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**“Year-to-date,
base General
Fund revenues
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Summary

January 2016 General Fund revenues of \$891.7 million were 4.4% above the prior year, and were \$(5.7) million below the Baseline forecast. The mixed results were due to slower Sales Tax growth offset by larger than expected growth in Individual Income Tax payments.

Beginning with the February report, the *Monthly Fiscal Highlights* compares actual revenue collections to the Baseline consensus forecast published last month. The Baseline forecast is based on estimates that were presented at the January Finance Advisory Committee meeting.

January Sales Tax revenues were 0.5% above the prior year and \$(15.7) million below forecast. After accounting for Department of Revenue technical adjustments, January Sales Tax collections were 1.9% above last year.

Based on December sales during the holidays, January is the state's largest collections month for the category. The poor Sales Tax performance is likely the result of minimal growth in retail sales, as evidenced by nationwide reports of weaker than expected purchasing during the holidays.

The state did, however, see forecast gains in the Individual Income Tax category. Payments increased significantly during the month, posting a 27.5% gain compared to the prior year. This growth was partially offset by an increase in refunds, as the state begin processing returns earlier in 2016 compared to last tax season. In total, Individual Income Tax was \$12.4 million above forecast.

Year-to-date, base General Fund revenues are 2.9% above the prior year, and as noted above are \$(5.7) million below the Baseline forecast.

In comparison to revenue collections of \$891.7 million, January 2016 spending was \$569.4 million, which is a decrease of \$(113.6) million from the prior year.

Fiscal year-to-date, General Fund revenues of \$5.39 billion have been offset by \$6.37 billion of expenditures.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-February 2016 is \$2.1 billion. In addition, the state's Budget Stabilization Fund has a balance of \$459.7 million.

State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2016 state appropriations (both General and Other Funds) are \$15.47 billion, or 5.66% of personal income. Under the JLBC Baseline, projected FY 2017 spending is \$15.52 billion, which would be 5.52% of personal income.

Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2017, as required by A.R.S. § 41-1276. Due to the growth in values for new properties being higher than expected, the cost of the FY 2017 Basic State Aid formula will be \$(5.8) million less than the JLBC Baseline.

The purpose of TNT is to offset the annual change in the value of existing property statewide with proportional Qualifying Tax Rate and State Equalization Tax Rate changes.

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on February 22, 2016.

January Revenues

	FY 2016 Collections	Difference From Budget Forecast	Difference From FY 2015
January	\$ 891.7	\$ (5.7)	\$ 37.4
Year-to-Date	\$ 5,390.9	\$ (5.7)	\$ 176.3

Sales Tax collections of \$402.1 million were 0.5% above January of last year but (3.7)% below forecast for the month. Year to date, sales tax collections are up by 2.6% compared to last year and \$(15.7) million below forecast.

The Department of Revenue reported that technical adjustments were made to retail TPT and use tax in January. Absent these adjustments, total sales tax collections would have increased by 1.9%, year over year.

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

Among the major TPT categories, only retail and utility sales increased compared to the same month in the prior year. Absent the aforementioned technical adjustment, the retail tax would have increased by 5.3% rather than the reported growth of 4.7%. Similarly, the use tax was reported to have decreased by (4.1)% in January. Absent the technical adjustment, however, use tax would have grown by 10.8%.

	January	YTD
Retail	4.7%	8.4%
Contracting	(13.8)%	(17.3)%
Use	(4.1)%	(1.6)%
Restaurant & Bar	(1.7)%	3.8%
Utilities	2.7%	2.0%

Individual Income Tax net revenues were \$446.4 million in January, which were \$13.1 million more than the prior year and \$12.4 million above forecast for the month. Year-to-date, revenue has grown 5.0% over the prior year.

As indicated in Table 3, withholding increased by 2.2% for the month and was \$3.1 million above the forecast. Year-to-date withholding collections are 2.7% above FY 2015.

January estimated and final payments of \$117.2 million were 27.5% above last year and \$26.5 million above the forecast. Year-to-date, payments are 24.0% above those collected during the same period of FY 2015. Strong payment and weak withholding collections year-to-date continues the pattern of collections seen in FY 2015.

January Individual Income Tax refunds totaled \$(27.6) million – this compares to \$(0.7) million in January 2015 and a forecasted amount of \$(10.4) million. The increase in refunds occurred due to a delay that the Department of Revenue experienced in January 2015 in issuing tax season refunds.

	January	YTD
Withholding	2.2%	2.7%
Estimated/Final Payments	27.5%	24.0%
Refunds	N/A%	30.5%

Corporate Income Tax net collections were \$21.3 million in January, which was 5.7% more than the prior year. Collections for the month were \$2.3 million above the forecast. Year to date, collections are \$(47.2) million below prior year collections. This decrease is probably the result of the decline in the Corporate Income Tax rate.

The **Lottery Commission** reports that December ticket sales were \$76.5 million, which is \$14.2 million, or 22.8%, above sales in the prior year. Sales were bolstered by Powerball ticket revenue, which grew by \$6.3 million above the December 2014 sales. Year-to-date ticket sales are \$380.0 million, which is 12.2% above last year's sales. In terms of General Fund collections, year-to-date lottery revenues have increased by \$12.2 million.

Insurance Premium Tax collections of \$33.1 million in January were \$(0.7) million below the prior year and \$(1.7) million below the forecast. Year-to-date, collections are 8.6% above last year.

Highway User Revenue Fund (HURF) collections of \$114.6 million in January were up 3.9% compared to January of last year and were \$2.9 million above forecast. Year-to-date collections are 5.7% above last year.

Due to the implementation of a new accounting system, DOR has made **technical adjustments** to prior month collection figures. For January, DOR has increased the amount of prior General Fund revenue collections by \$0.1 million, and the adjustment has been included in the reported year-to-date results.

Table 4

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

	Current Month					FY 2016 YTD (Seven Months)				
	Actual January 2016	Change From January 2015		Baseline Forecast		Actual January 2016	Change from January 2015		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$402,126,931	\$1,963,729	0.5 %	(\$15,666,548)	(3.7) %	\$2,518,664,213	\$64,555,605	2.6 %	(\$15,666,548)	(0.6) %
Income - Individual	446,394,828	13,092,103	3.0	12,352,995	2.8	2,535,130,519	120,482,446	5.0	12,352,995	0.5
- Corporate	21,343,708	1,144,268	5.7	2,269,805	11.9	278,482,336	(47,204,428)	(14.5)	2,269,805	0.8
Property	2,385,361	136,062	6.0	312,176	15.1	23,285,553	2,374,345	11.4	312,176	1.4
Luxury - Tobacco	1,960,675	(181,354)	(8.5)	(106,938)	(5.2)	14,126,951	82,105	0.6	(106,938)	(0.8)
- Liquor	2,694,089	(939,305)	(25.9)	(1,073,659)	(28.5)	18,583,659	(776,878)	(4.0)	(1,073,659)	(5.5)
Insurance Premium	33,120,213	(733,471)	(2.2)	(1,738,411)	(5.0)	191,019,525	15,078,113	8.6	(1,738,411)	(0.9)
Other Taxes	64,030	(421,060)	(86.8)	(315,997)	(83.2)	2,720,315	(593,430)	(17.9)	(315,997)	(10.4)
Sub-Total Taxes	\$910,089,836	\$14,060,971	1.6 %	(\$3,966,578)	(0.4) %	\$5,582,013,071	\$153,997,878	2.8 %	(\$3,966,578)	(0.1) %
<u>Other Revenue</u>										
Lottery	14,612,975	14,612,975	--	1,833,547	14.3	27,544,450	12,217,850	79.7	1,833,547	7.1
License, Fees and Permits	2,185,684	(1,386,696)	(38.8)	(357,118)	(14.0)	17,409,558	(1,695,328)	(8.9)	(357,118)	(2.0)
Interest	536	(1,306)	(70.9)	(437)	(44.9)	10,634	(8,537)	(44.5)	(437)	(3.9)
Sales and Services	913,461	(188,908)	(17.1)	(126,772)	(12.2)	9,581,802	13,577	0.1	(126,772)	(1.3)
Other Miscellaneous	(2,317,895)	(3,520,851)	--	(3,579,453)	--	18,611,280	3,667,202	24.5	(3,579,453)	(16.1)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,266,803	1,161,273	37.4	536,287	14.4	18,279,979	(8,697,905)	(32.2)	536,287	3.0
Sub-Total Other Revenue	\$19,661,564	\$10,676,487	118.8 %	(\$1,693,946)	(7.9) %	\$91,437,702	\$5,496,858	6.4 %	(\$1,693,946)	(1.8) %
TOTAL BASE REVENUE	\$929,751,400	\$24,737,458	2.7 %	(\$5,660,524)	(0.6) %	\$5,673,450,773	\$159,494,736	2.9 %	(\$5,660,524)	(0.1) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(50,469,528)	275,114	--	0	0.0	(353,286,694)	1,925,804	--	0	0.0
One-Time Transfers	12,393,700	12,393,700	--	0	0.0	70,775,700	14,906,653	26.7	0	0.0
Sub-Total Other Adjustments	(38,075,828)	12,668,814	-- %	0	0.0 %	(282,510,994)	16,832,457	-- %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$891,675,572	\$37,406,272	4.4 %	(\$5,660,524)	(0.6) %	\$5,390,939,779	\$176,327,193	3.4 %	(\$5,660,524)	(0.1) %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$114,573,256	\$4,324,556	3.9 %	\$2,878,809	2.6 %	\$776,139,401	\$41,862,499	5.7 %	\$2,878,809	0.4 %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 0.7% in the fourth quarter of 2015. This advance estimate represents a slowdown from the 2.0% growth in the third quarter of 2015. The deceleration was primarily due to slower growth in consumption and decreases in business investment, exports and state and local government spending. Declining performance in these categories was partly offset by deceleration in imports and a pick-up in federal government spending.

The Conference Board's **U.S. Consumer Confidence Index** increased 1.8 points in January, continuing to reverse part of a (10.0) point drop in October and November. Economists believe low energy prices and positive employment reports have helped to offset negative impacts on consumer confidence from the volatile stock market performance. While monthly growth was positive, year-over-year growth decreased (5.5)% from January 2015.

The Conference Board's **U.S. Leading Economic Index** decreased by (0.2)% in December, its first decrease in 6 months. The index stands 2.7% above its December 2014 reading. Of the index's 10 components, only 4 made positive contributions in December while 5 made negative contributions. The greatest drag on the index came from decreases in building permits and manufacturing orders. These impacts were partly offset by movement in interest rates.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** decreased (0.1)% in December, relative to November. The measure stands at 0.6% above the December 2014 level. The index's annual growth has been pulled well below the Federal Reserve Bank's 2% annual inflation target, largely due to a (13.6)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy), however, has grown by a steadier 1.4% through December.

ARIZONA

The Federal Reserve Bank of Philadelphia's **coincident index** gauges current economic activity in each state. The index combines 4 indicators: employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wages.

Arizona's coincident index increased by 4.4% compared to December 2014. Over the same time period, the U.S. coincident index increased by 3.2%. Currently, Arizona's rate of annual coincident index growth is 10th in the nation. Last year at this time, Arizona's rate was 32nd highest among states. See *Appendix A – Tracking Arizona's Recovery* for additional historical information.

Housing

Single-family housing construction is accelerating, while multi-family construction has peaked. Arizona's 12-month total of **single-family building permits** is 22,594, or 28.7% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 9.7%. See *Appendix A – Tracking Arizona's Recovery* for historical information.

The 12-month total of multi-family building permits was increasing strongly compared to last year, but has recently leveled off. Arizona's total of 9,124 **multi-family building permits** is (11.5)% below 2014. Arizona's rate of increase is now significantly less than the comparable multi-family permit growth for the U.S. as a whole, which is 21.2% above 2014.

Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment figures will not be released until the second week of March. For this reason, this month's issue of *Monthly Fiscal Highlights* does not include these employment statistics.

In December, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This workload is (0.6)% below the December 2014 level.

The **Average Hourly Earnings** received by these private sector workers was \$23.28, which is (0.9)% below the average in the prior month. December earnings were 3.5% above the average in December 2014. This represents the largest year-over-year growth rate in hourly earnings since January 2010.

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 12.8% over the 4 quarters of 2015. This rate is

Monthly Indicators (Continued)

(0.8)% below the reading issued for the prior period. The state's total unemployment rate reading of 12.8% was the second highest of any state. The national average for the measure was 10.4% during 2015.

Tourism

Revenue per available room reached \$51.81 in December, which was 5.1% above the amount in December 2014. Year-to-date, revenue per available room is 11.5% above the 2014 year-to-date amount through December. Ridership during December through Phoenix Sky Harbor Airport increased 4.8% above the level in December 2014.

State Agency Data

At the beginning of February 2016, the total **AHCCCS** caseload was 1.79 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 534,100 members.

Total monthly enrollment decreased (0.6)% during January, the second consecutive monthly decrease. The overall decrease in January was largely due to enrollment of Traditional population of lower income children and their parents. Enrollment in this population fell (12,900) (1.2%) in January to a level of 1,040,500 members. This drop was accompanied by an enrollment decrease of (1,700), or (0.9)%, in the Proposition 204 Parent population.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In January 2016, the childless adult population increased by 700, or 0.2%. At 307,200, this population is 11.4% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 3,700 in January and now totals 83,300 individuals. Enrollment is 123.0% higher than a year ago. The federal government is currently paying 100% of this cost.

Based on information the Department of Child Safety provided for November 2015, **reports of child maltreatment** totaled 51,133 over the last 12 months, an increase of 5.8% over the prior year. There were 18,927 **children in out-of-home care** as of November 2015, or 11.2% more than in November 2015. Compared to the prior month, the number of out-of-home children increased by 0.1%.

There were 21,743 **TANF recipients** in the state in February, representing a (4.3)% decrease in monthly caseloads from January. The year-over-year number of

TANF recipients has declined by (19.2)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. This January, there were 975,052 food stamp recipients in the state, representing a (1.3)% decrease from December caseloads. Compared to January of last year, food stamp participation declined by (4.5)%.

The Arizona Department of Corrections reported an **inmate population** of 42,685 on January 31, 2015. This was a (0.1)% decrease since December. This was a 1.5% increase since last January.

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>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	December	5.8%	(0.2)%	(0.8)%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2015	12.8%	(0.8)%	(1.9)%
- Initial Unemployment Insurance Claims	December	16,020	2.1%	(6.5)%
- Unemployment Insurance Recipients	August	29,157	(23.0)%	(32.2)%
- Non-Farm Employment - Total	December	2,709,500	0.6%	2.5%
Manufacturing	December	156,900	(0.1)%	0.4%
Construction	December	132,300	(1.6)%	5.0%
- Average Weekly Hours, Private Sector	December	34.40	(0.6)%	(0.6)%
- Average Hourly Earnings, Private Sector	December	\$23.28	(0.9)%	3.5%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	November	\$976.0 million	5.1%	15.0%
Furniture/Home Furnishings	November	\$303.1 million	(11.5)%	(2.0)%
Building Material/Lawn & Garden	November	\$387.3 million	8.6%	16.1%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	December	22,594	1.8%	28.7%
Multi-family	December	9,124	(6.8)%	(11.5)%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	December	3,884	(26.3)%	8.9%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	December	\$229,900	0.0%	12.8%
- Phoenix S&P/C Home Price Index (2000 = 100)	November	156.47	0.3%	5.9%
- Maricopa Pending Foreclosures	December	4,261	(2.8)%	(26.0)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	December	22,897	(8.1)%	(8.2)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	December	3.71 million	4.8%	(0.7)%
- National Park Visitors	September	1,382,544	(24.3)%	12.4%
- State Park Visitors	November	176,658	(12.0)%	6.9%
- Revenue Per Available Hotel Room	December	\$51.81	(19.5)%	5.1%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	1st Q 2016	81.6	0.5%	3.2%
- Arizona Coincident Index (July 1992 = 100)	December	223.38	0.6%	4.4%
- Arizona Leading Index -- 6 month projected growth	December	7.0%	0.1%	3.5%
- Arizona Personal Income	3 rd Q 2015	\$269.5 billion	1.4%	5.2%
- 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	February 1 st	1,792,244	(0.6)%	13.4%
Acute Care Traditional		1,040,482	(1.2)%	9.4%
Prop 204 Childless Adults		307,162	0.2%	11.4%
Other Prop 204		187,935	(0.9)%	13.9%
Adult Expansion		82,315	4.7%	123.0%
Kids Care I		730	(5.8)%	(56.2)%
Long-Term Care – Elderly & DD		57,662	(0.1)%	2.0%
Emergency Services		114,958	0.1%	23.7%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Nov. 2015	51,133	0.0%	5.8%
DCS Out-of-Home Children	November	18,927	0.1%	11.2%
Filled Caseworkers (1406 Budgeted)	December	1,309	N/A	(35)
- ADC Inmate Growth	January	42,685	(0.1)%	1.5%
- Department of Economic Security				
- TANF Recipients	January	21,743	(4.3)%	(19.2)%
- SNAP (Food Stamps) Recipients	January	975,052	(1.3)%	(4.5)%
- Judiciary Probation Caseload				
Non-Maricopa	November	18,579	105	603
Maricopa County	November	27,441	47	1,183
United States				
- Gross Domestic Product	4 th Q, 2015 (1 st Estimate)	\$16.4 trillion	1.8%	0.7%
(Chained 2009 dollars, SAAR)				
- Consumer Confidence Index (1985 = 100)	January	98.1	1.9%	(5.5)%
- Leading Indicators Index (2010 = 100)	December	123.7	(0.2)%	2.7%
- Consumer Price Index, SA (1982-84 = 100)	December	237.8	(0.1)%	0.7%
- Personal Consumption Price Index (2009 = 100)	December	109.7	(0.1)%	0.6%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Repayment of State Debt and Obligations – Pursuant to A.R.S. § 41-726, the Arizona Department of Administration (ADOA) is required to report on the amount of potential savings if the state repays the balance of any outstanding long-term General Fund financing obligations, under the following repayment scenarios: \$50 million, \$100 million, \$150 million, and \$200 million. Under the 4 repayment scenarios, ADOA reported the following net lifetime savings in debt service payments:

- \$50 million repayment – \$22.4 million
- \$100 million repayment – \$46.4 million
- \$150 million repayment – \$68.5 million
- \$200 million repayment – \$89.0 million

(Josh Hope)

AHCCCS/Department of Health Services - Report on Reconciliation Payments - Pursuant to the FY 2016 General Appropriation Act (Laws 2015, Chapter 8), the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) submitted their reports on reconciliation payments and penalties received and deposited during the first 6 months of FY 2016. AHCCCS reports that during that 6-month period they deposited \$4.0 million into the General Fund and used \$7.8 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions. DHS reports that \$1.5 million from the General Fund and \$2.9 million from Federal Medicaid Authority in payments was returned from penalties/sanctions.

AHCCCS and DHS limit financial risks and profits for health plans and Regional Behavioral Health Authorities (RBHAs) for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made to health plans/RBHAs or the agency if losses or profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities.

Pursuant to A.R.S. § 35-142.01, AHCCCS and DHS are required to deposit monies received for reconciliation payments and penalties received into the General Fund or the fund from which the appropriation was originally made. (Jon Stall)

Department of Child Safety – Report on Implementation of Auditor General Recommendations – Laws 2013, 1st Special Session, Chapter 10 instructed

the Auditor General to submit a report addressing (1) expenditures for transportation as part of children support services and (2) emergency and residential placements. The Auditor General made 9 recommendations for transportation services in March 2014 and 7 recommendations for emergency and residential placements in October 2014.

Subsequent to the Auditor General's recommendations and pursuant to a footnote in the FY 2016 General Appropriation Act, the Department of Child Safety (DCS) is reporting on its progress in implementing the Auditor General's recommendations to improve transportation services and reduce the use of emergency and residential placements.

According to DCS, of the 9 Auditor General recommendations for transportation services, 4 had been implemented; another 4 transportation recommendations are in the process of being implemented, and 1 concerning supervisory review prior to payment had not been implemented but was being addressed in a different manner.

Of the 7 Auditor General recommendations for emergency and residential placements, 1 had been implemented. Another 5 are in the process of being implemented, and DCS did not plan to implement the final recommendation concerning foster care receiving homes. Many of these recommendations are in the process of being implemented as part of DCS' Title IV-E waiver focused on reducing the length of stay for children in emergency and residential placements. (Ben Beutler)

Department of Child Safety – DCS/ECDHB Joint Report – The FY 2016 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18) requires the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB) to report on their collaborative efforts to address child welfare issues of common concern, specifically the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. Below is a summary of the major efforts listed in the report:

- **Enhanced Collaboration:** ECDHB has trained DCS caseworkers on ECDHB-funded resources in their communities that support families with young children, such as child care, home visitation and parenting education.
- **Office of Prevention and Family Services:** DCS recently hired a new prevention administrator to

Summary of Recent Agency Reports (Continued)

oversee this office tasked with operating a number of programs and services that strengthen communities and families. ECDHB is committed to working with the new prevention administrator to strengthen and develop prevention policies and programs.

- Court Teams Program: The focus of this program is to improve how the courts, child welfare, and child serving organizations work together to protect infants in the child welfare system from further harm.
- Child Care Funding: ECDHB anticipates providing \$30.0 million of matching dollars to draw down about \$37.1 million of matching federal monies in federal fiscal year (FFY) 2016. The \$30.0 million would provide child care scholarships to children. ECDHB helps about 16,600 children annually with child care and preschool scholarships.
- Building Awareness of the Impact of Abuse or Neglect on Young Children: ECDHB sponsors an annual Child Abuse Prevention Conference, which featured national experts and workshops aimed at preventing child maltreatment and improving Arizona's child protective system.
- Healthy Families Arizona: This is a home visitation program that is designed to strengthen families during the first 5 years of a child's life. Although DCS administers the program, it is funded jointly by ECDHB and DCS. In FY 2015, 4,911 families were served statewide.
- ECDHB Community-Based Parenting Education: These educational sessions increase parental knowledge of child development and parenting skills, improve parent and child interactions and decrease rates of child maltreatment. In FY 2015, 6,925 parents and caregivers completed the series of voluntary classes.
- ECDHB Birth to 5 Helpline: Staffed by nurses and early childhood development experts, the helpline answers parenting questions from caregivers with a child 5 or younger.

(Ben Beutler)

Department of Child Safety – Quarterly Report on Foster Care Medicaid – Pursuant to Laws 2013, Chapter 220, the Department of Child Safety (DCS) is required to report on foster care and Medicaid eligibility.

During the second quarter of FY 2016, DCS reports the following trends on foster care and Medicaid eligibility:

1. There were 17,362 children eligible for Medicaid in foster care at the end of the second quarter, up 6.5% from 16,291 at the end of the first quarter of FY 2016.
2. The percentage of foster care children eligible for

Medicaid increased from 94% at the end of the first quarter of FY 2016 to 97% at the end of the second quarter of FY 2016.

3. The amount of non-Medicaid behavioral health group home expenditures used by DCS to supplement Medicaid behavioral health placement services was \$971,800 in the second quarter of FY 2016.
4. The amount of non-Medicaid behavioral health evaluation/counseling expenditures used by DCS to supplement Medicaid behavioral health services was \$54,600 in the second quarter of FY 2016. (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 July 2015 through December 2015.

According to the report, out-of-home placements increased by 3.8% from 18,219 in July to 18,912 in December. Caseloads are above the department's goals and caseworker turnover was approximately 36.2%. Employee satisfaction remained the same at a 3.5 rating on a 5 point scale. The contents of this report, covering the first 6 months of FY 2016, are summarized below.

- The Training Academy had 351 new caseworkers in training as of December 2015. During the time period from July 2015 to December 2015, 74 caseworkers graduated from the Training Academy, or (25) fewer graduates than in the previous 6-month period.
- DCS reports that annualized caseworker turnover during July - December 2015 was 36.2%, up from a 35.4% annualized rate in the last report. The 36.2% turnover figure did not include caseworkers promoted to a non-caseworker position within DCS, unlike previous reports which included internal promotion in the turnover figure.
- The percent of Office of Administrative Hearings decisions affirming DCS case findings increased from 66.7% to 73.2%. The percent of complaints validated by the Ombudsman increased from 22.7% to 25.8%.
- The number of congregate care placements increased from 2,535 to 2,693, a 6.2% increase. DCS also reports that from June to December the number of children aged 0-3 in shelter care grew from 44 to 49, the number of children aged 0-6 in group homes increased from 84 to 87, and the number of children in shelter care for more than 21 days decreased from 916 to 830.

Summary of Recent Agency Reports (Continued)

- As of December 2015, workload per caseworker remains considerably higher than the revised caseload goals established during the May 2014 Special Session, with investigations at 25 (goal: 13), in-home cases at 43 (goal: 33), and out-of-home children at 30 (goal: 20). There may be a technical issue with the investigations caseworker workload estimate, which is currently being resolved.

Table 6 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 Economic Security – Report on Domestic Violence Appropriation Adjustment – Pursuant to a FY 2016 General Appropriation Act footnote the Department of Economic Security notified the Joint Legislative Budget Committee that the department plans to expend up to \$280,000 above the \$2,220,000 appropriated from the Domestic Violence Shelter Fund in FY 2016. The additional expenditures will be used to increase emergency shelter services. In FY 2015, Domestic Violence Shelter Fund revenues were \$2,549,000 and FY 2016 revenues are projected to be \$2,523,500. (Tom Ritland)

Department of Education – Budget Status Report – Pursuant to a General Appropriation Act footnote and A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2016. In that report, ADE estimates that it will experience a \$(12.2) million net funding surplus for formula programs for FY 2016. This consists of an estimated \$(0.9) million shortfall for Basic State Aid and estimated \$(1.3) million shortfall for Additional State Aid (the Homeowner's Rebate and 1% Cap

programs). ADE's current \$(12.2) million shortfall estimate is subject to further revision as additional data become available. (Steve Schimpp)

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 issued on January 29, 2016.

As described in the prior review, delays in vendor certification and the development process have led ADE to pursue a "dual system," in which the new Arizona Education Data Standards (AzEDS) platform runs parallel to the existing SAIS framework, which will continue to make school payments in FY 2016.

The January review states that ADE is in the final stages of implementing and testing the dual system option for district data submission. It observes that "initial comparisons between the SAIS and AzEDS data submission streams shows a higher number for headcount but lower numbers for ADM coming through the AzEDS data stream."

The review notes that ADE "has already identified some root-cause errors for these discrepancies and is pursuing the remedies." However, it also concludes that "some differences will remain due to cleaner, more timely and accurate data through the AzEDS approach," and it expects that the AzEDS ADM calculations will be

Table 6

Caseworker Workload

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

Summary of Recent Agency Reports (Continued)

“generally lower” where there are discrepancies. The review attributes the differences to the elimination of duplicate students, corrections to the business rules, and more timely reporting of enrollment information under AzEDS.

Due to the impact that changes in ADM counts would have on districts, the review suggests that “it may become necessary to adjust funding algorithms to avoid disruptive funding allocations to Arizona districts and schools.”

In addition, the review cautions that some districts may be “unable or unwilling” to move from the current SAIS data submission approach to AzEDs. Consequently, it suggests that the dual data submission approach “may need to become a longer-term strategy, rather than a temporary” one.

The review also observes that the legislative decision to adopt current year funding requires the reallocation of resources and will contribute to delays in the development of the ADM Calculation Engine (ACE).

The October 2015 review had previously identified inadequate levels of help desk support available for the rollout of the Opt-IN SSIS initiative. The current report notes that the situation “has improved,” but that the need remains to further re-engineer the help desk process.

The current review concludes with the commendation, “Arizona has climbed into the top tier of state education departments with regard to data collection and potential for data-informed instruction supported by state systems.” As in the past, however, the review cautions that “funding to adequately sustain the components of AELAS beyond this fiscal year seems to be in question” and warns that inadequate support for AELAS will adversely affect the system. (Matt Beienburg)

Supreme Court – Report on Criminal Case Proceedings, Enforcement of Court Orders, and State Aid to Courts Fund Expenditures – Pursuant to A.R.S. § 12-102.01D, the Supreme Court is required to report annually to the JLBC on the progress of criminal case processing projects and the enforcement of court orders including the collection of court ordered fees, fines, penalties, sanctions and forfeitures. Additionally, pursuant to A.R.S. § 12-102.02D, the Supreme Court is required to report annually to the JLBC on the expenditure of monies from the State Aid to the Courts Fund for the prior fiscal year and the progress made in improving criminal case processing.

Since 2003, the Supreme Court has contracted with an outside vendor to increase compliance with court orders, resulting in total collections of \$45.1 million from backlogged cases in FY 2015, or 2.0% above FY 2014. Additionally, the Supreme Court utilizes a debt setoff program to match outstanding criminal fines or fees to outstanding tax and governmental liabilities. Tax and lottery interceptions in the debt setoff program were \$15.0 million in FY 2015, or (5.1)% below FY 2014.

Expenditures from the State Aid to the Courts Fund were \$2.4 million in FY 2015. These monies were disbursed to Superior and Justice Courts for the processing of criminal cases.

The Supreme Court reported that criminal case processing was enhanced by using State Aid to the Courts Fund monies for computers, a case management system, early resolution and deferred incarceration programs, staff training, pre-sentence investigators, judges, pre-trial services, indigent defense, probation and domestic violence staff, clerks, court commissioners, administrative positions, support staff, interpreters, security staff, computer programmers, supplemental funding to driving under the influence (DUI) and drug courts, and the enhancement of electronic data sharing. (Eric Billings)

Public Safety Personnel Retirement System (PSPRS) – Report on Shared Cost Structure, Funding Status and Rate of Return – Pursuant to A.R.S. § 38-848.02, PSPRS is required to report annually on the shared cost structure of the employees and employers, the funding status and the rate of return for the system. Besides administering its own system, PSPRS is also responsible for the Correctional Officers Retirement Plan (CORP) as well as the Elected Officials' Retirement Plan (EORP). *Table 7* shows the contribution rates, funded status and rate of return for FY 2017, based on valuation data from June 30, 2015.

In PSPRS and CORP, there is significant variation in the actuarial status of individual employer groups, therefore the employer contribution rates and funded statuses have been shown in the aggregate. Individual employer contribution rates and funded ratios are available on the PSPRS website.

A 7-year smoothing period is used to calculate the investment rate of return. This smoothing technique is a tool used to reduce short-term volatility of assets by deferring a portion of gains and losses over time. This smoothing process is used under the condition that the maximum deferred gain or loss remains within 20% of market value. *Table 7* shows 1-year market-based returns, in addition to the 7-year smoothing technique. (Josh Hope)

Summary of Recent Agency Reports (Continued)

Table 7

PSPRS Annual Report			
	PSPRS	CORP	EORP
FY 17 Contribution Rates ^{1/}			
Employer ^{2/}	42.61%	18.71%	23.50% ^{3/}
Employee	11.65% ^{4/}	8.41% ^{5/}	13.00%
Funded Status ^{1/ 2/ 6/}			
	49.0%	57.3%	38.8%
Rate of Return			
1-year market value basis	3.7%	3.7%	3.7%
7-year smoothing basis	4.5%	4.5%	4.5%

^{1/} Based on June 30, 2015 valuation.
^{2/} Employer contribution rates and funded statuses for PSPRS and CORP are shown in the aggregate, as there is significant variation in the actuarial status between individual employer groups.
^{3/} Pursuant to A.R.S. § 38-810, a fixed employer contribution rate of 23.5% began January 1, 2014.
^{4/} As stipulated in A.R.S. § 38-843E.
^{5/} Pursuant to A.R.S. § 38-891H and I, the employee rate is 7.96% for full-time dispatchers and 8.41% for all others.
^{6/} Funded status is adjusted to exclude retiree health.

Arizona Board of Regents/Arizona Community Colleges – Report on Articulation – Pursuant to A.R.S. § 15-1824, the Arizona Board of Regents (ABOR) and the community colleges are required to submit an annual report by December 15 of their progress on both articulation and meeting statewide postsecondary education needs.

This year’s progress in implementing the transfer model and support systems include:

- During the 2014-2015 academic year, 10,696 community college students transferred to the public university system. This is an increase of 16.2% from the 2009-2010 academic year.
 - 53.5% of new transfer students had 60 or more credit hours transferred to a university in 2014-2015 versus 46.1% in 2009-2010.
 - 54.1% of transfer students completed an associate’s degree prior to transfer in 2013-2014 versus 45.3% in 2009-2010.
 - Ethnic minorities accounted for 41.6% of new community college transfers in 2014-2015.
- (Tom Ritland)

Department of Revenue – Report on Annual Enforcement Goals – Pursuant to 2 General Appropriation Act footnotes, the Department of Revenue (DOR) is required to report on their FY 2016 revenue enforcement goals, and to provide an annual progress report to the Committee on the effectiveness of the department’s overall enforcement and collections program for FY 2015. In FY 2015, DOR’s total enforcement goal was \$466.7 million but they actually collected \$540.5 million. DOR’s FY 2016 goal for total enforcement collections totals \$465.3 million.

DOR’s General Fund FY 2016 revenue enforcement goal is \$297.6 million, which is \$43.4 million, or 12.7% below FY 2015 actual collections. Compared to actual FY 2015 General Fund enforcement revenue, DOR’s FY 2016 goals consist of:

- A decrease in audit revenue of \$(32.2) million, or (34.3)%.
- A decrease in collections revenue of \$(8.3) million, or (5.0)%
- A decrease in accounts receivables revenue of \$(2.8) million, or (3.5)%.

Audit enforcement revenue includes revenue due to DOR’s auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR’s collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from accounts receivable to DOR’s Collections section. (Jeremy Gunderson)

January Spending

January 2016 General Fund spending of \$569.4 million was \$(113.6) million less than January 2015. Year to date, spending is \$6.37 billion, or \$(133.7) million below last year. (See Tables 8 & 9).

- Year to date, the Department of Education has spent \$50.0 million more than the prior year.
- Due to technical reporting issues with the newly-created Department of Child Safety (DCS) in FY 2015, the figures reported below for DCS and the Department of Economic Security do not accurately reflect changes in spending levels from the prior year.
- Even after accounting for issues relating to DCS, the significant decline in DES spending year-to-date is due to technical timing issues relating to the disbursement of Medicaid matching funds.
- During FY 2016, Universities spending has declined by \$(66.3) million. This is related to changes enacted in the FY 2016 budget, which contained a \$(99.0) million spending reduction for the Universities system.

	General Fund Spending (\$ in Millions)			
	Jan 16	Change From Jan 15	Year-to-Date	YTD Change from FY 15
Agency				
AHCCCS	121.1	7.1	775.2	(39.3)
Corrections	80.0	1.3	612.8	43.6
Child Safety	23.0	21.8	237.7	157.8
Economic Security	4.7	(102.7)	408.5	(218.8)
Education	224.2	(20.7)	2,696.0	50.0
Health Services	12.8	(2.9)	529.0	(3.7)
Public Safety	15.2	0.4	55.0	1.9
School Facilities Board	0.1	(0.0)	162.0	5.9
Universities	43.3	(8.6)	474.8	(66.3)
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>45.0</u>	<u>(9.3)</u>	<u>333.8</u>	<u>(64.8)</u>
Total	569.4	(113.6)	6,368.9	(133.7)

General Fund Spending				
(\$ in Thousands)				
Agency	Jan 16	Change from Jan 15	Year-to-Date	YTD Change from FY 15
Dept. of Admin./Automation Projects Fund	1,325.3	506.2	12,863.9	(27,419.3)
ADOA – Sale/Leaseback Debt Service	-	-	84,114.6	(7.1)
Office of Administrative Hearings	88.8	(0.5)	514.7	(22.0)
Commission of African-American Affairs	17.0	15.6	70.6	69.1
Department of Agriculture	671.0	222.2	4,970.8	243.6
AHCCCS	121,080.4	7,056.2	775,173.8	(39,312.2)
Attorney General	1,581.2	(1,160.9)	11,956.9	(852.8)
State Board of Charter Schools	84.6	26.1	641.4	125.9
Department of Child Safety	23,034.7	21,823.4	237,724.6	157,826.5
AZ Commerce Authority	2,208.3	-	15,608.1	-
Community Colleges	12,503.6	(4,354.8)	38,462.8	(14,763.0)
Corporation Commission	23.1	(29.1)	286.6	(66.6)
Department of Corrections	80,017.7	1,285.9	612,832.5	43,614.9
County Funding	-	-	6,000.5	(1,650.0)
AZ State Schools for the Deaf & Blind	1,583.4	(302.6)	16,266.6	2,994.4
Department of Economic Security	4,657.4	(102,702.1)	408,515.8	(218,802.7)
State Board of Education	67.8	67.8	656.6	656.6
Department of Education	224,163.2	(20,718.5)	2,696,007.7	50,021.2
DEMA	774.7	(1,664.7)	4,993.5	(445.8)
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	18.5	5.1	104.3	16.7
State Board of Equalization	27.6	2.7	358.3	11.5
Board of Executive Clemency	59.2	(2.8)	546.1	(10.8)
Department of Financial Institutions	209.8	(17.5)	1,783.5	4.1
Department of Fire, Bldg and Life Safety	246.5	65.4	1,253.4	(3.6)
State Forester	570.3	289.4	3,248.2	1,206.1
Department of Gaming	-	-	1,794.4	1,794.4
Arizona Geological Survey	116.4	(2.0)	605.6	11.5
Governor/OSPB	595.7	(157.9)	5,633.4	(915.4)
Department of Health Services	12,810.7	(2,948.2)	529,006.7	(3,710.1)
Arizona Historical Society	266.8	35.6	2,070.1	37.0
Prescott Historical Society of AZ	61.3	(5.1)	499.4	87.7
Independent Redistricting Comm.	297.2	200.8	916.6	269.6
Commission of Indian Affairs	0.8	(9.7)	20.8	(18.9)
Department of Insurance	330.8	(141.7)	2,982.4	(208.9)
Judiciary				
Supreme/Superior Court	9,827.6	(597.5)	54,505.4	(2,723.7)
Court of Appeals	1,055.3	(42.8)	8,172.8	31.3
Department of Juvenile Corrections	1,468.9	(1,765.6)	15,426.5	(7,876.1)

Agency	Jan 16	Change from Jan 15	Year-to-Date	YTD Change from FY 15
State Land Department	722.5	(146.2)	6,438.9	(836.4)
Legislature				
Auditor General	1,520.2	(34.0)	11,584.4	(133.8)
House of Representatives	1,021.7	(180.4)	7,882.6	581.4
Joint Legislative Budget Comm.	204.8	30.7	1,351.5	51.8
Legislative Council	399.0	(190.9)	3,753.9	(1,866.6)
Senate	643.6	(17.5)	4,363.8	(322.0)
Mine Inspector	76.0	(1.8)	657.3	(28.6)
Nav. Streams & Adjudication	8.0	(1.8)	72.0	(27.1)
Occupational Safety and Health Review	-	-	2.5	1.6
Arizona State Parks Board	-	-	275.3	275.3
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	-	(185.8)	-	(1,018.0)
Comm. for Postsecondary Ed.	698.4	-	1,396.8	-
Department of Public Safety	15,177.3	436.9	55,041.9	1,948.0
Public Safety Personnel Retirement System	-	-	6,000.0	-
Arizona Department of Racing	-	(80.0)	-	(1,869.6)
Radiation Regulatory Agency	368.6	143.3	1,183.9	208.2
Real Estate Department	153.7	(0.9)	1,493.7	(28.2)
Department of Revenue	(624.4)	114.2	23,425.7	(5,805.8)
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	85.4	(16.7)	161,962.9	5,885.5
Secretary of State	645.4	(81.9)	6,041.7	(2,178.6)
Tax Appeals Board	17.5	(0.5)	163.2	(1.5)
Office of Tourism	1,422.1	1.3	6,399.4	(1,994.0)
Department of Transportation	-	-	-	-
Universities				
Board of Regents	6,786.1	442.3	19,056.3	(3,226.1)
Arizona State University	16,627.6	(4,931.6)	206,968.4	(34,521.4)
Northern Arizona University	5,826.9	(1,488.6)	71,283.1	(10,420.4)
University of Arizona	14,080.3	(2,586.1)	177,491.6	(18,102.9)
Department of Veteran Services	325.6	(19.5)	2,966.0	300.5
Department of Water Resources	924.6	(70.4)	6,066.7	(163.4)
Water Infrastructure Finance Authority	-	-	-	(1,000.0)
Department of Weights & Measures	253.9	140.8	816.6	30.9
Other - JP Salaries Distribution	220.3	220.3	728.5	307.2
Other	8.5	(26.0)	41.8	3.3
Total	569,439.2	(113,552.2)	6,368,948.8	(133,737.7)

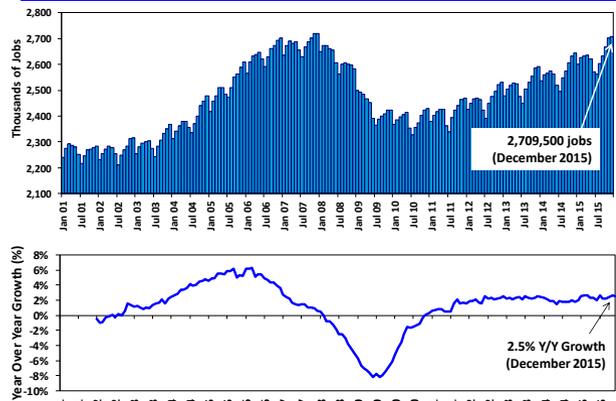
Tracking Arizona's Recovery

February 2016
Appendix A

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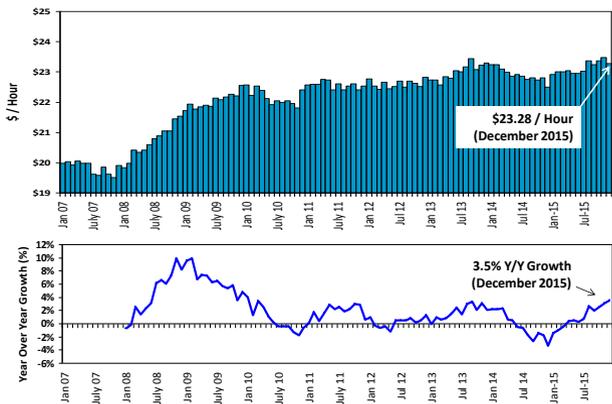
Total Non-Farm Employment



JLBC

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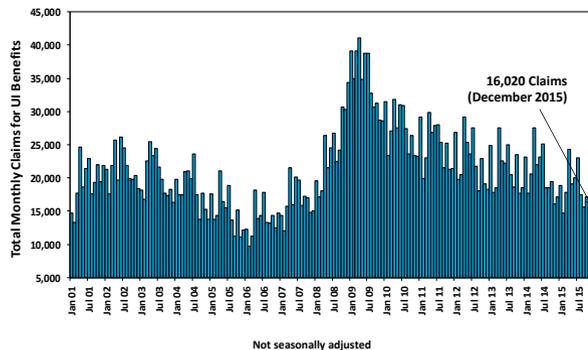
Average Hourly Earnings – Private Sector



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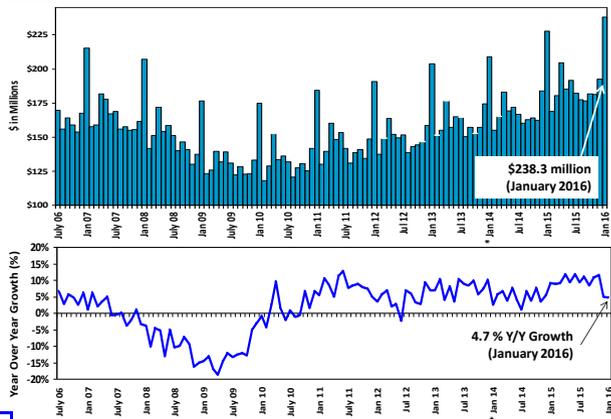
Initial Claims for Unemployment Insurance



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4

State Sales Tax Collections – Retail Category



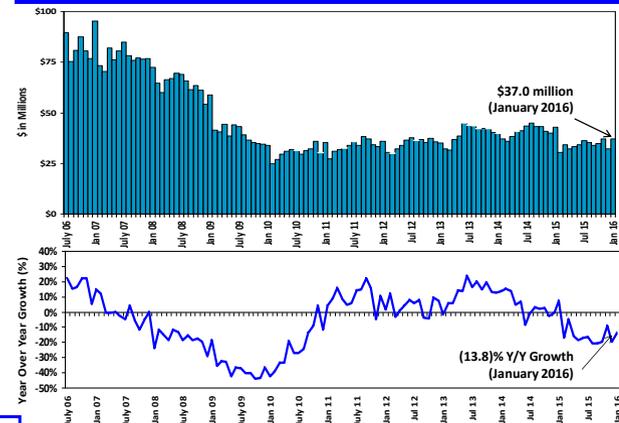
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Excludes temporary 1 ¢ sales tax

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

5

State Sales Tax Collections – Contracting Category

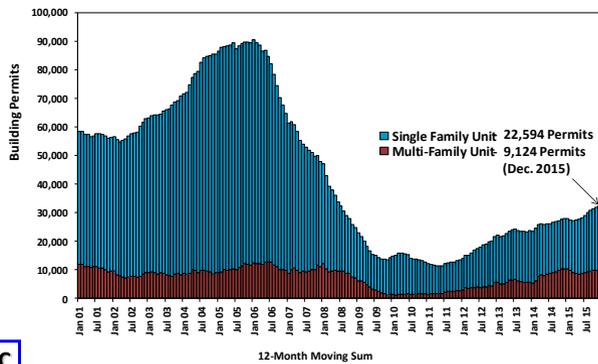


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Excludes temporary 1 ¢ sales tax

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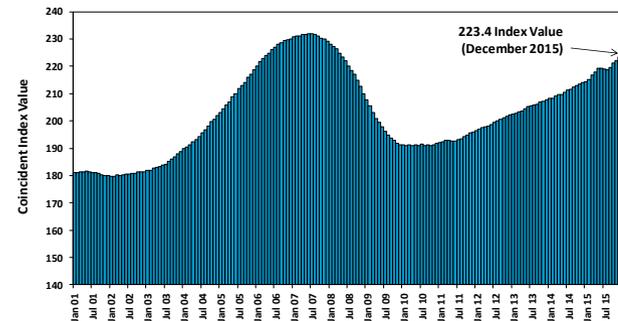
Residential Building Permits



JLBC

7

Economic Activity Index



JLBC

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

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