth quarter of 2015. This estimate represents a slowdown from the 2.0% growth in the third quarter of 2015. The deceleration was primarily due to slower growth in consumption and decreases in business investment, exports and state and local government spending. Declining performance in these categories was partly offset by a downturn in imports and a pick-up in federal government spending.

The Conference Board's **U.S. Consumer Confidence Index** increased 2.2 points in March, reversing part of the (3.8) point decrease in the prior month. The March increase reflected improvement in the economic outlook 6 months in the future. However, consumers thought that their current economic and financial circumstances became worse during the month. Economists expect consumer opinion of the current situation may improve next month, if financial markets continue their recent stability.

The Conference Board's **U.S. Leading Economic Index** increased by 0.1% in February and stands 1.9% above its February 2015 reading. Of the index's 10 components, 4 made positive contributions in February while 5 made negative contributions and 1 was neutral. The greatest positive contribution came from reduced claims for unemployment insurance. This impact was partly offset by decreases in building permits and manufacturing orders.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** decreased (0.1)% in February, relative to January. The drop was driven by a (6.4)% monthly decrease in energy prices. The overall index stands 1.0% above the February 2015 level, which is well below the Federal Reserve Bank's 2% annual inflation target. The low measure is largely due to a (12.3)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy) has grown by a steadier 1.7% through February.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average

hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Arizona's coincident index increased by 4.5% compared to February 2015. Over the same time period, the U.S. coincident index increased by 3.2%. See *Appendix A – Tracking Arizona's Recovery for additional historical information*.

Housing

Single-family housing construction is accelerating, while multi-family construction has peaked. Arizona's 12-month total of **single-family building permits** is 23,390, or 33.0% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 10.8%. See *Appendix A – Tracking Arizona's Recovery for historical information*.

The 12-month total of multi-family building permits was increasing strongly compared to last year, but has recently leveled off. Arizona's total of 9,632 **multi-family building permits** is (2.7)% below 2015. Arizona's rate of increase is now significantly less than the comparable multi-family permit growth for the U.S. as a whole, which is 19.0% above 2015.

Employment

According to the latest employment report released by the Department of Administration, the state added 12,200 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 10,200 jobs. Most of the month-over-month job gains occurred in the Leisure and Hospitality industry (+7,300).

Compared to the same month in the prior year, Arizona added 84,300 net new jobs in March. This represents a year-over-year job growth rate of 3.2%. This was the largest year-over-year net employment gain (in terms of both absolute numbers and percentage growth) since December 2006. The largest year-over-year job gains in March came from the following industries: Education and Health Services (+19,500), Professional and Business Services (+17,300), and Financial Activities (+13,400).

The state's regular **unemployment rate** decreased from 5.5% in February to 5.4% in March, the lowest jobless rate since April 2008. The U.S. unemployment rate increased from 4.9% to 5.0% in March.

In February, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.2 hours. This workload is 0.3% above the prior month level but (2.6)% below the February 2015 level.

Monthly Indicators (Continued)

The **Average Hourly Earnings** received by these private sector workers was \$23.64, which is 0.4% above the average in the prior month. February earnings were 2.7% above the average in February 2015 and represent the 11th consecutive month of positive year-over-year increases in average wages.

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, transfers from the government and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In 2015, Arizona's estimated personal income increased by 4.6%, to \$266.8 billion, while personal income grew 4.4% nationwide. The increase in Arizona was largely driven by 4.1% growth in wages and salaries and 6.4% growth in government transfer receipts. The large increase in government transfer receipts was the result of 12.9% growth in Medicaid benefits, which coincided with expanded enrollment in the program. Excluding government transfer receipts, personal income in 2015 grew 4.1% in Arizona and 4.2% nationwide.

Tourism

Revenue per available room reached \$99.30 in February, which was 2.9% above the amount in February 2015. Year-to-date, revenue per available room is (1.6)% below the 2015 year-to-date amount through February. **Ridership** during January through Phoenix Sky Harbor Airport increased 1.2% above the level in January 2015.

State Agency Data

At the beginning of April 2016, the total **AHCCCS** caseload was 1.8 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 539,500 members.

Total monthly enrollment decreased by (6,900) members, or (0.4)%, during March. The overall decrease in March was largely due to enrollment of Traditional population of lower income children and their parents. Enrollment in this population fell (8,500) (0.8%) in March to a level of 1,041,700 members. This drop was accompanied by an enrollment decrease of (2,400), or (1.3)%, in the Proposition 204 parent population.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In March 2016, the childless adult population increased by 800, or 0.3%. At 309,300, this population is 9.9% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 2,400 in March and now totals 86,200 individuals. Enrollment is 69.2% higher than a year ago. The federal government is currently paying 100% of this cost.

There were 20,495 **TANF recipients** in the state in March, a monthly caseload decrease of (4.8)%. Year-over-year, the number of TANF recipients has declined by (16.9)%. 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, there were a total 958,155 food stamp recipients in the state, a (0.4)% decrease over the prior month. Compared to the same month last year, food stamp participation was down by (4.2)%.

The Arizona Department of Corrections reported an **inmate population** of 42,785 inmates at the end of March. This was a 0.4% increase since February, and a 1.3% increase since March 31, 2015.

As of January 2016, the Department of Child Safety received 50,891 **reports of child maltreatment** in the last 12 months, which was an increase of 4.4% over the prior year. There were 18,861 **children in out-of-home care** in January 2016, or 0.7% more children than in December 2015. Year-over-year, the number of out-of-home children is up by 9.2%.

Table 6

MONTHLY INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	March	5.4%	(0.1)%	(0.8)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2015	12.8%	(0.8)%	(1.9)%
- Initial Unemployment Insurance Claims	February	15,551	(18.8)%	6.0%
- Unemployment Insurance Recipients	March	25,271	(1.9)%	(14.0)%
- Non-Farm Employment - Total	March	2,712,600	0.5%	3.2%
Manufacturing	March	158,900	0.1%	1.5%
Construction	March	133,700	1.5%	7.2%
- Average Weekly Hours, Private Sector	February	34.2	0.3%	(2.6)%
- Average Hourly Earnings, Private Sector	February	\$23.64	0.4%	2.7%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	February	\$900.6 million	(8.8)%	3.2%
Furniture/Home Furnishings	February	\$321.7 million	(24.4)%	(5.7)%
Building Material/Lawn & Garden	February	\$340.9 million	(4.2)%	6.5%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	February	23,390	1.8%	33.0%
Multi-family	February	9,632	(1.8)%	(2.7)%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	February	6,388	41.5%	17.6%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	February	\$229,900	0.4%	7.0%
- Phoenix S&P/C Home Price Index (2000 = 100)	January	156.86	(0.2)%	6.1%
- Maricopa Pending Foreclosures	February	4,157	0.0%	(26.8)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	February	27,395	5.8%	0.2%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	January	3.9 million	(5.7)%	1.2%
- National Park Visitors	December	601,364	(5.5)%	0.0%
- State Park Visitors	February	271,500	41.0%	1.8%
- Revenue Per Available Hotel Room	February	\$99.30	31.0%	2.9%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	1st Q 2016	81.6	0.5%	3.2%
- Arizona Coincident Index (July 1992 = 100)	February	224.6	0.5%	4.5%
- Arizona Leading Index -- 6 month projected growth	January	6.3%	1.8%	2.1%
- Arizona Personal Income	2015	\$266.8 billion	N/A	4.6%
- Arizona Population	July 2015	6,828,065	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	May	AA / Aa2	N/A	N/A
Outlook	May	Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	April 1 st	1,797,618	(0.4)%	11.1%
Acute Care Traditional		1,041,738	(0.8)%	8.6%
Prop 204 Childless Adults		309,278	0.3%	9.9%
Other Prop 204		186,116	(1.3)%	8.4%
Adult Expansion		86,176	2.9%	69.2%
Kids Care I		665	(6.5)%	(48.4)%
Long-Term Care – Elderly & DD		57,775	0.1%	1.6%
Emergency Services		115,870	0.6%	20.8%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Jan. 2016	50,891	(0.3)%	4.4%
DCS Out-of-Home Children	January	18,861	0.7%	9.2%
Filled Caseworkers (1406 Budgeted)	March	1,282	33	(70)
- ADC Inmate Growth	March	42,785	0.4%	1.3%
- Department of Economic Security				
- TANF Recipients	March	20,495	(4.8)%	(16.9)%
- SNAP (Food Stamps) Recipients	March	958,155	(0.4)%	(4.2)%
- Judiciary Probation Caseload				
Non-Maricopa	February	18,609	15	517
Maricopa County	February	27,517	(2)	888
United States				
- Gross Domestic Product	4 th Q, 2015	\$16.5 trillion	2.0%	1.4%
(Chained 2009 dollars, SAAR)	(3 rd Estimate)			
- Consumer Confidence Index (1985 = 100)	March	96.2	2.3%	(5.1)%
- Leading Indicators Index (2010 = 100)	February	123.2	0.1%	1.9%
- Consumer Price Index, SA (1982-84 = 100)	March	237.7	(0.2)%	1.0%
- Personal Consumption Price Index (2009 = 100)	February	109.8	(0.1)%	1.0%

JLBC Meeting

At its April 7, 2016 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Review of ASET Projects – The Committee gave a favorable review of the FY 2016 expenditure plan from the Automation Projects Fund for Arizona Strategic Enterprise Technology's (ASET) project a "single sign-on".

Arizona Department of Administration – Review of Department of Economic Security Network Access Control – The Committee gave favorable review of the FY 2016 expenditure plan from the Automation Projects Fund for a Department of Economic Security (DES) Network Access Control project.

Arizona Department of Administration – Review of Department of Environmental Quality Phase 3 Web Portal Expenditure Plan – The Committee gave a favorable review of FY 2016 expenditures from the Automation Projects Fund for Phase 3 of the development of the Department of Environmental Quality (DEQ)'s web portal with the provision that the results of quarterly third-party review are to be provided to the Chairman of the JLBC, JLBC Staff, and any member of the Committee who requests a copy.

Arizona Department of Administration – Review of Guidelines for Lodging Rate Waivers – At a prior meeting, the Committee approved ADOA's lodging reimbursement rates. These reimbursements compensate state employees traveling on official state business. As part of its review, the Committee included a provision requiring ADOA to submit its written guidelines for review and approving lodging rate waivers to the Committee for review. The Committee gave a favorable review of the submitted guidelines for reviewing and approving lodging rate waivers.

At its April 12, 2016 meeting, the Joint Legislative Budget Committee considered the following issues:

Department of Child Safety – Review of FY 2016 Third Quarter Benchmarks – The Committee gave favorable review of the FY 2016 Third Quarter Benchmarks for assessing progress made in increasing the department's number of FTE Positions and in reducing the number of backlog cases.

Northern Arizona University – Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation – The Committee gave favorable review of NAU's expenditure and performance report of the nonprofit biotechnology research appropriation.

Attorney General – Review of Allocation of Settlement Monies – Standard & Poor's Settlement – The Committee gave favorable review of an allocation from a legal settlement with the Standard & Poor's Financial Services, LLC (S&P). The AG proposes to spend \$3.0 million on homeless assistance programs and \$500,000 on consumer fraud education. The review included 2 provisions: 1) The favorable review does not constitute an agreement to fund these projects once these one-time monies are depleted; and 2) The Attorney General report to the Committee on how it plans to allocate the funding and how the program interacts with other state agencies' homeless assistance efforts.

JCCR Meeting

At its April 5, 2016 meeting, the Joint Committee on Capital Review considered the following issues:

Northern Arizona University – Review of Dining Renovation Financing Project – The Committee gave a favorable review of Northern Arizona University's (NAU) \$14.0 million in system revenue bond issuances to fund a \$22.0 million renovation of the South Dining DuBois Center facilities. Auxiliary revenues from NAU's contracted food services operation will pay for the debt service on the \$14.0 million. NAU's food service vendor will pay the remaining \$8.0 million of the \$22.0 million

renovation cost with an upfront cash payment. The favorable review includes 2 standard University financing provisions.

Arizona Department of Administration – Consider Recommending FY 2016 Partial Rent Exemptions – The Committee recommended a partial rent exemption of \$(3,200) for the Attorney General (AG) and \$(5,800) for ADOA to be replaced by a corresponding rent payment of \$9,000 for the Department of Emergency and Military Affairs (DEMA) in FY 2016.

Summary of Recent Agency Reports

AHCCCS, DES, & DCS – Report on Preliminary Actuarial Estimates for FY 2017 Capitation Rate Changes – Pursuant to FY 2016 General Appropriation Act footnotes, the Arizona Health Care Cost Containment System (AHCCCS) has submitted a report on preliminary Medicaid capitation rate increases for contract year (CY) 2017. Their submission includes information for AHCCCS, the Department of Economic Security (DES), and the Department of Child Safety (DCS).

In their report, AHCCCS provided information on components of potential CY 2017 capitation rate changes. The report listed no specific preliminary capitation rate adjustment amounts. Potential changes included:

- Increases based on medical expense trends, utilization trends, and reinsurance changes. AHCCCS' actuaries have observed growth in brand-name drugs that exceeds 10% and growth in generic drugs that exceeds overall inflation. AHCCCS will continue to analyze rate adjustments and utilization trends through the summer of 2016.
- Implementation of a rate differential for hospitals and nursing facilities that meet requirements under a value-based performance program to be implemented in CY 2017. In the long run, AHCCCS expects that the rate differential will incentivize provider behavior that reduces capitation rate growth.
- Annualization of a mid-year rate increase for inpatient care provided to children with a severe physical illness. The mid-year increase previously received a favorable review at the JLBC meeting held on September 24, 2015.
- Potential capitation adjustments if stakeholder recommendations are implemented on care for individuals in foster care, with autism spectrum disorder, or with substance addiction.
- No change related to reimbursement of a nationwide health insurer fee included in the federal Affordable Care Act (ACA), as the assessment amount is unchanged from the prior year.

The enacted FY 2016 budget requires AHCCCS to limit capitation rate growth to no more than 1.5% in FY 2017 and FY 2018. In their report, AHCCCS "has concerns about the actions that would need to be taken to meet the 1.5% target." (Jon Stall)

Department of Education – Budget Status Report – Pursuant to a General Appropriation Act footnote and A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2016. In that report, ADE estimates that it will

experience an \$(18.9) million net funding shortfall for formula programs for FY 2016. This consists of an estimated \$(7.6) million shortfall for Basic State Aid and \$(11.3) million shortfall for Additional State Aid (the Homeowner's Rebate and 1% Cap programs).

These estimates do not reflect a pending \$19.8 million adjustment for 1% cap reforms required by Laws 2015, Chapter 15, for which timing is uncertain. With that adjustment ADE would have a projected surplus of \$900,000 rather than a projected shortfall of \$(18.9) million. ADE's current estimates are subject to further revision as additional data become available. (Steve Schimpp)

Department of Environmental Quality – Third-Party Report on E-Licensing Project – Pursuant to a FY 2015 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) has provided a quarterly update of the E-Licensing project. In the report, the vendor gave an overall favorable evaluation of DEQ's progress in incorporating recommendations from the previous third-party report. The report stated that DEQ's increased need for an enterprise data management strategy and framework is surfacing as a real risk and challenge but these challenges will be addressed by the recent identification of an Enterprise Data Architect. No foreseeable end date to the project was provided. (Josh Hope)

Department of Health Services – Quarterly Report on the Comprehensive Medical and Dental Program (CMDP) – Pursuant to Laws 2013, Chapter 220, the Department of Health Services (DHS) is required to report on the financial and program accountability trends of CMDP, the foster care medical program. This report is required quarterly through the second quarter of FY 2016, or through December 31, 2015.

DHS administers behavioral health services for CMDP enrollees. In the first quarter of FY 2016, 68% of foster care children received behavioral health services, a 9% increase compared to the fourth quarter of FY 2015. The percent of members served varied by region from a low of 60% in Maricopa County (GSA 6) to a high of 84% in GSA 3, which includes Cochise, Graham, Greenlee, and Santa Cruz Counties. Maricopa County and GSA 3 were also the lowest and highest service users in the fourth quarter of FY 2015.

The services most highly utilized by CMDP enrollees in the first quarter of FY 2016 included support services, treatment services, and rehabilitation services, with 98% receiving support services, 70% receiving

Summary of Recent Agency Reports (Continued)

treatment services, and 17% receiving rehabilitation services. 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. Together, these 3 service categories represent 76% of CMDP behavioral health spending. Support services represented the largest spending category, accounting for 42% of total CMDP behavioral health spending.

Residential services cost \$12,900 per capita, the highest per capita cost of all service categories, but it was only the fourth highest spending category due to relatively low utilization. Only 1% of foster children received residential services in the first quarter.

Between the fourth quarter of FY 2015 and the first quarter of FY 2016, the total cost of behavioral health services for CMDP increased by 2.6% (\$22.3 million to \$22.9 million). The cost increase reflects a 2.4% increase in the number of unique CMDP numbers served and a 0.2% increase in costs per capita since the fourth quarter of FY 2015. (Patrick Moran)

March Spending

March 2016 General Fund spending of \$569.7 million was \$114.4 million more than March 2015. Year to date, spending is \$7.48 billion, or \$(28.6) million below last year. (See Tables 7 & 8).

- Year to date, the Department of Education has spent \$76.3 million more than the prior year.
- Due to technical reporting issues with the newly-created Department of Child Safety (DCS) in FY 2015, the figures reported below for DCS and the

Department of Economic Security do not accurately reflect changes in spending levels from the prior year.

- During FY 2016, Universities spending has declined by \$(84.8) million. This is related to changes enacted in the FY 2016 budget, which contained a \$(99.0) million spending reduction for the Universities system.

	General Fund Spending (\$ in Millions)			YTD Change from FY 15
	Mar 16	Change From Mar 15	Year-to-Date	
Agency				
AHCCCS	122.1	56.5	978.7	(27.5)
Corrections	90.4	23.0	781.1	68.0
Child Safety	31.2	(129.8)	302.2	61.3
Economic Security	(1.0)	156.2	422.9	(54.1)
Education	235.4	32.1	3,153.0	76.3
Health Services	16.8	1.6	561.3	(2.1)
Public Safety	2.4	0.8	59.2	1.9
School Facilities Board	0.1	(1.0)	186.0	11.5
Universities	36.8	(9.4)	548.1	(84.8)
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>35.5</u>	<u>(15.6)</u>	<u>402.8</u>	<u>(79.1)</u>
Total	569.7	114.4	7,479.4	(28.6)

General Fund Spending				
(\$ in Thousands)				
Agency	Mar 16	Change from Mar 15	Year-to-Date	YTD Change from FY 15
Dept. of Admin./Automation Projects Fund	1,478.5	(2,155.9)	19,157.4	(28,308.2)
ADOA – Sale/Leaseback Debt Service	-	-	84,114.6	(7.1)
Office of Administrative Hearings	36.3	0.3	612.7	(25.6)
Commission of African-American Affairs	12.1	2.7	93.3	76.7
Department of Agriculture	882.8	91.3	6,136.1	263.5
AHCCCS	122,114.2	56,485.3	978,664.4	(27,473.7)
Attorney General	2,396.3	736.3	17,054.7	884.1
State Board of Charter Schools	113.0	3.8	829.9	144.0
Department of Child Safety	31,224.0	(129,756.7)	302,228.4	61,349.5
AZ Commerce Authority	2,208.3	(416.7)	20,099.7	(3,333.6)
Community Colleges	257.6	(40.4)	38,935.6	(14,893.5)
Corporation Commission	150.9	100.8	439.0	(17.7)
Department of Corrections	90,391.6	23,012.4	781,104.7	67,950.4
County Funding	-	-	6,000.5	(1,650.0)
AZ State Schools for the Deaf & Blind	946.0	(523.6)	19,124.2	3,549.1
Department of Economic Security	(981.2)	156,151.6	422,853.5	(54,122.8)
State Board of Education	163.8	163.8	906.8	906.8
Department of Education	235,408.3	32,116.3	3,152,954.3	76,323.4
DEMA	407.7	(19.3)	6,128.9	(225.7)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	7.9	(5.9)	133.7	19.1
State Board of Equalization	35.9	5.1	416.4	15.3
Board of Executive Clemency	87.3	32.1	712.6	36.4
Department of Financial Institutions	240.2	15.2	2,230.7	(8.3)
Department of Fire, Bldg and Life Safety	157.7	62.6	1,623.2	100.6
State Forester	407.4	(1,970.4)	3,947.3	(1,496.9)
Department of Gaming	-	-	1,794.4	1,794.4
Arizona Geological Survey	53.5	4.0	738.7	41.9
Governor/OSPB	1,356.0	435.5	7,682.0	(355.5)
Department of Health Services	16,767.3	1,630.1	561,289.2	(2,092.9)
Arizona Historical Society	168.7	(22.4)	2,434.1	(6.6)
Prescott Historical Society of AZ	112.4	27.4	700.3	59.9
Independent Redistricting Comm.	226.6	151.8	1,381.5	580.2
Commission of Indian Affairs	9.3	8.0	31.3	(11.0)
Department of Insurance	440.2	105.7	3,759.1	(99.8)
Judiciary				
Supreme/Superior Court	10,045.3	(1,040.6)	66,597.7	(4,349.1)
Court of Appeals	1,378.9	(44.5)	10,576.7	(78.6)
Department of Juvenile Corrections	2,894.4	(1,329.0)	19,855.1	(10,347.1)

Table 8 (Continued)

Agency	Mar 16	Change from Mar 15	Year-to-Date	YTD Change from FY 15
State Land Department	966.1	(73.1)	8,039.3	(1,000.6)
Legislature				
Auditor General	1,530.7	(497.2)	14,606.9	(626.0)
House of Representatives	1,587.9	(248.3)	10,718.4	306.9
Joint Legislative Budget Comm.	242.8	(13.7)	1,759.5	(5.6)
Legislative Council	578.6	(29.5)	4,827.9	(1,833.9)
Senate	1,008.2	85.8	5,985.5	(522.2)
Mine Inspector	119.5	4.3	862.6	(13.0)
Nav. Streams & Adjudication	9.3	(29.0)	89.1	(58.2)
Occupational Safety and Health Review	-	-	2.5	1.6
Arizona State Parks Board	-	-	277.8	277.8
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	-	(163.3)	-	(1,185.6)
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	2,396.2	829.6	59,201.7	1,927.9
Public Safety Personnel Retirement System	-	-	6,000.0	-
Arizona Department of Racing	-	-	-	(1,869.6)
Radiation Regulatory Agency	-	-	1,190.3	96.9
Real Estate Department	238.8	6.5	1,902.2	(12.2)
Department of Revenue	(1,237.2)	(8,734.0)	26,246.9	(12,300.5)
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	119.8	(1,026.6)	186,012.1	11,534.6
Secretary of State	1,569.9	(133.1)	10,606.0	(981.8)
Tax Appeals Board	17.8	(4.2)	198.1	(5.2)
Office of Tourism	-	-	6,399.4	(1,994.0)
Department of Transportation	7.1	12.5	7.1	12.4
Universities				
Board of Regents	96.9	(585.2)	19,175.3	(3,809.5)
Arizona State University	16,680.6	(4,878.6)	240,203.5	(44,404.7)
Northern Arizona University	5,951.9	(1,363.6)	83,061.9	(13,272.7)
University of Arizona	14,080.3	(2,586.1)	205,652.1	(23,275.2)
Department of Veteran Services	763.8	229.9	4,167.7	614.6
Department of Water Resources	1,248.0	(42.1)	8,181.2	(269.6)
Water Infrastructure Finance Authority	-	-	-	(1,000.0)
Department of Weights & Measures	10.9	(123.3)	831.7	(165.9)
Other - JP Salaries Distribution	96.8	69.2	914.5	200.9
Other	-	(250.9)	136.8	(91.1)
Total	569,684.0	114,359.8	7,479,446.2	(28,644.1)

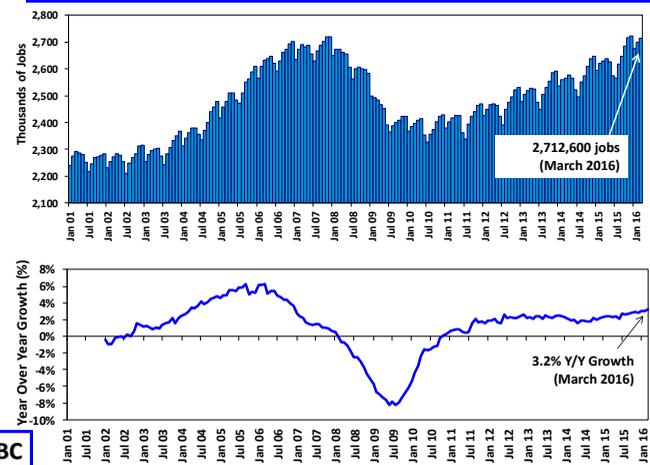
Tracking Arizona's Recovery

April 2016
Appendix A

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- 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
- 8.....Economic Activity Index

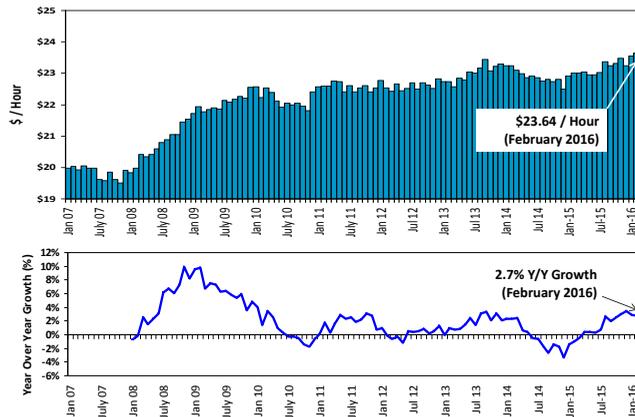
Total Non-Farm Employment



JLBC

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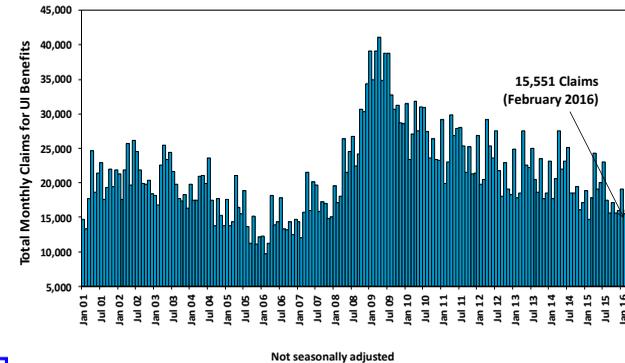
Average Hourly Earnings – Private Sector



JLBC

3

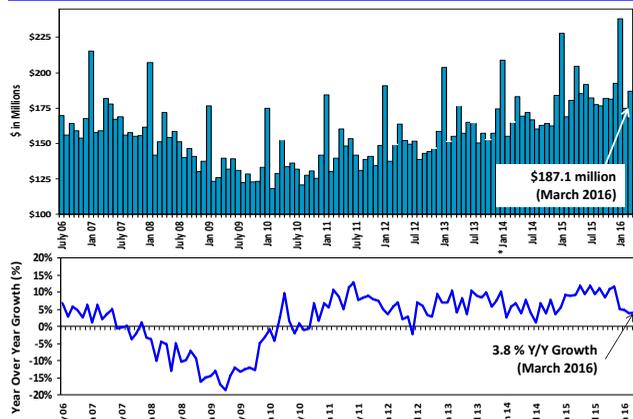
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



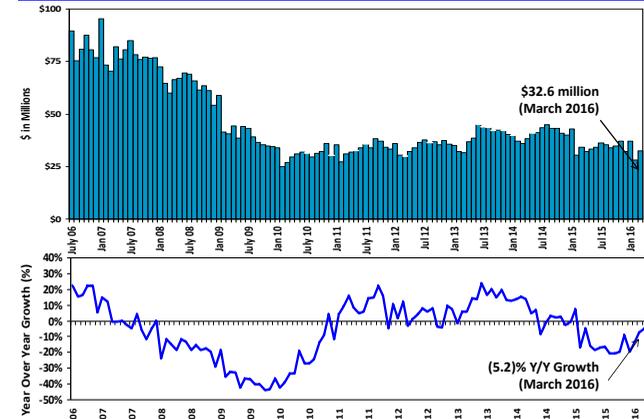
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Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

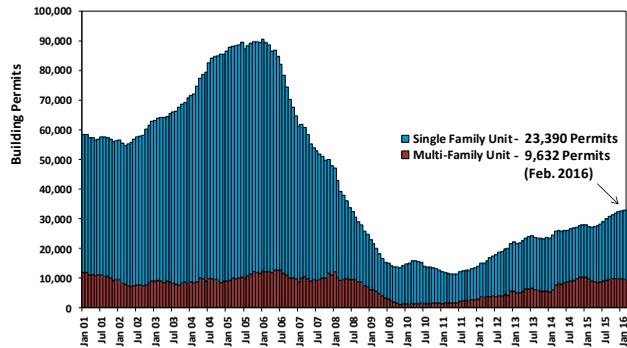


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Excludes temporary 1 c sales tax

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Residential Building Permits

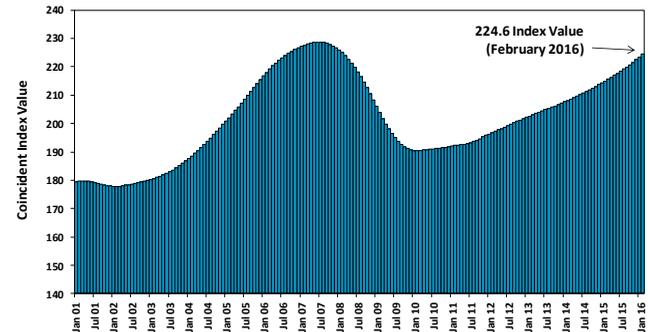


JLBC

12-Month Moving Sum

7

Economic Activity Index



JLBC

Source: Coincident Index – Federal Reserve Bank of Philadelphia. Combines four state-level indicators (employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements) to summarize current economic conditions.

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