

1716 W. Adams  
Phoenix, AZ 85007

Phone:  
(602) 926-5491  
Fax:  
(602) 926-5416



[www.azleg.gov/jlbc.htm](http://www.azleg.gov/jlbc.htm)

*“JLBC Staff  
preliminarily  
estimates that  
the FY 2013  
ending balance  
will total  
approximately  
\$896 million. This  
amount is \$203  
million greater  
than  
budgeted...”*

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on August 20, 2013.

## Summary

July General Fund revenue collections totaled \$754.6 million. Base revenues, which exclude one-time adjustments, were 5.4% above July of the prior year. This year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

July revenues were \$8.7 million above the enacted budget forecast, largely due to unbudgeted savings related to the refinancing of several state office building lease-purchase agreements. Ongoing revenue collections were \$(1.4) million, or (0.2)% below the budget forecast for the month.

### FY 2013 Ending Balance Update

At the time of publication of the July *Monthly Fiscal Highlights*, the Arizona Department of Administration had not yet released June expenditure data. As a result, an estimate of the FY 2013 ending balance estimate was not available last month.

Since that time, additional FY 2013 information has been released. FY 2013 General Fund revenue collections totaled \$9.15 billion (compared to the previously reported amount of \$9.13 billion). This amount is \$175.8 million above the enacted budget forecast. The FY 2013 amount excludes the transfer of \$50 million from the National Mortgage Settlement to the General Fund. This shift has been placed on hold due to ongoing litigation.

Base revenue growth for FY 2013 was 5.2%, exclusive of one-time adjustments. This growth was largely driven by Individual Income Tax estimated and final payments which increased by 16.3%. This growth was in part caused by the acceleration of capital gains as a result of federal fiscal cliff negotiations at the end of calendar year 2012. If the revenue collections do reflect only accelerated tax payments, there may be some offsetting loss to FY 2014.

In contrast, the 2 revenue categories that provide the most “real-time” perspective on the economy – Income Tax withholding and Sales Tax – both grew by a modest 3.5% in FY 2013.

In terms of overall spending, FY 2013 expenditures totaled \$8.65 billion, an increase of \$3.0 million above the prior year. *(Please see the June spending section for more information).*

Including the state’s beginning balance of \$397.0 million (which was carried forward from FY 2012) the total amount of available FY 2013 revenues is estimated to be \$9.55 billion. Given this revenue level and spending of \$8.65 billion, JLBC Staff preliminarily estimates that the FY 2013 ending balance will total approximately \$896 million. This amount is \$203 million greater than budgeted and excludes the \$450 million in the Budget Stabilization Fund.

The General Appropriation Act requires that the Executive Branch provide their own initial estimate of the FY 2013 ending balance by September 15, 2013. By law, the Department of Administration is required to publish its final FY 2013 accounting by December 1, 2013.

Under the enacted June budget and its associated 3-year spending plan, the FY 2013 ending balance would effectively be spent down to \$0 by FY 2016. The effect of the FY 2013 overage on future budgets will be analyzed in the months ahead, especially in light of the one-time nature of some gains. The status of the FY 2014 – FY 2016 budget projections will be updated at the next Finance Advisory Committee meeting this fall, which is scheduled for October 4.

In addition to the ending balance, 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. As of mid-August 2013, the operating balance was \$1.4 billion.

## Table of Contents

<b>Summary</b>	• DHS – Report on Arnold v. Sarn ..... 7
• FY 2013 Ending Balance Update ..... 1	• DPS – GIITEM Fund Quarterly Report ..... 7
<b>July Revenues</b> ..... 2	<b>June Spending</b> ..... 8
<b>Economic Indicators</b> ..... 4	<b>Tracking Arizona’s Recovery</b> ..... Appendix A
<b>Summary of Recent Agency Reports</b>	
• DES – Report on CPS ..... 7	

# July Revenues

**Table 1**

**General Fund Revenues (\$ in Millions)**

	<u>FY 2014 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2013</u>
July	\$ 754.6	\$ 8.7	\$ 6.1
Year-to-Date	\$ 754.6	\$ 8.7	\$ 6.1

**Sales Tax** collections of \$339.2 million were 5.4% above July 2012 and \$0.6 million above the forecast for the month. The year-over-year change amounts exclude the temporary 1-cent sales tax which expired at the end of May 2013.

*Table 2* displays the July growth rates for the largest sales tax categories.

Retail and contracting together account for about 60% of all sales tax revenues. July retail, which reflects June sales, increased by 8.8%.

Contracting collections have generally been much more volatile than retail. However, the July increase of 16.3% represents the fourth consecutive month of double-digit increases compared to the same month in the prior year.

**Table 2**

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

	<u>July</u>	<u>YTD</u>
Retail	8.8%	8.8%
Contracting	16.3%	16.3%
Utilities	1.6%	1.6%
Use	0.7%	0.7%
Restaurant & Bar	1.7%	1.7%

**Individual Income Tax** net revenues were \$306.6 million in July, which was 6.5% or \$18.7 million greater than the prior year. Collections were \$1.5 million above the forecast for the month.

As indicated in *Table 3*, withholding was up 7.8% in July. This amount is \$(4.1) million below the forecast.

July estimated and final payments of \$19.0 million were 27.1% above last year, and were \$0.8 million above forecast.

July refunds of \$(19.1) million were \$(7.5) million greater than last year's amount, and were \$0.8 million above forecast.

**Table 3**

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

	<u>July</u>	<u>YTD</u>
Withholding	7.8%	7.8%
Estimated +		
Final Payments	27.1%	27.1%
Refunds	64.7%	64.7%

**Corporate Income Tax** net collections were \$25.1 million in July, which is \$4.3 million greater than July of the prior year. Collections were \$(0.6) million below the forecast.

**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 \$104.8 million in July were up \$7.2 million, or 7.4%, compared to July of last year.

*“Contracting collections have generally been much more volatile than retail. However, the July increase of 16.3% represents the fourth consecutive month of double-digit increases...”*

Table 4

## General Fund Revenue: Change from Previous Year and FY 2014 Enacted Budget Forecast July 2013

	Current Month					FY 2014 YTD (One Months)				
	Actual July 2013	Change From July 2012*		Enacted Forecast		Actual July 2013	Change from July 2012*		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b>Taxes</b>										
Sales and Use*	\$339,218,789	\$17,329,605	5.4 %	\$632,759	0.2 %	\$339,218,789	\$17,329,605	5.4 %	\$632,759	0.2 %
Income - Individual	306,584,861	18,729,342	6.5	1,518,624	0.5	306,584,861	18,729,342	6.5	1,518,624	0.5
- Corporate	25,081,508	4,295,956	20.7	(616,989)	(2.4)	25,081,508	4,295,956	20.7	(616,989)	(2.4)
Property	167,864	(31,051)	(15.6)	(32,136)	(16.1)	167,864	(31,051)	(15.6)	(32,136)	(16.1)
Luxury - Tobacco	2,050,000	87,842	4.5	0	0.0	2,050,000	87,842	4.5	0	0.0
- Liquor	2,830,000	(699,050)	(19.8)	0	0.0	2,830,000	(699,050)	(19.8)	0	0.0
Insurance Premium	36,604,607	(904,071)	(2.4)	(1,695,393)	(4.4)	36,604,607	(904,071)	(2.4)	(1,695,393)	(4.4)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	51,604	4,031	8.5	(23,396)	(31.2)	51,604	4,031	8.5	(23,396)	(31.2)
<b>Sub-Total Taxes</b>	<b>\$712,589,233</b>	<b>\$38,812,604</b>	<b>5.8 %</b>	<b>(\$216,531)</b>	<b>(0.0) %</b>	<b>\$712,589,233</b>	<b>\$38,812,604</b>	<b>5.8 %</b>	<b>(\$216,531)</b>	<b>(0.0) %</b>
<b>Other Revenue</b>										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	2,369,295	(456,021)	(16.1)	(430,705)	(15.4)	2,369,295	(456,021)	(16.1)	(430,705)	(15.4)
Interest	1,028	413	67.2	1,028	--	1,028	413	67.2	1,028	--
Sales and Services	835,299	308,987	58.7	(164,701)	(16.5)	835,299	308,987	58.7	(164,701)	(16.5)
Other Miscellaneous	734,754	(1,886,586)	(72.0)	(765,246)	(51.0)	734,754	(1,886,586)	(72.0)	(765,246)	(51.0)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursemen	654,493	(263,123)	(28.7)	154,493	30.9	654,493	(263,123)	(28.7)	154,493	30.9
<b>Sub-Total Other Revenue</b>	<b>\$4,594,869</b>	<b>(\$2,296,330)</b>	<b>(33.3) %</b>	<b>(\$1,205,131)</b>	<b>(20.8) %</b>	<b>\$4,594,869</b>	<b>(\$2,296,330)</b>	<b>(33.3) %</b>	<b>(\$1,205,131)</b>	<b>(20.8) %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$717,184,102</b>	<b>\$36,516,274</b>	<b>5.4 %</b>	<b>(\$1,421,662)</b>	<b>(0.2) %</b>	<b>\$717,184,102</b>	<b>\$36,516,274</b>	<b>5.4 %</b>	<b>(\$1,421,662)</b>	<b>(0.2) %</b>
<b>Other Adjustments</b>										
Urban Revenue Sharing	(46,750,100)	(3,951,430)	9.2	0	0.0	(46,750,100)	(3,951,430)	9.2	0	0.0
Budget Plan Transfers	81,541,148	51,541,148	171.8	7,541,148	10.2	81,541,148	51,541,148	171.8	7,541,148	10.2
Sales Tax - 1¢ Increase	2,611,367	(78,040,390)	(96.8)	2,611,367	--	2,611,367	(78,040,390)	(96.8)	2,611,367	--
<b>Sub-Total Other Adjustments</b>	<b>37,402,415</b>	<b>(30,450,672)</b>	<b>(44.9) %</b>	<b>10,152,515</b>	<b>37.3 %</b>	<b>37,402,415</b>	<b>(30,450,672)</b>	<b>(44.9) %</b>	<b>10,152,515</b>	<b>37.3 %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$754,586,517</b>	<b>\$6,065,602</b>	<b>0.8 %</b>	<b>\$8,730,853</b>	<b>1.2 %</b>	<b>\$754,586,517</b>	<b>\$6,065,602</b>	<b>0.8 %</b>	<b>\$8,730,853</b>	<b>1.2 %</b>
<b>Non-General Funds</b>										
Highway User Revenue Fund	\$104,798,917	\$7,222,392	7.4 %	\$6,246,626	6.3 %	\$104,798,917	\$7,222,392	7.4 %	\$6,246,626	6.3 %

\* July Sales Tax collection amounts and change from July 2012 figures exclude the temporary 1¢ increase that expired at the end of May 2013.

## Recent Economic Indicators

### NATIONAL

“GDP increased at an annual rate of 1.7% in the second quarter... estimates were rebased for recent prices and a new method for measuring intellectual property.”

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 1.7% in the second quarter of 2013. This estimate is little changed from the estimate of 1.8% for the first quarter. Consumption spending, exports, and private domestic investment increases more than offset decreases in federal government spending in the quarter. In the latest release, GDP estimates were rebased for recent prices and a new method for measuring intellectual property.

The Conference Board’s **U.S. Consumer Confidence Index** fell (2.2)% in July, after several months of large increases. The index still shows significant growth of 22.8% over the reading in July 2012. The recent monthly decrease was due to a slight decline in the 6-month outlook on the job market and overall economy.

The Conference Board’s **U.S. Leading Economic Index** remained flat in June, after reaching its highest post-recession reading in May. A decrease in the new building permit component of the index kept the overall index from improving in June.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.2% in July and 2.0% above July 2012 prices. Monthly price increases were broad-based, spanning shelter, gas, medical care, new vehicles, clothing, and food. Core inflation (all items except food and energy) grew by 0.2% during the month. July increases to gasoline prices were largely offset by decreases in other energy areas such as natural gas and electricity.

### 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.

In June, 29 out of 50 states had increases in their coincident indexes. Arizona’s coincident index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 2.2% above

last year, which is the thirty-third highest growth rate in the country. While this is a significant improvement, Arizona’s index is still (10.3)% below its peak, which occurred in August 2007. *See Appendix A – Tracking Arizona’s Recovery* for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona’s leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national manufacturing delivery times, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona’s leading index projects that state GDP will grow at an annualized rate of 2.8% over the next 6 months. This is higher than the revised 2.3% growth projection in May and higher than the 2.6% projection in June 2012.

### Housing

The number of Maricopa County **pending foreclosures** decreased from 8,027 in June to 7,191 in July. The July total is significantly below the peak in December 2009 (51,466). *See Appendix A – Tracking Arizona’s Recovery.*

The total housing inventory in the Greater Phoenix area decreased from 20,384 in July 2012 to 20,049 in July 2013, a (1.6)% decrease. This continues the decline in inventory that started in January 2011.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through June, a total of 1,818 **single-family building permits** had been issued statewide, a 12.3% increase from last year. While permitting activity has seen gains, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. *See Appendix A – Tracking Arizona’s Recovery.*

The multi-family housing sector has seen recent gains, with the 3-month period ending in June resulting in a total of 592 **multi-family building permits** being issued in the state. However, this figure remains well below the peak of activity in April 2007.

## Recent Economic Indicators (Continued)

### Employment

According to the Arizona Department of Administration's employment report for July, the state lost a total of (15,100) net **nonfarm jobs** between June and July. Due to seasonal variations in employment, month-over-month job losses are typical for July. The July job loss this year was the smallest in 8 years. Almost all of the July net job losses occurred in the government sector (-9,600) and the leisure and hospitality industry (-4,800).

Compared to July 2012, nonfarm employment in July 2013 was up by 2.8% or 67,600 jobs, the largest year-over-year net gain since January 2007. The largest contributors to these gains were the following sectors of the economy: leisure and hospitality (+13,000), education and health services (+12,000), and trade, transportation and utilities (+9,600).

Although July saw an acceleration in the year-over-year increase in payroll employment, the average job growth rate for the first 7 months of CY 2013 is a modest 2.1%. As of July, total nonfarm employment remained (9.8)%, or (265,800) jobs, below peak employment in December 2007. See *Appendix A – Tracking Arizona's Recovery*.

The state **unemployment rate** was unchanged at 8.0% in July. This means that the Arizona jobless rate has remained essentially unchanged since November 2012. By way of comparison, the U.S. unemployment rate declined from 7.8% in November 2012 to 7.4% in July 2013.

### State Agency Data

At the beginning of August, total **AHCCCS** caseloads equaled 1.28 million members, a (0.2)% decrease from the prior month. Overall, AHCCCS caseloads are currently (0.9)% below August 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, remained about the same since last month while decreasing (0.6)% from a year ago. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011. This population has declined (151,371) since then to 73,121. As a whole, the Proposition 204

program has declined (0.7)% compared to the prior month, and (14.2)% from the prior year. KidsCare I provides coverage for 6,975 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (1.3)% compared to the prior month and (26.1)% from the prior year.

Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II, which provides coverage for children up to 175% of the Federal Poverty Level. The state match is provided by voluntary payments from political subdivisions. As of the beginning of August, 37,747 children were enrolled in KidsCare II.

There were 35,919 **TANF recipients** in the state in June, a monthly caseload decrease of (2.3)%. Year-over-year, the number of TANF recipients has declined by (9.9)%. The statutory lifetime limit on cash assistance is 24 months.

The appropriation for TANF cash assistance in the FY 2013 budget funded a caseload of approximately 36,200 recipients in FY 2013.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June, there were a total 1.1 million food stamp recipients in the state, a 0.4% increase over the prior month. Compared to the same month last year, food stamp participation was down by (0.9)%. The number of SNAP 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 Corrections (ADC) inmate population** increased to 40,607 inmates in July 2013. Relative to the prior 3-month period, the population has increased by 95 inmates. Compared to a year ago, the population has increased by 729 inmates.

*"The state unemployment rate was unchanged at 8.0% in July. This means that the Arizona jobless rate has remained essentially unchanged since November 2012."*

## Recent 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>
<b>Arizona</b>				
- Unemployment Rate (SA)	July	8.0%	0.0 %	(0.4)%
- Initial Unemployment Insurance Claims	July	25,052	13.0%	(9.1)%
- Unemployment Insurance Recipients	June	41,455	0.7%	(28.7)%
- Non-Farm Employment - Total	July	2.45 million	(0.6)%	2.8%
Manufacturing	July	156,800	0.2%	0.6%
Construction	July	126,200	(0.6)%	6.9%
- Average Weekly Hours, Manufacturing	June	41.9	1.0%	(0.7)%
- Contracting Tax Receipts (3-month average)	May-July	\$43.9 million	6.0%	17.9%*
- Retail Sales Tax Receipts (3-month average)	May-July	\$164.8 million	(2.4)%	7.5%*
- Residential Building Permits (3-month moving average)				
Single-family	Apr-Jun	1,818	4.7%	12.3%
Multi-unit	Apr-Jun	592	0.4%	271.8%
- Greater Phoenix Home Sales				
Single-Family	May	9,843	6.6%	2.0%
Townhouse/Condominium	May	1,608	2.2%	5.1%
- Greater Phoenix Median Home Price				
Single-Family	May	\$185,000	2.0%	25.9%
Townhouse/Condominium	May	\$122,000	1.8%	27.1%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	May	134.97	1.9%	20.6%
- Foreclosure Activity, Maricopa County	July	7,191	(10.4)%	(56.6)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	20,049	2.8%	(1.6)%
- Phoenix Sky Harbor Air Passengers	June	3.49 million	(0.7)%	(0.2)%
- Revenue Per Available Hotel Room	June	\$49.08	(14.7)%	0.5%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	May	\$4.58	0.2%	26.9%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2013	69.6	N/A	1.5%
- Arizona Coincident Index (July 1992 = 100)	June	181.54	0.2%	2.2%
- Arizona Leading Index -- 6 month projected growth rate	Apr-Jun	2.8%	0.4%	0.2%
- Arizona Personal Income	1st Quarter 2013	\$238.0 billion	(1.5)%	2.5%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	August	1,276,094	(0.2)%	(0.9)%
Acute Care Traditional		889,074	0.0%	(0.6)%
Prop 204 Childless Adults		73,121	(1.3)%	(30.6)%
Other Prop 204		147,482	(0.1)%	(2.8)%
Kids Care		6,975	(1.3)%	(26.1)%
Kids Care II		37,747	(0.6)%	203.4%
Long-Term Care – Elderly & DD		53,850	0.2%	2.4%
Emergency Services		67,845	(0.4)%	8.3%
- TANF Recipients	June	35,919	(2.3)%	(9.9)%
- SNAP (Food Stamps) Recipients	June	1,106,860	0.4%	(0.9)%
- ADC Inmate Growth (3-month average)	May-July	40,607	95 inmates	729 inmates
- Probation Caseload				
Non-Maricopa	May	17,748	26	(435)
Maricopa County	May	25,328	49	(253)
<b>United States</b>				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2 <sup>nd</sup> Quarter 2013 (1 <sup>st</sup> Estimate)	\$15.7 trillion	1.7%	1.4%
- Consumer Confidence Index (1985 = 100)	July	80.3	(2.2)%	22.8%
- Leading Indicators Index (2004 = 100)	June	95.3	0.0%	2.8%
- U.S. Semiconductor Billings (3-month moving average)	Apr-June	\$4.76 billion	3.5%	10.6%
- Consumer Price Index, SA (1982-84 = 100)	July	233.3	0.2%	2.0%

\* Excludes the temporary 1¢ increase that expired at the end of May 2013.

## Summary of Recent Agency Reports

**Department of Economic Security (DES) - Monthly Report on CPS** - Pursuant to Laws 2013, Chapter 1, DES has submitted the July financial and program accountability report. According to the report, out-of-home placements increased from 14,541 in April 2013 to 14,632 in May 2013. Caseloads are above the department's goals, and turnover for Child Protective Services (CPS) case managers for the month was approximately 3.4%. The highlights of this report are summarized below.

- The CPS Training Academy had 222 new CPS case managers in training as of May, or (3) fewer than in April.
- As of May, the number of filled case manager positions was 1,199, including those in training, an increase of 6 positions from April. In May, caseloads per worker remained considerably higher than caseload goals but were better than the prior month. In May, caseloads were 75% above the department's caseload goals of 10 investigations, 19 in-home cases, or 16 out-of-home children per case manager, compared to being 81% above caseload goals in April.
- DES reports that monthly case manager turnover during May was 3.4%, up from a 1.8% rate in April.
- In addition to 3,143 continuing in-home cases, an increase of 37 from April, there were 2,074 new in-home cases in May, a decrease from (322) from April. The number of closed in-home cases in May was 2,359, compared to 2,139 in April.
- There were 1,237 new out-of-home children in May, a decrease of (258) from April. The total number of continuing out-of-home children increased to 13,395 in May from 13,046 in April. The number of children who left CPS care in May was 1,146, which is down when compared to 1,268 in April.
- The ratio of filled supervisor positions to filled CPS case manager positions increased from the April level of about 1:5 to 1:7 in May.
- DES plans to spend \$740.0 million from all funds on CPS in FY 2014, an increase of 12.9% from \$655.3 million in FY 2013.

(Ben Beutler)

**Department of Health Services - Report on Arnold v. Sarn** - Pursuant to a FY 2013 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted the fourth quarter report on settling the *Arnold v. Sarn* lawsuit.

The state has been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population. Due to the state's fiscal condition, the plaintiffs and the state agreed in March 2010 to suspend the lawsuit for 2 years because of insufficient funding. The latest agreement with the plaintiffs does not contain exit criteria or a schedule for compliance.

The latest agreement focuses on the conditions for admission and the length of stay for *Arnold* class members at the Arizona State Hospital (ASH). DHS and the Regional Behavioral Health Authorities (RBHAs) have continued to coordinate discharges to provide appropriate community support and services, in addition to ensuring that ASH has a census of 55 or fewer class members. DHS did not exceed this limit at any time during the fourth quarter.

As agreed upon by the parties, DHS has not encouraged, recommended, or provided funding for class members in supervisory care homes, as the department has secured alternative housing for class members in these homes. During the fourth quarter, 23 additional class members received community based housing.

The latest agreement also focuses on employment support for class members. DHS reports that employment remained virtually flat during the fourth quarter. Of the Non-Title XIX class members, 7.6% received supported employment services, 39.2% received rehabilitation services (i.e., skills training, peer support, or pre-vocational training), and 19.3% worked part- or full-time.

The agreement further states that DHS will implement Quality Service Reviews (QSR) in order to evaluate network sufficiency, identify service gaps, and maximize customer satisfaction. DHS contracts with an independent third party to perform QSRs, which include chart reviews and inquiries with clients and families. (Matt Gress)

**Department of Public Safety - Quarterly Report on the GIITEM Fund** - Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. In FY 2013, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. During the fourth quarter of FY 2013 DPS expended \$325,900 in GIITEM Immigration Enforcement Grant monies, bringing the year-to-date total to \$2.4 million. Year-to-date, DPS has expended \$1.6 million for a grant to the Maricopa County Sheriff's Office and \$500,000 for a grant to the Pinal County Sheriff's Office. Both distributions are required by statute. The remaining \$327,900 in total year-to-date expenditures was utilized by DPS to support local law enforcement operations.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$656,007 in criminal fine and fee revenues in the fourth quarter of FY 2013, for a total of \$2.4 million year-to-date. DPS expended \$412,100 in the fourth quarter and \$1.2 million year-to-date from the Subaccount for border detectives, detention liaison officers, and a grant to the Pima County Sheriff's Office. (Eric Billings)

## June Spending

At the time of publication of the July *Monthly Fiscal Highlights*, the Arizona Department of Administration had not yet released June expenditure data. As a result, this month's edition includes a discussion of June 2013 and FY 2013 total expenditures.

June 2013 General Fund spending totaled \$620.2 million, while the state posted an additional \$36.7 million of transactions during the "13<sup>th</sup> month" as the state closed the books for the fiscal year. During the "13<sup>th</sup> month" state agencies are able to continue to process FY 2013 expenditure transactions into July so as to properly account for obligations incurred during FY 2013.

Year-to-date, FY 2013 spending totaled \$8.65 billion, which is \$3.0 million above the prior year. (See *Tables 6 & 7*).

Among the most significant changes in overall FY 2013 spending were:

- The state's total General Fund debt service level increased by \$40.7 million, which includes: \$35.1 million related to the state's FY 2010 operating financing and \$5.6 million for the Phoenix Convention Center.
- AHCCCS expenditures were \$(139.5) million below the prior year, due to declining enrollment as a result of the freeze on new participants in the childless adult program since July 2011.
- Department of Education spent \$50.1 million more than the prior year. The higher expenditure amount reflects increased funding for the K-3 reading program, increased per-pupil district and charter school funding and \$21.9 million to repay the annual K-12 rollover for school districts with fewer than 600 students.
- Department of Health Services expenditures increased by \$72.3 million, mostly due to \$38.7 million of increased funding for non-Medicaid behavioral health services and \$33.9 million to backfill spending which was previously sourced from Other Funds.
- In FY 2013 the state began a multi-year funding process for various IT projects, which are funded through the Automation Projects Fund overseen by the Department of Administration. This led to an increase of \$16.8 million in FY 2013.
- A significant declining component of FY 2013 spending was the state's deposit to the Budget Stabilization Fund, which declined by \$(50.0) million as the state deposited \$200.0 million in FY 2013 compared to \$250.0 million in FY 2012.

**Table 6**

### General Fund Spending (\$ in Millions)

Agency	<u>June 13</u>	<u>13<sup>th</sup> Month</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 12</u>
AHCCCS	155.3	0.5	1,275.3	(139.5)
Corrections	84.6	18.9	955.2	3.3
Economic Security	5.4	0.2	627.5	37.5
Education	287.4	4.7	3,465.4	50.1
Health Services	14.8	4.7	585.9	72.3
Public Safety	2.3	0.9	44.3	(4.3)
School Facilities Board	0.1	0.0	173.7	(1.8)
Universities	35.6	0.0	703.6	(26.6)
Leaseback Debt Service	0.0	0.0	84.1	35.1
Other	<u>34.7</u>	<u>6.8</u>	<u>534.6</u>	<u>26.9</u>
<b>Total</b>	<b>620.2</b>	<b>36.7</b>	<b>8,449.6</b>	<b>53.0</b>
Budget Stabilization Fund Deposit	0.0	0.0	200.0	(50.0)
<b>Grand Total</b>	<b>620.2</b>	<b>36.7</b>	<b>8,649.6</b>	<b>3.0</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>June 13</b>	<b>13th Month</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 12</b>
Department of Administration	1,042.7	709.1	12,267.9	(4,117.9)
ADOA – Automation Projects Fund	-	-	16,800.0	16,800.0
ADOA – Capital Projects	686.7	-	1,309.2	1,309.2
ADOA – Sale/Leaseback Debt Service	-	-	84,119.8	35,069.1
Office of Administrative Hearings	69.6	-	827.8	(11.8)
Department of Agriculture	819.9	134.6	8,017.8	(134.5)
AHCCCS	155,286.5	512.3	1,275,299.6	(139,505.8)
Arts, AZ Commission on the	-	-	-	(10.4)
Attorney General	2,936.3	134.6	23,381.3	5,762.3
AZ Capital Post Conviction Public Defender	0.1	-	4.4	(693.4)
State Board of Charter Schools	61.0	-	763.9	21.9
AZ Commerce Authority	2,625.0	-	31,500.0	-
Community Colleges	-	-	68,932.8	(5,411.5)
Corporation Commission	51.0	0.3	600.3	0.2
Department of Corrections	84,619.2	18,913.8	955,169.9	3,284.1
AZ State Schools for the Deaf & Blind	154.4	511.9	21,541.5	738.5
Department of Economic Security	5,420.3	202.4	627,530.0	37,482.5
Department of Education	287,406.8	4,655.5	3,465,449.3	50,076.5
DEMA	591.3	346.9	8,023.2	991.1
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	21.9	-	177.5	(13.7)
State Board of Equalization	49.0	9.8	516.8	(18.9)
Board of Executive Clemency	72.6	3.5	824.1	11.8
Department of Financial Institutions	282.8	16.7	2,952.4	207.3
Department of Fire, Bldg and Life Safety	57.5	0.1	1,723.2	(25.3)
State Forester	210.7	(6.9)	7,099.1	844.3
Arizona Geological Survey	66.0	-	871.7	(4.6)
Government Information Tech.	-	-	-	3.1
Governor/OSPB	1,317.2	718.0	10,042.8	3,460.5
Department of Health Services	14,796.3	4,732.2	585,852.5	72,263.0
Arizona Historical Society	194.3	-	3,061.9	(1,166.9)
Prescott Historical Society of AZ	48.7	-	670.6	(1.0)
Independent Redistricting Comm.	231.0	-	2,588.7	(1,505.2)
Commission of Indian Affairs	4.1	1.2	53.4	(1.9)
Department of Insurance	433.9	18.0	4,980.9	(217.0)
Judiciary				
Supreme/Superior Court	4,609.5	538.6	94,401.5	(1,036.9)
Court of Appeals	1,248.7	66.5	13,925.1	(328.9)

General Fund Spending (Continued)				
(\$ in Thousands)				
Agency	June 13	13th Month	Year-to-Date	YTD Change from FY 12
Department of Juvenile Corrections	3,854.9	398.7	41,326.3	(5,832.3)
State Land Department	38.8	13.3	1,217.9	(17.7)
Law Enforcement Merit System	5.5	0.5	69.5	3.4
Legislature				
Auditor General	(200.9)	378.2	16,090.9	504.4
House of Representatives	926.0	-	11,850.5	(433.1)
Joint Legislative Budget Comm.	133.6	-	1,879.1	(89.6)
Legislative Council	439.7	-	6,717.5	1,741.8
Senate	620.0	-	8,029.9	(427.9)
Mine Inspector	110.5	44.7	1,191.3	(4.5)
Nav. Streams & Adjudication	7.9	1.0	119.7	(16.5)
Phoenix Convention Center	-	-	5,595.0	5,595.0
Pioneers' Home	22.3	26.2	1,166.6	(468.5)
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	2,325.2	949.4	44,306.1	(4,286.1)
Arizona Department of Racing	33.0	16.3	2,029.5	(789.2)
Radiation Regulatory Agency	60.3	8.0	1,436.5	(14.1)
Real Estate Department	325.0	98.1	2,664.4	6.8
Department of Revenue	5,562.4	1,625.4	45,032.2	(109.1)
School Facilities Board	141.9	23.3	173,728.7	(1,783.8)
Secretary of State	1,191.9	147.0	16,384.5	3,129.6
Tax Appeals Board	16.9	1.1	257.2	0.4
Office of Tourism	1,221.2	371.6	6,007.1	6,007.1
Department of Transportation	0.0	29.4	50.4	(0.5)
Universities				
Board of Regents	99.4	0.8	37,189.7	20,202.8
Arizona State University	15,513.7	-	297,282.5	(24,954.0)
Northern Arizona University	5,924.2	-	101,585.2	(6,666.7)
University of Arizona	14,045.5	-	267,562.5	(15,223.1)
Department of Veteran Services	307.8	5.0	5,378.4	(3,004.1)
Department of Water Resources	1,853.3	258.9	11,128.3	5,304.4
Department of Weights & Measures	71.3	-	1,503.1	320.7
Other - JP Salaries Distribution	95.0	52.0	1,106.7	69.8
Other	-	-	71.2	155.3
<b>Total</b>	<b>620,162.0</b>	<b>36,668.0</b>	<b>8,449,637.2</b>	<b>53,000.5</b>
Budget Stabilization Fund Deposit	-	-	200,000.0	(50,000.0)
<b>Grand Total</b>	<b>620,162.0</b>	<b>36,668.0</b>	<b>8,649,637.2</b>	<b>3,000.5</b>

## Tracking Arizona's Recovery

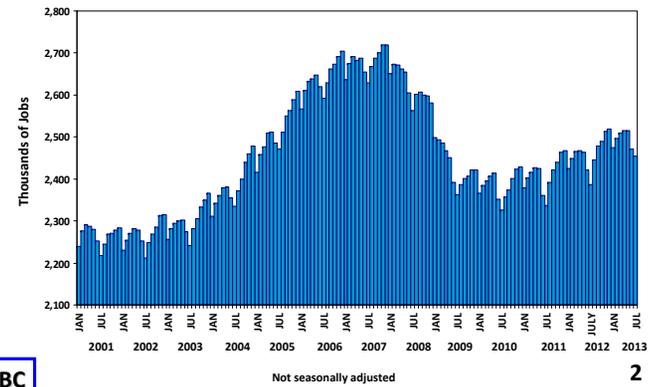
August 2013  
Appendix A

Slide:

- 2.....Total Non-Farm Employment
- 3.....Initial Claims for Unemployment Insurance
- 4.....State Sales Tax Collections – Retail Category
- 5.....State Sales Tax Collections – Contracting Category
- 6.....Single Family Building Permits
- 7.....Maricopa County Pending Foreclosures
- 8.....Coincident Index

JLBC

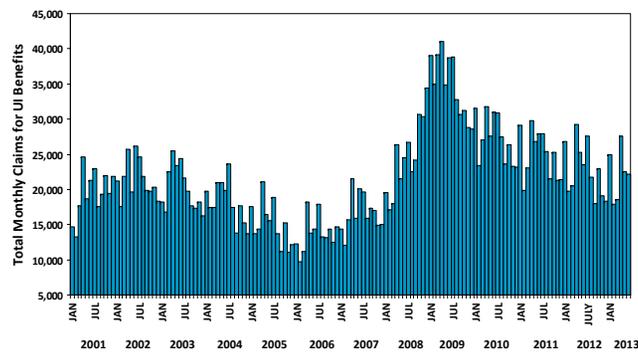
## Total Non-Farm Employment



JLBC

2

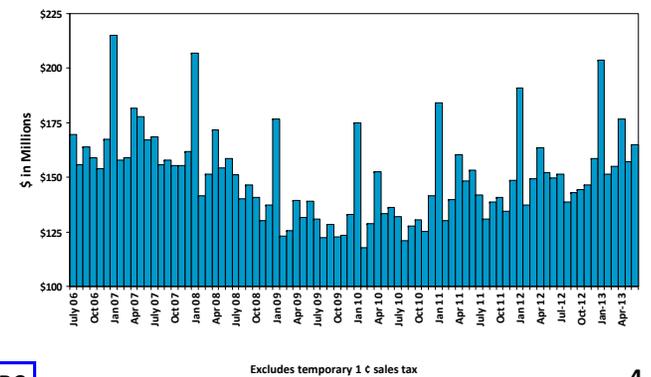
## Initial Claims for Unemployment Insurance



JLBC

3

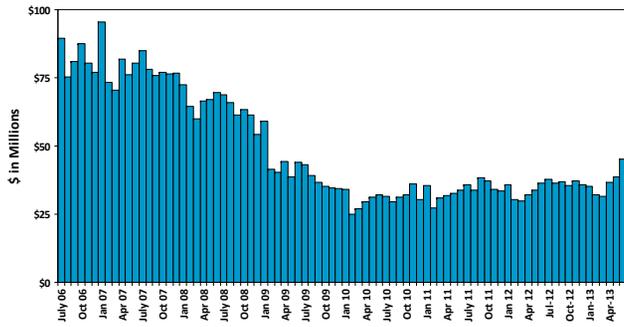
## State Sales Tax Collections – Retail Category



JLBC

4

### State Sales Tax Collections – Contracting Category

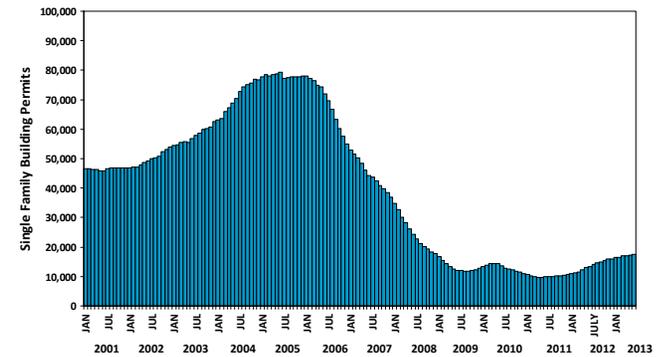


JLBC

Excludes temporary 1 ¢ sales tax

5

### Single Family Building Permits

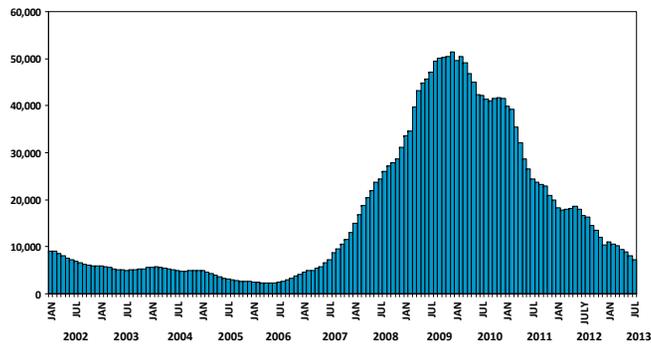


JLBC

12-Month Moving Sum

6

### Maricopa County Pending Foreclosures

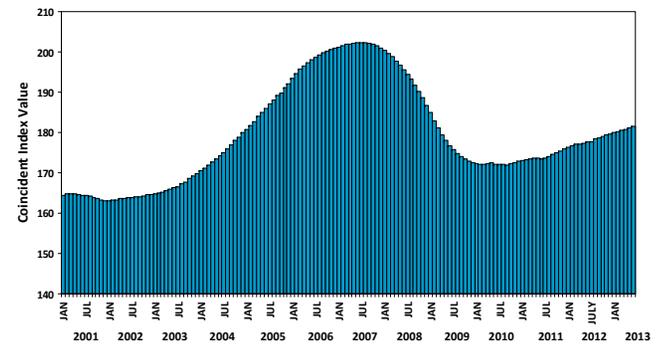


JLBC

An initial notice of trustee sale has been recorded but final sale has not yet occurred

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.

8