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**“July revenues were \$(15.8) million below the enacted budget forecast.”**

## Summary

During July 2016, General Fund collections totaled \$660.4 million, an amount which is (6.0)% below the prior year. July revenues were \$(15.8) million below the enacted budget forecast.

Forecast losses occurred mostly in the Individual and Corporate Income Tax categories. In particular, Corporate collections declined from \$32.3 million in July 2015 to \$2.3 million during July 2016.

While the decline in the category was significant, Corporate collections tend to be very volatile in smaller collection months. Nonetheless, the reduction in the state's Corporate tax rate and the national decline in corporate profitability likely played a role in the drop in collections.

These forecast losses were partially offset by gains in the Sales Tax category, which saw 4.9% growth across a variety of subcategories (such as retail and contracting).

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-August 2016 is \$1.4 billion, an amount which is unchanged from August 2015.

In addition, the state's Budget Stabilization Fund has a balance of \$422.1 million. This balance has declined from its previous FY 2016 level of approximately \$460 million due to the temporary use of BSF monies.

As noted in the *July Monthly Fiscal Highlights*, the FY 2017 General Appropriation Act authorized a bridge loan for both DCS and DES and allowed each of these agencies to use up to \$35 million of BSF monies to provide funding for reimbursement grants. This loan authority is only being used by DES. The funding is required to be paid back by September 1, 2016.

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## July Revenues

	<u>FY 2017 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2016</u>
July	\$ 660.4	\$ (15.8)	\$ (42.2)
Year-to-Date	\$ 660.4	\$ (15.8)	\$ (42.2)

**Sales Tax** (preliminary) collections of \$366.5 million were 4.9% above July of last year and \$7.9 million above the forecast for the month

Table 2 below provides additional information on the major categories of the state's sales tax, which together account for approximately 90% of total collections.

	<u>July</u>	<u>YTD</u>
Retail	5.1%	5.1%
Contracting	3.6%	3.6%
Use	5.2%	5.2%
Restaurant & Bar	8.7%	8.7%
Utilities	4.3%	4.3%

**Individual Income Tax** net revenues were \$308.6 million in July, which were \$(5.9) million below the prior year and \$(6.5) million below the forecast for the month.

As indicated in Table 3, withholding decreased by (2.9)% for the month. This decline was likely driven by 2 fewer processing days during the month than in July 2015. The July withholding collections are \$(7.5) million below the forecast.

July estimated and final payments of \$20.8 million were 8.3% above last year and \$0.9 million above the forecast.

July Individual Income Tax refunds totaled \$(17.5) million – this compares to \$(19.1) million in July 2015 and a forecasted amount of \$(17.6) million.

	<u>July</u>	<u>YTD</u>
Withholding	(2.9)%	(2.9)%
Estimated/Final Payments	8.3%	8.3%
Refunds	(8.1)%	(8.1)%

**Corporate Income Tax** net collections were \$2.3 million in July, which was \$(30.0) million less than July of the prior year. Collections for the month were \$(16.5) million below the forecast.

Similar to the trend seen during FY 2016, the reduction in the state's Corporate tax rate and a decline in national corporate profitability is probably responsible for the forecast loss in the category during July.

**Insurance Premium Tax** collections of \$21.1 million in July were (51)% below the prior year and \$(4.4) million below forecast. The large decrease relative to last year was primarily due to a delay in processing. The delay caused about \$16 million in deposits to be recorded in August that would have otherwise been counted in July.

**Highway User Revenue Fund (HURF)** collections of \$118.7 million in July were up \$6.5 million, or 5.8% compared to July of last year. July collections were \$4.6 million above forecast.

Table 4

## General Fund Revenue: Change from Previous Year and Budget Forecast July 2016

	Current Month					FY 2017 YTD (One Months)				
	Actual July 2016	Change From July 2015		Budget Forecast		Actual July 2016	Change from July 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$366,476,378	\$17,192,200	4.9 %	\$7,946,194	2.2 %	\$366,476,378	\$17,192,200	4.9 %	\$7,946,194	2.2 %
Income - Individual	308,594,809	(5,920,981)	(1.9)	(6,546,573)	(2.1)	308,594,809	(5,920,981)	(1.9)	(6,546,573)	(2.1)
- Corporate	2,288,952	(29,992,359)	(92.9)	(16,473,014)	(87.8)	2,288,952	(29,992,359)	(92.9)	(16,473,014)	(87.8)
Property	411,971	186,225	82.5	71,688	21.1	411,971	186,225	82.5	71,688	21.1
Luxury - Tobacco	1,784,523	(73,112)	(3.9)	0	0.0	1,784,523	(73,112)	(3.9)	0	0.0
- Liquor	3,265,879	301,293	10.2	0	0.0	3,265,879	301,293	10.2	0	0.0
Insurance Premium	21,103,994	(21,922,891)	(51.0)	(4,353,159)	(17.1)	21,103,994	(21,922,891)	(51.0)	(4,353,159)	(17.1)
Other Taxes	571,728	514,862	--	244,688	74.8	571,728	514,862	--	244,688	74.8
<b>Sub-Total Taxes</b>	<b>\$704,498,233</b>	<b>(\$39,714,764)</b>	<b>(5.3) %</b>	<b>(\$19,110,176)</b>	<b>(2.6) %</b>	<b>\$704,498,233</b>	<b>(\$39,714,764)</b>	<b>(5.3) %</b>	<b>(\$19,110,176)</b>	<b>(2.6) %</b>
<b><u>Other Revenue</u></b>										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	1,392,006	(95,908)	(6.4)	(943,432)	(40.4)	1,392,006	(95,908)	(6.4)	(943,432)	(40.4)
Interest	(43,222)	(44,264)	--	(44,282)	--	(43,222)	(44,264)	--	(44,282)	--
Sales and Services	7,147,890	6,926,715	--	6,502,032	--	7,147,890	6,926,715	--	6,502,032	--
Other Miscellaneous	1,918,363	(243,171)	(11.2)	(56,092)	(2.8)	1,918,363	(243,171)	(11.2)	(56,092)	(2.8)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	286,410	(4,700,725)	(94.3)	(2,107,246)	(88.0)	286,410	(4,700,725)	(94.3)	(2,107,246)	(88.0)
<b>Sub-Total Other Revenue</b>	<b>\$10,701,447</b>	<b>\$1,842,646</b>	<b>20.8 %</b>	<b>\$3,350,979</b>	<b>45.6 %</b>	<b>\$10,701,447</b>	<b>\$1,842,646</b>	<b>20.8 %</b>	<b>\$3,350,979</b>	<b>45.6 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$715,199,680</b>	<b>(\$37,872,117)</b>	<b>(5.0) %</b>	<b>(\$15,759,196)</b>	<b>(2.2) %</b>	<b>\$715,199,680</b>	<b>(\$37,872,117)</b>	<b>(5.0) %</b>	<b>(\$15,759,196)</b>	<b>(2.2) %</b>
<b><u>Other Adjustments</u></b>										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	5,828	(0.0)	(55,298,514)	(4,828,986)	9.6	5,828	(0.0)
One-Time Transfers	461,600	461,600	--	0	0.0	461,600	461,600	--	0	0.0
<b>Sub-Total Other Adjustments</b>	<b>(54,836,914)</b>	<b>(4,367,386)</b>	<b>8.7 %</b>	<b>5,828</b>	<b>(0.0) %</b>	<b>(54,836,914)</b>	<b>(4,367,386)</b>	<b>8.7 %</b>	<b>5,828</b>	<b>(0.0) %</b>
<b>TOTAL GENERAL FUND REVENUE</b>	<b>\$660,362,766</b>	<b>(\$42,239,504)</b>	<b>(6.0) %</b>	<b>(\$15,753,369)</b>	<b>(2.3) %</b>	<b>\$660,362,766</b>	<b>(\$42,239,504)</b>	<b>(6.0) %</b>	<b>(\$15,753,369)</b>	<b>(2.3) %</b>
<b><u>Non-General Funds</u></b>										
Highway User Revenue Fund	\$118,728,363	\$6,530,465	5.8 %	\$4,553,650	4.0 %	\$118,728,363	\$6,530,465	5.8 %	\$4,553,650	4.0 %

## 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 1.2% in the second quarter of 2016. This estimate represents a modest pickup from the weak growth of 0.8% in the first quarter of 2016. The acceleration relative to the prior quarter was primarily due to growth in consumption and exports and a reduction in drag from low business investment and federal spending. Improved performance in these categories was partly offset by decreases in business inventories, residential investment and state and local government spending. Economists largely agree that the low growth for the quarter is driven by seasonal fluctuations in inventories and may be offset by a significantly higher rate of growth in the third quarter.

The Conference Board's **U.S. Consumer Confidence Index** decreased (0.1) points in July, following a large month of gains in June. The monthly decrease reflected greater pessimism by consumers in their outlook of the economy 6 months in the future. Economists expect the index's slight drop in July was partly due to Britain's vote in late June to leave the European Union.

The Conference Board's **U.S. Leading Economic Index** increased by 0.3% in June and stands 0.5% above its June 2015 reading. Of the index's 10 components, 8 made positive contributions in June. The greatest positive contributions came from a decrease in initial claims for unemployment insurance and movement in interest rates. Positive impacts were partly offset by a decrease in manufacturing workers' average workweek, the only negative component for this month.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.2% in June and 1.0% above June 2015 prices. Energy prices increased 1.3% during the month, driven by a 3.3% rise in gasoline prices. Core inflation (all items less food and energy) increased by 0.2% during the month. Other monthly price increases were broad-based, spanning medical care, education, airlines fares, and motor vehicle insurance. June saw decreases in the indices for used cars and trucks, apparel, communication and household furnishings.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.1% in June, relative to May. The increase was driven by a 1.5% monthly increase in energy prices. The overall index stands 0.9% above the June 2015 level, which is well below the Federal Reserve Bank's 2% annual inflation target. The low measure is largely due to a (10.0)% year-

over-year decrease in energy prices. Annual growth in the core index (all items except food and energy) has grown by a steadier rate of 1.6% through June.

### 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 3.7% compared to June 2015. Over the same time period, the U.S. coincident index increased by 3.0%.

#### Housing

Single-family housing construction is increasing. Multi-family construction had peaked, but has recently started to increase. Arizona's 12-month total of **single-family building permits** is 24,233, or 24.4% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 10.6%. See Appendix A – *Arizona Economic Trends for historical information.*

The 12-month total of multi-family building permits has started to increase again. Arizona's total of 10,529 **multi-family building permits** is 19.2% more than 2015. Arizona's rate of increase is now greater than the comparable multi-family permit growth for the U.S. as a whole, which is (5.4)% lower than 2015.

#### Employment

According to information released by the Arizona Department of Revenue (ADOA), the state had a net loss of (14,800) **nonfarm jobs** in July over June. The state typically experiences job losses in July when schools are in recess. The average job loss for July in the prior 10 years was (26,600).

Compared to the same month in the prior year, the state added 76,100 nonfarm jobs in July, or 3.0%. The average net job increase for the first 7 months of calendar year 2016 is 3.0%. This is significantly higher than the national job growth rate of 1.8% for the same period.

While private sector employment in Arizona has increased by 3.7% over the last 7 months, government sector employment has declined by (0.6)% over the same period. The government sector's share of total nonfarm employment was 13.6% in July, which is the lowest percentage since at least January 1990.

The state's **unemployment rate** increased from 5.8% in June to 6.0% in July. This was the same jobless rate as in July 2015. The unemployment rate has increased in each of the last 4 months. By way of comparison, the

## Monthly Indicators (Continued)

U.S. unemployment rate remained unchanged at 4.9% in July. The 1.1% difference between the Arizona and U.S. unemployment rate is the highest since February 2010.

In June, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This workload was (1.1)% below the level during the prior month and in June 2015.

The **Average Hourly Earnings** received by these private sector workers was \$23.82, which is (1.4)% below the average in the prior month. However, June earnings were 3.8% above the average in June 2015, and represent the fifth consecutive month of 3.0% growth or more.

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the "regularly" unemployed, the measure also includes persons who are available to work but stopped looking for a job ("discouraged workers"), and persons who had to settle for part-time employment ("underemployed workers"). The Arizona rate averaged 11.3% from the second quarter of 2015 through the second quarter of 2016. This rate is (0.4)% below the reading issued for the prior period. The state's 11.3% rate was the sixth highest of any state. The national average for the measure was 9.9% during the quarter.

The Arizona Department of Administration (ADOA) reported that 22,155 **initial claims for unemployment insurance** were filed in July, a decrease of (3.7)% compared to the same month last year. This was the first year-over-year decrease of initial jobless claims since March 2016.

According to ADOA, the state had a total of 35,654 **claimants receiving unemployment insurance benefits** in July. This figure was 10.5% higher than in the prior month but (4.7)% below the July 2015 level. The number of claimants receiving jobless benefits for the month of July was the lowest in 10 years.

### Tourism

**Revenue per available room** was \$62.08 in June, which was 9.6% above the amount in June 2015. Year-to-date, revenue per available room is 3.9% above the 2015 year-to-date amount through June. Ridership during June through Phoenix Sky Harbor Airport was down (0.9)% compared to June 2015.

### State Agency Data

At the beginning of August 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 564,800 members. Total monthly enrollment increased by 14,900 members, or 0.8%, during July. The overall July increase was concentrated in the Traditional population of low income parents and children. Enrollment in this population increased 9,400, or 0.9%, in July. At a combined level of 1,255,800 members, the Traditional and Proposition 204 parent populations were 5.4% higher than a year ago.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In July 2016, the childless adult population increased by 4,200, or 1.4%. At 311,300, this population is 9.7% higher than a year ago. The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (300) in July and now totals 80,000 individuals. Enrollment is 17.6% higher than a year ago. The federal government is currently paying 100% of this cost through the end of calendar year 2016.

There were 18,516 **TANF recipients** in the state in July, representing a (8.2)% monthly caseloads decrease from June. The year-over-year number of TANF recipients has declined by (22.1)%. The 2015 statutory change to limit lifetime cash assistance to 12 months took effect in July. The prior cap was 24 months.

### **The Supplemental Nutrition Assistance Program**

**(SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In July, 968,398 people received food stamp assistance in the state, representing a 0.7% increase over June caseloads. Compared to July caseloads last year, the level of food stamp participation has declined by (3.2)%.

On July 31, 2016, ADC reported an **inmate population** of 42,854. This represents a 0.1% increase since last year, and a (0.2)% decrease since June. Laws 2016, Chapter 119 included a provision that ADC may open new private beds if the male inmate count reaches 39,762 by November 2016. As of July 31, 2016, ADC held 38,819 male prisoners, or 943 inmates below the threshold level.

The Department of Child Safety has updated figures for April 2016. Under the revision, **reports of child maltreatment** totaled 49,307 over the last 12 months, a reduction of (1.4)% over the prior year. The April figure for **children in out-of-home care** remains the same at 18,861, or 5.9% more than in April 2015. Compared to the prior month, the number of out-of-home children decreased by (0.3)%.

Table 5

## 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>
<b>Arizona</b>				
<u>Employment</u>				
- Regular Unemployment Rate	July	6.0%	0.2%	0.0%
- Total Unemployment Rate (discouraged/underemployed)	2 <sup>nd</sup> Q 2016	11.3%	(0.4)%	(2.5)%
- Initial Unemployment Insurance Claims	June	22,155	4.7%	(3.7)%
- Unemployment Insurance Recipients	June	35,654	10.5%	(4.7)%
- Non-Farm Employment - Total	July	2,640,800	(0.6)%	3.0%
Manufacturing	July	160,200	(0.6)%	0.5%
Construction	July	139,900	1.6%	8.4%
- Average Weekly Hours, Private Sector	June	34.4	(1.1)%	(1.1)%
- Average Hourly Earnings, Private Sector	June	\$23.82	(1.4)%	3.8%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	May	\$1.01 billion	(4.3)%	5.7%
Furniture/Home Furnishings	May	\$333.9 million	1.6%	6.1%
Building Material/Lawn & Garden	May	\$440.2 million	3.7%	(0.9)%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	June	24,233	1.4%	24.4%
Multi-family	June	10,529	13.7%	19.2%
- Maricopa County/Other, Home Sales (ARMLS)	June	6,593	(6.3)%	1.3%
Single-Family (Pending Sales)				
- Maricopa County/Other, Median Home Price (ARMLS)	June	\$239,900	0.0%	6.6%
Single-Family (Pending Sales)				
- Phoenix S&P/C Home Price Index (2000 = 100)	May	159.62	0.6%	5.4%
- Maricopa Pending Foreclosures	June	3,703	(3.5)%	(26.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	June	24,641	(4.7)%	5.6%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	June	3,720,986	(0.4)%	(0.9)%
- National Park Visitors	March	1,114,134	70.9%	(1.3)%
- State Park Visitors	April	259,046	(30.6)%	(0.5)%
- Revenue Per Available Hotel Room	June	\$62.08	(12.9)%	9.6%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3 <sup>rd</sup> Q 2016	88.4	10.5%	4.9%
- Arizona Coincident Index (July 1992 = 100)	June	221.45	0.0%	3.7%
- Arizona Leading Index -- 6 month projected growth	June	0.6%	(0.9)%	(4.5)%
- Arizona Personal Income	1 <sup>st</sup> Q 2016	\$274.7 billion	1.1%	4.8%
- 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	August 1 <sup>st</sup>	1,822,919	0.8%	6.6%
Acute Care Traditional		1,072,712	0.9%	1.5%
Prop 204 Childless Adults		311,302	1.4%	9.7%
Other Prop 204		183,041	0.5%	35.6%
Adult Expansion		80,014	(0.3)%	17.6%
Kids Care I		528	(3.8)%	(44.4)%
Long-Term Care – Elderly & DD		58,357	0.1%	2.2%
Emergency Services		116,965	0.6%	7.0%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	April 2016	49,307	(2.3)%	(1.4)%
DCS Out-of-Home Children	April	18,861	(0.3)%	5.9%
Filled Caseworkers (1,406 Budgeted)	June	1,366	11	82
- ADC Inmate Growth	July	42,854	(0.2)%	0.1%
- Department of Economic Security				
- TANF Recipients	June	18,516	(8.2)%	(22.1)%
- SNAP (Food Stamps) Recipients	June	968,398	0.7%	(3.2)%
- Judiciary Probation Caseload				
Non-Maricopa	May	18,525	(42)	229
Maricopa County	May	27,689	(45)	856
<b>United States</b>				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	2 <sup>nd</sup> Q, 2016 (Advance Estimate)	\$16.6 trillion	1.2%	1.2%
- Consumer Confidence Index (1985 = 100)	July	97.3	(0.1)%	6.9%
- Leading Indicators Index (2010 = 100)	June	123.7	0.3%	0.5%
- Consumer Price Index, SA (1982-84 = 100)	June	239.4	0.2%	1.0%
- Personal Consumption Price Index (2009 = 100)	June	110.6	0.1%	0.9%

## Summary of Recent Agency Reports

**AHCCCS – Report on the FY 2016 Hospital Assessment** – Pursuant to A.R.S. § 36-2901.08, the Arizona Health Care Cost Containment System (AHCCCS) is required to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion (adults from 100%-133% of the Federal Poverty Level) and the entire Proposition 204 population. In addition, A.R.S. § 36-2903.08 requires AHCCCS to report by August 1 annually the amount each hospital contributed to the assessment.

The assessment is calculated by multiplying the number of discharges reported on each hospital's 2011 Medicare Cost Report by the hospital's per-inpatient discharge rate. In FY 2016, the average discharge rate for all providers was approximately \$340. From July 1, 2015 to June 30, 2016, AHCCCS collected \$250.2 million in assessments from 72 hospitals. *Table 6* below lists how much each peer hospital contributed in FY 2016. The percentage splits for each hospital provider peer group roughly match the splits from FY 2015.

A.R.S. § 36-2903.08 additionally requires AHCCCS to report by August 1 annually the amount of estimated Medicaid payments each hospital received for services provided to populations whose coverage is funded by the assessment. Due to reporting lags between providers and AHCCCS health plan contractors, payments can take upwards of 3-6 months before paid claims appear in AHCCCS' database. Because of this lag, AHCCCS will report the FY 2016 estimated Medicaid payments each hospital received from coverage funded by the assessment by January 31, 2017. (Patrick Moran)

**Attorney General – Quarterly Reports on Legal Settlements** – Statute requires the Attorney General (AG) to report quarterly to the JLBC on the receipts to and disbursements from the Antitrust Enforcement

Revolving Fund, the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the fourth quarter of FY 2016, the AG deposited a total of \$583,000 into various consumer accounts. Of that amount, \$342,900 was deposited into the Antitrust Enforcement Revolving Fund, \$183,300 to the CPCF Revolving Fund, \$22,300 to the Restitution Subaccount, and \$34,500 to the Remediation Subaccount. No monies were deposited into the General Fund this quarter. Only the \$34,500 deposit to the Remediation Subaccount requires JLBC review prior to expenditure.

**Deposits to the Antitrust Enforcement Revolving Fund**  
The AG deposited \$342,900 in the fourth quarter of FY 2016 to the appropriated Antitrust Enforcement Revolving Fund to pay for antitrust enforcement expenses undertaken by the AG. The amount was derived from a multi-state settlement that was reached regarding allegations that Apple conspired with 5 of the nation's largest publishers to artificially raise the price of e-books between 2010 and 2012. The \$342,900 award amount represents both the reimbursement that the AG will receive for attorney's fees and investigative costs (\$192,900) and a civil penalty assessed against Apple (\$150,000). In addition to this amount, Arizona residents affected by the case will receive a total of approximately \$8.6 million directly from Apple as reimbursement for a portion of the purchase price of e-books bought during the applicable time period.

**Deposits to the CPCF Revolving Fund**  
The AG deposited \$183,300 in the fourth quarter of FY 2016 to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by

**Table 6**

<b>Hospital Provider Peer Group (# of hospitals) <sup>1/</sup></b>	<b>FY 2016 Contributions</b>	<b>% of Total</b>
Urban Acute Providers (28)	\$ 152,629,906	61.0%
Medium Pediatric Intensive General Acute Hospitals (6)	43,538,045	17.4%
Non-CAH Rural Acute Providers (13)	29,819,712	11.9%
Pediatric-Intensive General Acute Hospitals (2)	18,968,413	7.6%
Critical Access Hospital (CAH) Providers (11)	3,268,928	1.3%
Large Psychiatric Provider (4)	1,693,952	0.7%
Long-Term Care Provider (8)	286,000	0.1%
<b>TOTAL</b>	<b>\$ 250,204,956</b>	<b>100.0%</b>

<sup>1/</sup> In FY 2016, 72 hospitals participated in the hospital assessment.

## Summary of Recent Agency Reports (Continued)

statute. The amount was derived from small legal settlements.

### Deposits to the Consumer Restitution Subaccount

The AG deposited \$22,300 in the fourth quarter of FY 2016 to the non-appropriated Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$21,700 came from small legal settlements and the remainder came from interest income.

### Deposits to the Consumer Remediation Subaccount

The AG deposited \$34,500 in the fourth quarter of FY 2016 to the partially-appropriated Remediation Subaccount to rectify violations of consumer protection laws. These revenues were interest income on the fund balance. An expenditure plan must be reviewed by the JLBC before any funds are spent from this account. Those reviews have not yet occurred. (Eric Billings)

**Department of Child Safety (DCS) – Report on Performance Benchmarks** – Pursuant to a footnote in Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2, the Department of Child Safety (DCS) has submitted its fourth quarter report on the backlog, hiring, and expenditures.

### Fourth Quarter Benchmark - Filled FTE Positions

As outlined in Table 7, DCS had 1,356 filled direct line staff in the fourth quarter, or (50) FTE Positions below its benchmark of 1,406, but 86 FTE Positions higher than in March 2016.

### Fourth Quarter Benchmark - Reducing the Backlog

In June 2014, DCS set benchmarks for reducing the backlog. As shown in Table 8, DCS activated all 13,024 backlog cases, but 676 cases had relapsed into inactivity as of June 2016. In total, DCS had 8,223 backlog cases as of June 2016 (including 7,547 post-June 2 cases). While the benchmark is 1,000 cases, DCS did reduce the backlog by 2,528 cases since March.

### Expenditures on Personal Services

DCS spent \$29.0 million on salaries including overtime for 2,728 FTE Positions in the fourth quarter of FY 2016.

### Fourth Quarter Benchmark - Expenditures to Reduce the Backlog

The FY 2016 budget for backlog elimination was \$12.4 million General Fund and \$3.9 million from Federal Funds, totaling \$16.3 million. DCS states that the cost of placement services for backlog cases will exceed appropriated backlog resources by \$2.4 million in FY 2016. In the fourth quarter of FY 2016, DCS estimates expenditures of \$3.1 million on backlog reduction for support services and placements. The expenditure figure does not include the cost of caseworker overtime to investigate backlog cases. (Ben Beutler)

**Department of Child Safety (DCS) – Semi-Annual Progress Report** – Pursuant to A.R.S. § 8-818, DCS has submitted its semi-annual financial and program accountability report covering the period of January 2016 through June 2016.

According to the report, out-of-home placements decreased by (2.5)% from 18,912 in December to 18,434

**Table 7**

### Progress in Hiring Caseworkers by Quarter

<u>Direct Line Staff Type</u>	<u>Benchmark</u>	<u>Actuals</u>		
		<u>Dec. 31, 2015</u>	<u>Mar. 31, 2016</u>	<u>June 27, 2016</u>
Case-Carrying Caseworkers	1,190	955	923	1,019
Caseworkers in Training	140	220	273	263
Hotline Staff	76	74	74	74
<b>Total</b>	<b>1,406</b>	<b>1,249</b>	<b>1,270</b>	<b>1,356</b>

**Table 8**

### Progress Reducing the Backlog by Quarter

<u>Remaining Backlog Cases</u>	<u>Benchmark</u>	<u>Actuals</u>		
		<u>Dec. 31, 2015</u>	<u>Mar. 31, 2016</u>	<u>June 27, 2016</u>
Total Backlog Cases	1,000	14,470	10,751	8,223
Relapsed June 2, 2014 Backlog Cases	0	1,633	1,026	676
Post-June 2, 2014 Backlog Cases	1,000	12,837	9,725	7,547

## Summary of Recent Agency Reports (Continued)

Table 9

### Caseworker Workload

	Dec. <u>2008</u>	Dec. <u>2009</u>	Dec. <u>2010</u>	Dec. <u>2011</u>	Dec. <u>2012</u>	Dec. <u>2013</u>	Dec. <u>2014</u>	Dec. <u>2015</u>	June <u>2016</u>
Investigations	15	15	15	15	15	16	16	25	18
In-Home Cases	28	27	30	32	33	47	42	43	44
Out-of-Home Children	24	23	25	27	36	25	29	30	30
Percent Above Workload Standard	9%	9%	15%	22%	48%	28%	37%	54%	44%
Total Case-Carrying Caseworkers	818	761	764	781	750	983	1,019	953	975
Caseworkers Required by Standard	890	829	879	955	1,107	1,263	1,397	1,466	1,406

in June. Caseloads are above the department's goals and caseworker turnover was approximately 33.8%. Employee satisfaction increased slightly to 3.6 rating on a 5 point scale. The contents of this report, covering the last 6 months of FY 2016, are summarized below.

- The Training Academy had 334 new caseworkers in training as of June 2016. During the time period from January 2016 to June 2016, 238 caseworkers graduated from the Training Academy, or 164 more graduates than in the previous 6-month period.
- DCS reports that annualized caseworker turnover during January - June 2016 was 33.8%, down from a 36.2% annualized rate in the last report.
- The percent of Office of Administrative Hearings decisions affirming DCS case findings decreased significantly from 73.2% to 52.7%. The percent of complaints validated by the Ombudsman decreased from 21.6% to 18.3%.
- The number of congregate care placements decreased from 2,693 to 2,684, a (0.3)% decrease. DCS also reports that from January to June the number of children aged 0-3 in shelter care declined from 49 to 31, the number of children aged 0-6 in group homes increased from 87 to 107, and the number of children in shelter care for more than 21 days increased from 830 to 946.
- As of June 2016, workload per caseworker remains considerably higher than the revised caseload goals established during the May 2014 Special Session, with investigations at 18 (goal: 13), in-home cases at 44 (goal: 33), and out-of-home children at 30 (goal: 20).

Table 9 provides a historical view of workload by caseworker responsibility since 2008; it also displays how much workload exceeds the caseload standard in the "percent above workload standard" line. (Ben Beutler)

**Department of Child Safety – Independent Third-Party Consultant** – At its June 2016 meeting, the Joint Legislative Budget Committee favorably reviewed a proposal to expend \$300,000 from the Automation Projects Fund to develop multiple Requests for Proposals for the Children's Information Library and Data Source (CHILDS) system replacement project.

The June 2016 favorable review included a provision requiring DCS to submit to JLBC a plan for hiring an independent third-party consultant for the remainder of the CHILDS replacement project. In its July report to JLBC, DCS planned on hiring 3 different independent verification and validation (IV&V) consultants at a cost of \$3.8 million to \$5.3 million.

Because of concerns that big picture perspective may be lost with 3 different IV&V consultants, DCS recently changed its plan and decided to hire a vendor from the state contract list to act as a single IV&V vendor for the entire project.

Under the new plan, the vendor will perform the standard IV&V function required for other large state automation projects, but the vendor will not provide quality management for the project as DCS had previously proposed. Given this more limited scope of work, the estimated cost has declined from the previous cost range of \$3.8 million to \$5.3 million to a new cost range of \$400,000 to \$1.6 million. (Ben Beutler)

**Department of Child Safety (DCS) – Monthly Report on Hiring** – Pursuant to a FY 2017 General Appropriation Act footnote, DCS has reported on its progress in hiring and retaining child safety staff through July 2016. (See Table 10 on the next page).

**Direct Line Child Safety Staff** – Since January 2016, the number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) increased by 71 to 1,366. The

## Summary of Recent Agency Reports (Continued)

budgeted staffing level is 1,406. The number of staff directly working cases increased by 40 FTE Positions to 975. The monthly turnover rate for direct line staff increased from January to July, going from 2.8% in January 2016 to 3.3% in July 2016. From June to July, the number of direct line staff grew by 11.

*Non-Direct Line Child Safety Staff* - Since January 2016, non-direct line child safety staff has decreased by (76) to 1,343. The budgeted staffing level is 1,417 excluding Attorney General positions. One of the most significant changes in filled positions was associated with case aides, which declined by (38) positions from January. The turnover rate for non-direct line staff increased from a January 2016 turnover rate of 1.9% to a July 2016 turnover rate of 3.4%. From June to July, the number of non-direct line staff decreased by (24).

### **Department of Economic Security – Report on Provider Rate Increases for Developmental Disabilities Programs**

– Pursuant to a footnote in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the Department of Economic Security (DES) has provided a report on its plans to distribute \$9.1 million for an across-the-board 1% increase in reimbursement rates for home and community-based services (HCBS) providers serving clients enrolled in the Division of Developmental Disabilities (DDD).

The report references the DDD provider ratebook, which displays the changes in provider rates for each DDD service between FY 2016 and FY 2017. The ratebook shows that most HCBS services received a 1% rate increase effective July 1, 2016. In accordance with the General Appropriation Act footnote, DES did not apply the rate increase to services that already had reimbursement rates equal to 100% of the benchmark rate in FY 2016. DES also did not apply the rate increase to room and board costs. (Patrick Moran)

### **Economic Estimates Commission – Report on the Budget Stabilization Fund**

– Pursuant to A.R.S. § 35-144F, the Economic Estimates Commission (EEC) is annually required to calculate the amount of monies that may be deposited to or withdrawn from the Budget Stabilization Fund (BSF). The EEC estimate is calculated based on a formula that compares the growth rate of real adjusted Arizona personal income in the most recent calendar year to the average in the last 7 calendar years (hereafter referred to as the “trend” growth rate).

Since the calendar year 2015 growth rate exceeded the trend growth rate by 2.65%, EEC reported on May 26, 2016 that the formula recommended a BSF deposit of \$236.8 million at the end of FY 2016. EEC calculations under the formula, however, do not result in any automatic deposits or withdrawals, as they must be

**Table 10**

#### **Change in the Department of Child Safety Staff since January 2016**

	January 2016	July 2016	Change thru January 2016
<b>Direct Line Staff</b>			
Caseworkers	935	975	40
Hotline Staff	74	74	0
Staff in Training	<u>286</u>	<u>317</u>	<u>31</u>
<b>Subtotal - Direct Line</b>	<b>1,295</b>	<b>1,366</b>	<b>71</b>
<b>Non-Direct Line Staff</b>			
Asst. Program Managers	40	38	(2)
Unit Supervisors	217	211	(6)
Case Aides	280	242	(38)
OCWI	75	82	7
Contracts and Procurement	17	16	(1)
Child Safety Support Admin.	54	86	32
CMDP Administration	56	75	19
Inspections Bureau	35	48	13
Other Non-Direct Line Staff	<u>621</u>	<u>545</u>	<u>(76)</u>
<b>Subtotal - Non-Direct Line</b>	<b>1,395</b>	<b>1,343</b>	<b>(52)</b>
<b>Grand Total</b>	<b>2,690</b>	<b>2,709</b>	<b>19</b>

## Summary of Recent Agency Reports (Continued)

authorized by legislative action. In practice, the formula has served only as a general guideline and has rarely been used to determine the actual deposit or withdrawal. The budget enacted in May 2016 did not provide for any deposit into the BSF in FY 2016.

The current BSF balance is \$423 million. This balance has declined from its previous levels of approximately \$460 million due to the temporary use of BSF monies. Section 114 of the FY 2017 General Appropriation Act authorized a bridge loan for both the Department of Child Safety and Department of Economic Security and allowed each agency to use up to \$35 million of BSF monies to provide funding for reimbursement grants. This funding is required to be paid back by September 1, 2016. (Hans Olofsson)

**Department of Education – Report on 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 review was released on August 9, 2016.

The prior review observed that as of March, ADE had transitioned 400 of the more than 700 school districts and charter schools from the legacy Student Accountability Information System (SAIS) platform to the Arizona Education Data Standards (AzEDS).

The current review notes that as of June, 111 still had yet to transition, but that more than half of those remaining were scheduled to transition to AzEDS by July 6, and that districts' concerns about the transition to AzEDS and current year funding "are subsiding." A further update for the number of schools transmitting data via AzEDS for FY 2017 is not yet available, as not all schools have resumed classes for the fall. Consistent with ADE's FY 2017 expenditure plan, the report observes that plans to overhaul the school payment calculation portions of SAIS have again been delayed, and that "as an interim measure, the AzEDS data will move into SAIS [so that] ADE can continue to use the current [school finance calculation output] reports."

Regarding the state student information system (SIS) program, the report commends ADE for successfully

applying downward pressure on private SIS vendors' prices via the state SIS. However, the third-party reviewer's most recent site visit indicates that a small number of districts are being served by a consortium run out of Northern Arizona University, which is functioning as "a quasi-competitor to the ADE SIS opt-in services" by securing SIS services through the same vendor that provides the state SIS.

The report echoes concerns raised in the previous quarterly review: ADE has had to expend "extra time and effort . . . tracking down" certain supplemental services such as trainings from the state SIS vendor after they were paid for. The report notes that the existing contract with the vendor expired on July 11, 2016, however, and that the new contract will withhold payment for supplemental services until after those services are rendered.

The review observes that development of data governance protocols regarding data privacy have moved from the IT department to the office of ADE's Chief of Staff, and that ADE is working to minimize the number of copies of sensitive data in existence.

The report observes "as-yet untapped opportunities through AzEDS to consolidate and reduce the data collections from districts," including career and technical education, Title I, free and reduced price lunch, and Empowerment Scholarship Account data.

Finally, the report notes that "strategies to leverage" the newly-created Department of Education Intellectual Property Fund (which allows ADE to sell or lease intellectual property it develops) "have not been identified." (Matt Beienburg)

**JLBC Staff – Public Programs Eligibility Report** – As enacted in the 2006 election, Proposition 300 limits participation in certain state programs to citizens, legal residents, or other persons lawfully present in the United States, and requires semi-annual reports to the Joint Legislative Budget Committee. Below is a summary of the reports:

**Universities** – At the 3 universities, 155,607 students registered for the spring 2016 semester. Of the total students registered, the universities were able to verify the legal immigration status of 142,818 students. Additionally, the universities reported that 16,198 of these students did not require verification because they have either not requested, or received in-state tuition or state-supported financial aid. The universities reported that no students were unverifiable due to their inability to provide the requisite documentation.

## Summary of Recent Agency Reports (Continued)

Department of Economic Security – The department reported that 7,571 applications were received for child care assistance during the reporting period of December 1, 2015 to May 31, 2016. Of this number, 12 were denied because criteria for citizenship or legal residency were not met.

Community Colleges – Statewide, the Community Colleges reported a total of 197,447 students classified as in-state for the spring 2016 semester. They reported 393 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 76,415 students applied for financial aid. Of those who applied, the community colleges reported that 44 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education – The department reported that 9,304 people applied for instruction in Arizona Adult Education during the reporting period of January 1, 2016 to June 1, 2016. Of this amount, 945 were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. The Arizona Adult Education program is funded with a combination of state and Federal Funds. (Morgan Dorcheus)

**Department of Public Safety – Report on 3% Pay Adjustment** – Pursuant to a footnote in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117), the Department of Public Safety (DPS) is reporting on its FY 2017 pay adjustment plan. The FY 2017 General Appropriation Act included \$4,596,400 General Fund and \$246,700 in other appropriated fund monies for a 3% pay raise for all sworn officers in DPS and all civilian staff within the Highway Patrol Division of DPS. Pursuant to statute, DPS reports that the pay raises for sworn officers were approved by the Law Enforcement Merit System Council at their June 27, 2016 meeting. These 3% increases are included in *Table 11* below.

Since the civilian pay raise is exclusive to the Highway Patrol Division, DPS has added a 3% stipend to each civilian employee's pay. If the individual transfers to another division within DPS they will lose the stipend.

There are currently 1,172 sworn officers within DPS and 74 civilian staff within the Highway Patrol Division. (Eric Billings)

**Arizona Department of Transportation – Annual Report on Service Arizona Retained Fees** – A FY 2017 General Appropriation Act footnote requires the Arizona Department of Transportation (ADOT) to report to the Legislature on the state's share of fees retained by the Services Arizona vendor in the prior fiscal year.

Laws 2011, Chapter 190 allowed ADOT to negotiate through a competitive bidding process with vendors for support of ServiceArizona (the state's registration renewal website). Previously, compensation for the ServiceArizona vendor was detailed in statute. ADOT is currently in the midst of a 4.5-year contract with the vendor that has an option for up to 5 one-year extensions.

Under the new ServiceArizona contract, the website vendor agreed to compensation equal to roughly half the fees outlined in A.R.S. § 28-5101. The other half of the fees in A.R.S. § 28-5101 belong to the state. The state's share of the fees are retained and managed by the ServiceArizona vendor. The ServiceArizona vendor is paid a 1% administrative fee for managing the state's share of fees and disburses funds directly to vendors on behalf of the state, as directed by ADOT.

In FY 2016, the state's half of the fees totaled \$11.9 million. The majority of these revenues (\$7.2 million) were spent on the Motor Vehicle Modernization automation project, which updates the Motor Vehicle Department (MVD) computer system. The new system will provide MVD customer service representatives with a suite of new applications for motor vehicle transactions. The cost of the Motor Vehicle Modernization project is estimated to be \$56.0 million. The project began in FY 2014 and is expected to be complete in FY 2020. Besides funding for the Motor Vehicle Modernization project, the rest of the \$11.9 million was spent as follows:

<b>Position</b>	<b>Old Salary Range</b>	<b>New Salary Range</b>
Cadet Trooper	\$ 39,101	\$ 40,275
State Trooper	45,619 – 63,913	46,988 – 65,830
Sergeant	70,304 – 79,901	72,413 – 82,298
Captain	102,736	105,818
Major	114,256	117,684

## Summary of Recent Agency Reports (Continued)

- \$1.4 million for data conversion/cleansing and analytics.
- \$908,600 for legacy system support.
- \$761,400 for portal enhancements.
- \$445,700 for ADOT network user authentication protocol.
- \$328,700 for a customer flow management system.
- \$169,600 for a fuel tax licensing application.
- \$99,600 for contract administration.

(Ben Beutler)

**Arizona Department of Transportation – Annual Report on Motor Vehicle Division Wait Times** – A FY 2016 General Appropriation Act footnote requires the Arizona Department of Transportation (ADOT) to report to the Legislature annually on customer wait times in Motor Vehicle Division (MVD) field offices and vehicle registration renewal by mail turnaround times. In metropolitan areas, the average customer wait time from receiving a ticket until arriving at the counter decreased from 35.6 minutes in FY 2015 to 32.2 minutes in FY 2016. Average customer wait times in metropolitan areas ranged from 19.3 minutes in the Apache Junction office to 41.1 minutes in the Glendale office in FY 2016. These same offices were the low and the high in FY 2015.

In non-metropolitan areas, the average customer wait time increased from 16.4 minutes in FY 2015 to 19.1 minutes in FY 2016.

The number of customers visiting MVD field offices declined by (10.4)% from 3.3 million customer visits in FY 2015 to 2.9 million in FY 2016, but due to a replacement of its queueing system, FY 2016 figures are under reported.

The average turnaround time for vehicle registration renewal by mail decreased by (6.9)% from 3.1 days in FY 2015 to 2.9 in FY 2016. Beginning in January 2016, vehicle registration renewal by mail has been performed by a private third-party partner.

As outlined in *Table 12*, wait times and renewal times in FY 2016 are higher than they were in FY 2012. This increase in wait time may be partially attributed to the introduction of the Photo First project in FY 2013. The Photo First project is a fraud prevention measure requiring all driver license and identification card customers to take a photo upon arrival to an MVD office. (Ben Beutler)

**Arizona Board of Regents – Report on Private Leases** - Pursuant to A.R.S. § 41-792D, the Arizona Board of Regents (ABOR) is biennially required to submit a report on all approved office leases that exceeded the Lease Cost Review Board's (LCRB) estimated average cost per square foot for privately-owned office space during the prior 2 years. According to the report, ABOR approved the following new or renewed lease contracts:

- 12 leases in FY 2015 that exceeded the LCRB's \$19.40 average cost per square foot in FY 2015.
- 7 leases in FY 2016 that exceeded the LCRB's \$19.90 average cost per square foot in FY 2016.

Including lease contracts continuing from prior years that did not require renewal, 46 university leases exceeded the LCRB's average cost per square foot as of FY 2016. (Matt Beienburg)

**Arizona Board of Regents – Report on University Retention and Graduation Rates** – Pursuant to A.R.S. § 15-1626, the Arizona Board of Regents (ABOR) is required to submit an annual report on retention and graduation rates at each university campus. Prior to 2013, ABOR reported retention and graduation rates based on the federal government's definition, which tracks the outcomes of first-time, full-time, degree-seeking students after 1 year for retention rates and after 6 years for graduation rates.

ABOR reports that this methodology has limited utility because it excludes outcomes of students who begin at an Arizona university, but transfer to another in-state or out-of-state institution to continue their education.

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Metro Wait Time (average minutes)	26.2	31.6	25.3	35.6	32.2
Non-Metro Wait Time (average minutes)	13.9	14.9	16.5	16.4	19.1
Renewal by Mail (average days)	1.6	1.1	1.3	3.1	2.9
Customer Visits (in millions)	NA	3.4	3.4	3.3	2.9
MVD Staff	NA	641	648	604	585

## Summary of Recent Agency Reports (Continued)

- Fall 2015 retention rates reflect the percentage of first-time, full-time, degree-seeking students who initially enrolled in Fall 2014 and who re-enrolled in the same university in fall 2015.
  - Arizona State University (ASU) 84%; Northern Arizona University (NAU) 74%; and the University of Arizona (UA) 80%.
- Six-year graduation rates reflect the percentage of first-time, full-time, degree-seeking students who received their degree within 6 years of their initial Fall enrollment at the same university. The report shows the percentage of students who enrolled in Fall 2009 who graduated from the same university within 6 years.
  - ASU 65%; NAU 52%; UA 61%.

Rather than using the federal definition, ABOR utilizes a metric entitled the Success and Progress Rate, which shows the outcomes of the same cohort of students who graduated at any higher education institution, in addition to those students who are still enrolled in higher education after 6 years. The percentage of students who enrolled in an Arizona university in Fall 2009 who either graduated from the same university within 6 years, graduated from another university within 6 years, or are still enrolled in higher education was 83% for ASU, 77% for NAU, and 88% for UA. The systemwide average Success and Progress Rate, 84%, was made up of the following:

- Students graduating from their original institution within 6 years: 61%
- Students graduating from another postsecondary institution within 6 years: 12%
- Students still enrolled in higher education after 6 years: 11%

(Matt Beienburg)

**Universities – Report on One-Time Appropriations** – Pursuant to a footnote in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 149), the universities are to report to the Joint Legislative Budget Committee (JLBC) by August 1, 2016 on the intended use of the following one-time General Fund appropriations in FY 2017:

- Arizona State University (ASU): \$7.0 million
- Northern Arizona University (NAU): \$4.0 million
- University of Arizona (UA): \$8.0 million

Additionally, Section 149 requires review by the Joint Committee on Capital Review (JCCR) of any expenditure of these monies for capital improvements. ASU has reported that it intends to use its appropriation for salaries and benefit costs for new faculty hiring.

NAU intends to use its appropriation to provide infrastructure improvements to its underground utilities, academic buildings, campus network wiring, and fire life safety systems.

UA intends to use its appropriation to design, renovate, and equip a facility in Oro Valley, AZ for a new Veterinary Medicine program. The university was recently denied accreditation for the Veterinary program in July but is appealing the decision.

Our office has requested additional detail on all university plans. (Matt Beienburg)

## July Spending

July 2016 General Fund spending was \$2.22 billion, which represents a decrease of \$(198.1) million below July 2015. (See Tables 13 & 14). The decline in spending is the result of a technical issue relating to the timing of Medicaid spending.

- Typically during July, the State can see large General Fund spending amounts and significant fluctuations in spending for technical reasons.
- In July the state typically will pay the entire K-12 rollover which has been deferred from the prior year, as can be seen in the ADE spending level of \$1.24 billion for the month.
- In addition during July, Medicaid funding which has been appropriated to various agencies is transferred to AHCCCS, which is the state's official Medicaid agency that draws down federal matching funds.
- In FY 2017, the only agency receiving significant Medicaid funding outside of AHCCCS is DES, which has resulted in the agencies' high spending level of \$416.2 million for the month due to this Medicaid transfer.
- Prior to FY 2017, DHS used to administer the state's Medicaid Behavioral Health program. Beginning in FY 2017, this responsibility has been shifted to AHCCCS. Due to this shift, DHS will no longer be making its beginning of the year Medicaid transfer, causing DHS spending to decline by \$(416.4) million compared to July 2015.

**Table 13**

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

Agency	Change From			YTD Change from FY 16
	<u>July 16</u>	<u>July 15</u>	<u>Year-to-Date</u>	
AHCCCS	190.3	65.3	190.3	65.3
Corrections	93.1	23.9	93.1	23.9
Child Safety	21.0	(5.9)	21.0	(5.9)
Economic Security	416.2	73.2	416.2	73.2
Education	1,242.5	37.0	1,242.5	37.0
Health Services	6.7	(416.4)	6.7	(416.4)
Public Safety	22.3	0.8	22.3	0.8
School Facilities Board	0.1	0.1	0.1	0.1
Universities	49.2	7.8	49.2	7.8
Leaseback Debt Service	84.1	0.0	84.1	0.0
Other	<u>99.3</u>	<u>16.1</u>	<u>99.3</u>	<u>16.1</u>
<b>Total</b>	<b>2,224.8</b>	<b>(198.1)</b>	<b>2,224.8</b>	<b>(198.1)</b>

<b>General Fund Spending</b>				
<b>(\$ in Thousands)</b>				
<b>Agency</b>	<b>July 16</b>	<b>Change from July 15</b>	<b>Year-to-Date</b>	<b>YTD Change from FY 16</b>
Dept. of Admin./Automation Projects Fund	13,398.8	12,691.4	13,398.8	12,691.4
ADOA – Sale/Leaseback Debt Service	84,117.4	2.8	84,117.4	2.8
Office of Administrative Hearings	52.5	5.0	52.5	5.0
Commission of African-American Affairs	10.8	4.2	10.8	4.2
Department of Agriculture	755.0	125.4	755.0	125.4
AHCCCS	190,295.0	65,288.8	190,295.0	65,288.8
Attorney General	1,683.6	(34.9)	1,683.6	(34.9)
State Board of Charter Schools	86.9	31.8	86.9	31.8
Department of Child Safety	20,981.6	(5,911.4)	20,981.6	(5,911.4)
AZ Commerce Authority	1,791.7	(416.6)	1,791.7	(416.6)
Community Colleges	12,357.3	51.1	12,357.3	51.1
Corporation Commission	40.6	(3.0)	40.6	(3.0)
Department of Corrections	93,133.8	23,927.6	93,133.8	23,927.6
AZ State Schools for the Deaf & Blind	1,905.7	(560.6)	1,905.7	(560.6)
Department of Economic Security	416,226.9	73,239.3	416,226.9	73,239.3
State Board of Education	100.0	(54.0)	100.0	(54.0)
Department of Education	1,242,484.3	37,029.2	1,242,484.3	37,029.2
DEMA	571.0	423.0	571.0	423.0
Office of Equal Opportunity	0.1	(9.5)	0.1	(9.5)
State Board of Equalization	47.1	18.4	47.1	18.4
Board of Executive Clemency	56.2	(12.7)	56.2	(12.7)
Department of Financial Institutions	206.2	(0.6)	206.2	(0.6)
Department of Fire, Bldg and Life Safety	0.7	(93.9)	0.7	(93.9)
Department of Forestry and Fire Management	873.1	462.2	873.1	462.2
Department of Gaming	1,779.5	1,764.6	1,779.5	1,764.6
Governor/OSPB	803.7	32.8	803.7	32.8
Department of Health Services	6,698.9	(416,369.8)	6,698.9	(416,369.8)
Arizona Historical Society	337.6	0.3	337.6	0.3
Prescott Historical Society of AZ	74.1	(16.3)	74.1	(16.3)
Department of Housing	55.9	55.9	55.9	55.9
Independent Redistricting Comm.	122.5	57.0	122.5	57.0
Department of Insurance	329.8	(3.6)	329.8	(3.6)
Judiciary				
Supreme/Superior Court	16,707.3	192.5	16,707.3	192.5
Court of Appeals	1,022.2	(35.6)	1,022.2	(35.6)
Department of Juvenile Corrections	3,113.2	10.0	3,113.2	10.0

Table 14 (Continued)

Agency	July 16	Change from July 15	Year-to-Date	YTD Change from FY 16
State Land Department	779.5	80.5	779.5	80.5
Legislature				
Auditor General	1,460.2	1,431.9	1,460.2	1,431.9
House of Representatives	891.5	296.5	891.5	296.5
Joint Legislative Budget Comm.	180.6	12.7	180.6	12.7
Legislative Council	647.3	(170.7)	647.3	(170.7)
Senate	642.4	(31.9)	642.4	(31.9)
Mine Inspector	93.8	0.3	93.8	0.3
Nav. Streams & Adjudication	9.5	1.9	9.5	1.9
Arizona State Parks Board	-	(272.8)	-	(272.8)
Phoenix Convention Center	20,449.0	-	20,449.0	-
Comm. for Postsecondary Ed.	44.0	(44.0)	44.0	(44.0)
Department of Public Safety	22,315.5	832.6	22,315.5	832.6
Public Safety Personnel Retirement System	6,000.0	-	6,000.0	-
Radiation Regulatory Agency	290.9	(3.3)	290.9	(3.3)
Real Estate Department	215.4	60.3	215.4	60.3
Department of Revenue	1,856.3	(3,302.2)	1,856.3	(3,302.2)
School Facilities Board	109.0	89.6	109.0	89.6
Secretary of State	4,079.6	3,482.2	4,079.6	3,482.2
Tax Appeals Board	17.1	0.5	17.1	0.5
Office of Tourism	1,777.6	(708.7)	1,777.6	(708.7)
Governor's Office on Tribal Relations	7.1	6.0	7.1	6.0
Universities				
Board of Regents	187.5	(4,953.3)	187.5	(4,953.3)
Arizona State University	23,743.7	8,068.3	23,743.7	8,068.3
Northern Arizona University	5,247.0	127.9	5,247.0	127.9
University of Arizona	20,049.2	4,569.9	20,049.2	4,569.9
Department of Veteran Services	486.4	169.4	486.4	169.4
Department of Water Resources	845.2	209.0	845.2	209.0
Department of Weights & Measures	-	(70.1)	-	(70.1)
Other - JP Salaries Distribution	124.2	101.1	124.2	101.1
<b>Total</b>	<b>2,224,770.3</b>	<b>(198,125.6)</b>	<b>2,224,770.3</b>	<b>(198,125.6)</b>

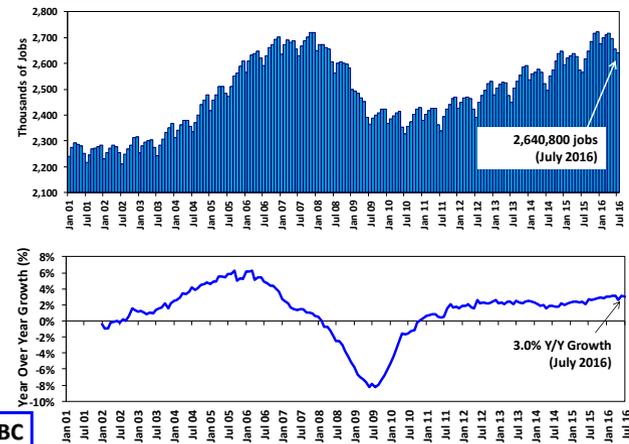
## Arizona Economic Trends

August 2016  
Appendix A

Page:

- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits
- 8.....Economic Activity Index

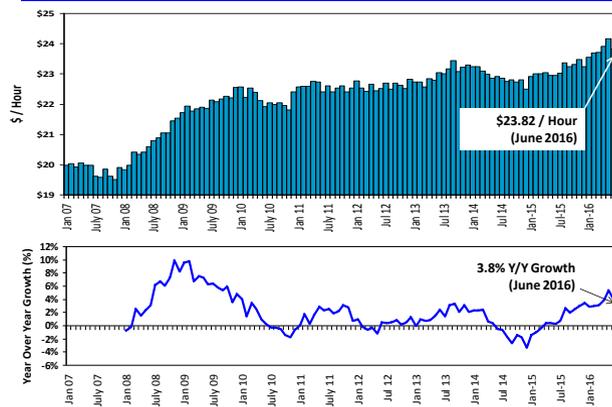
## Total Non-Farm Employment



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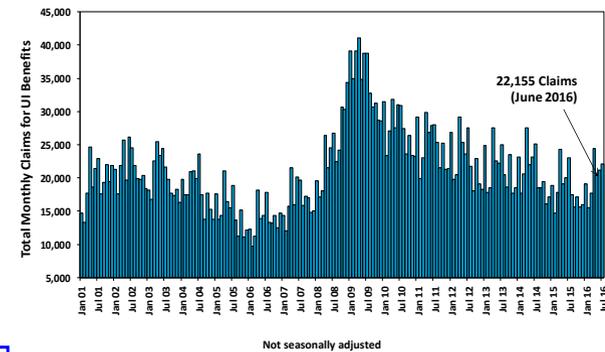
## Average Hourly Earnings – Private Sector



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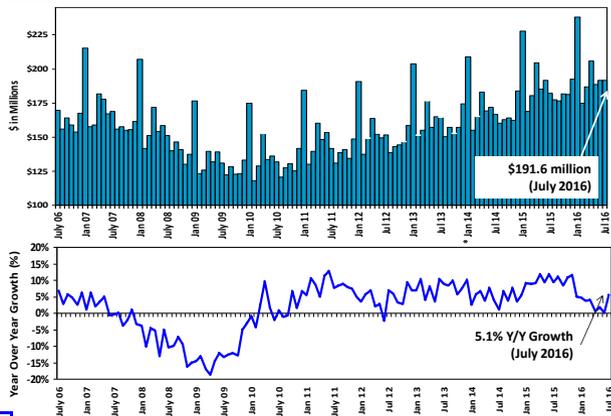
## Initial Claims for Unemployment Insurance



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## State Sales Tax Collections – Retail Category



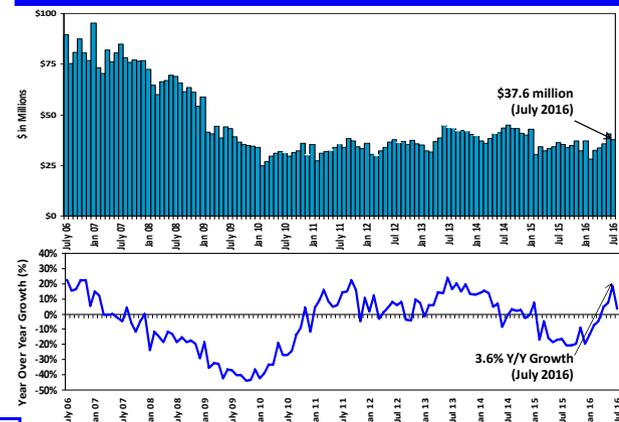
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Excludes temporary 1 ¢ sales tax

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

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## State Sales Tax Collections – Contracting Category

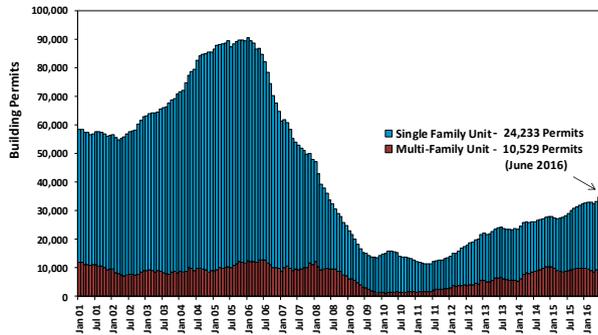


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Excludes temporary 1 ¢ sales tax

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## Residential Building Permits

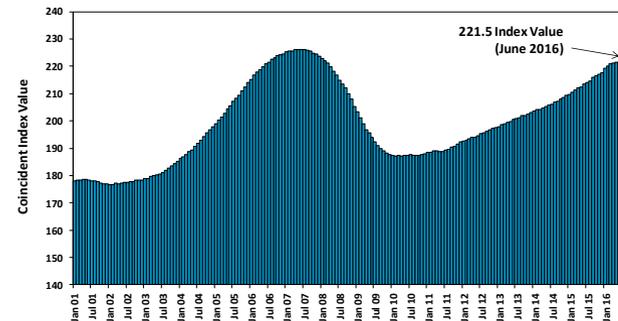


JLBC

12-Month Moving Sum

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## 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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