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“At the end of the Regular Session, FY 2016 was projected to have an ending balance of \$225 million... the JLBC Staff is currently estimating the FY 2016 ending balance to be \$222 million.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on July 20, 2016.

Summary

The state's Fiscal Year 2016 ended on June 30th. The results reported in this *Monthly Fiscal Highlights* should be considered preliminary as the state will continue its book closing process over the next several months.

Given the information received so far, the following summarizes the status of FY 2016:

- June General Fund collections were \$(18) million below forecast, mostly due to modest forecast losses in the Individual and Corporate Income Tax categories.
- Total FY 2016 General Fund revenues were 5.0% above the prior year and \$25 million above the enacted budget forecast. Excluding Urban Revenue Sharing and one-time fund transfers, General Fund collections increased by 3.2% during the year.
- Total FY 2016 General Fund revenues were \$9.77 billion. This amount consists of \$9.45 billion from current FY 2016 revenue collections and a \$312 million beginning balance carried forward from FY 2015.
- Based on preliminary spending data from ADOA, FY 2016 General Fund spending is estimated to be \$9.54 billion, which is an increase of 3.0% above FY 2015 and \$28 million greater than anticipated. Agency “revertments” appear to be less than expected.

Each year, the enacted budget assumes a certain level of unspent agency appropriations. If the level of unspent appropriations, known as “revertments” is less than anticipated, the budgeted spending level can be exceeded.

At the end of the Regular Session, FY 2016 was projected to have an ending balance of \$225

million. Given higher than projected revenues of \$25 million, being offset by higher than expected spending of \$28 million, the JLBC Staff is currently estimating the FY 2016 ending balance to be \$222 million.

The enacted May budget had a projected FY 2017 ending balance of \$66 million. Given that the preliminary FY 2016 results were close to target, the FY 2017 balance projection remains unchanged at this time.

The official determination of the state's fiscal year ending balance will take several months. The General Appropriation Act requires the Executive Branch to provide a preliminary estimate of the FY 2016 ending balance by September 15, 2016. By law, the Department of Administration is required to publish its final FY 2016 accounting by December 1, 2016.

Operating Fund Balance

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The ending FY 2016 operating balance was \$2.7 billion, compared to \$2.5 billion a year earlier. As of mid-July, the operating fund balance has fallen to \$1.6 billion, primarily due to large K-12 rollover payments made in the beginning of the fiscal year.

In addition, the current Budget Stabilization Fund (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

Table of Contents

Summary

• FY 2016 Revenue.....	2
• FY 2016 Spending.....	3
• JLBC Staff News.....	3

June Revenues.....	3
---------------------------	----------

Monthly Indicators.....	6
--------------------------------	----------

Summary of Recent Agency Reports

• ADOA – Employee Health Insurance Fund	9
• ADOA – Health and Dental Plan Standards ..	9

• AHCCCS/DHS – Reconciliation Payments	9
• ADC – Health Care Vendor Report	9
• DES – ATP Coolidge Placements	9
• ADE – English Language Learners	10
• DHS – Report on Arnold v Sarn.....	10
• Ombudsman – Annual Report.....	10
• Universities – Performance Funding	11
June Spending.....	11
Tracking Arizona's Recovery	Appendix A

Summary (Continued)

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 funding is required to be paid back by September 1, 2016.

FY 2016 Revenue

FY 2016 General Fund revenues increased by \$449 million, or 5.0% above FY 2015. Excluding Urban Revenue Sharing and one-time fund transfers, General Fund collections increased by 3.2% during the year.

The FY 2016 revenue results were mixed across the state's major revenue categories. Collections were lower than forecasted in the Sales and Corporate Income Tax categories, while Individual Income Tax was higher than projected. Of the total forecast overage of \$25 million, \$64 million was attributable to the Individual Income Tax, being offset by loss of \$(45) million in Sales Tax, and \$(33) million in the Corporate Income Tax category. *Table 1* displays the performance of these revenue categories as compared to the enacted forecast.

	<u>Budgeted</u>	<u>Prelim. Actual</u>	<u>Above Forecast</u>
Sales	4.0%	2.9%	\$(45) M
Individual Income	3.8%	5.5%	\$64 M
Corporate Income	(8.9)%	(13.9)%	\$(33) M

Sales Tax

During FY 2016, the Sales Tax category posted a modest growth of 2.9% and a forecast loss of \$(45) million, the largest loss of any of the state's revenue categories. (This is a preliminary estimate based on currently available sales tax data from the Department of Revenue.) The FY 2016 growth rate was the lowest since FY 2011, when sales tax collections increased by 1.9%. The reasons for the lower-than-expected sales tax growth in FY 2016 are difficult to determine with available data.

However, a recent report from the Nelson A. Rockefeller Institute of Government indicates that Arizona is only one of many states nationwide that have experienced a slowing trend in the growth of sales tax revenues. The report attributes this trend at least in part to consumers' increased use of electronic commerce, under which some online retail sales transactions go untaxed. The report's authors did not attempt to quantify the lost tax dollars from online sales.

Another explanation for the slower growth in sales tax collections is that consumers appear to have become

more cautious in their discretionary spending in the post-Great Recession period, especially as it relates to "big-ticket" items. In addition, national data indicates that consumers are increasingly spending their income on services, which are not generally subject to state sales taxation.

Apart from national trends with respect to consumer behavior, there are also other conditions unique to Arizona. As an example, the 2013 "TPT Simplification" legislation may have had a net negative impact on Arizona sales tax growth in FY 2016. Among other provisions, the "TPT Simplification" law, which became effective in January 2015, shifted the taxation of materials used in smaller building projects from prime contracting to retail. As a result, contracting tax collections declined whereas retail sales tax collections increased. It is not clear, however, whether the increase in retail collections were enough to offset the (10)% decline of the contracting tax.

Individual Income Tax

Individual Income Tax grew by 5.5% in FY 2016 and ended up \$64 million above the enacted budget forecast. Most of this forecast overage related to Individual Income Tax withholding, which grew by 4.0%, the fastest growth rate since FY 2011.

Individual Income Tax payments, which are largely driven by capital gains, increased 8.9% during FY 2016. While this level of increase represents a healthy growth rate for this revenue source, it is notably lower than some of the double digit increases seen in the last several years.

Growth in payments slowed in the second half of FY 2016. The growth rate fell from 24.0% during the first 7 months of the fiscal year through January 2016 to 1.0% during the last 5 months. A portion of the payment growth earlier in the fiscal year may represent a carryover of strong gains from Tax Year 2014. Those gains generated higher income tax payments in April 2015, which may have in turn have caused taxpayers to increase their estimated payments through the end of the calendar year.

In calendar year (CY) 2015, the S&P 500 posted its first annual loss since the recession during CY 2008. As a result, April 2016 final payments did not grow as quickly. Those lower April 2016 payments may have led to lower June 2016 estimated payments, which were (9.8)% below last year.

Overall FY 2016 payment growth can also be explained by one-time revenues from the September 2015 tax amnesty and fiduciary income.

Summary (Continued)

Corporate Income Tax

The category posting the second largest forecast loss was the Corporate Income Tax, which declined by (13.9)% for the year and came in at \$(33.2) million below the enacted budget forecast in FY 2016. As JLBC Staff has noted in prior *Monthly Fiscal Highlights*, the reasons for fluctuations in this tax category are difficult to determine without access to timely corporate tax return data. However, one factor in the significant decrease is the decline in the Corporate Income Tax rate that is being phased in through Tax Year (TY) 2017.

Even states with stable corporate tax rates, however, are seeing declines in their tax collections. These losses are being attributed to lower corporate profitability. While we lack Arizona-specific data, national before-tax profits have been declining.

The federal Bureau of Economic Analysis (BEA) and IHS Global Insight, an economic consulting firm, report that national corporate profits declined (year over year) in each of the last 3 quarters. The decline in corporate profits followed the record high levels reported by BEA for the second and third calendar year quarters of 2015.

As a result, Arizona's FY 2016 corporate collections decline can probably be attributed to both the effects of previously enacted corporate tax reductions and an overall decline in corporate profitability.

FY 2016 Spending

Total FY 2016 General Fund spending is projected to be \$9.54 billion, which represents an increase of 3.0% above FY 2015. This spending level is \$28 million above the amount assumed in the enacted budget. Each year during the budget process, the projected spending levels assume a certain level of "revertments", which are appropriations to agencies which remain unspent. To the extent that the amount of agency revertments is less than assumed, the actual level of spending can exceed the amount contained in budget estimates. Based on available data, it appears the above-budgeted spending is the result of lower-than-expected revertments.

JLBC Staff News

In staff news, Bob Hull has retired after almost 40 years of service at the JLBC. Congratulations to Bob!

June Revenues

Table 2

	General Fund Revenues (\$ in Millions)		
	FY 2016 Collections	Difference From Budget Forecast	Difference From FY 2015
June	\$ 1,152.0	\$ (18.2)	\$ 16.6
Year-to-Date	\$ 9,453.1	\$ 25.0	\$ 448.6

Sales Tax collections during June are estimated to be \$368.0 million and 6.3% above June of last year. Revenues for the category are projected to be \$6.6 million above the forecast for the month. Total FY 2016 sales tax revenue increased by 2.9%, which was the lowest growth rate since FY 2011 when collections increased by 1.9%. Total FY 2016 sales tax revenue of \$4.32 billion was \$(44.8) million below forecast.

As shown in *Table 3*, among the 5 major sales tax categories, which together make up 90% of total collections, only the contracting category performed well in June. While contracting tax revenue increased (year over year) by 18.5%, all the other tax categories grew by 0% to 1.8%.

Table 3

	Sales Tax Growth Rates Compared to Prior Year	
	June	YTD
Retail	0.1%	5.6%
Contracting	18.5%	(10.0)%
Use	1.8%	0.8%
Restaurant & Bar	1.7%	5.5%
Utilities	0.0%	1.7%

Individual Income Tax net revenues of \$375.2 million in June were \$(18.8) million less than the prior year and \$(19.0) million below forecast for the month. Total FY 2016 revenues have grown by 5.5% and are \$63.8 million above the forecast for the year. As indicated in *Table 4*, withholding decreased (3.0)% in June. The monthly decrease brings withholding tax collections for

June Revenues (Continued)

the fiscal year to 4.0% over the prior year. This amount is \$64.2 million above the forecast for the year.

June estimated and final payments of \$119.1 million were (8.6)% below last year, and were \$(11.6) million below the forecast. Total FY 2016 payments were \$12.1 million above the forecast and 8.9% above FY 2015.

June Individual Income Tax refunds totaled \$(40.3) million – this compares to \$(41.9) million in June 2015. In total during FY 2016, refunds increased compared to the prior year, which has resulted in a loss of \$(12.5) million compared to the enacted forecast.

Due to the implementation of a new accounting system, DOR has made **technical adjustments** to prior month collection figures. For June, DOR has decreased the amount of prior General Fund revenue collections by \$(66,100), and the adjustment has been included in the reported year-to-date results. June Luxury Tax numbers represent forecasted amounts since actual amounts have not yet been reported.

Table 4

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

	<u>June</u>	<u>YTD</u>
Withholding	(3.0)%	4.0%
Estimated/Final Payments	(8.6)%	8.9%
Refunds	(3.8)%	4.6%

Corporate Income Tax net collections were \$95.0 million in June, which was (13.6)% lower than June 2015. Collections for the month were \$(12.0) million below the enacted forecast. Total FY 2016 collections of \$570.5 million were (13.9)% below the prior year and \$(33.2) million below forecast. This decrease is probably the result of the decline in the Corporate Income Tax rate along with lower corporate profitability.

The **Lottery Commission** reports that June ticket sales were \$66.4 million, which is \$6.5 million, or 10.8%, above sales in June 2015. Total FY 2016 ticket sales were \$870.9 million, which is 16.1% above last year's sales. As of the publication of this document, Lottery had yet to complete year-end processing of General Fund proceeds from ticket sales. The JLBC Staff projects that FY 2016 General Fund revenue from Lottery proceeds will be \$10.9 million above prior year revenue and \$11.4 million above the enacted forecast.

Insurance Premium Tax collections of \$87.3 million in June were \$2.8 million above the prior year and \$8.0 million above the forecast. Total FY 2016 revenues are 9.1% above last year and \$26.7 million above forecast.

Highway User Revenue Fund (HURF) collections of \$115.4 million in June were up \$5.1 million, or 4.6% compared to June of last year. Total FY 2016 revenues were \$66.3 million above collections in the prior year and \$25.0 million above forecast. Above forecast HURF collections are likely the result of the decline in gas prices during FY 2016, which tends to increase gas consumption and collections of the state's fixed price-per-gallon gas tax.

Table 5

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

	Current Month					FY 2016 YTD (Twelve Months)				
	Actual June 2016	Change From June 2015		Budget Forecast		Actual June 2016	Change from June 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$368,000,000	\$21,754,449	6.3 %	\$6,615,662	1.8 %	\$4,315,186,609	\$122,892,773	2.9 %	(\$44,785,994)	(1.0) %
Income - Individual	375,217,930	(18,815,643)	(4.8)	(18,989,862)	(4.8)	3,967,919,501	206,575,507	5.5	63,757,301	1.6
- Corporate	95,046,699	(14,957,761)	(13.6)	(11,997,952)	(11.2)	570,547,697	(92,455,323)	(13.9)	(33,249,003)	(5.5)
Property	6,519,150	102,202	1.6	(882,005)	(11.9)	38,540,536	2,024,660	5.5	(1,626,964)	(4.1)
Luxury - Tobacco	2,369,612	348,071	17.2	0	0.0	24,595,891	950,135	4.0	827,791	3.5
- Liquor	2,319,112	(341,511)	(12.8)	0	0.0	33,273,265	172,074	0.5	(326,435)	(1.0)
Insurance Premium	87,276,962	2,829,183	3.4	7,950,513	10.0	490,576,281	41,029,527	9.1	26,709,081	5.8
Other Taxes	578,634	66,400	13.0	(21,879)	(3.6)	7,677,089	137,229	1.8	(239,811)	(3.0)
Sub-Total Taxes	\$937,328,099	(\$9,014,610)	(1.0) %	(\$17,325,523)	(1.8) %	\$9,448,316,868	\$281,326,583	3.1 %	\$11,065,966	0.1 %
Other Revenue										
Lottery	12,000,000	(9,187,073)	(43.4)	(12,798,876)	(51.6)	76,972,750	10,876,477	16.5	11,357,450	17.3
License, Fees and Permits	3,302,267	(980,359)	(22.9)	(1,089,262)	(24.8)	30,158,057	(947,947)	(3.0)	(1,881,143)	(5.9)
Interest	13,346,122	3,415,310	34.4	67,611	0.5	13,338,392	3,124,453	30.6	(227,908)	(1.7)
Sales and Services	10,814,293	(1,456,528)	(11.9)	(742,011)	(6.4)	36,682,881	(1,509,468)	(4.0)	400,181	1.1
Other Miscellaneous	73,446,008	3,226,704	4.6	17,948,322	32.3	94,400,996	16,492,566	21.2	13,638,696	16.9
Disproportionate Share	93,866,311	6,044,405	6.9	11	0.0	93,866,311	6,044,405	6.9	11	0.0
Transfers and Reimbursements	17,635,248	(1,396,118)	(7.3)	(7,508,544)	(29.9)	44,713,622	(12,301,817)	(21.6)	(12,600,278)	(22.0)
Sub-Total Other Revenue	\$224,410,248	(\$333,657)	(0.1) %	(\$4,122,749)	(1.8) %	\$390,133,010	\$21,778,669	5.9 %	\$10,687,010	2.8 %
TOTAL BASE REVENUE	\$1,161,738,347	(\$9,348,267)	(0.8) %	(\$21,448,272)	(1.8) %	\$9,838,449,878	\$303,105,252	3.2 %	\$21,752,975	0.2 %
Other Adjustments										
Urban Revenue Sharing	(50,469,521)	275,113	--	0	0.0	(605,634,326)	3,301,374	--	(26)	0.0
One-Time Transfers	40,699,300	25,699,300	171.3	3,278,855	8.8	220,296,555	142,173,052	182.0	3,278,855	1.5
Sub-Total Other Adjustments	(9,770,222)	25,974,412	-- %	3,278,855	(25.1) %	(385,337,771)	145,474,426	-- %	3,278,829	(0.8) %
TOTAL GENERAL FUND REVENUE	\$1,151,968,126	\$16,626,145	1.5 %	(\$18,169,417)	(1.6) %	\$9,453,112,106	\$448,579,678	5.0 %	\$25,031,804	0.3 %
Non-General Funds										
Highway User Revenue Fund	\$115,352,316	\$5,114,670	4.6 %	\$3,657,869	3.3 %	\$1,356,752,138	\$66,313,354	5.1 %	\$25,019,313	1.9 %

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 1.1% in the first quarter of 2016. This estimate represents a modest slowdown from weak 1.4% growth in the fourth quarter of 2015. The deceleration relative to the prior quarter was primarily due to decreases in business investment and federal spending and a slowdown in consumption growth. Declining performance in these categories was partly offset by increases in household investment and state and local government spending. Based on the pattern of quarterly growth seen in recent years, economists expect that the low first quarter reading could reflect a BEA measurement problem and that growth will accelerate in the second quarter.

The Conference Board's **U.S. Consumer Confidence Index** increased 5.6 points in June, which represents the largest single month increase since August 2015. The monthly increase reflected improved optimism in both consumers' views of current employment prospects and the outlook of the economy 6 months in the future. The latest monthly survey was completed prior to Britain's vote to leave the European Union.

The Conference Board's **U.S. Leading Economic Index** decreased by (0.2)% in May, but still stands 1.2% above its May 2015 reading. The monthly percentage decrease reverses some of the 0.6% increase in April. Of the index's 10 components, 7 made positive contributions in May. The greatest positive contributions came from movement in interest rates. Positive impacts were partly offset by increases in initial claims for unemployment insurance.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.2% in May, relative to April. The increase was driven by a 1.4% monthly increase in energy prices. The overall index stands 0.9% above the May 2015 level, which is well below the Federal Reserve Bank's 2% annual inflation target. The low measure is largely due to a (10.9)% 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 May.

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 May 2015. Over the same time period, the U.S. coincident index increased by 3.0%. See *Appendix A – Tracking Arizona's Recovery for additional historical information*.

Housing

Single-family housing construction is accelerating, while multi-family construction has peaked. Arizona's 12-month total of **single-family building permits** is 23,908, or 25.1% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 11.4%. 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 9,258 **multi-family building permits** is 8.1% more than 2015. Arizona's rate of increase is now similar to the comparable multi-family permit growth for the U.S. as a whole, which is 7.6% above 2015.

Employment

As of this writing, the Arizona Department of Administration had not published state employment and unemployment figures for the month of June.

In May, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 35.0 hours. This workload was the highest amount measured since August 2015 and is 1.2% above the May 2015 level.

The **Average Hourly Earnings** received by these private sector workers was \$23.68, which is (1.0)% below the average in the prior month. May earnings were 3.1% above the average in May 2015, and represent the third consecutive month of 3.0% growth or more.

The U.S. Department of Commerce Bureau of Economic Analysis quarterly releases estimates of annual **Personal Income** received in each state. This measure includes wages and salaries, proprietors' income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In the first quarter of 2016, Arizona personal income increased year-over-year by

Monthly Indicators (Continued)

4.8%, to \$274.7 billion. Income from wages and salaries grew by 5.7% on a year-over-year basis, which was the highest rate of increase since the fourth quarter of 2012.

Tourism

Revenue per available room was \$71.30 in May, which was 6.9% above the amount in May 2015. Year-to-date, revenue per available room is 3.3% above the 2015 year-to-date amount through May. Ridership during May through Phoenix Sky Harbor Airport was flat compared to May 2015.

State Agency Data

At the beginning of July 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 549,900 members.

Total monthly enrollment increased by 3,600 members, or 0.2%, during June. The overall June increase was concentrated in the Traditional population of low income parents and children. Enrollment in this population increased 8,800, or 0.8%, in June. At a combined level of 1,245,500 members, the Traditional and Proposition 204 parent populations were 4.7% higher than a year ago.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In June 2016, the childless adult population decreased by (1,900), or (0.6)%. At 307,100, this population is 8.9% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (3,100) in June and now totals 80,300 individuals. Enrollment is 22.7% higher than a year ago. The federal government is currently paying 100% of this cost through the end of calendar year 2016.

There were 20,163 **TANF recipients** in the state in June, representing a 2.2% increase from May. The year-over-year number of TANF recipients has declined by (14.5)%. The statutory lifetime limit on cash assistance was 24 months in June, but that limit changes to 12 months starting in July 2016.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June, 961,650 people received food stamp assistance in the state, representing a 1.2% increase over May caseloads. Compared to June caseloads last year, the level of food stamp participation has declined by (3.7)%.

ADC reported an **inmate population** of 42,960 as of June 30, 2016. The population increased by 0.1% since May, and 0.6% since last June. The FY Criminal Justice Budget Reconciliation Bill (Laws 2016, Chapter 119) session law provided that if the male inmate count exceeds the April 2016 level of 38,762 male inmates by 1,000 at the end of November 2016 that the department has the authority after visiting the JCCR to open 1,000 additional male private beds. At the end of June, ADC reported 112 more male prisoners than in April 2016.

As of April 2016, the Department of Child Safety received 49,673 **reports of child maltreatment** in the last 12 months, which was a decrease of (1.6)% over the prior year. There were 18,861 **children in out-of-home care** in April 2016, or (0.3)% fewer children than in March 2016. Year-over-year, the number of out-of-home children is up by 5.9%.

Table 6

MONTHLY INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	May	5.6%	0.1%	(0.5)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2016	11.7%	(1.1)%	(2.6)%
- Initial Unemployment Insurance Claims	May	20,319	(16.7)%	6.3%
- Unemployment Insurance Recipients	May	31,255	9.8%	(3.9)%
- Non-Farm Employment - Total	May	2,698,400	(0.7)%	2.7%
Manufacturing	May	159,600	1.3%	1.6%
Construction	May	136,100	1.1%	7.2%
- Average Weekly Hours, Private Sector	May	35.0	2.0%	1.2%
- Average Hourly Earnings, Private Sector	May	\$23.68	(1.0)%	3.1%
<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	May	23,908	0.1%	25.1%
Multi-family	May	9,258	9.0%	8.1%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	May	7,038	7.6%	13.8%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	May	\$240,000	1.7%	9.1%
- Phoenix S&P/C Home Price Index (2000 = 100)	April	158.73	0.7%	5.5%
- Maricopa Pending Foreclosures	May	3,839	(7.4)%	(28.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	May	25,849	(4.3)%	5.1%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	May	3.7 million	0.0%	0.0%
- 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	May	\$71.30	(17.3)%	6.9%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	2 nd Q 2016	80.0	(2.0)%	1.1%
- Arizona Coincident Index (July 1992 = 100)	May	225.51	0.0%	3.7%
- Arizona Leading Index -- 6 month projected growth	May	0.8%	(1.7)%	(3.9)%
- Arizona Personal Income	1 st 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	July 1 st	1,808,006	0.2%	6.2%
Acute Care Traditional		1,063,327	0.8%	2.1%
Prop 204 Childless Adults		307,117	(0.6)%	8.9%
Other Prop 204		182,205	(0.4)%	22.8%
Adult Expansion		80,265	(3.7)%	22.7%
Kids Care I		549	(7.7)%	(45.4)%
Long-Term Care – Elderly & DD		58,287	0.1%	2.1%
Emergency Services		116,256	0.4%	8.5%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	April 2016	49,673	(1.0)%	(1.6)%
DCS Out-of-Home Children	April	18,861	(0.3)%	5.9%
Filled Caseworkers (1,406 Budgeted)	June	1,355	28	92
- ADC Inmate Growth	June	42,960	0.1%	0.6%
- Department of Economic Security				
- TANF Recipients	June	20,163	2.2%	(14.5)%
- SNAP (Food Stamps) Recipients	June	961,650	1.2%	(3.7)%
- Judiciary Probation Caseload				
Non-Maricopa	May	18,525	(42)	229
Maricopa County	May	27,689	(45)	856
United States				
- Gross Domestic Product	1 st Q, 2016 (3 rd Estimate)	\$16.5 trillion	2.1%	1.1%
(Chained 2009 dollars, SAAR)				
- Consumer Confidence Index (1985 = 100)	June	98.0	6.1%	(1.8)%
- Leading Indicators Index (2010 = 100)	May	123.7	(0.2)%	1.2%
- Consumer Price Index, SA (1982-84 = 100)	May	239.4	0.2%	1.1%
- Personal Consumption Price Index (2009 = 100)	May	110.4	0.2%	0.9%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Financial Status of the Special Employee Insurance Trust Fund – Pursuant to A.R.S. § 38-654G, the Arizona Department of Administration (ADOA) is submitting their required annual actuarial report on the financial status of the Health Insurance Trust Fund (HITF). The actuarial assumptions used to develop HITF projections include healthcare trends (cost, utilization, and severity of services), enrollment trends, and revenue projections including legislative fund transfers. ADOA reported that the plan is actuarial sound for Plan Year (PY) 2015 and 2016. For PY 2016, ADOA assumes an inflation and utilization trend of 4.1% which consists of medical costs increasing by 2.7 %, pharmaceutical costs increasing by 9.4%, and enrollment increasing by 1.2%.

Compared to the FY 2015 balance of \$339.8 million, the projected HITF balance is \$323.4 million at the end of FY 2016 and \$182.2 million at the end of FY 2017. In addition, the FY 2017 General Appropriation Act requires a \$78.9 million transfer from HITF in FY 2017. ADOA's reserve strategy consists of fully funding incurred but not reported (IBNR) liabilities and funding a contingency reserve of approximately 15% of annual expenses. (Rebecca Perrera)

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 calendar year 2015. For 2015, health plans missed anywhere from 0 to 6 performance measures in at least 1 month and dental plans missed 0 to 1 performance measure. The number of performance measures varied by vendor. Vendors are required to submit corrective action plans after failing to meet performance standards. In total, vendors paid \$581,200 in penalties during 2016 for missed standards in 2015. In comparison, vendors paid \$211,000 in penalties last year. (Rebecca Perrera)

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 FY 2016. AHCCCS reports that during that 12-month period they deposited \$14.6 million into the General Fund and \$13.1 million into the Hospital Assessment Fund, and used \$89.2 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions. DHS reports that \$1.6 million from the General Fund and \$3.1 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 by health plans/RBHAs to the state if 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. Beginning in FY 2017, Laws 2015, Chapters 19 and 195 transfer the administration of state contracts with RBHAs from DHS to AHCCCS.

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 Corrections – Report on Health Care Credits Taken Against Payments To Health Care Vendor – The state can seek Medicaid reimbursement for the costs of outside medical care for eligible inmates. To receive reimbursement, the care is paid by the Arizona Health Care Cost Containment System (AHCCCS). The Department of Corrections (ADC) pays the state match portion, and AHCCCS covers the federal portion. Since ADC already pays for all health care of inmates in state facilities in the inmate health care services contract, the total dollar amount of Medicaid expenditures is offset on subsequent invoices by the vendor. The savings to the department is the federal portion.

A.R.S. § 35-142.01 allows the department in the current fiscal year to take credit against payments for the total expenditures paid for hospitalization and outside medical care from the current fiscal year or previous years. The statute requires a report by July 1 for the credits taken for the previous fiscal year.

For FY 2016, the department took \$10.7 million in credits. This is a 23% increase over last year. The department paid \$1.5 million for the state match, and received \$9.2 million in net savings. Of the total credited amount, \$1,400 was for services rendered in FY 2014, \$3.8 million was for services rendered in FY 2015, and \$6.9 million was for services rendered in FY 2016.

As of June 2016, ADC reported \$9.3 million in credits for services rendered in FY 2015. Of the credited amount, \$5.4 million was credited in FY 2015 and \$3.8 million in FY 2016. (Micaela Larkin)

Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus and Other Placements – A footnote in the FY 2016 General Appropriation Act requires the Department of

Summary of Recent Agency Reports (Continued)

Economic Security (DES) to report on placements of developmentally-disabled (DD) clients into state-owned Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF-IID) or at the ATP-C campus in FY 2016. DES reports that there were 3 new permanent placements into a state-operated ICF-IID in Phoenix in FY 2016. These members were admitted to the Phoenix ICF-IID after no skilled nursing facilities would accept them due to their individual medical issues. There were no new placements into any other state-run ICF-IID or the ATP-C campus in FY 2016. (Tom Ritland)

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 2016. ADE received \$14.1 million in federal Title III (Language Instruction for Limited English Proficient and Immigrant Students) funding for FY 2016. Of that amount, approximately \$13.4 million was distributed directly to school districts and charter schools. The remaining \$0.7 million was used for state administration, technical assistance, and to meet federal set-aside requirements for immigrant education. (Steve Schimpp)

Department of Health Services – Report on Arnold v. Sarn – Pursuant to a FY 2016 General Appropriation Act footnote, the Department of Health Services (DHS) has submitted the report for the third and fourth quarter of FY 2016 on implementing the *Arnold v. Sarn* joint agreement.

The state has been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the Seriously Mentally Ill (SMI) population. In January 2014, both parties filed a joint agreement with the court to terminate the lawsuit. The agreement, which received court approval in February 2014, requires expansion of certain services by June 2016. These services include Assertive Community Treatment (ACT), Peer Support, Supported Employment, and Supportive Housing.

DHS has met the requirements for expanding capacity for each of these service categories. Laws 2015, Chapters 19 and 195 transferred behavioral health services to the Arizona Health Care Cost Containment System (AHCCCS). As a result, AHCCCS is now responsible for ensuring adequate capacity of *Arnold v. Sarn* services in FY 2017 and in subsequent years and will submit this report in FY 2017.

Assertive Community Treatment (ACT): The joint agreement requires DHS to establish 8 additional ACT teams. ACT teams include more than 10 specialized

health care professionals that provide community-based services that are tailored to the client's needs. DHS has added 2 teams since December 2015, increasing the total number of ACT teams to 23. Since the beginning of FY 2015, DHS has added a total of 8 ACT teams. DHS estimates that the cost per team added is approximately \$1.5 million, resulting in a Total Fund cost of \$11.6 million to add 8 teams, including \$8.7 million from the General Fund.

Peer Support: The joint agreement requires DHS to provide peer support services to an additional 1,500 SMI clients. Peer support services are delivered in individual and group settings by individuals who have personal experience with mental illness, substance abuse, and recovery. DHS has added a total of 2,212 clients since the beginning of FY 2015, increasing the total number of Class Members receiving peer support services to 4,535. DHS estimates that the cost per client for such services is approximately \$1,100, resulting in a Total Fund cost of \$2.4 million for adding the 2,212 SMI clients, including \$1.8 million from the General Fund.

Supported Employment: The joint agreement requires DHS to provide supported employment services to an additional 750 SMI clients. Supported employment services include assistance in attaining employment, job coaching, transportation, specialized job training and individually tailored supervision. DHS has added 819 clients since the beginning of FY 2015, increasing the total number of Class Members receiving supported employment services to 1,292. DHS estimates that the cost per client for such services is approximately \$1,600, resulting in a Total Fund cost of \$1.3 million for adding the 819 clients, including \$1 million from the General Fund.

Supportive Housing: The joint agreement requires DHS to provide supported housing services to an additional 1,200 SMI clients. Supportive housing includes financial assistance such as rental subsidies as well as support services to help clients obtain and maintain housing. DHS has added 2,805 clients since the beginning of FY 2015, increasing the total number of Class Members receiving supportive housing services to 5,350. DHS estimates that the cost per client for such services is approximately \$26,300, resulting in a Total Fund cost of \$73.7 million to add the 2,805 clients, including \$62.6 million from the General Fund. (Patrick Moran)

Ombudsman-Citizens Aide Office – Annual Report – Pursuant to A.R.S. § 41-1376, the Ombudsman-Citizens Aide is required to submit an annual report by January 1 summarizing their activities during the previous fiscal year (FY), and semiannually present this report before Legislative Council. The Ombudsman-Citizens Aide issued an annual report for Calendar Year (CY) 2015 dated June 30, 2016. The CY 2015 annual report cites

Summary of Recent Agency Reports (Continued)

examples of cases in the office's 3 focus areas: general complaints about state agencies, Department of Child Safety cases, and public access cases. There were 4,967 total cases in CY 2015 including 3,170 involving coaching, 1,412 needing assistance, and 385 requesting investigations. Of the 385 requests for investigations, 250 were completed, 6 are ongoing, 68 were discontinued or the complaint was withdrawn, and the Ombudsman declined to investigate 61. (Bob Hull)

Universities – Report on Performance Funding – Pursuant to a footnote in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117, Section 101), the Arizona Board of Regents (ABOR) is to report to the Joint Legislative Budget Committee (JLBC) by July 1, 2016 on the final allocation of performance funding for each university. ABOR received \$5.0 million in FY 2017 for a performance-based funding model. According to ABOR, they allocated \$2.7 million to Arizona State University, \$1.1 million to Northern Arizona University, and \$1.2 million to the University of Arizona. These amounts are the same as the FY 2015 and FY 2016 performance funding allocations. (Matt Beienburg)

June Spending

June 2016 General Fund spending of \$828.9 million was \$276.5 million above June 2015. The spending increase for the month is partly due to technical factors as well as the result of payments to eliminate the Universities, DCS and DCS "rollovers". The elimination of these deferred payments was authorized as part of the May enacted budget.

Year to date, spending is \$9.54 billion, or \$286.2 million above last year. This level of spending was \$28 million above the amount assumed in the enacted budget. (See Tables 7 & 8).

- Department of Corrections spending increased by \$59.0 million during FY 2016. This spending is the result of several operating funding increases: 1) Retirement contribution rate increase; 2) Funding for inmate health care inflation adjustments; and 3) Annualization of the cost of opening new prison beds.

- Year to date, the Department of Education has spent \$114.3 million more than the prior year. This spending growth is in part due to the funding increase associated with Proposition 123.
- In FY 2016, year-to-date Schools Facilities Board spending increased by \$50.9 million, due to increased funding for building renewal, debt service, and monies which are now being used for the newly-created Public School Credit Enhancement Program.
- Universities' spending increased by \$98.3 million during FY 2016. This is the result of 2 offsetting factors: 1) The original FY 2016 budget contained a \$(99.0) million spending reduction; 2) The May enacted budget included a one-time \$200 million spending increase for the Universities' to eliminate their payment deferral.

Agency	Change From			YTD Change from FY 15
	June 16	June 15	Year-to-Date	
AHCCCS	117.9	5.3	1,197.6	(30.8)
Corrections	82.5	(15.7)	1,037.2	59.0
Child Safety	25.9	(33.5)	414.3	113.4
Economic Security	42.6	100.5	519.9	(19.1)
Education	285.9	42.6	3,945.4	114.3
Health Services	18.0	6.3	605.8	(9.1)
Public Safety	2.7	1.6	91.0	3.2
School Facilities Board	40.0	49.3	230.6	50.9
Universities	155.8	110.2	869.7	98.3
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>57.6</u>	<u>9.9</u>	<u>547.9</u>	<u>(93.9)</u>
Total	828.9	276.5	9,543.5	286.2

General Fund Spending				
(\$ in Thousands)				
Agency	June 16	Change from June 15	Year-to-Date	YTD Change from FY 15
Dept. of Admin./Automation Projects Fund	6,077.1	(267.5)	31,064.4	(42,728.5)
ADOA – Sale/Leaseback Debt Service	-	-	84,114.6	(7.1)
Office of Administrative Hearings	63.7	9.7	861.7	(0.8)
Commission of African-American Affairs	8.8	(2.5)	126.7	86.3
Department of Agriculture	634.0	(338.6)	8,240.6	(11.6)
AHCCCS	117,934.4	5,329.8	1,197,554.2	(30,802.5)
Attorney General	3,141.5	(86.8)	23,720.5	318.6
State Board of Charter Schools	72.1	8.6	1,046.3	148.2
Department of Child Safety	25,937.9	(33,455.5)	414,294.3	113,405.2
AZ Commerce Authority	2,283.3	(416.7)	26,800.0	(5,000.0)
Community Colleges	2,686.2	2,686.2	54,255.1	(17,803.8)
Corporation Commission	66.1	8.6	609.0	(1.4)
Department of Corrections	82,454.4	(15,746.5)	1,037,172.5	59,009.6
County Funding	-	-	6,000.5	(1,650.0)
AZ State Schools for the Deaf & Blind	1,155.7	(505.9)	23,122.1	1,896.5
Department of Economic Security	42,639.3	100,507.8	519,887.9	(19,133.6)
State Board of Education	86.5	(86.5)	1,195.3	990.8
Department of Education	285,885.8	42,614.0	3,945,377.7	114,251.8
DEMA	4,409.9	4,155.4	14,441.6	6,356.5
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	9.5	(45.4)	187.4	(1.0)
State Board of Equalization	54.5	10.2	543.7	40.9
Board of Executive Clemency	77.1	(0.2)	909.1	(0.5)
Department of Financial Institutions	202.4	(16.5)	2,929.6	(79.0)
Department of Fire, Bldg and Life Safety	187.3	31.8	2,207.5	270.2
State Forester	1,318.5	(530.0)	8,745.0	(18.7)
Department of Gaming	-	-	1,794.4	1,794.4
Arizona Geological Survey	53.7	(28.3)	936.9	(4.8)
Governor/OSPB	655.8	(402.0)	10,089.2	(1,602.4)
Department of Health Services	18,020.3	6,269.9	605,775.7	(9,074.0)
Arizona Historical Society	185.2	3.0	3,157.2	1.5
Prescott Historical Society of AZ	65.8	8.1	898.0	88.2
Independent Redistricting Comm.	103.6	70.0	1,759.9	823.7
Commission of Indian Affairs	10.8	3.9	57.6	3.0
Department of Insurance	442.2	(22.3)	5,069.5	(212.5)
Judiciary				
Supreme/Superior Court	2,589.1	(1,049.6)	90,730.7	(5,044.0)
Court of Appeals	1,340.2	9.3	14,300.5	(47.7)
Department of Juvenile Corrections	3,491.7	(516.1)	25,669.2	(15,240.7)

Table 8 (Continued)

Agency	June 16	Change from June 15	Year-to-Date	YTD Change from FY 15
State Land Department	2,580.2	932.5	12,403.4	(103.0)
Legislature				
Auditor General	1,872.7	1,734.8	18,604.6	(234.7)
House of Representatives	894.0	(49.1)	13,683.0	340.3
Joint Legislative Budget Comm.	178.1	(34.7)	2,261.8	(46.6)
Legislative Council	589.1	199.3	6,243.8	(1,607.4)
Senate	687.1	94.5	7,946.7	(739.6)
Mine Inspector	139.6	43.7	1,180.4	28.3
Nav. Streams & Adjudication	10.8	(10.3)	120.8	(68.2)
State Board of Nursing	-	-	-	(150.0)
Occupational Safety and Health Review	-	-	2.5	1.6
Arizona State Parks Board	5.2	(66.4)	423.0	351.4
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	-	3.9	-	(1,599.2)
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	2,744.6	1,649.0	91,022.7	3,226.8
Public Safety Personnel Retirement System	-	-	6,000.0	-
Arizona Department of Racing	-	(82.8)	-	(2,014.4)
Radiation Regulatory Agency	0.2	(55.3)	1,595.5	128.2
Real Estate Department	309.3	81.5	2,561.3	31.8
Department of Revenue	2,251.0	(2,363.8)	30,698.1	(15,750.9)
Rio Nuevo Distribution	10,000.0	3,042.0	10,000.0	3,042.0
School Facilities Board	40,018.8	49,307.9	230,621.4	50,940.7
Secretary of State	2,476.8	1,550.5	14,849.3	979.6
Tax Appeals Board	37.9	17.2	262.8	(0.8)
Office of Tourism	-	-	7,103.7	(2,000.0)
Department of Transportation	42.7	42.7	49.7	49.7
Universities				
Board of Regents	9,575.1	9,574.7	30,816.1	5,887.7
Arizona State University	16,747.5	(4,809.6)	380,677.0	31,393.4
Northern Arizona University	36,446.7	29,131.2	131,412.4	13,131.2
University of Arizona	93,010.1	76,343.7	326,822.7	47,896.2
Department of Veteran Services	873.8	227.5	6,010.7	793.6
Department of Water Resources	1,622.2	526.6	11,808.9	(0.5)
Water Infrastructure Finance Authority	-	-	-	(3.8)
Department of Weights & Measures	130.8	(23.5)	1,193.0	(170.4)
Other - JP Salaries Distribution	115.0	110.6	1,272.9	342.7
Other - ADOT Capital	1,200.0	1,200.0	1,200.0	1,200.0
Other	-	(23.1)	136.8	(121.2)
Total	828,903.8	276,504.7	9,543,477.1	286,175.6

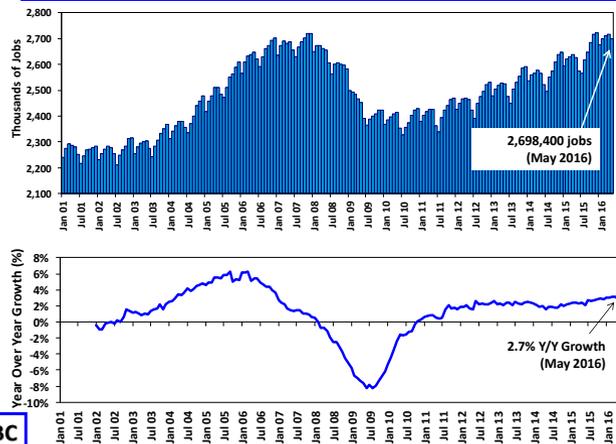
Tracking Arizona's Recovery

July 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

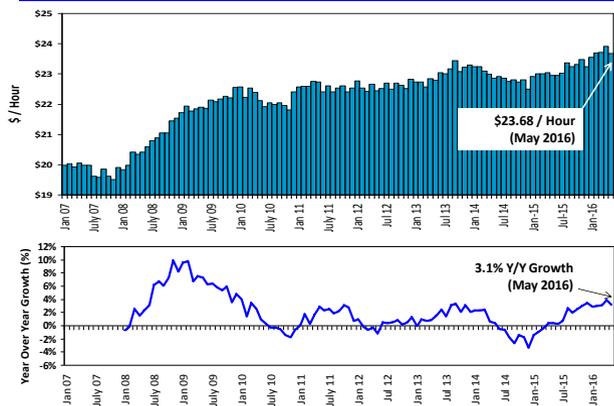
Total Non-Farm Employment



JLBC

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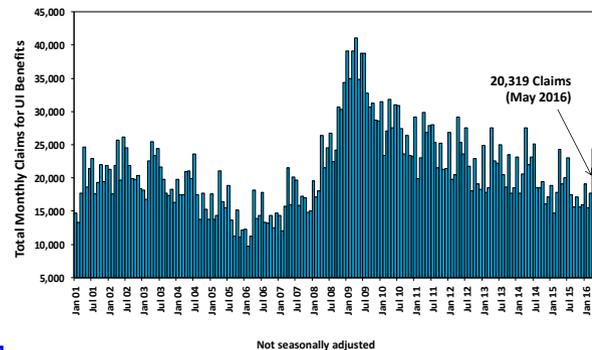
Average Hourly Earnings – Private Sector



JLBC

3

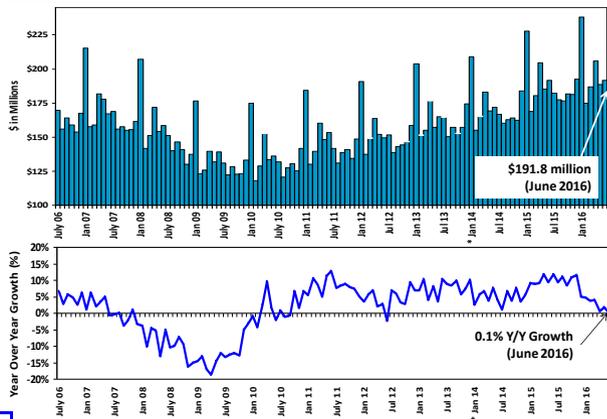
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



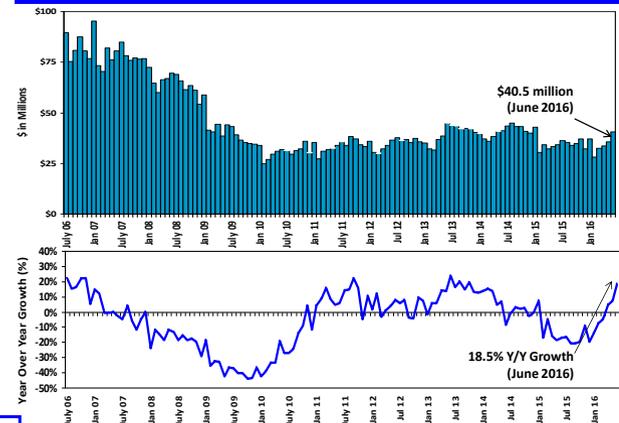
JLBC

Excludes temporary 1 c sales tax

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

5

State Sales Tax Collections – Contracting Category

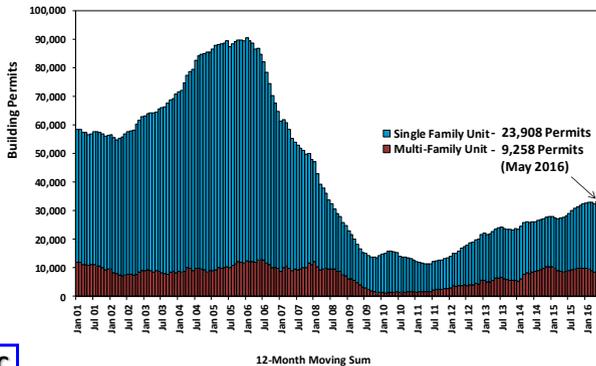


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Excludes temporary 1 c sales tax

6

Residential Building Permits

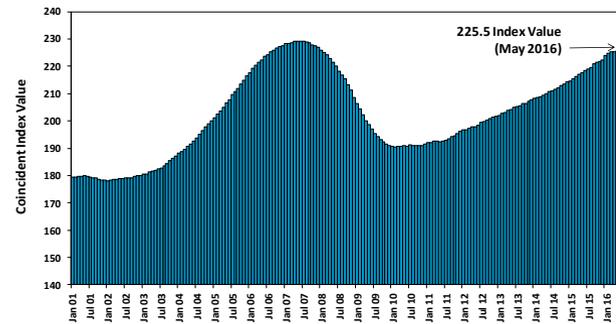


JLBC

12-Month Moving Sum

7

Economic Activity Index



JLBC

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

8