

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

“Compared to the enacted budget, overall [FY 2015] collections are \$233.1 million above forecast.”

This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on May 20, 2015.

Summary

April General Fund revenue totaled \$1.05 billion, which was a 23.4% increase above April 2014. April collections were \$145.4 million above the enacted budget forecast.

The growth was fueled by a \$148.9 million, or 37.7%, rise in individual income tax collections. There are 2 likely reasons for this spike:

- Higher stock market capital gains and dividend payments
- The “low” FY 2014 capital gains base associated with the federal “fiscal cliff” at the beginning of calendar year 2013.

The JLBC Staff reported more extensively on these issues in its May 4 report on [April Income Tax Collections](#).

While the final April overall results generally mirror the May 4 findings, the Department of Revenue (DOR) did make some adjustments to its earlier estimates. For example, Corporate Income Tax (CIT) collections were originally reported to have grown by 43% to \$126 million. In the final numbers, CIT collections actually declined by (5.6)% to \$83.2 million. Due to technical DOR accounting issues, however, the April numbers were understated by \$23 million and the state will pick up the difference in May.

The state’s single largest revenue and most stable revenue source, the sales tax, did not play a significant role in the April results. Growth remained very moderate in April. Sales Tax collections rose by 4.0% over the prior year and were \$3.8 million above forecast.

Year-to-date base revenues (excluding Urban Revenue Sharing and one-time transfers) are 7.1% above last year through April. Compared to the enacted budget, overall collections are \$233.1 million above forecast.

By the end of the fiscal year, this estimate will likely change further. For example, May month-to-date CIT revenues are higher than anticipated. Other factors may work in the opposite direction. Due to processing issues, there are more individual income tax refunds in the pipeline than in prior years, which could reduce some of the April gains.

If sustained for the entire year, the year-to-date \$233.1 million overage would offset the forecasted FY 2015 budget shortfall of \$(132) million. The enacted budget required this shortfall to be covered by a transfer from the Budget Stabilization Fund (the Rainy Day Fund). As a result, a BSF transfer would not be required if current trends hold.

Any assessment of the sustainability of the unexpected FY 2015 revenue gains will depend on further analysis once the fiscal year ends. Capital gain income tax collections have been very volatile over time, which creates a challenge in determining the ongoing nature of the FY 2015 returns.

The state’s fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating

Table of Contents

Summary	
• State Credit Rating	2
April Revenues	2
Monthly Indicators	5
Summary of Recent Agency Reports	
• DCS – Ofc. of Child Welfare Investigations	8
• DCS – Performance Benchmarks	8
• ACA – Healthy Forest Program	9
• ADE – Budget Status Report	9
• DEQ – E-Licensing Project	9
• DPS – Quarterly GLITEM Fund Report	9
April Spending	10
Tracking Arizona’s Recovery	Appendix A

Summary (Continued)

fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-April 2015 is \$2.10 billion. In addition, the state's Budget Stabilization Fund has a balance of \$457.1 million.

State Credit Rating

On May 4, 2015, Moody's Investor Service upgraded Arizona's credit rating from Aa3 with a positive outlook to Aa2 with a stable outlook. Aa2 is the third highest rating out of 10 possible levels. In comparison to other states, 25 states have a higher rating, 9 states have a similar rating, and 15 states have a lower rating or are not rated due to a lack of state level debt.

In adopting the new credit rating for Arizona, Moody's listed some of the following positive trends: 1) budget actions to eliminate the state's structural shortfall; 2)

improved economic conditions; and 3) below average debt and pension liabilities amongst states.

Even with the ratings upgrade, Moody's did note several concerns regarding the state's current financial condition: 1) ongoing K-12 litigation; 2) extremely narrow budget reserves; 3) absence of authority for mid-year reductions; and 4) reduced financial flexibility due to restrictions enacted by Proposition 105 and Proposition 108.

The other major credit rating agency, Standard & Poor's, has not updated its credit rating for Arizona since November 2013. S&P's credit rating for Arizona is AA- (the 4th highest rating level) with a positive outlook.

April Revenues

	<u>FY 2015 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2014</u>
April	\$ 1,049.1	\$ 145.4	\$ 198.7
Year-to-Date	\$ 7,215.7	\$ 233.1	\$ 398.1

Sales Tax collections of \$373.0 million were 4.0% above April of last year and \$3.8 million above the forecast for the month. Year to date, collections have increased by 4.2% and are \$25.6 million above forecast. April collections reflect March transactions.

Table 2 includes the major categories of the state's sales tax, which together account for approximately 90% of total collections. The retail category, which makes up roughly half of sales tax collections, increased by 11.7% in April compared to the same month in the prior year. Year to date, retail collections are up by 4.9%. Due to technical adjustments, however, this figure understates the underlying growth rate of 6.7%.

Year over year, collections from contracting activity declined by (16.4)% in April. Year to date, contracting collections are down by (2.8)%.

As noted in previous editions of the *Monthly Fiscal Highlights*, some of the retail increase and the contracting reduction may be related to a new law that went into effect at the beginning of the current

calendar year. Under this legislation, service contractors that do work related to maintenance, repair or replacement of existing property are exempt from the prime contracting tax, beginning January 1, 2015. Instead, such contractors are now required to pay the retail transaction privilege tax on materials that they purchase as a part of the service contract.

Use tax collections decreased by (11.6)% in April and are up by 22.5% for the first 10 months of FY 2015. After a technical adjustment, however, the underlying year-to-date growth rate would be 1.6%.

	<u>April</u>	<u>YTD</u>
Retail	11.7%	4.9%
Contracting	(16.4)%	(2.8)%
Use	(11.6)%	22.5%
Restaurant & Bar	3.2%	8.5%
Utilities	(0.9)%	(0.3)%

April Revenues (Continued)

Individual Income Tax net revenues were \$543.3 million in April, which was 37.7% more than the prior year. Collections were \$118.7 million above the forecast for the month. Year to date, revenue has grown 10.4% over the prior year and is \$182.3 million above forecast. (See the [JLBC Staff - April 2015 Income Tax Collections](#) report for a discussion on potential causes of this month's collection increases).

As indicated in *Table 3*, withholding increased 5.7% in April and was \$6.1 million above forecast. The April collections bring withholding tax collections for the fiscal year to 3.3% over the prior year. This amount is \$12.3 million above the budgeted forecast.

April estimated and final payments were 21.1% above last year, and were \$103.2 million above the forecast. Year to date, payments have grown 14.0% over the prior year. This amount is \$126.4 million above the forecast.

April refunds totaled \$(382.0) million, which was (6.4)% below last year and a \$9.5 million gain to the forecast. Year to date, a decline in the level of refunds has resulted in a gain of \$43.6 million compared to the enacted forecast.

However, some of the overage may be a function of the timing of processing and taxpayer filing rather than a change in taxpayer liability. According to information provided by DOR, as of May 8, there was approximately \$59 million of Individual Income Tax refunds which have been filed, but are not being issued pending error resolution. During the error resolution process, DOR attempts to address certain issues with a taxpayer filing, which can range from mathematical (addition/subtraction) issues to more substantive problems.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year

	<u>April</u>	<u>YTD</u>
Withholding	5.7%	3.3%
Estimated + Final Payments	21.1%	14.0%
Refunds	(6.4)%	(5.0)%

Corporate Income Tax net collections were \$83.2 million in April, which was (5.6)% less than April 2014. Collections for the month were \$6.8 million above the enacted forecast. Year to date, net collections are up 7.9% compared to the prior year and are \$18.4 million above forecast.

April collections for the category, however, were artificially reduced by \$23 million due to a technical adjustment. The \$23 million loss will be recouped when the May CIT results are processed.

After adjusting for this item, April CIT revenues would have increased by 20.8% compared to the prior year.

This result is surprising, as the enacted budget forecast assumed CIT collections would decline during the second half of FY 2015 due to the estimated impact of the tax reductions being phased in during FY 2015 – FY 2018 (which corresponds to Tax Years 2014 – 2018).

Given the timing of corporation tax filings, however, a majority of the first year impact of the phase-in may not occur until FY 2016. (Please see the *March 2015 Monthly Fiscal Highlights* for more information).

Insurance Premium Tax collections of \$69.5 million in April were 71.9% above the prior year and \$9.9 million above forecast. The monthly increase above the forecast may be the result of delays in processing March collections. Year to date, collections are 9.6% above last year and are \$453,800 above forecast.

The **Lottery Commission** reports that March ticket sales were \$65.3 million, which is \$3.4 million, or 5.6%, above sales in the prior year. Year-to-date ticket sales are \$621.1 million, which is 2.2% above last year's sales. In terms of General Fund collections, year-to-date lottery revenues have increased by 18.8% compared to the prior year and are \$7.6 million above the forecast.

Highway User Revenue Fund (HURF) collections of \$120.2 million in April were up \$6.9 million, or 6.0% compared to April of last year. Collections for the month were \$4.6 million above forecast. Year-to-date collections are 3.7% above FY 2014, and are \$17.3 million above forecast.

The recent trend of above forecast HURF collections is likely the result of the decline in gas prices during FY 2015, which tends to increase gas consumption and collections of the state's fixed price-per-gallon gas tax.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast April 2015

	Current Month					FY 2015 YTD (Ten Months)				
	Actual April 2015	Change From April 2014		Budget Forecast		Actual April 2015	Change from April 2014		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$373,027,607	\$14,212,040	4.0 %	\$3,822,962	1.0 %	\$3,500,130,360	\$140,517,705	4.2 %	\$25,585,378	0.7 %
Income - Individual	543,319,360	148,878,967	37.7	118,743,166	28.0	3,130,071,473	295,184,451	10.4	182,320,172	6.2
- Corporate	83,163,999	(4,940,727)	(5.6)	6,755,078	8.8	485,275,212	35,695,993	7.9	18,359,469	3.9
Property	1,514,404	(2,893,211)	(65.6)	(2,003,687)	(57.0)	23,929,409	7,880,110	49.1	449,410	1.9
Luxury - Tobacco	2,655,280	534,698	25.2	624,103	30.7	19,621,926	(1,799,962)	(8.4)	177,622	0.9
- Liquor	3,006,027	660,977	28.2	(120,741)	(3.9)	27,390,507	780,775	2.9	(148,155)	(0.5)
Insurance Premium	69,510,687	29,073,259	71.9	9,851,794	16.5	316,850,791	27,718,375	9.6	453,823	0.1
Other Taxes	694,314	103,177	17.5	59,314	9.3	6,511,091	2,118,153	48.2	1,142,435	21.3
Sub-Total Taxes	\$1,076,891,678	\$185,629,181	20.8 %	\$137,731,990	14.7 %	\$7,509,780,768	\$506,482,425	7.2 %	\$228,340,153	3.1 %
Other Revenue										
Lottery	14,366,600	14,366,600	--	8,366,600	139.4	44,909,200	7,105,600	18.8	7,582,600	20.3
License, Fees and Permits	1,946,544	(501,478)	(20.5)	(553,456)	(22.1)	24,854,360	1,209,470	5.1	(678,146)	(2.7)
Interest	6,739	7,853	--	6,739	--	30,050	27,925	--	12,722	73.4
Sales and Services	2,131,420	594,795	38.7	131,420	6.6	24,293,428	809,266	3.4	(1,672,429)	(6.4)
Other Miscellaneous	1,067,845	(576,226)	(35.0)	(932,155)	(46.6)	17,081,101	2,124,971	14.2	(4,660,022)	(21.4)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	3,389,786	3,179,429	--	639,786	23.3	41,025,096	(9,408,785)	(18.7)	4,183,695	11.4
Sub-Total Other Revenue	\$22,908,934	\$17,070,973	292.4 %	\$7,658,934	50.2 %	\$152,193,234	\$1,868,446	1.2 %	\$4,768,421	3.2 %
TOTAL BASE REVENUE	\$1,099,800,612	\$202,700,154	22.6 %	\$145,390,923	15.2 %	\$7,661,974,003	\$508,350,871	7.1 %	\$233,108,574	3.1 %
Other Adjustments										
Urban Revenue Sharing	(50,744,642)	(4,035,312)	8.6	0	0.0	(507,446,422)	(39,863,889)	8.5	0	0.0
One-Time Transfers	0	0	--	0	--	61,154,456	(70,391,693)	(53.5)	0	(0.0)
Sub-Total Other Adjustments	(50,744,642)	(4,035,312)	8.6 %	0	0.0 %	(446,291,966)	(110,255,582)	32.8 %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,049,055,970	\$198,664,842	23.4 %	\$145,390,923	16.1 %	\$7,215,682,036	\$398,095,289	5.8 %	\$233,108,574	3.3 %
Non-General Funds										
Highway User Revenue Fund	\$120,165,051	\$6,853,531	6.0 %	\$4,587,301	4.0 %	\$1,071,938,614	\$37,948,071	3.7 %	\$17,268,260	1.6 %

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 0.2% in the first quarter of 2015. This estimate is a sharp deceleration from the 2.2% and 5.0% growth third and fourth quarters of 2014, respectively. The decrease relative to the prior quarter's growth was primarily due to worsening of the trade deficit and decreases in nonresidential fixed investment and state and local government spending. Economists cite cold weather, disruptions at west coast docks and a drop in oil and gas drilling as the main drivers behind the numbers.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (6.1)% to 95.2 in April. The April decrease included widespread decreases in the index's sub-components, but was most negatively impacted by a loss in optimism of job prospects. With year-over-year growth of 16.5% though, the index still stands well above its April 2014 level.

The Conference Board's **U.S. Leading Economic Index** increased by 0.2% in March and 5.2% since March 2014. Of the index's 10 components, 7 made positive contributions during the month. Movement in interest rates and reduced initial unemployment claims were the largest positive contributors to the index while building permits were a negative influence. Improvement in building permits for single-family units was more than offset by a drop in permits for multi-family units.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased by 0.2% in March from the prior month. The index's annual growth stands at 0.3%, which is well below the Federal Reserve Bank's 2% annual inflation target. While a (18.5)% year-over-year decrease in energy prices has drastically reduced the overall index, the year-over-year growth in the core index (all items except food and energy) stands at 1.3% in March.

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 3.4% compared to March 2014. Over the same time period, the U.S. coincident index also increased by 3.4%. Currently, Arizona's rate of annual coincident index growth is 24th in the nation. Last year at this time, Arizona's rate was 38th highest among states. *See Appendix A – Tracking Arizona's Recovery for additional historical information.*

Housing

The **total housing inventory** in the Greater Phoenix area is (12.6)% smaller than April of last year. Inventory levels have been steadily decreasing since March of last year.

The **median price of a single family home** was \$222,228 in April, a 2.4% increase from March. The price is 10.6% higher than April of last year.

Single family housing construction appears to have stabilized, while multi-family construction may have peaked. Arizona's 12-month total of **single-family building permits** is 18,078, or 0.5% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 2.6% above last year. *See Appendix A – Tracking Arizona's Recovery for historical information.*

In contrast, the 12-month total of multi-family building permits had been increasing strongly compared to last year, but may reached its peak. Arizona's total of 8,979 **multi-family building permits** is 15.9% above 2014. Arizona's rate of increase is still somewhat greater than the comparable multi-family permit growth for the U.S. as a whole which is 7.8% above 2014.

Employment

In March, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.9 hours. This workload is (0.9)% below the March 2014 level.

The **Average Hourly Earnings** received by these private sector workers was \$22.97, which is (0.2)% below the average in the prior month. The year-over-year growth rate continued to recover somewhat from (1.8)% in January to reach (0.6)% in March. The average hourly earnings nationwide in April 2015 were 2.2% above the average from a year prior.

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

Monthly Indicators (Continued)

averaged 14.3% for the second quarter of 2014 through the first quarter of 2015. This rate is (0.3)% below the average rate during 2014. The state's total unemployment rate reading of 14.3% was the third highest of any state. The national average for the measure was 11.6% during the quarter.

Tourism

The number of **airplane passengers** traveling through Phoenix Sky Harbor International Airport reached a record of 4.25 million in March and represents a 5.5% increase above the level in March 2014. March coincides with the peak of the state's tourism season, which was bolstered this year by strong visitation for the baseball spring training season and spring break trips. **Revenue per available room** increased 15.7% during the month and is 14.4% above the amount in March 2014.

State Agency Data

At the beginning of May 2015, the total **AHCCCS** caseload was 1.64 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 378,501 members.

Total monthly enrollment increased 1.2% during April, continuing the recent bound from flat or decreasing enrollment during October through February. The slowdown in prior months may have been exacerbated by a change in the length of eligibility redetermination.

The overall increase in May was concentrated primarily in the Traditional population of the lowest income parents and children. Enrollment in the Traditional population increased 15,800 in May to a level of 975,200 members. The May level represents an increase of 1.6% since last month and a 5.5% increase since last year.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In May 2015, the childless adult population decreased by (400), or (0.1)%. Since January 2014, the childless adult population has increased by 213,300 to reach a level of 281,000. The state share of the Proposition 204 physical health cost is paid through a hospital assessment while the behavioral health costs are paid through the General Fund.

The state also opted to expand adult Medicaid coverage to 133% of FPL. The 100% - 133% enrollment increased by 4,200 in May and now totals 55,100 individuals enrolled since January 2014. The federal government is currently paying 100% of this cost.

There were 24,668 **TANF recipients** in the state in March, representing a (4.2)% decline in monthly caseloads from February. The year-over-year number of TANF recipients has declined by (16.4)%. 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 March, there were 1.0 million food stamp recipients in the state, representing a (0.9)% decrease from February caseloads. Compared to March of last year, food stamp participation declined by (3.5)%.

At the end of April 2015, the **Arizona Department of Corrections** reported a total inmate population of 42,407. This is a 0.4% increase from the previous month, and a 2.6% increase since April 2014.

Table 5

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	March	6.2%	(0.3)%	(0.8)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2015	14.3%	(0.4)%	(1.8)%
- Initial Unemployment Insurance Claims	March	17,842	21.6%	(13.3)%
- Unemployment Insurance Recipients	March	29,414	3.8%	(17.7)%
- Non-Farm Employment - Total	March	2.63 million	0.2%	2.6%
Manufacturing	March	156,100	(0.3)%	(0.3)%
Construction	March	126,700	0.6%	1.5%
- Average Weekly Hours, Private Sector	March	34.90	(0.6)%	(0.9)%
- Average Hourly Earnings, Private Sector	March	\$22.97	(0.2)%	(0.9)%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	March	\$935.8 million	7.2%	11.1%
Furniture/Home Furnishings	March	\$314.2 million	(7.9)%	5.7%
Building Material/Lawn & Garden	March	\$353.6 million	10.5%	5.6%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	March	18,078	2.8%	0.5%
Multi-family	March	8,979	(9.3)%	15.9%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	April	7,095	2.5%	9.3%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	April	\$222,228	2.4%	10.6%
- Phoenix S&P/C Home Price Index (2000 = 100)	February	148.33	0.3%	2.9%
- Maricopa Pending Foreclosures	April	5,589	(1.3)%	(21.2)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	April	25,889	(2.2)%	(12.6)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	March	4.25 million	28.9%	4.7%
- National Park Visitors	December	605,350	(34.9)%	20.5%
- State Park Visitors	February	266,769	42.5%	11.9%
- Revenue Per Available Hotel Room	March	\$112.38	15.7%	14.4%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	1 st Q 2015	79.1	N/A	14.8%
- Arizona Coincident Index (July 1992 = 100)	March	192.12	0.7%	3.4%
- Arizona Leading Index -- 6 month projected growth	March	6.5%	2.3%	4.5%
- Arizona Personal Income	4 th Q 2014	\$259.0 billion	1.1%	4.6%
- Arizona Population	July 2014	6.73 million	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	Dec 09/May 15	AA- / Aa2	N/A	N/A
Outlook	Nov 13/May 15	Positive/Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	May	1,636,643	1.2%	14.8%
Acute Care Traditional		975,158	1.6%	5.5%
Prop 204 Childless Adults		281,025	(0.1)%	42.5%
Other Prop 204		168,619	(1.8)%	9.0%
Adult Expansion		55,136	8.3%	237.9%
Kids Care I		1,235	(4.1)%	(40.7)%
Long-Term Care – Elderly & DD		56,989	0.3%	3.5%
Emergency Services		89,481	2.7%	30.2%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Jan. 2015	48,720	0.0%	10.4%
DCS Out-of-Home Children	January	17,272	1.0%	12.6%
Filled Caseworkers (1406 Budgeted)	February	1,396	1	206
- ADC Inmate Growth	April	42,407	0.4%	2.6%
- Department of Economic Security				
- TANF Recipients	March	24,668	(4.2)%	(16.4)%
- SNAP (Food Stamps) Recipients	March	1,000,684	(0.9)%	(3.5)%
- Judiciary Probation Caseload				
Non-Maricopa	February	17,889	7	618
Maricopa County	February	26,629	126	1,560
United States				
- Gross Domestic Product (Chained 2009 dollars, SAAR)	1 st Q, 2015 (1 st Estimate)	\$16.3 trillion	3.0%	0.2%
- Consumer Confidence Index (1985 = 100)	April	95.2	(6.1)%	16.5%
- Leading Indicators Index (2010 = 100)	March	121.4	0.2%	5.2%
- Consumer Price Index, SA (1982-84 = 100)	March	235.7	0.2%	0.0%
- Personal Consumption Price Index (2009 = 100)	March	108.6	0.2%	0.3%

Summary of Recent Agency Reports

Department of Child Safety – Report on the Transfer of OCWI Funding – A footnote in Laws 2014, 2nd Special Session, Chapter 2 requires the Department of Child Safety (DCS) to notify the Director of the Joint Legislative Budget Committee at least 30 days prior to making any transfer into or out of the Office of Child Welfare Investigations (OCWI) line item. DCS plans to transfer \$5.0 million of savings from unfilled OCWI positions to the operating budget and the Overtime line item in FY 2015. The OCWI line item had an original appropriation of \$10.5 million. The \$5.0 million in vacancy savings is possible because DCS has only filled 65 of the 127 authorized OCWI positions. (Ben Beutler)

Department of Child Safety – Report on Performance Benchmarks – Pursuant to a footnote in Laws 2014, 2nd Special Session, Chapter 2, the Department of Child Safety (DCS) has submitted its 3rd quarter report on the backlog, hiring, and expenditures (See Table 6 below).

3rd Quarter Benchmark - Filled FTE Positions
DCS had 1,396 filled direct line staff in the 3rd quarter, or (10) FTE Positions below its benchmark of 1,406. The 1,396 filled direct line staff figure includes 43 prospective caseworkers who have accepted a job offer but have not yet begun work. DCS had 1,366 filled non-direct line staff at the end of the 3rd quarter, or (33) FTE Positions below its benchmark of 1,399.

3rd Quarter Benchmark - Reducing the Backlog

In June 2014, DCS set benchmarks for reducing the backlog. As shown in *Table 1*, DCS activated all 13,024 June 2 backlog cases meeting the 2nd and 3rd quarter benchmarks, but 3,473 cases had lapsed into inactivity as of March 2015. In total, DCS had 15,473 backlog cases as of March 2015 including 12,000 post-June 2 cases, 13,473 more than the 3rd quarter benchmark of 2,000. DCS states that “progress has been slower than expected due to several factors, including the identification of underlying inefficiencies and the continued growth in new incoming cases. As a result, the department is focusing significant effort on removing system inefficiencies.”

3rd Quarter Benchmark - Expenditures on Personal Services

In its June 2014 expenditure plan, DCS estimated spending \$30.5 million on Personal Services in the 3rd quarter for 2,805 FTE Positions. DCS actually spent \$26.3 million, or \$(4.2) million less than the benchmark, on 2,762 FTE Positions.

3rd Quarter Benchmark - Expenditures to Reduce the Backlog

DCS was appropriated \$23.1 million from the General Fund and \$5.9 million from Federal Funds for a total of \$29.0 million in FY 2015 for the elimination of the June 2 backlog. Third quarter spending of \$4.2 million is significantly lower than the anticipated amount of \$9.1 million. However, DCS has stated its intent to spend \$13.5 million of the \$29.0 million in total backlog funding on new post-June 2 backlog cases. (Ben Beutler)

Table 6

Progress Reducing the June 2 Backlog in FY 2015

	<u>3rd Quarter Benchmark</u>	<u>3rd Quarter Actual ^{1/}</u>
Cases Activated	13,024	13,024
Activated Cases in Investigation Phase	3,867	5,707
In-Home Preventive Services	741	214
Out-of-Home Support Services and Placements	751	686
Cases Closed	5,787	5,844
Cases with No Service or Placement Payments in CHILDS	N/A	6,280
<u>Remaining Backlog Cases</u>		
Number of Backlog Cases as of March 14	2,000	15,473
Number of June 2 Backlog Cases	0	3,473
Number of Post-June 2 Backlog Cases	2,000	12,000

^{1/} Data labeled as preliminary

Summary of Recent Agency Reports (Continued)

Arizona Commerce Authority – Annual Report on the Healthy Forest Enterprise Incentives Program – Pursuant to A.R.S. § 41-1516I, the Arizona Commerce Authority is required to report on the Healthy Forest Enterprise Incentives Program by May 1 annually regarding the: 1) quantity and measured weight of qualifying forest products reported; 2) number of new full-time employees hired in qualified employment positions; and 3) number of full-time employees employed in qualified employment positions. In calendar year 2014 the total weight of qualified harvest, processed, or transported forest products was 531,751 tons; none of the 7 companies, however, participated in the income tax credit portion of the program.

The Healthy Forest Enterprise Incentives Program allows businesses primarily engaged in the harvesting, initial processing, or transporting of forest products in Arizona to qualify for the following: a use and transaction privilege tax exemption on qualified purchases, a 50% reduction in the use fuel tax, a reduction in the assessment ratio of personal and real property from 25% to 5%, and an income tax credit of up to \$3,000 per employee on new jobs created. (Eric Billings)

Department of Education – Budget Status Report – Pursuant to A.R.S. § 35-131D, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for FY 2015. In that report, ADE estimates that it will experience a \$3.4 million net funding surplus for formula programs for FY 2015. ADE previously projected a \$(27.3) million funding shortfall for formula programs for FY 2015, but that shortfall was eliminated through the appropriation of \$26.9 million in supplemental funding to the department for FY 2015 through the recently enacted budget and through updated (lower) cost projections. ADE's current \$3.4 million surplus estimate is subject to further revision as additional data become available. (Steve Schimpp)

Department of Environmental Quality – Third-Party Report on E-Licensing Project – Pursuant to a FY 2015 General Appropriation Act footnote and a provision of the Committee's favorable review of the initial E-Licensing proposal in June 2014, the Department of Environmental Quality (DEQ) has provided an update of the E-Licensing project. DEQ provided a follow-up on the third-party assessment provided in March 2014, but did not submit a quarterly progress report as requested by the Committee in June 2014. In the report, the vendor reiterated its prior positive evaluation of DEQ's approach in which it sees a "credible path to success." The vendor gave an overall favorable evaluation of DEQ's progress in incorporating recommendations from the previous third-party report. In response to customer and stakeholder feedback, the portal has been

modified in order to create a more guided online application process. The report attributed delays in Phase 1 and Phase 2 deliverables to a number of factors, including changes to the scope of the project, turnover of ADOA-ASET senior IT management, and changes in consulting partnerships. The report also provided 11 recommendations for the project, such as implementing a budget and staffing plan, quantifying operational costs, and establishing greater collaboration between DEQ and state IT agencies. No foreseeable end date to the project was provided. (Josh Hope)

Department of Public Safety – Quarterly Report on the GIITEM Fund – Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is required to report quarterly on Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Fund expenditures. In FY 2015, the GIITEM Fund was appropriated \$2.6 million in General Fund monies for grants to local law enforcement agencies to help with border security. During the third quarter of FY 2015 DPS expended \$900 for cell phone services for local GIITEM Subaccount grant participants bringing the year-to-date total to \$2.1 million.

Additionally, the GIITEM Border Security and Law Enforcement Subaccount received \$576,400 in criminal fine and fee revenues in the third quarter of FY 2015, bringing the year-to-date revenue total to \$1.7 million. DPS expended \$372,200 in the third quarter bringing the year-to-date expenditure total to \$1.5 million. The monies were granted to 10 local law enforcement agencies and the Arizona Department of Corrections for border security purposes. (Eric Billings)

April Spending

April 2015 General Fund spending of \$652.7 million was \$37.2 million more than April 2014. Year to date, spending is \$8.16 billion, or \$477.0 million above last year. (See Tables 7 & 8).

- Year to date, the Department of Education has spent \$140.7 million more than the prior year.

Year to date, Department of Health Services spending has increased by \$66.2 million compared to the prior year. This increase is in part due to the

- restoration of childless adult Medicaid coverage, which is entirely paid for with General Fund monies in the Department of Health Services.
- During FY 2015, Department of Public Safety spending has increased by \$38.6 million compared to the prior year. This increase is mostly due to the shift of \$30.0 million of Highway Patrol funding from the Highway User Revenue Fund to the General Fund in the FY 2015 budget.

Agency	Change From			YTD Change from FY 14
	April 15	April 14	Year-to-Date	
AHCCCS	18.7	10.6	1,024.9	29.1
Corrections	100.5	(3.5)	813.7	16.3
Child Safety	0.6	0.6	241.5	241.5
Economic Security	103.7	10.8	580.7	(104.0)
Education	249.3	18.7	3,325.9	140.7
Health Services	18.6	1.6	582.0	66.2
Public Safety	27.7	5.0	85.0	38.6
School Facilities Board	14.4	9.9	188.9	(4.0)
Universities	46.6	1.4	679.4	29.7
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>72.6</u>	<u>(17.9)</u>	<u>555.1</u>	<u>22.9</u>
Total	652.7	37.2	8,161.2	477.0

Table 8

Agency	General Fund Spending (\$ in Thousands)			
	April 15	Change from April 14	Year-to-Date	YTD Change from FY 14
Dept. of Admin./Automation Projects Fund	19,100.9	(3,889.2)	66,564.5	10,231.8
ADOA – Sale/Leaseback Debt Service	-	-	84,123.7	3.9
Office of Administrative Hearings	112.2	14.7	750.5	15.5
Commission of African-American Affairs	6.3	6.3	22.8	22.8
Department of Agriculture	715.6	(313.2)	6,588.2	(153.9)
AHCCCS	18,732.4	10,552.6	1,024,870.6	29,084.0
Attorney General	2,333.7	819.5	18,504.3	1,835.1
State Board of Charter Schools	81.3	1.0	767.2	73.3
Department of Child Safety	616.9	616.9	241,495.7	241,495.7
AZ Commerce Authority	2,625.0	-	26,475.0	225.0
Community Colleges	18,229.8	1,436.0	72,058.9	2,545.5
Corporation Commission	50.2	(23.7)	506.9	80.1
Department of Corrections	100,535.6	(3,460.0)	813,689.9	16,309.4
County Funding	-	-	7,650.5	500.0
AZ State Schools for the Deaf & Blind	1,959.9	(2,373.5)	17,535.0	(3,124.8)
Dept. of Econ. Security/Dept. of Child Safety	103,686.8	10,823.8	580,663.1	(103,996.9)
Department of Education	249,279.1	18,673.9	3,325,910.1	140,691.2
DEMA	991.8	169.0	7,346.4	744.7
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	9.5	(33.6)	124.2	(58.5)
State Board of Equalization	23.6	(8.2)	424.8	(17.7)
Board of Executive Clemency	94.7	33.1	770.8	97.1
Department of Financial Institutions	280.1	(41.6)	2,519.0	41.2
Department of Fire, Bldg and Life Safety	187.2	(0.0)	1,709.7	46.7
State Forester	887.3	(2,626.6)	6,331.5	384.4
Arizona Geological Survey	104.6	17.3	801.5	(15.5)
Governor/OSPB	561.1	(94.1)	8,598.5	1,048.0
Department of Health Services	18,622.8	1,580.6	582,004.9	66,236.4
Arizona Historical Society	318.1	18.6	2,758.8	64.1
Prescott Historical Society of AZ	55.1	(44.5)	695.5	84.3
Independent Redistricting Comm.	62.6	(28.5)	863.9	(241.8)
Commission of Indian Affairs	4.2	(4.7)	46.5	(2.2)
Department of Insurance	573.6	(49.2)	4,432.4	(75.6)
Judiciary				
Supreme/Superior Court	10,711.6	(1,492.7)	81,658.5	1,055.9
Court of Appeals	1,174.7	(447.1)	11,830.0	(3.1)
Department of Juvenile Corrections	3,016.8	(1,421.0)	33,219.0	10.5

Table 8 (Continued)

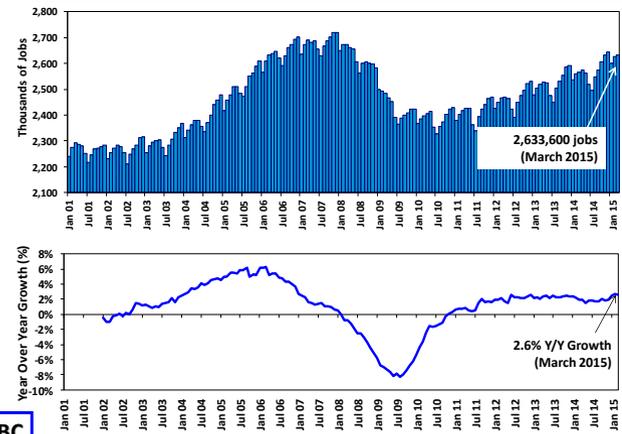
Agency	April 15	Change from April 14	Year-to-Date	YTD Change from FY 14
State Land Department	773.7	(810.7)	9,813.6	(145.0)
Legislature				
Auditor General	1,998.8	(120.5)	17,231.7	1,251.6
House of Representatives	1,004.6	(525.3)	11,416.1	771.2
Joint Legislative Budget Comm.	168.4	(52.4)	1,933.4	219.6
Legislative Council	434.1	(116.3)	7,095.9	1,531.8
Senate	970.0	(47.9)	7,477.8	386.9
Mine Inspector	83.1	(41.6)	958.7	(43.4)
Nav. Streams & Adjudication	10.3	(16.1)	157.6	17.6
Occupational Safety and Health Review	-	-	0.9	(1.4)
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	249.5	(169.9)	1,435.1	(164.0)
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	27,745.7	5,000.8	85,019.5	38,592.5
Public Safety Personnel Retirement System	-	-	6,000.0	1,000.0
Arizona Department of Racing	60.9	(47.1)	1,930.5	(53.4)
Radiation Regulatory Agency	249.9	(8.2)	1,343.2	9.0
Real Estate Department	168.4	(72.5)	2,082.9	20.6
Department of Revenue	(939.6)	(3,374.7)	37,607.8	(2,089.3)
School Facilities Board	14,389.1	9,902.3	188,866.6	(4,006.5)
Secretary of State	740.1	(344.0)	12,327.8	2,456.4
Tax Appeals Board	21.2	(4.7)	224.5	(1.1)
Office of Tourism	710.4	(1,066.3)	9,103.7	990.8
Universities				
Board of Regents	1,029.4	(1,341.2)	24,014.3	2,325.7
Arizona State University	21,559.2	1,918.8	306,167.4	19,187.8
Northern Arizona University	7,315.5	753.0	103,650.1	7,530.2
University of Arizona	16,666.4	70.0	245,593.7	700.2
Department of Veteran Services	395.9	(196.9)	3,949.0	(376.3)
Department of Water Resources	917.4	(332.0)	9,368.1	416.2
Water Infrastructure Finance Authority	-	-	1,000.0	1,000.0
Department of Weights & Measures	120.0	(4.7)	1,117.6	121.0
Other - JP Salaries Distribution	81.1	(42.5)	794.7	(20.5)
Other	4.9	(167.1)	232.8	49.3
Total	652,720.6	37,181.5	8,161,227.6	476,987.1

Tracking Arizona's Recovery Contents

Page:

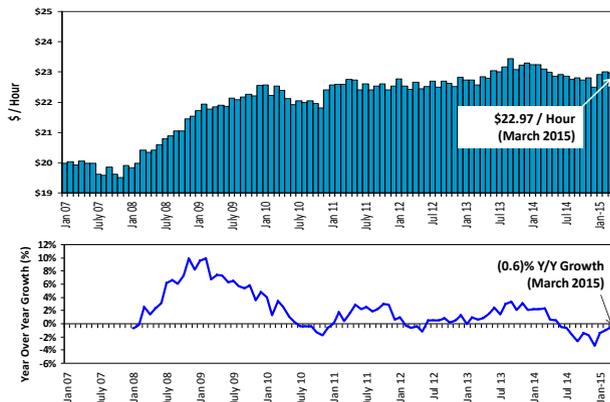
- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits
- 8.....Economic Activity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

Total Non-Farm Employment



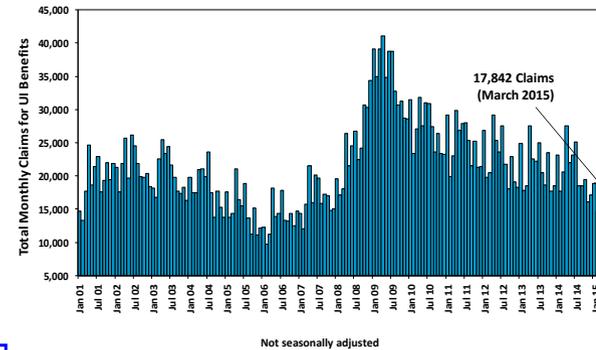
JLBC

Average Hourly Earnings – Private Sector



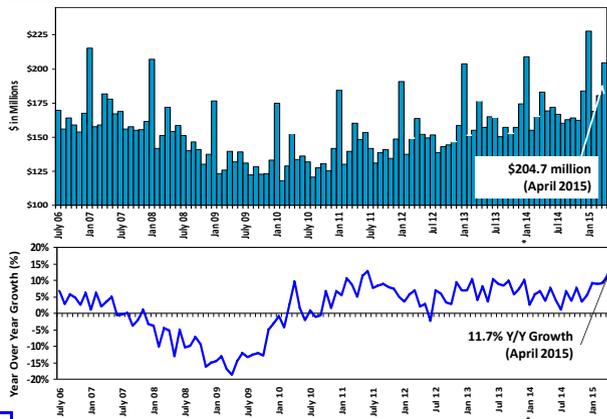
JLBC

Initial Claims for Unemployment Insurance



JLBC

State Sales Tax Collections – Retail Category



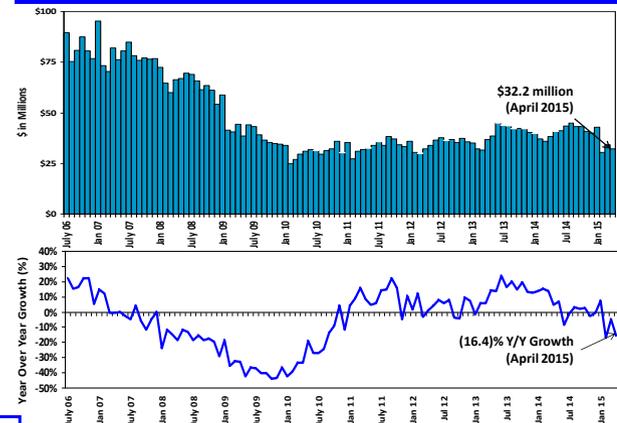
JLBC

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

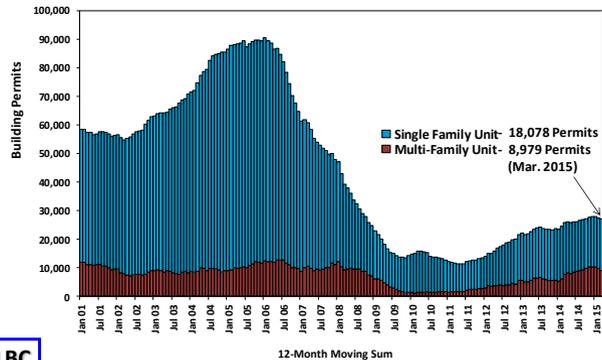


JLBC

Excludes temporary 1 ¢ sales tax

6

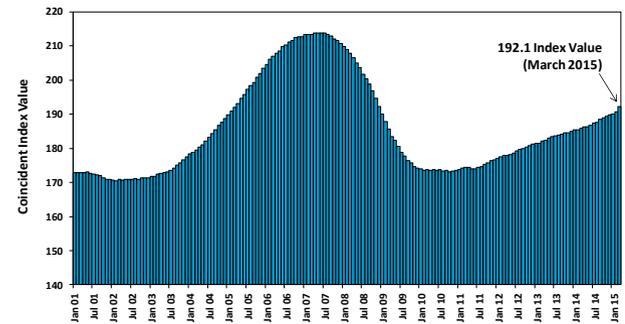
Residential Building Permits



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.

8