

JLBC - Monthly Fiscal Highlights

May 2016

1716 W. Adams
Phoenix, AZ 85007

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



www.azleg.gov/jlbc.htm

"Base year-to-date General Fund revenues are 3.7% above the prior year, and are \$60.6 million above the enacted forecast."

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

Summary

April 2016 General Fund collections of \$1.14 billion were 7.9% above the prior year. While the state posted a strong revenue growth rate during April, the forecast gain was a more moderate amount, with collections ending up \$33.8 million above forecast. Reflecting the state's ongoing Great Recession recovery, this month's collections were the highest since April 2008.

The April revenue forecast had anticipated substantial growth due to a technical timing factor. Most Individual Income Tax refunds are processed on Wednesday, and there was one fewer Wednesday in April 2016 than in April 2015. By distributing fewer refunds, state revenues increased on a year-over-year basis.

April revenues can also be volatile depending on the level of estimated and final Individual Income Tax payments, which can be fueled by unexpected levels of capital gains. April 2016, however, saw relatively muted payment growth of 2.1%. Overall, Individual Income Tax collections were \$13.7 million above forecast.

In terms of the state's other major revenue categories, Sales and Corporate Income Tax posted losses that more than offset the gains in the Individual Income Tax. In total, the "Big 3" revenue categories were \$(9.8) million below forecast.

While the "Big 3" had little impact on the forecast, Insurance Premium Taxes (IPT) and Lottery proceeds generated the largest gains in April. Insurance Premium revenues were \$15.7 million above forecast in April. Year-to-date, IPT collections are 14.4% above the prior year.

In addition, the Lottery distribution to the General Fund was \$22.3 million above the enacted forecast. This distribution was based on ticket sales during January – March, which were boosted by the record \$1.5 billion Powerball jackpot that occurred during January.

Excluding Urban Revenue Sharing and one-time transfers, base year-to-date General Fund revenues are 3.7% above the prior year, and are \$60.6 million above the enacted forecast.

In comparison to revenue collections of \$1.14 billion, April 2016 spending was \$548.9 million, which is a decrease of \$(103.8) million from the prior year. The FY 2016 spending added in the recently enacted budget will appear in the May and June expenditure data.

Fiscal year-to-date, General Fund revenues of \$7.62 billion have been offset by \$8.05 billion of expenditures.

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-May 2016 is \$2.4 billion. In addition, the state's Budget Stabilization Fund has a balance of \$460.7 million.

Individual Income Tax Withholding

The state's low level of Individual Income Tax withholding growth has been a perplexing aspect of this fiscal year's General Fund revenue collections. With state employment levels recently growing by 3%, the year-to-date withholding increase of 2.4% is surprisingly low.

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Summary (Continued)

At least part of this mystery has been recently clarified. As one of the ongoing challenges of implementing the state's new accounting system, the Department of Revenue has just discovered that approximately \$35 million of cumulative Individual Income Tax withholding collections have been excluded from revenue reporting so far this fiscal year. DOR intends to recognize the entire \$35 million in its May revenue reporting, which will be published in the June *Monthly Fiscal Highlights*.

If the withholding collections had been properly recorded, the year-to-date growth would have been 3.5% rather than 2.4%. Even 3.5% growth remains low by historical standards and is worthy of further study.

April Revenues

Table 1

General Fund Revenues (\$ in Millions)

	FY 2016 Collections	Difference From Budget Forecast	Difference From FY 2015
April	\$ 1,136.5	\$ 33.8	\$ 83.3
Year-to-Date	\$ 7,621.5	\$ 60.6	\$ 401.6

Sales Tax collections of \$379.9 million were 1.8% above April of last year but \$(13.0) million below forecast for the month. April collections reflect sales activity that occurred in March. Year to date, sales tax collections are up by 2.6% compared to last year and \$(45.1) million below forecast.

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

Contracting sales tax collections in April increased by 4.6% over the same month in the prior year. This was the first year-over-year increase of the contracting tax since January 2015. In prior months, contracting growth was being reduced by the 2013 "TPT Simplification" law that changed the tax base for building materials from the contracting category to the retail category, beginning in January 2015. Now, that the law has been in effect for more than 12 months, contracting tax growth rates will more accurately reflect economic activity.

Retail tax collections increased by a modest 0.5% in April compared to the same month last year. Retail tax collections have been trending down for the last few

months for reasons that are not fully understood. National retail sales were also weak during the first quarter of this year and since this has largely been attributed to the volatility in the stock market during this period, the same may hold true for Arizona retail sales as well.

Table 2

**Sales Tax Growth Rates
Compared to Prior Year**

	April	YTD
Retail	0.5%	6.6%
Contracting	4.6%	(13.8)%
Use	0.9%	(0.2)%
Restaurant & Bar	7.4%	5.8%
Utilities	0.1%	2.1%

Individual Income Tax net revenues of \$629.7 million in April were \$86.4 million more than the prior year and \$13.7 million above forecast for the month. Year-to-date, revenue has grown 5.7% over the prior year.

As indicated in Table 3, withholding decreased by (0.4)% below last year and was \$(10.8) million below the forecast. The monthly decrease may partly be

April Revenues (Continued)

explained by a reduction in processing days relative to April 2015. Year-to-date withholding collections are 2.4% above FY 2015. As noted in the summary, some of this growth will be rectified in May.

April estimated and final payments of \$618.9 million were 2.1% above last year and \$(8.4) million below the forecast. Year-to-date, payments are 10.9% above those collected during the same period of FY 2015.

April Individual Income Tax refunds totaled \$(307.1) million – this compares to \$(382.0) million in April 2015 and a forecasted amount of \$(339.9) million. The decrease in refunds may have largely been the result of a decrease in the number of refund batches processed relative to April 2015.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year

	<u>April</u>	<u>YTD</u>
Withholding	(0.4)%	2.4%
Estimated/Final Payments	2.1%	10.9%
Refunds	(19.6)%	1.7%

Corporate Income Tax net collections were \$74.4 million in April, which was \$(12.8) million less than in the prior year and \$(10.5) million below the forecast. Year to date, collections are \$(52.2) million below prior year collections. This decrease is probably the result of the decline in the Corporate Income Tax rate.

The **Lottery Commission** reports that April ticket sales were \$73.6 million, which is \$4.8 million, or 7.1%, above sales in April 2015. Year-to-date ticket sales are \$662.6 million, which is 19.2% above last year's sales. General Fund Lottery distributions are made on a quarterly basis, meaning April General Fund collections reflect sales during the quarter from January to March. Year-to-date, lottery revenues are \$24.2 million above the enacted budget forecast. Sales during the 1st calendar quarter were spurred by a \$1.5 billion record-breaking jackpot in January.

Insurance Premium Tax collections of \$42.9 million in April were \$(26.6) million below the prior year but \$15.7 million above the forecast. The large decrease below April 2015 is another issue likely related to the implementation of the state's new accounting system. IPT payments are now being processed more quickly under the new system. As a result, some of the normal April activity was shifted into March. Year-to-date, collections are 14.4% above last year.

Highway User Revenue Fund (HURF) collections of \$121.9 million in April were up 1.4% compared to April of last year and were \$2.2 million above forecast. Year-to-date collections are 5.5% above last year.

Due to the implementation of a new accounting system, DOR has made **technical adjustments** to prior month collection figures. For April, DOR has decreased the amount of prior General Fund revenue collections by \$(0.2) million, and the adjustment has been included in the reported year-to-date results.

Table 4

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

	Current Month					FY 2016 YTD (Ten Months)				
	Change From					Change from				
	Actual	April 2015		Budget Forecast		Actual	April 2015		Budget Forecast	
	April 2016	Amount	Percent	Amount	Percent	April 2016	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$379,860,032	\$6,698,465	1.8 %	(\$12,986,472)	(3.3) %	\$3,589,651,681	\$89,387,361	2.6 %	(\$45,067,620)	(1.2) %
Income - Individual	629,738,416	86,419,057	15.9	13,662,528	2.2	3,309,970,302	179,898,830	5.7	61,056,131	1.9
- Corporate	74,378,274	(12,785,725)	(14.7)	(10,465,401)	(12.3)	437,031,633	(52,243,579)	(10.7)	1,691,314	0.4
Property	5,117,977	3,603,573	238.0	2,516,447	96.7	29,943,635	6,014,225	25.1	1,764,831	6.3
Luxury - Tobacco	2,168,477	(486,804)	(18.3)	262,503	13.8	20,152,781	530,955	2.7	466,459	2.4
- Liquor	3,295,621	289,594	9.6	259,243	8.5	28,053,035	662,528	2.4	114,221	0.4
Insurance Premium	42,865,335	(26,645,353)	(38.3)	15,667,347	57.6	362,453,711	45,602,920	14.4	21,593,812	6.3
Other Taxes	2,630,137	1,935,823	278.8	1,818,508	224.1	6,777,350	266,260	4.1	74,759	1.1
Sub-Total Taxes	\$1,140,054,269	\$59,028,631	5.5 %	\$10,734,703	1.0 %	\$7,784,034,128	\$270,119,500	3.6 %	\$41,693,907	0.5 %
<u>Other Revenue</u>										
Lottery	37,428,300	23,061,700	160.5	22,322,779	147.8	64,972,750	20,063,550	44.7	24,156,326	59.2
License, Fees and Permits	2,493,452	546,908	28.1	(46,511)	(1.8)	24,851,415	(2,945)	(0.0)	(235,933)	(0.9)
Interest	1,993	(4,745)	(70.4)	(5,082)	(71.8)	20,206	(9,845)	(32.8)	(1,852)	(8.4)
Sales and Services	1,206,487	(924,933)	(43.4)	(588,113)	(32.8)	24,038,166	(255,262)	(1.1)	1,238,787	5.4
Other Miscellaneous	1,387,713	319,868	30.0	375,292	37.1	23,038,411	5,957,311	34.9	(1,974,493)	(7.9)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	4,376,940	987,154	29.1	1,043,790	31.3	25,604,506	(13,451,542)	(34.4)	(4,263,070)	(14.3)
Sub-Total Other Revenue	\$46,894,886	\$23,985,953	104.7 %	\$23,102,153	97.1 %	\$162,525,455	\$12,301,267	8.2 %	\$18,919,766	13.2 %
TOTAL BASE REVENUE	\$1,186,949,155	\$83,014,583	7.5 %	\$33,836,856	2.9 %	\$7,946,559,584	\$282,420,767	3.7 %	\$60,613,673	0.8 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(50,469,528)	275,114	--	(6)	0.0	(504,695,277)	2,751,147	--	(19)	0.0
One-Time Transfers	0	0	--	0	--	179,597,255	116,473,752	184.5	0	0.0
Sub-Total Other Adjustments	(50,469,528)	275,114	-- %	(6)	0.0 %	(325,098,022)	119,224,900	-- %	(19)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,136,479,627	\$83,289,697	7.9 %	\$33,836,850	3.1 %	\$7,621,461,562	\$401,645,666	5.6 %	\$60,613,654	0.8 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$121,890,626	\$1,725,576	1.4 %	\$2,196,180	1.8 %	\$1,130,836,885	\$58,898,271	5.5 %	\$18,492,954	1.7 %

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 0.5% in the first quarter of 2016. This estimate represents a further slowdown from the weak 1.4% growth in the fourth quarter of 2015. The deceleration was primarily due to slower growth in consumption, decreases in business investment and federal government spending, and increases in imports. Declining performance in these categories was partly offset by increases in state and local government spending and household investment. Based on the pattern of quarterly growth seen in recent years, economists expect that the low first quarter reading reflects a measurement problem and that growth will rise in the second quarter.

The Conference Board's **U.S. Consumer Confidence Index** decreased (1.9) points in March to a level that was (0.1)% below the March 2015 reading. The monthly decrease reflected greater pessimism in consumers' economic outlook 6 months in the future. However, this was partly offset by improvement in consumers' assessments of their current circumstances, thought to be the result of greater stability in financial markets.

The Conference Board's **U.S. Leading Economic Index** increased by 0.2% in March and stands 2.2% above its March 2015 reading. The monthly increase follows 3 months of decreases. Of the index's 10 components, 6 made positive contributions in March while 2 made negative contributions and 2 were neutral. The greatest positive contributions came from stock prices and movement in interest rates. Those impacts were partly offset by decreasing building permits and increasing unemployment insurance claims.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** increased 0.1% in March, relative to February. The increase was driven by a 1.1% monthly increase in energy prices. The overall index stands 0.8% above the March 2015 level, which is well below the Federal Reserve Bank's 2% annual inflation target. The low measure is largely due to a (12.7)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy) has grown by a steadier 1.6% through 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 4.6% compared to March 2015. Over the same time period, the U.S. coincident index increased by 3.1%. 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 23,806, or 31.7% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 11.3%. 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 9,070 **multi-family building permits** is 1.0% more than 2015. Arizona's rate of increase is now significantly less than the comparable multi-family permit growth for the U.S. as a whole, which is 17.6% above 2015.

Employment

According to the latest employment report released by the Department of Administration, the state added 7,500 net new **nonfarm jobs** in April compared to the prior month. This was more than the 10-year average net job gain for April of 1,900 jobs. Most of the month-over-month job gains occurred in the Professional and Business Services industry (+6,800).

Compared to the same month in the prior year, Arizona added 80,900 net new jobs in April, which is a year-over-year increase of 3.1%. In 5 of the last 6 months, nonfarm employment has grown by 3.0% or more. The job gains have been entirely generated by the private sector whereas the government sector has continued shedding jobs. Year to date, the private sector has added an average of 82,700 net new jobs whereas the government sector has lost 2,300 jobs over the same period. The largest year-over-year job gains in April came from the following industries: Professional and Business Services (+19,900), Education and Health Services (+16,500), and Trade, Transportation and Utilities (+13,400).

The state's regular **unemployment rate** increased from 5.4% in March to 5.5% in April. The U.S. unemployment rate remained unchanged at 5.0%.

Monthly Indicators (Continued)

In March, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.3 hours. This workload is 0.3% above the prior month level, but (1.7)% below the March 2015 level.

The **Average Hourly Earnings** received by these private sector workers was \$23.59, which is (0.5)% below the average in the prior month. March earnings were still 2.6% above the average in March 2015 and represent the 12th consecutive month of positive year-over-year increases in average wages.

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the "regularly" unemployed, the measure also includes persons who are available to work but stopped looking for a job ("discouraged workers"), and persons who had to settle for part-time employment ("underemployed workers"). The Arizona rate averaged 11.7% from the first quarter of 2015 through the first quarter of 2016. This rate is (1.1)% below the reading issued for the prior period. The state's 11.7% rate was the sixth highest of any state, which is an improvement from its second place position at the time of the prior reading. The national average for the measure was 10.1% during the quarter.

Tourism

Revenue per available room reached \$117.73 in March, which was 5.0% above the amount in March 2015. Year-to-date, revenue per available room is 1.1% above the 2015 year-to-date amount through March.

Ridership through Phoenix Sky Harbor Airport during March increased 1.5% above the level in March 2015 and represented the busiest month on record. March coincides with the peak of the state's tourism season, which was supported this year by continued growth in annual attendance of baseball spring training games.

State Agency Data

At the beginning of May 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 530,800 members.

Total monthly enrollment decreased by (8,700) members, or (0.5)%, during April. The overall decrease in April was spread among most enrollment populations. The Traditional population of low income parents and children decreased (1,900), or (0.2)%, in April to a level of 1,039,800 members. This drop was accompanied by an enrollment decrease of (3,800), or (2.1)%, in the Proposition 204 parent population.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In April 2016, the childless adult population decreased by (1,700), or (0.6)%. At 307,500, this population is 9.4% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment decreased by (50) in April and now totals 86,100 individuals. Enrollment is 56.2% higher than a year ago. The federal government is currently paying 100% of this cost.

There were 19,964 **TANF recipients** in the state in May, representing a (2.6)% decrease in monthly caseloads from April. The year-over-year number of TANF recipients has declined by (17.2)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. This May, there were 948,031 food stamp recipients in the state, representing a (1.1)% decrease from April caseloads. Compared to the same month last year, food stamp participation has declined by (4.6)%.

ADC reported an **inmate population** of 42,877 as of April 30, 2016. This was an 0.2% increase since March, and a 1.1% increase since last year.

Based on information the Department of Child Safety provided for February 2016, **reports of child maltreatment** totaled 50,692 over the last 12 months, an increase of 2.7% over the prior year. There were 19,044 **children in out-of-home care** as of February 2016, or 9.2% more than in February 2015. Compared to the prior month, the number of out-of-home children increased by 1.0%.

Table 5

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	April	5.5%	0.1%	(0.6)%
- Total Unemployment Rate (discouraged/underemployed)	1 st Q 2016	11.7%	(1.1)%	(2.6)%
- Initial Unemployment Insurance Claims	March	17,721	14.0%	(0.7)%
- Unemployment Insurance Recipients	April	18,248	(27.8)%	(43.5)%
- Non-Farm Employment - Total	April	2,718,000	0.3%	3.1%
Manufacturing	April	157,400	(1.1)%	0.5%
Construction	April	133,900	(0.1)%	6.0%
- Average Weekly Hours, Private Sector	March	34.3	0.3%	(1.7)%
- Average Hourly Earnings, Private Sector	March	\$23.59	(0.5)%	2.6%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	February	\$900.6 million	(8.8)%	3.2%
Furniture/Home Furnishings	February	\$321.7 million	(24.4)%	(5.7)%
Building Material/Lawn & Garden	February	\$340.9 million	(4.2)%	6.5%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	March	23,806	1.8%	31.7%
Multi-family	March	9,070	(5.8)%	1.0%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	March	6,776	6.1%	(2.1)%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	March	\$234,900	2.2%	8.2%
- Phoenix S&P/C Home Price Index (2000 = 100)	February	157.22	0.3%	6.0%
- Maricopa Pending Foreclosures	March	4,188	0.7%	(26.0)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	March	27,680	1.0%	4.5%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	March	4.3 million	26.4%	1.5%
- National Park Visitors	December	601,364	(5.5)%	0.0%
- State Park Visitors	February	271,500	41.0%	1.8%
- Revenue Per Available Hotel Room	March	\$117.73	18.6%	5.0%
<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)	March	226.19	0.3%	4.6%
- Arizona Leading Index -- 6 month projected growth	March	5.0%	(0.9)%	(0.1)%
- Arizona Personal Income	2015	\$266.8 billion	N/A	4.6%
- 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	May 1 st	1,788,924	(0.5)%	9.3%
Acute Care Traditional		1,039,799	(0.2)%	6.6%
Prop 204 Childless Adults		307,539	(0.6)%	9.4%
Other Prop 204		182,287	(2.1)%	8.1%
Adult Expansion		86,129	(0.1)%	56.2%
Kids Care I		621	(6.6)%	(49.7)%
Long-Term Care – Elderly & DD		57,984	0.4%	1.7%
Emergency Services		114,565	(1.1)%	16.3%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	Feb. 2016	50,692	(0.4)%	2.7%
DCS Out-of-Home Children	February	19,044	1.0%	9.2%
Filled Caseworkers (1406 Budgeted)	March	1,282	33	(70)
- ADC Inmate Growth	April	42,877	0.2%	1.1%
- Department of Economic Security				
- TANF Recipients	April	19,964	(2.6)%	(17.2)%
- SNAP (Food Stamps) Recipients	April	948,031	(1.1)%	(4.6)%
- Judiciary Probation Caseload				
Non-Maricopa	February	18,609	15	517
Maricopa County	February	27,517	(2)	888
United States				
- Gross Domestic Product	1 st Q, 2016 (1 st Estimate)	\$16.5 trillion	1.9%	0.5%
(Chained 2009 dollars, SAAR)				
- Consumer Confidence Index (1985 = 100)	April	94.2	(2.0)%	(0.1)%
- Leading Indicators Index (2010 = 100)	March	123.4	0.2%	2.2%
- Consumer Price Index, SA (1982-84 = 100)	March	237.9	0.1%	0.9%
- Personal Consumption Price Index (2009 = 100)	March	109.9	0.1%	0.8%

Summary of Recent Agency Reports

Auditor General/Department of Child Safety – Report on Differential Response – Pursuant to the FY 2016 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18), the Auditor General has reported on the Department of Child Safety's (DCS) use of differential response.

Based on the type and severity of reported child maltreatment, states that utilize a differential response approach follow up on child maltreatment reports in one of two ways: (a) a traditional investigation for high-risk cases involving criminal conduct or (b) an alternative response for moderate/low-risk cases, such as neglect. An alternative response focuses on an assessment of a family's needs and then connects them to appropriate services. The alternative response may be conducted by a private vendor. Based on the prevalence of risk and safety factors, a case can switch from an alternative response to a traditional response.

Findings

Although Arizona had a differential response program called Family Builders from 1998 to 2004, DCS does not currently employ a differential response approach. All reports of child maltreatment undergo a traditional DCS investigation. A number of states are considering a differential response approach, and 21 states already have a differential response program in place. Nevada contracts out the initial safety assessment of families assigned to the alternative response track.

The Auditor General found that differential response programs may lead to better outcomes for families but are likely more expensive in the short term than traditional response. Families participating in the differential response track were found to be more engaged and satisfied with the child welfare system. In addition, families may be more likely to accept services if offered through the alternative track of the differential response approach. Based on the Auditor General's research, other jurisdictions do not believe that differential response programs compromise child safety. Because differential response provides more services than traditional response, differential response is likely more expensive in the short term, although there may be potential cost savings over the long term.

Recommendations

The report recommends that DCS should (1) continue working with the Legislature on legislation that allows for differential response; (2) finalize and implement criteria and policies and procedures for making response assignment decisions and response track switching; (3) develop well-defined practices to guide workers and implement training for appropriate staff; (4) determine services to be provided; (5) decide

whether to implement differential response in phases; (6) allow stakeholder comment during implementation; and (7) develop a plan to evaluate differential response. (Ben Beutler)

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 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 2015 the total weight of qualified harvest, processed, or transported forest products was 722,596 tons; none of the 8 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 18.5% to 5%, an income tax credit of up to \$3,000 per employee on new jobs created, and an income tax credit of up to \$9,000 per employee for the cost of training. (Eric Billings)

Department of Education – Report on Education Learning and Accountability System – Pursuant to a General Appropriation Act footnote, the Arizona Department of Education (ADE) must contract with an independent third-party vendor to provide additional oversight on the development of ADE's Education Learning and Accountability System (ELAS). The vendor is required to submit quarterly reports that evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The vendor's most recent quarterly review was issued on May 2, 2016.

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

The current review notes that as of March, ADE has transitioned 400 of the more than 700 school districts and charter schools to AzEDS (accounting for approximately 50% of students), with 65-75 more migrating to the system each week. At least one vendor, representing up to 25% of students statewide, had transitioned zero students to AzEDS.

Summary of Recent Agency Reports (Continued)

The report observes that some districts have expressed concerns about transitioning from SAIS due to the concurrent change to current year funding and differences in expected ADM counts under ELAS. The reviewers state that “there is no option . . . for continuing with the old SAIS legacy applications, which themselves pose a more serious support and security risk to the state and districts the longer they are supported.”

The report notes that ADE recently completed its review of the business rules in ELAS and confirmed that they correctly reflect statute. The review attributes the remaining differences in ADM counts between SAIS and ELAS to more accurate treatment of data under ELAS (e.g. tracking student absences in minutes, rather than simply as “part” or “full day”).

The review states that efforts to switch to current year funding are “on schedule” and that “there is little concern for the AELAS technical components” in this

regard. However, the report observes that “there is some concern with the business processes and legacy budget code” and recommends that ADE “request that the finance department conduct dry-run tests of their procedures and legacy applications in a current-year scenario, and report the results to executive leadership.”

The report notes that ADE has transitioned 13 of 47 statewide Opt-in Student Information System (SIS) districts to AzEDS, noting there has been less interest in the option this year, leading to fewer planned implementations than desired. The review also identifies the failure of the statewide SIS vendor to provide supplemental services (such as training) to districts within the contracted timeframe. The reviewers recommend that ADE “withhold payment to the vendor until the service is rendered and there is customer signoff,” and suggests that ADE “consider the pros/cons of a second statewide SIS vendor, to promote competition and options for districts.” (Matt Beienburg)

April Spending

April 2016 General Fund spending of \$548.9 million was \$(103.8) million below April 2015. Year to date, spending is \$8.05 billion, or \$(115.5) million below last year. (See *Tables 6 & 7*).

- Year to date, the Department of Education has spent \$108.2 million more than the prior year.
- Due to technical reporting issues with the newly-created Department of Child Safety (DCS) in FY 2015, the figures reported below for DCS and the

Department of Economic Security do not accurately reflect changes in spending levels from the prior year.

- During FY 2016, Universities spending has declined by \$(93.3) million. This is related to changes enacted in the FY 2016 budget, which contained a \$(99.0) million spending reduction for the Universities system.

Table 6				
General Fund Spending (\$ in Millions)				
	April 16	Change From April 15	Year-to-Date	YTD Change from FY 15
Agency				
AHCCCS	11.7	(7.0)	990.4	(34.5)
Corrections	89.3	(11.2)	870.4	56.7
Child Safety	23.9	23.3	336.9	95.4
Economic Security	4.4	(99.3)	434.1	(146.5)
Education	281.1	31.8	3,434.1	108.2
Health Services	15.4	(3.3)	576.7	(5.3)
Public Safety	27.2	(0.5)	86.4	1.4
School Facilities Board	4.2	(10.1)	190.3	1.4
Universities	38.0	(8.6)	586.1	(93.3)
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>53.7</u>	<u>(18.9)</u>	<u>456.2</u>	<u>(99.0)</u>
Total	548.9	(103.8)	8,045.7	(115.5)

Table 7

General Fund Spending (\$ in Thousands)				
Agency	April 16	Change from April 15	Year-to-Date	YTD Change from FY 15
Dept. of Admin./Automation Projects Fund	1,519.5	(17,581.4)	20,457.6	(46,108.9)
ADOA – Sale/Leaseback Debt Service	-	-	84,114.6	(7.1)
Office of Administrative Hearings	114.9	2.7	727.6	(22.9)
Commission of African-American Affairs	7.4	1.1	100.6	77.8
Department of Agriculture	698.8	(16.9)	6,834.9	246.7
AHCCCS	11,749.2	(6,983.3)	990,413.6	(34,456.9)
Attorney General	1,558.5	(775.2)	18,613.2	108.9
State Board of Charter Schools	75.1	(6.2)	905.0	137.8
Department of Child Safety	23,929.7	23,312.8	336,914.7	95,419.0
AZ Commerce Authority	2,208.3	(416.7)	22,308.0	(4,167.0)
Community Colleges	12,488.2	(5,741.7)	51,423.8	(20,635.1)
Corporation Commission	68.3	18.0	507.3	0.4
Department of Corrections	89,327.2	(11,208.4)	870,431.8	56,741.9
County Funding	-	-	6,000.5	(1,650.0)
AZ State Schools for the Deaf & Blind	2,155.3	195.4	21,279.5	3,744.5
Department of Economic Security	4,431.8	(99,255.0)	434,130.4	(146,532.7)
State Board of Education	101.6	101.6	1,008.4	1,008.4
Department of Education	281,111.7	31,832.7	3,434,066.1	108,156.0
DEMA	3,117.4	2,125.6	9,246.2	1,899.9
DEQ – WQARF	-	-	7,000.0	-
Office of Equal Opportunity	30.6	21.1	164.3	40.2
State Board of Equalization	37.7	14.1	454.2	29.4
Board of Executive Clemency	59.3	(35.4)	771.9	1.1
Department of Financial Institutions	226.3	(53.8)	2,456.9	(62.1)
Department of Fire, Bldg and Life Safety	228.7	41.5	1,851.8	142.1
State Forester	3,127.8	2,240.5	7,075.1	743.6
Department of Gaming	-	-	1,794.4	1,794.4
Arizona Geological Survey	74.7	(29.9)	813.4	11.9
Governor/OSPB	634.3	73.2	8,316.3	(282.3)
Department of Health Services	15,372.3	(3,250.5)	576,661.5	(5,343.4)
Arizona Historical Society	320.9	2.8	2,755.0	(3.8)
Prescott Historical Society of AZ	68.6	13.5	768.9	73.4
Independent Redistricting Comm.	155.6	93.0	1,537.1	673.2
Commission of Indian Affairs	9.5	5.3	40.8	(5.7)
Department of Insurance	512.9	(60.7)	4,272.0	(160.4)
Judiciary				
Supreme/Superior Court	10,664.8	(46.8)	77,262.5	(4,395.9)
Court of Appeals	1,183.7	9.0	11,760.4	(69.6)
Department of Juvenile Corrections	628.6	(2,388.2)	20,483.7	(12,735.2)

Table 7 (Continued)

Agency	April 16	Change from April 15	Year-to-Date	YTD Change from FY 15
State Land Department	1,141.9	368.2	9,181.2	(632.4)
Legislature				
Auditor General	2,410.2	411.5	17,017.1	(214.5)
House of Representatives	1,092.0	87.3	11,810.3	394.3
Joint Legislative Budget Comm.	162.4	(6.0)	1,921.9	(11.5)
Legislative Council	443.9	9.8	5,271.8	(1,824.1)
Senate	623.8	(346.3)	6,609.3	(868.5)
Mine Inspector	90.1	7.0	952.7	(6.0)
Nav. Streams & Adjudication	12.7	2.4	101.8	(55.8)
Occupational Safety and Health Review	-	-	2.5	1.6
Arizona State Parks Board	140.0	140.0	417.8	417.8
Phoenix Convention Center	-	-	20,449.0	-
Pioneers' Home	-	(249.5)	-	(1,435.1)
Comm. for Postsecondary Ed.	-	-	1,396.8	-
Department of Public Safety	27,241.3	(504.4)	86,443.0	1,423.5
Public Safety Personnel Retirement System	-	-	6,000.0	-
Arizona Department of Racing	-	(60.9)	-	(1,930.5)
Radiation Regulatory Agency	404.4	154.5	1,594.7	251.5
Real Estate Department	155.6	(12.8)	2,057.8	(25.1)
Department of Revenue	1,582.0	2,521.6	27,828.9	(9,778.9)
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	4,247.1	(10,142.0)	190,259.2	1,392.6
Secretary of State	677.7	(62.4)	11,283.6	(1,044.2)
Tax Appeals Board	26.8	5.6	224.9	0.4
Office of Tourism	704.3	(6.0)	7,103.7	(2,000.0)
Department of Transportation	-	(9.6)	7.1	2.9
Universities				
Board of Regents	1,378.0	348.6	20,553.4	(3,460.9)
Arizona State University	16,592.8	(4,966.4)	256,796.3	(49,371.1)
Northern Arizona University	5,951.9	(1,363.6)	89,013.8	(14,636.3)
University of Arizona	14,080.3	(2,586.1)	219,732.4	(25,861.3)
Department of Veteran Services	382.3	(13.6)	4,550.0	601.0
Department of Water Resources	956.1	38.7	9,137.3	(230.9)
Water Infrastructure Finance Authority	-	-	-	(1,000.0)
Department of Weights & Measures	226.3	106.3	1,058.0	(59.6)
Other - JP Salaries Distribution	167.6	86.5	1,082.1	287.4
Other	0.0	(4.9)	136.8	(96.0)
Total	548,890.5	(103,830.2)	8,045,719.1	(115,508.5)

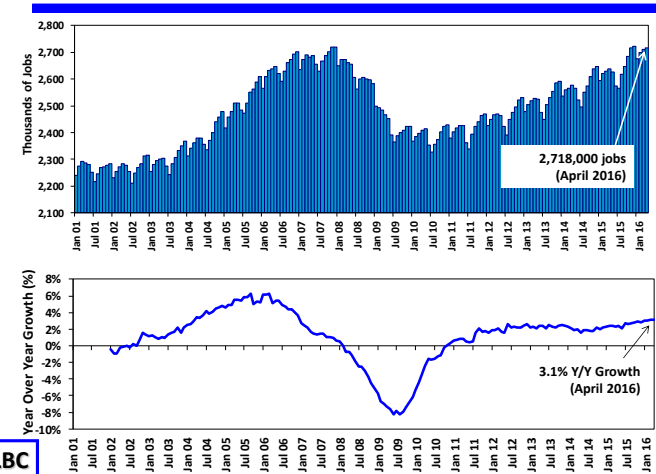
Tracking Arizona's Recovery

May 2016
Appendix A

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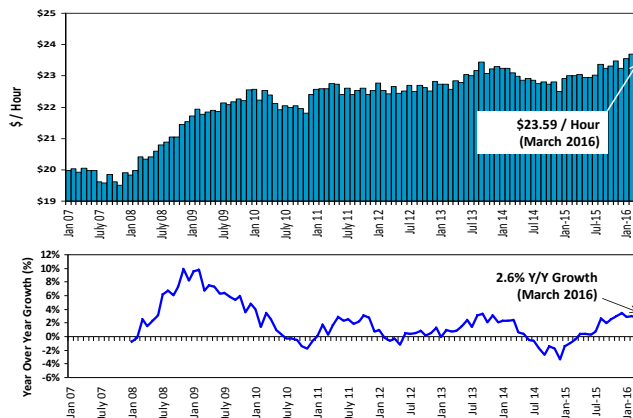
- 2.....Total Non-Farm Employment
- 3.....Average Hourly Earnings – Private Sector
- 4.....Initial Claims for Unemployment Insurance
- 5.....State Sales Tax Collections – Retail Category
- 6.....State Sales Tax Collections – Contracting Category
- 7.....Residential Building Permits
- 8.....Economic Activity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

Total Non-Farm Employment



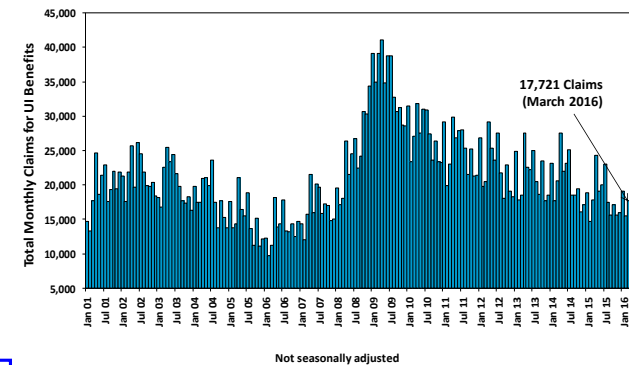
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Average Hourly Earnings – Private Sector



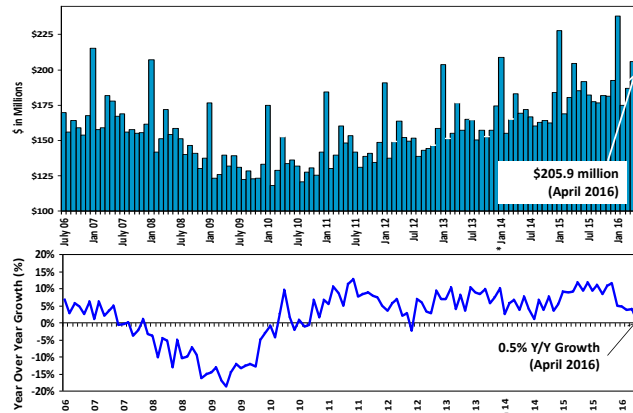
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Initial Claims for Unemployment Insurance



4

State Sales Tax Collections – Retail Category



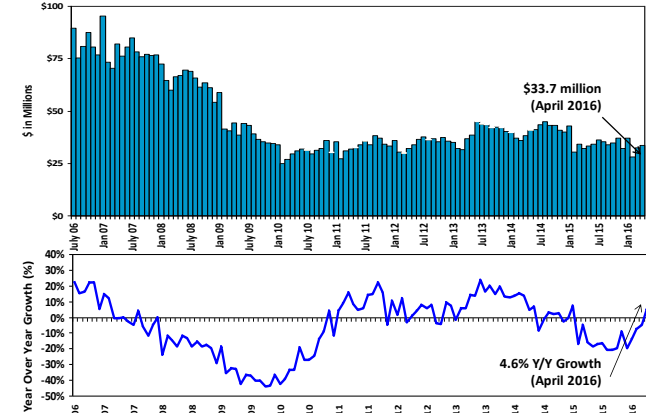
JLBC

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

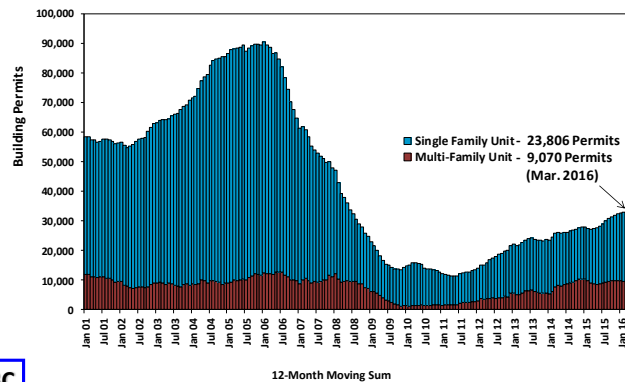


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Excludes temporary 1 ¢ sales tax

6

Residential Building Permits

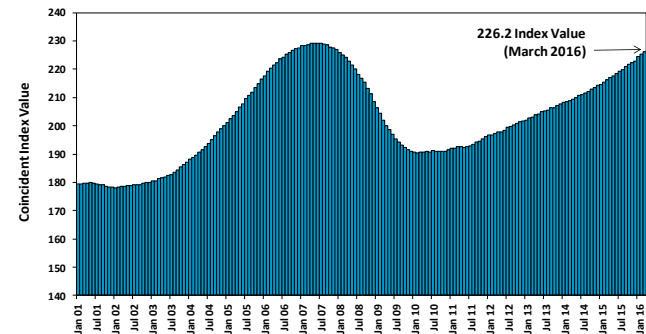


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12-Month Moving Sum

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.

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