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“With the fiscal year ending on June 30th, FY 2013 General Fund collections totaled \$9.13 billion. This amount is \$155.9 million above the enacted budget forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on July 22, 2013.

Summary

June General Fund revenue collections totaled \$1.03 billion. Base revenues, which exclude one-time adjustments, were (1.1)% below June of the prior year. This decrease in June collections is difficult to interpret given technical issues relating to a change in the threshold for making estimated sales tax payments, and the expiration of the temporary 1-cent sales tax.

With the fiscal year ending on June 30, FY 2013 General Fund collections totaled \$9.13 billion. This amount is \$155.9 million above the enacted budget forecast. The estimated forecast overage assumes the state will not receive an enacted transfer of \$50 million from the National Mortgage Settlement to the General Fund in FY 2013, as the transfer is the subject of ongoing litigation.

At the time of publication, the Arizona Department of Administration has not yet released June expenditure data. As a result, an FY 2013 ending balance estimate is not available.

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

The status of the FY 2014 – FY 2016 budget projections will be updated at the next Finance Advisory Committee meeting this fall, which is scheduled for October 4.

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. As of the end of FY 2013, the operating balance was \$3.2 billion.

Charter Conversion Update

The June 2013 *Monthly Fiscal Highlights (MFH)* reported that the JLBC Staff had recently revised the FY 2014 Arizona Department of Education (ADE) Baseline estimate upward by \$5 million in FY 2014, \$22 million in FY 2015 and \$39 million in FY 2016 due to increased reports of “charter conversions.” This process converts existing traditional district schools into charter schools, which entitles a school district to approximately \$1,000 in additional funding per pupil for students in the converted schools. The June figures assumed the conversion of 30 schools in FY 2014.

Based on updated information, ADE now indicates that 60 (rather than 30) schools are expected to convert to charter status in FY 2014. ADE roughly estimates that these schools will increase state costs by approximately \$3 million in FY 2014 and \$34 million in FY 2015. While the number of schools has doubled, the estimated cost has not, as the average per school cost is less than anticipated in the June estimates. The enacted budget’s 3-year projections do not include any charter conversion impact.

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June Revenues

	<u>FY 2013 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2012</u>
June	\$ 1,032.7	\$ 27.6	\$ (75.7)
Year-to-Date	\$ 9,129.2	\$ 155.9	\$ 65.8

Sales Tax collections of \$288.4 million were (5.3)% below June 2012 and \$26.8 million above the forecast for the month. This figure represents the “base” collections, or the amount excluding the effect of the 1-cent sales tax.

The temporary 1-cent sales tax generated \$79.5 million in June, which was (0.4)% below last year and \$29.5 million above forecast. The 1-cent tax expired on May 31, 2013 and final payments were transmitted to the state in June.

For the entire fiscal year, the regular sales tax grew by 3.5%, which resulted in a FY 2013 forecast surplus of \$28.9 million. The temporary 1-cent tax increased by 5.1% in FY 2013, which was \$37.9 million above the FY 2013 forecast.

The threshold for estimated payments changed from \$100,000 to \$1 million in June 2013 due to Laws 2010, 7th Special Session, Chapter 7. The higher June payment threshold combined with the expiration of the 1-cent sales tax make it difficult to evaluate the annual reconciliation of estimated payments this year. For these reasons, the June sales tax numbers should also be interpreted with caution.

Table 2 displays the June growth rates for the largest categories.

Retail and contracting together account for about 60% of all sales tax revenues. June retail, which reflects May sales, increased by 10.3%, raising the year-to-date growth rate to 6.4%.

Contracting collections have been much more volatile than retail. The June increase of 23.7% brings the year-to-date increase to 6.6%.

	<u>June</u>	<u>YTD</u>
Retail	10.3%	6.4%
Contracting	23.7%	6.6%
Utilities	16.7%	4.5%
Use	4.9%	(2.2)%
Restaurant & Bar	5.7%	5.5%

Individual Income Tax net revenues were \$330.6 million in June, which was \$2.3 million greater than the prior year. Collections were \$(13.3) million below the forecast for the month. Total FY 2013 revenues have grown 10.1% and are \$132.0 million above forecast.

As indicated in Table 3, withholding was down (2.8)% in June. The June decrease brings withholding tax collections for the fiscal year to 3.5% over the prior year. This amount is \$(22.8) million below the forecast.

June estimated and final payments of \$103.6 million were 18.1% above last year, and were \$5.2 million above forecast. Total FY 2013 payments are \$92.4 million above the forecast.

June refunds of \$(24.5) million were \$(6.3) million greater than last year’s amount. Total FY 2013 refunds are \$62.4 million below forecast.

	<u>June</u>	<u>YTD</u>
Withholding	(2.8)%	3.5%
Estimated + Final Payments	18.1%	16.3%
Refunds	34.6%	(2.5)%

“Total FY 2013 [Individual Income Tax] revenues have grown 10.1% and are \$132.0 million above forecast.”

June Revenues (Continued)

Corporate Income Tax net collections were \$124.6 million in June, which is \$14.5 million greater than June of the prior year. Collections for the month were \$4.0 million above the forecast. Total FY 2013 collections are up 2.8% compared to the prior year, and are \$9.4 million above forecast.

Non-General Fund

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$103.1 million in June were down \$(2.2) million, or (2.1)%, compared to June of last year. Total FY 2013 revenues are about equal to collections in the prior year, and \$(7.8) million below forecast.

Table 4

General Fund Revenue: Change from Previous Year and Enacted Budget Forecast June 2013

	Current Month					FY 2013 YTD (Twelve Months)				
	Actual June 2013	Change From June 2012		Enacted Forecast		Actual June 2013	Change from June 2012		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use - Base*	\$288,405,767	(\$16,001,144)	(5.3) %	\$26,816,310	10.3 %	\$3,778,864,245	\$126,698,589	3.5 %	\$28,914,945	0.8 %
- 1¢ Increase*	79,516,569	(349,771)	(0.4)	29,462,309	58.9	962,171,976	46,336,435	5.1	37,934,676	4.1
Income - Individual	330,561,645	2,271,617	0.7	(13,342,174)	(3.9)	3,397,545,129	311,407,766	10.1	131,996,029	4.0
- Corporate	124,592,981	14,461,583	13.1	3,989,978	3.3	662,026,399	18,254,554	2.8	9,399,599	1.4
Property	2,026,043	(351,827)	(14.8)	(938,675)	(31.7)	13,202,508	(2,685,386)	(16.9)	(2,797,492)	(17.5)
Luxury - Tobacco	2,501,518	(634,918)	(20.2)	0	0.0	25,090,558	(1,340,783)	(5.1)	86,959	0.3
- Liquor	2,921,313	1,115,286	61.8	0	0.0	32,592,473	2,666,727	8.9	(335,828)	(1.0)
Insurance Premium	70,618,341	3,357,906	5.0	2,103,855	3.1	386,757,522	(7,232,978)	(1.8)	(242,478)	(0.1)
Estate	0	0	--	0	--	0	(200,825)	(100.0)	0	--
Other Taxes	40,045	(85,097)	(68.0)	(59,955)	(60.0)	1,562,782	(220,331)	(12.4)	(237,218)	(13.2)
Sub-Total Taxes	\$901,184,223	\$3,783,636	0.4 %	\$48,031,649	5.6 %	\$9,259,813,592	\$493,683,768	5.6 %	\$204,719,192	2.3 %
Other Revenue										
Lottery	25,623,700	2,066,464	8.8	0	0.0	74,009,000	(7,923,196)	(9.7)	337,100	0.5
License, Fees and Permits	2,808,400	90,919	3.3	764,463	37.4	29,098,361	1,204,895	4.3	2,098,362	7.8
Interest	874	(5,602,665)	(100.0)	(6,836,481)	(100.0)	6,820,130	(3,357,006)	(33.0)	(79,870)	(1.2)
Sales and Services	10,906,448	(627,912)	(5.4)	677,940	6.6	36,512,189	781,275	2.2	1,512,189	4.3
Other Miscellaneous	41,681,010	(15,534,823)	(27.2)	(12,150,332)	(22.6)	76,874,600	(11,120,762)	(12.6)	0	0.0
Disproportionate Share	78,204,597	385,997	0.5	(2,656,603)	(3.3)	78,204,597	(17,483,685)	(18.3)	(2,656,603)	(3.3)
Transfers and Reimbursements	15,069,609	3,844,166	34.2	(273,180)	(1.8)	25,000,000	528,633	2.2	0	0.0
Sub-Total Other Revenue	\$174,294,638	(\$15,377,854)	(8.1) %	(\$20,474,193)	(10.5) %	\$326,518,877	(\$37,369,846)	(10.3) %	\$1,211,178	0.4 %
TOTAL BASE REVENUE	\$1,075,478,861	(\$11,594,218)	(1.1) %	\$27,557,456	2.6 %	\$9,586,332,469	\$456,313,922	5.0 %	\$205,930,370	2.2 %
Other Adjustments										
Urban Revenue Sharing	(42,798,670)	(7,430,048)	21.0	0	0.0	(513,584,040)	(89,160,596)	21.0	0	0.0
Budget Plan Transfers	0	(56,720,166)	(100.0)	0	--	56,500,000	(288,503,500)	(83.6)	(50,000,000)	(46.9)
Tax Amnesty	0	0	--	0	--	0	(12,867,428)	(100.0)	0	--
Sub-Total Other Adjustments	(42,798,670)	(64,150,214)	-- %	0	0.0 %	(457,084,040)	(390,531,524)	586.8 %	(50,000,000)	12.3 %
TOTAL GENERAL FUND REVENUE	\$1,032,680,191	(\$75,744,432)	(6.8) %	\$27,557,456	2.7 %	\$9,129,248,429	\$65,782,398	0.7 %	\$155,930,370	1.7 %
Non-General Funds										
Highway User Revenue Fund	\$103,105,715	(\$2,244,475)	(2.1) %	(\$2,876,576)	(2.7) %	\$1,210,024,080	(\$562,367)	(0.0) %	(\$7,825,886)	(0.6) %

* Total June collections including the temporary 1¢ increase approved by the voters in May 2010 were \$367.9 million. This amount is \$(16.4) million, or (4.3)%, below June 2012 and \$56.3 million, or 18.1%, above forecast.

Recent Economic 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 1.8% in the first quarter of 2013. This growth represented a downward revision from an earlier 2.4% estimate. The downward revision was mainly due to consumption spending growing at a lower rate than previously expected. Consumption spending, inventory investment, and residential fixed investment increases more than offset decreases in government spending and exports in the quarter.

The Conference Board's **U.S. Consumer Confidence Index** grew 9.6% in June, the third consecutive monthly increase and the highest reading since January 2008. Recent increases in confidence reflect an improved outlook on housing and job markets. Recent poor performance in financial markets was not factored in to the index's June reading.

The Conference Board's **U.S. Leading Economic Index** increased by 0.1% in May, marking the 8th increase in the past 9 months and the highest reading since early months of the recession. Only financial market components of the index contributed to the improved reading, however.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.5% in June and 1.8% above June 2012 prices. A 6.3% increase in gasoline prices accounted for about two-thirds of the overall 0.5% monthly price increase. Core inflation (all items except food and energy) grew by 0.2% during the month.

ARIZONA

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

In May, 33 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 2.0% above last year, which is the thirty-fourth highest growth rate in the country. While this is a significant improvement, Arizona's index is still (10.5%)

below its peak, which occurred in August 2007. See *Appendix A – Tracking Arizona's Recovery* for additional historical information.

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

Using a 3-month average, Arizona's leading index projects that state GDP will grow at an annualized rate of 1.9% over the next 6 months. This is unchanged from the revised 1.9% growth projection in April and lower than the 2.5% projection in May 2012.

Housing

The number of Maricopa County **pending foreclosures** decreased from 8,826 in May to 8,027 in June. The June total is significantly below the peak in December 2009 (51,466). See *Appendix A – Tracking Arizona's Recovery*.

The total housing inventory in the Greater Phoenix area decreased from 19,857 in June 2012 to 19,511 in June 2013, a (1.7)% decrease. This continues the decline in inventory that started in January 2011. As the supply of housing has declined, the price has increased. In the Metropolitan Phoenix area, the **median price of a single family home** was \$185,000 in May. This represents a 2.0% increase from April, and a 25.9% increase from May of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through May, a total of 1,737 **single-family building permits** had been issued statewide, a 14.7% increase from last year. While permitting activity has seen gains, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. See *Appendix A – Tracking Arizona's Recovery*.

The multi-family housing sector has seen recent gains, with the 3-month period ending in May resulting in a total of 590 **multi-family building permits** being issued in the state. However, this figure remains well below the

"A 6.3% increase in gasoline prices accounted for about two-thirds of the overall 0.5% monthly [Consumer Price Index] increase."

Recent Economic Indicators (Continued)

peak of activity in April 2007.

State Agency Data

At the beginning of July, total **AHCCCS** caseloads equaled 1.28 million members, a 0.3% increase from the prior month. Overall, AHCCCS caseloads are currently (0.2)% below July 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, increased by 0.3% since last month while decreasing (0.1)% from a year ago. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011. This population has declined (149,985) since then to 74,507. As a whole, the Proposition 204 program has declined (0.6)% compared to the prior month, and (14.9)% from the prior year. KidsCare I provides coverage for 7,066 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (1.7)% compared to the prior month and (28.5)% from the prior year.

Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II, which provides coverage for children up to 175% of the Federal Poverty Level. The state match is provided by voluntary payments from political subdivisions. As of the beginning of July, 37,980 children were enrolled in KidsCare II.

There were 36,770 **TANF recipients** in the state in May, a monthly caseload decrease of (0.3)%. Year-over-year, the number of TANF recipients has declined by (7.1)%. The statutory lifetime limit on cash assistance is 24 months.

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

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In May, there were a total 1.1 million food stamp recipients in the state, a 0.3% increase over the prior month. Compared to the same month last year, food stamp participation was down by (0.8)%. The number of SNAP recipients began

increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

The 3-month average count of the **Department of Corrections (ADC) inmate population** increased to 40,512 inmates in June 2013. Relative to the prior 3-month period, the population has increased by 181 inmates. Compared to a year ago, the population has increased by 553 inmates.

Employment

According to the Arizona Department of Administration's employment report for June, the state lost a total of (43,500) **nonfarm jobs** between May and June. The state typically loses jobs in June with the end of the school year. In fact, 98% of those losses, or (42,500) jobs, occurred in the government sector, primarily state and local education. The average net loss of government jobs for June in the prior 10 years is (37,600) jobs.

The private sector shed (1,000) jobs between May and June, which was less than the 10-year average job loss of (4,000).

Year-over-year, nonfarm employment is up by 2.0%, or 49,400 net jobs. The job growth rate has essentially been "stuck" at about 2% over the last 12 months.

As of June, total nonfarm employment remained (9.2)%, or (249,900) jobs, below peak employment in December 2007. See *Appendix A – Tracking Arizona's Recovery*.

The state **unemployment rate** rose from 7.8% in May to 8.0% in June. This increase brought the state's jobless rate to the highest level since January 2013. The U.S. unemployment rate remained at 7.6% in June.

"There were 36,770 TANF recipients in the state in May, a monthly caseload decrease of (0.3)%. Year-over-year, the number of TANF recipients has declined by (7.1)%."

Recent Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate (SA)	June	8.0%	0.2 %	(0.4)%
- Initial Unemployment Insurance Claims	June	22,178	(1.6)%	(5.9)%
- Unemployment Insurance Recipients	June	41,455	0.7%	(28.7)%
- Non-Farm Employment - Total	June	2.47 million	(1.7)%	2.0%
Manufacturing	June	157,300	1.2%	0.8%
Construction	June	126,300	(0.4)%	8.5%
- Average Weekly Hours, Manufacturing	April	41.7	2.5%	2.0%
- Contracting Tax Receipts (3-month average)	Apr-Jun	\$45.1 million	12.5%	17.3%*
- Retail Sales Tax Receipts (3-month average)	Apr-Jun	\$165.1 million	2.1%	7.3%*
- Residential Building Permits (3-month moving average)				
Single-family	Mar-May	1,737	11.2%	14.7%
Multi-unit	Mar-May	590	46.3%	269.5%
- Greater Phoenix Home Sales				
Single-Family	May	9,843	6.6%	2.0%
Townhouse/Condominium	May	1,608	2.2%	5.1%
- Greater Phoenix Median Home Price				
Single-Family	May	\$185,000	2.0%	25.9%
Townhouse/Condominium	May	\$122,000	1.8%	27.1%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	April	132.47	1.7%	21.5%
- Foreclosure Activity, Maricopa County	June	8,027	(9.1)%	(55.2)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	June	19,511	(1.1)%	(1.7)%
- Phoenix Sky Harbor Air Passengers	May	3.47 million	1.0%	1.7%
- Revenue Per Available Hotel Room	May	\$57.53	(15.0)%	3.6%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	April	\$4.57	(16.9)%	40.2%
- Arizona Consumer Confidence Index (1985 = 100)	2nd Quarter 2013	69.6	N/A	1.5%
- Arizona Coincident Index (July 1992 = 100)	May	180.66	0.2%	2.0%
- Arizona Leading Index -- 6 month projected growth rate	Mar-May	1.9%	0.0%	(0.6)%
- Arizona Personal Income	1st Quarter 2013	\$238.0 billion	(1.5)%	2.5%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	July	1,278,412	0.3%	(0.2)%
Acute Care Traditional		889,319	0.3%	(0.1)%
Prop 204 Childless Adults		74,507	(1.5)%	(32.4)%
Other Prop 204		147,642	(0.2)%	(2.3)%
Kids Care		7,066	(1.7)%	(28.5)%
Kids Care II		37,980	5.4%	N/A
Long-Term Care – Elderly & DD		53,765	0.3%	2.5%
Emergency Services		68,133	0.8%	10.7%
- TANF Recipients	May	36,770	(0.3)%	(7.1)%
- SNAP (Food Stamps) Recipients	May	1,102,305	0.3%	(0.8)%
- ADC Inmate Growth (3-month average)	Apr-June	40,512	181 inmates	553 inmates
- Probation Caseload				
Non-Maricopa	April	17,722	(17)	(442)
Maricopa County	April	25,279	(22)	(350)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	1st Quarter 2013 (3 rd Estimate)	\$13.7 trillion	1.8%	1.6%
- Consumer Confidence Index (1985 = 100)	June	81.4	9.6%	29.8%
- Leading Indicators Index (2004 = 100)	May	95.2	0.1%	2.0%
- U.S. Semiconductor Billings (3-month moving average)	Mar-May	\$4.6 billion	5.6%	3.0%
- Consumer Price Index, SA (1982-84 = 100)	June	232.9	0.5%	1.8%

*Adjusted for 1¢ sales tax

Summary of Recent Agency Reports

Arizona Department of Administration - Report on Performance Standards for Health and Dental Plans - Pursuant to A.R.S. § 38-658B, the Arizona Department of Administration (ADOA) submitted its reports on performance standards for health and dental plans during 2012. For 2012, health plans missed anywhere from 2 to 10 performance measures in at least 1 month and dental plans missed 0 to 2 performance measures. The number of performance measures varied by vendor. In total, vendors paid \$315,000 in penalties during 2012 for missed standards in 2011. (Amy Upston)

AHCCCS – Report on Graduate Medical Education Residency Positions – Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the number of residency positions funded by local, county, or tribal governments. The agency indicates that these contributions in FY 2012 provided partial funding for 1,430 residency positions at the following 10 hospitals: Maricopa Medical Center, Kingman Regional Medical Center, Tucson Medical Center, Banner Good Samaritan, Phoenix Children’s Hospital, St. Joseph’s, Scottsdale Healthcare-Osborne, Scottsdale Healthcare-Shea, University Medical Center, and University Medical Center-South Campus.

The positions were funded by local contributions of \$51.2 million and a federal match of \$103.6 million, resulting in \$154.7 million total funding. (Amy Upston)

AHCCCS – Report on Safety Net Care Pool Distribution Notification – Pursuant to the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1), the Arizona Health Care Cost Containment System (AHCCCS) Administration has reported that it intends to distribute \$430 million in total funds for the Safety Net Care Pool (SNCP) program in FY 2014. The FY 2014 General Appropriation Act requires the Administration to notify the Joint Legislative Budget Committee if the distributions would exceed \$166 million in FY 2014.

The SNCP program uses voluntary monies from political subdivisions to draw down Federal Funds at a 2:1 match. The funds are then distributed to participating hospitals. As a condition of participating in this program, some of the monies must be used to expand KidsCare and/or the Childless Adult program. The original program was approved by the federal government in April 2012. The program was expanded a year later to include a hospital assessment passed by the city of Phoenix. The additional \$264 million distribution in FY 2014 is from the Phoenix hospital assessment. (Amy Upston)

AHCCCS and the Department of Health Services - Report on Reconciliation Payments - Pursuant to the FY 2013 General Appropriation Act (Laws 2012, Chapter 294, Section 126), the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS) submitted their reports on reconciliation payments and penalties received during FY 2013. AHCCCS reports that during that 12-month period they deposited \$5.4 million into the General Fund and used \$14.0 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions. DHS reports that \$58,800 from the General Fund and \$167,900 from Federal Medicaid Authority in reconciliation payments were returned during that period.

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.

Previously, the agencies retained monies from reconciliation payments and penalties. The FY 2013 Health and Welfare Budget Reconciliation Bill (Laws 2012, Chapter 299, Section 1) required that AHCCCS deposit monies received for reconciliation payments and penalties received into the General Fund or the fund from which the appropriation was originally made. (Amy Upston)

Economic Estimates Commissions – 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 2012 growth rate exceeded the trend growth rate by 1.67%, EEC reported on May 30, 2013 that the formula calls for a BSF deposit of \$145.6 million at the end of FY 2013. Note, however, that EEC calculations under the formula do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. In practice, the formula has only served as a general guideline and has rarely

Summary of Recent Agency Reports (Continued)

been used to determine the actual deposit or withdrawal.

The FY 2014 budget does not include an appropriation of these monies into the BSF. The BSF, however, does have a balance of slightly more than \$450 million as the result of FY 2012 and FY 2013 deposits. As session law, Laws 2013, Chapter 9 (HB 2009) also appropriates \$1 million of BSF interest income to both the Arts Fund and State Parks Revenue Fund in FY 2014. (Hans Olofsson)

Department of Economic Security (DES) – Report on the Long Term Care System Fund (LTCSF) – Pursuant to a FY 2013 General Appropriation Act footnote, DES reported \$25.8 million as the amount of LTCSF monies appropriated but not disbursed due to the receipt of additional Temporary Assistance for Needy Families (TANF) Block Grant monies in FY 2013.

For FY 2013, DES was appropriated an additional \$44.6 million from the non-federally matched portion of the LTCSF, as well as all available TANF Block Grant monies. A portion of the additional LTCSF appropriation was designated to backfill the projected loss of TANF Block Grant funds, specifically revenues from the TANF Contingency Fund and the TANF Population Supplemental. After the FY 2013 General Appropriation Act was passed, Congress reauthorized the TANF Contingency Fund, lessening the impact of lost TANF Block Grant revenues. Currently, the department anticipates revenues of \$26.8 million from the TANF Contingency Fund in FY 2013. By requiring DES to revert LTCSF monies dollar for dollar for TANF Block Grant monies received above \$22.8 million, the Legislature preserved \$25.8 million from LTCSF for use in FY 2014. (Ben Beutler)

Department of Economic Security - Report on Arizona Training Program at Coolidge (ATP-C) Campus and Other Placements - A footnote in the FY 2013 General Appropriation Act requires the Department of Economic Security (DES) to report on placements of developmentally-disabled (DD) clients into state-owned Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-ID) or at the ATP-C campus in FY 2013. DES reports that there were no new permanent placements at the ATP-C campus, but that there were 2 new placements into a state-operated ICF-ID in Phoenix in FY 2013. Both experienced increased medical needs and private facilities declined to accept placement of individuals. (Amy Upston)

Department of Education – Report on Empowerment Scholarship Accounts – Pursuant to A.R.S. § 15-2403F, the Department of Education (ADE) recently submitted an estimate of the amount required to fund empowerment scholarship accounts (ESAs) for FY 2014. In that report,

ADE estimates that 1,000 students will receive ESA funding in FY 2014 (versus 302 in FY 2013) at a total cost of approximately \$11.5 million (versus \$5.2 million in FY 2013). ESAs are funded with a portion of the Basic State Aid monies that a school district or charter school otherwise would have received for the student if they had remained in public school. As a result, ESAs typically do not increase state costs for Basic State Aid, since participants otherwise generally would be attending public schools. (Steve Schimpp)

Starting in FY 2015, however, Laws 2013, Chapter 250 expands the program to incoming Kindergartners regardless of whether they previously attended public school. As a result, the program will not automatically generate an offsetting Basic State Aid savings in the future for all program participants starting in FY 2015. ADE estimates that under Chapter 250 the number of students receiving ESAs will increase to approximately 5,500 students in FY 2015, which would greatly increase the number of ESA applications that it will have to process during FY 2014. (Steve Schimpp)

Department of Education – Report on Federal Monies for English Learners – Pursuant to A.R.S. § 15-756.10, paragraph 3, the Department of Education (ADE) recently submitted a report that includes an itemized list of all federal monies received by the department for English language learners in FY 2013. ADE received \$18.3 million in federal Title III (Language Instruction for Limited English Proficient and Immigrant Students) funding for FY 2013. Of that amount, approximately \$17.2 million was distributed directly to school districts and charter schools. The remaining \$1.1 million was used for state administration, technical assistance, and to meet federal set-aside requirements for immigrant education. (Steve Schimpp)

State Parks Board – Annual Report on Out-of-State Travel - Pursuant to a FY 2013 General Appropriation Act footnote, the State Parks Board submitted a report on out-of-state travel expenses in FY 2013. The footnote requires a report and also stipulates that during FY 2013, out-of-state travel expenses by State Parks Board staff shall not exceed \$5,000 from appropriated or non-appropriated monies. The Parks Board spent \$5,000 for out-of-state travel expenses in FY 2013. (Art Smith)

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, 130,602 students registered for the spring 2013 semester. Of the total students registered, the universities were able to verify the

Summary of Recent Agency Reports (Continued)

legal immigration status of 123,115 students. Additionally, the universities reported that 9,837 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 a total of 10 students were unverifiable due to their inability to provide the requisite documentation.

Department of Economic Security - The department reported that 4,524 applications were received for child care assistance during the reporting period of December 1, 2012 to May 31, 2013. Of this number, 2 were denied because criteria for citizenship or legal residency were not met.

Community Colleges - Statewide, the Community Colleges reported a total of 220,679 students classified as in-state for the spring 2013 semester. They reported 556 students who were not entitled to be classified as in-state because of a lack of lawful immigration status. Additionally, 85,493 students applied for financial aid. Of those who applied, the community colleges reported that 89 were not entitled to any aid because they were not lawfully present in the United States.

Department of Education – The department had previously been required to report on the number of people who applied for instruction in Arizona Adult Education and how many were denied instruction because they failed to provide evidence of citizenship or legal residence in the United States. Arizona Adult Education received no state funds in FY 2013 and is currently funded with Federal Funds. Consequently, the department is not required to report on those numbers. (Krista MacGahan)

June Spending

Due to lack of expenditure data from the Department of Administration at the time of this publication, this month's issue of *Monthly Fiscal Highlights* does not include any information on state expenditures.

Tracking Arizona's Recovery

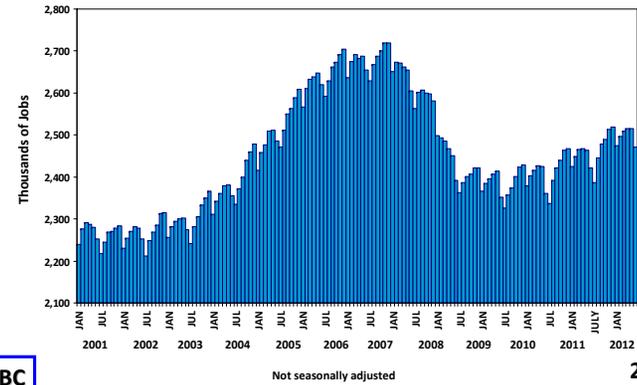
July 2013
Appendix A

Slide:

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

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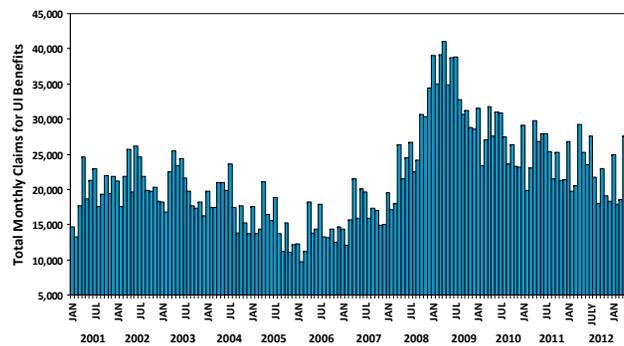
Total Non-Farm Employment



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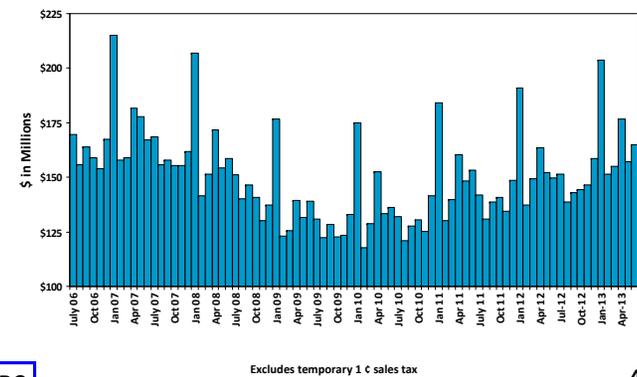
Initial Claims for Unemployment Insurance



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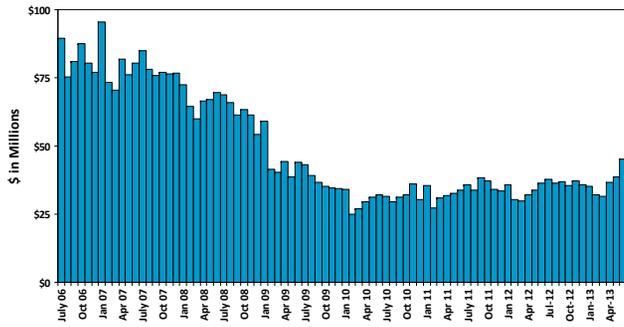
State Sales Tax Collections – Retail Category



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State Sales Tax Collections – Contracting Category

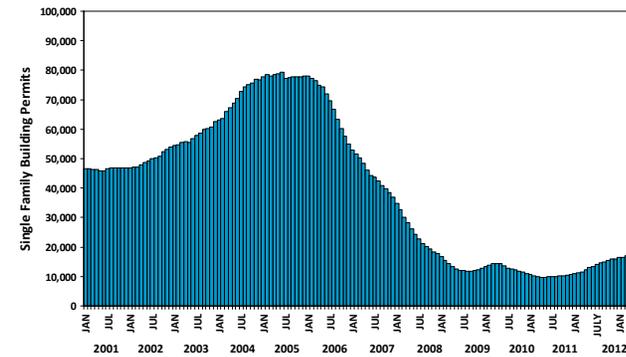


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Excludes temporary 1 ¢ sales tax

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Single Family Building Permits

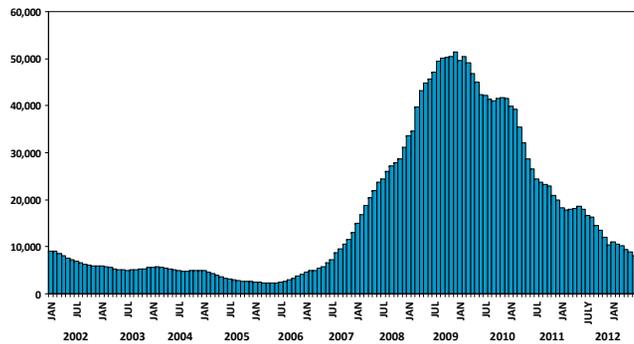


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12-Month Moving Sum

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Maricopa County Pending Foreclosures

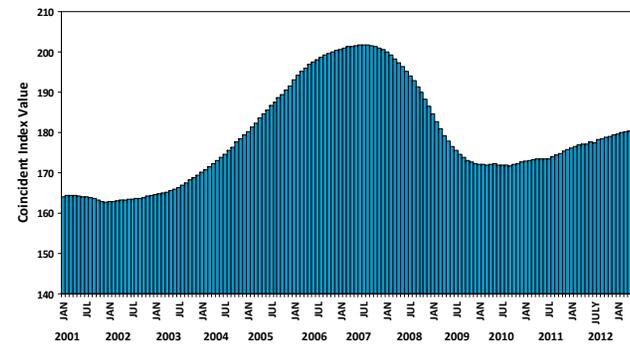


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An initial notice of trustee sale has been recorded but final sale has not yet occurred

7

Economic Activity Index



JLBC

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

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