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“October General Fund revenue collections were \$921.7 million and were 12.6% above the prior year.”

Summary

October General Fund revenue collections were \$921.7 million and were 12.6% above the prior year. This amount was \$66.9 million above the enacted budget forecast.

The October results were similar to prior months during FY 2020, with strong growth across most of the state’s large revenue categories.

Sales Tax collections grew by 6.3% and were \$4.3 million above forecast. The category saw growth in each of the subcategories, including double digit growth in Contracting Sales Tax revenues. Retail Sales Tax collections showed more modest growth of 3.1%, the slowest growth rate since March 2019.

The Individual Income Tax (IIT) category posted a substantial gain for October, increasing by 13.4% and ending up \$23.9 million above forecast. This growth was due to the following 2 factors:

1) Higher Than Expected Withholding Collections – October IIT withholding collections grew by 9.8% above the prior year. This growth was higher than expected given recent wage growth data (approximately 3%) plus recent employment growth data (approximately 3%). Withholding collections above these wage/job growth trends may be the result of timing issues related to the deposit of withholding collections with the state.

2) Final Tax Payments – October is typically a larger month for IIT collections due to final income tax payments from taxpayers who filed six-month extensions for the standard mid-April filing deadline. This October showed 13.4% growth in final tax payments, which resulted in October 2019 having the highest level ever for October final tax payments. This continues the results seen during the spring tax filing season, where IIT payment revenues significantly increased due to additional revenues from Tax Year (TY) 2018 Conformity and generally higher underlying taxpayer liability. Given that the impact of TY 2018 conformity was expected to be greater for higher income individuals, and that tax extension filers tend to be higher income households, TY 2018 Conformity likely played a significant role with increasing October final tax payments.

October Corporate Income Tax (CIT) collections posted the largest forecast gain of the state’s major revenue categories, with CIT revenues \$33.5 million above the enacted forecast. The growth was driven by CIT tax payments, with October 2019 also having the highest level of CIT tax payments ever for October.

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on November 20, 2019.

Summary (Continued)

While the timing of CIT tax payments can vary depending on the schedule of a corporation's fiscal year, many large corporations fiscal year's run from January – December. This January – December format then corresponds to a mid-April tax filing deadline, with extensions available until October. Given that many large corporations elect to take extensions until October, these CIT results also reflect a continuation of the trend of strong CIT growth seen during the spring tax filing season earlier this year. (See the *Corporate Income Tax* section below for more discussion).

Operating Balance/BSF Information

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-November 2019 is \$1.94 billion. In addition, the state Budget Stabilization Fund (BSF) currently has a balance of \$1.01 billion.

Year-to-Date Results

Year-to-date, excluding Urban Revenue Sharing and fund transfers, FY 2020 General Fund revenues are 9.5% above the prior year and are \$242.2 million above the enacted budget forecast.

As noted in last month's *Monthly Fiscal Highlights*, there is uncertainty to how state revenues will perform in the second half of FY 2020. As part of addressing federal tax conformity, substantial tax reductions were enacted for FY 2020. Given that the enacted changes were broad-based (such as increasing the standard deduction) and that taxpayers are unlikely to actively adjust their withholding, these changes are likely to start impacting state revenues during tax filing season in the spring of 2020, as taxpayer receive larger refunds or owe smaller payments.

October Revenues

	General Fund Revenues (\$ in Millions)		
	<u>FY 2020 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2019</u>
October	\$ 921.7	\$ 66.9	\$ 103.1
Year-to-Date	\$ 3,807.6	\$ 242.2	\$ 232.9

Sales Tax collections of \$433.8 million were 6.3% above October of last year and \$4.3 million above the forecast for the month. Year to date, collections are up by 6.7% and exceed the forecast by \$38.4 million. Sales tax collections by category for September are shown in *Table 2*. The 5 major categories of the state's sales tax shown in the table account for approximately 90% of total collections.

As shown in *Table 2* below, the best performing categories in October were contracting and use tax, which increased (year over year) by 13.6% and 19.4%, respectively. Retail sales increased by 3.1%, which is the slowest growth rate since March 2019.

Sales Tax Growth Rates Compared to Prior Year		
	<u>October</u>	<u>YTD</u>
Retail	3.1%	6.1%
Contracting	13.6%	16.8%
Use	19.4%	13.8%
Restaurant & Bar	5.0%	7.1%
Utilities	6.6%	(2.4)%

Individual Income Tax net revenue of \$435.4 million in October was 13.4% above the prior year and \$23.9 million above the enacted revenue forecast. Year to date, net revenue is up by 10.6% and is \$104.0 million above forecast.

As indicated in *Table 3*, October withholding revenues of \$422.9 million were 9.8% above last year and \$19.3 million above the forecast.

October estimated and final payments of \$106.8 million were 16.0% above the prior year and \$17.2 million above forecast.

The amount of refunds in October totaled \$(94.3) million, which is a slight increase from the \$(93.3) million amount last year. With a forecasted refund level of \$(81.7) million, the higher level of actual refunds produced a forecast loss of \$(12.6) million.

October Revenues (Continued)

Table 3
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>October</u>	<u>YTD</u>
Withholding	9.8%	7.8%
Estimated/Final Payments	16.0%	19.8%
Refunds	1.0%	1.2%

Corporate Income Tax net revenue was \$60.1 million in October and 112.0% above the same month in the prior year. This was \$33.5 million above the forecast for the month. Year to date, net collections are up by 26.0% compared to the same period in the prior year, and \$77.2 million above forecast.

Corporate net revenue of \$60.1 million is the largest amount ever collected for the month of October. From July through October, \$221.8 million has been collected, which is the highest amount for that period since FY 2008.

While the reason for the significantly larger-than-expected corporate tax revenue through October cannot be determined from available data, we believe that the revenue surge in large measures could be due to the “tax-shifting” effect that followed the enactment of the federal Tax Cuts and Jobs Act (TCJA) in December 2017.

TCJA lowered the federal corporate tax rate from 35% in Tax Year (TY) 2017 to 21% in TY 2018. This rate reduction incentivized corporations to shift their federal taxable income from TY 2017 to TY 2018 to take advantage of the lower corporate tax rate. This change in taxpayer behavior also affects state corporate income tax (for more background on this issue, see the [October Monthly Fiscal Highlights](#)).

For corporations that operate on a calendar year basis, the due date for filing their TY 2018 tax return was April 15, 2019. However, since large corporations typically request a 6-month extension, their extended returns for TY 2018, along with their payments, were not due until October 15, 2019. As a result, the “tax-shifting” effect (described above) is likely to explain at least some of October’s unusually large corporate income tax increase.

Insurance Premium Tax net collections were \$1.0 million in October, \$(3.6) million less or (78.0)% lower than the same month last year. It was also \$(3.0) million below forecast. Year to date through October, insurance premium tax revenue was up by 3.3% and \$2.9 million above forecast.

In October, **tobacco tax** revenues were \$1.4 million. This amount is \$(0.2) million below the prior year and \$(0.3) million below forecast. **Liquor tax** collections during the month were \$2.9 million. This amount is \$0.3 million above October 2018 and \$(0.1) million below forecast.

The **Lottery Commission** reports that October ticket sales were \$78.5 million, which is \$(49.8) million, or (38.8)% below sales in October 2018. Year-to-date, ticket sales are \$311.6 million, which is (14.3)% below sales in the prior year. The reduction is due to two large jackpots that occurred in November 2018. General Fund distributions were \$19.5 million in October, \$(4.1) million lower than forecast.

Highway User Revenue Fund (HURF) collections of \$125.9 million in October were down by (3.7)% compared to same month in the prior year and were \$(3.0) million below forecast. Year-to-date, collections have increased by 0.1% above the prior year and are \$(5.7) million below forecast.

Public Safety Transfers revenue, which reflects certain enacted fund transfers to the General Fund, was \$2.1 million in October 2019. Through October, a total of \$6.4 million has been transferred to the General Fund. (Note that this revenue source was classified as Other Taxes in the August and September *Monthly Fiscal Highlights*.) Laws 2018, Chapter 265 established a new highway safety fee charged on vehicle registrations. The fee, which is set at \$32 per vehicle, will result in total transfers to the General Fund of \$23.3 million in FY 2020. Laws 2019, Chapter 268 eliminates the highway safety fee on June 30, 2021.

Due to delays in reporting final September luxury tax revenues, there were **technical adjustments** to prior month collection figures. For September, luxury tax revenue was increased by \$846,500 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 October 2019

	Current Month					FY 2020 YTD (Four Months)				
	Actual October 2019	Change From October 2018		Enacted Forecast		Actual October 2019	Change from October 2018		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$433,756,765	\$25,792,144	6.3 %	\$4,342,597	1.0 %	\$1,751,766,040	\$110,482,192	6.7 %	\$38,359,368	2.2 %
Income - Individual	435,415,347	51,444,110	13.4	23,850,391	5.8	1,796,208,454	171,717,991	10.6	103,997,481	6.1
- Corporate	60,095,153	31,749,161	112.0	33,464,373	125.7	221,793,257	45,799,962	26.0	77,214,714	53.4
Property	8,194,192	2,101,724	34.5	5,977,610	269.7	9,453,176	1,910,892	25.3	6,571,878	228.1
Luxury - Tobacco	1,435,051	(216,454)	(13.1)	(303,174)	(17.4)	7,134,800	(156,709)	(2.1)	567,602	8.6
- Liquor	2,942,945	280,820	10.5	(119,466)	(3.9)	11,288,666	470,207	4.3	155,754	1.4
Insurance Premium	1,011,969	(3,580,165)	(78.0)	(2,976,750)	(74.6)	157,490,750	4,973,050	3.3	2,896,739	1.9
Other Taxes	636,936	(181,065)	(22.1)	101,706	19.0	3,016,633	(119,681)	(3.8)	(56,531)	(1.8)
Sub-Total Taxes	\$943,488,358	\$107,390,275	12.8 %	\$64,337,286	7.3 %	\$3,958,151,776	\$335,077,904	9.2 %	\$229,707,005	6.2 %
Other Revenue										
Lottery	19,489,795	(1,143,850)	(5.5)	(4,117,745)	(17.4)	39,489,795	4,020,417	11.3	(8,366,167)	(17.5)
License, Fees and Permits	2,790,371	(414,716)	(12.9)	472,119	20.4	12,426,989	569,703	4.8	2,518,845	25.4
Interest	5,752	(4,727)	(45.1)	(15,593)	(73.1)	747	(1,567,841)	(100.0)	(274,406)	(99.7)
Sales and Services	1,400,994	(775,690)	(35.6)	(603,142)	(30.1)	7,305,993	743,373	11.3	314,853	4.5
Other Miscellaneous	4,896,317	2,652,803	118.2	2,500,853	104.4	7,678,216	4,025,790	110.2	4,185,181	119.8
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	8,133,601	1,507,347	22.7	4,370,114	116.1	21,165,256	9,477,658	81.1	14,071,692	198.4
Sub-Total Other Revenue	\$36,716,829	\$1,821,166	5.2 %	\$2,606,606	7.6 %	\$88,066,996	\$17,269,100	24.4 %	\$12,449,999	16.5 %
TOTAL BASE REVENUE	\$980,205,187	\$109,211,441	12.5 %	\$66,943,892	7.3 %	\$4,046,218,772	\$352,347,004	9.5 %	\$242,157,004	6.4 %
Other Adjustments										
Urban Revenue Sharing	(61,463,432)	(5,229,729)	9.3	(0)	0.0	(245,853,727)	(20,918,915)	9.3	(0)	0.0
One-Time Transfers	846,800	846,800	--	0	0.0	846,800	(93,311,256)	(99.1)	0	0.0
Public Safety Transfers	2,122,109	(1,729,209)	(44.9)	(0)	(0.0)	6,366,327	(5,187,627)	(44.9)	(0)	(0.0)
Sub-Total Other Adjustments	(58,494,523)	(6,112,138)	11.7 %	(0)	0.0 %	(238,640,600)	(119,417,798)	100.2 %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$921,710,665	\$103,099,303	12.6 %	\$66,943,892	7.8 %	\$3,807,578,172	\$232,929,206	6.5 %	\$242,157,004	6.8 %
Non-General Funds										
Highway User Revenue Fund	125,871,713	(4,852,365)	(3.7) %	(3,037,362)	(2.4) %	500,998,040	463,089	0.1 %	(5,749,284)	(1.1) %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis' first or "advance" estimate, the **U.S. Real Gross Domestic Product (GDP)** increased at a seasonally adjusted annual rate of 1.9% in the third quarter of 2019. The slower growth relative to the prior quarter is the result of weaker personal consumption expenditures and government consumption and gross investment growth. These decreases were offset by relative increases in net exports and inventory investment.

The Conference Board's **U.S. Consumer Confidence Index**, which is based on consumers' perceptions of current conditions, as well as their expectations 6 months into the future, decreased by (0.3)%, or 0.4 points, from September's revised 126.3 to 125.9 in October. Consumers expressed concerns about business conditions and job prospects. The labor index, which is calculated as the percentage of respondents who think that jobs are plentiful minus the percentage who think that jobs are difficult to find, increased by 1.6 points, or 4.8%, in October to a net value of 35.1.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure (PCE) Price Index** remained unchanged from August to September. Compared to September 2018, the overall price index is up by 1.3%. The "core" PCE price index excludes food and energy prices and is the Federal Reserve's (Fed) preferred inflation measure. This core index increased year over year by 1.7% in September, which remains below the Fed's inflation target of 2.0%.

Consumer prices, which are measured by the U.S. Bureau of Labor Statistics **Consumer Price Index (CPI)**, increased by 0.36% in October, the largest month-over-month increase since March. Much of October's CPI increase was due to rising gasoline prices. Compared to October 2018, the general price level is up by 1.8%. Core inflation (all items less food and energy) rose by 0.16% for the month, and compared to October 2018, the core CPI is up by 2.3%. Year over year, core inflation has remained above 2% in each of the last 5 months.

The Conference Board's **U.S. Leading Economic Index** decreased in September to 111.9 and is 0.4% above its September 2018 reading. The decline was the result of weakness in the manufacturing sector and interest rate spread. These were offset by increases in stock prices and the Leading Credit Index (Treasury bill and investor sentiment outlook).

Tourism

Revenue per available room was \$72.93 in September, 2.5% above the same month in the prior year.

State park visitation was 227,538 in August, 9.2% above the same month in the prior year.

Ridership through Phoenix Sky Harbor Airport during September increased 6.5% above the prior year.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state added 31,600 **nonfarm jobs** in October over the prior month. This was more than the 10-year average job gain of 24,800 for the month of October.

Compared to the same month in the prior year, Arizona added 72,200 net new jobs in October, which is a year-over-year increase of 2.5%. The largest year-over-year job gains in October occurred in the following industries: Education and Health Services (+16,900), Construction (+14,000), and Trade, Transportation and Utilities (+13,500). None of the state's major employment sectors had any (year over year) net job losses in October.

In October, the state's regular **unemployment rate** decreased from 4.9% to 4.8%. In October 2018, the jobless rate was 4.9%. Arizona's post-recession unemployment rate has never been below 4.7%, which last occurred in July 2018. The U.S. unemployment rate increased from 3.5% in September to 3.6% in October. The U.S. unemployment rate has fluctuated between 3.5% and 3.7% in each of the last 7 months.

According to OEO, the state had a total of 20,610 **claimants receiving unemployment insurance benefits** in October, a decrease of (10.0)% from September. This figure is (11.5)% below the October 2018 level.

OEO reported that 17,202 **initial claims for unemployment insurance** were filed in October, an increase of 5.7% compared to the same month last year.

Average Hourly Earnings

The **Average Hourly Earnings** received by private sector workers in September was \$26.88, which was 1.3% above the average in the prior month. Year-over-year growth in earnings increased from 3.2% in August to 4.4% in September.

Monthly Indicators (Continued)

State Agency Data

At the beginning of November 2019, the total **AHCCCS caseload** was 1.84 million members. Total monthly enrollment declined by (0.3)% for November and was 1.4% higher than a year ago. Parent and child enrollment in the Traditional population declined by (0.3)% for November and was (0.2)% lower than a year ago.

Enrollment in KidsCare is 35,723 for November, which represents (0.9)% growth compared to October and is 12.0% above last year.

For November 2019, the childless adult population declined by (0.1)% over last month. At 331,053, this population is 6.5% higher than a year ago.

In the adult Medicaid expansion program up to 133% of the Federal Poverty Level, enrollment declined (1.2)% for November and totals 76,632 individuals. Enrollment is (0.2)% lower than a year ago.

Based on information the Department of Child Safety provided for September 2019, **reports of child maltreatment** totaled 46,250 over the last 12 months, a decrease of (2.1)% over the prior year. There were 14,296 **children in out-of-home care** as of August 2019, or 0.9% more than in August 2018. Compared to the prior month, the number of out-of-home children increased 1.2%

The Arizona Department of Correction's **inmate population** was 42,716 as of October 31, 2019. This was an increase of 0.3% since September 30, 2019 and a 1.5% increase since October 2018.

There were 13,252 **TANF Cash Assistance recipients** in the state in September, representing a (1.5)% monthly caseload decrease from August. The year-over-year number of TANF Cash Assistance recipients has declined by (8.8)%. 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. In September, 818,908 people received food stamp assistance in the state, representing a (0.5)% decrease below August caseloads. Compared to September 2018, the level of food stamp participation has declined by (3.6)%.

Table 5

MONTHLY INDICATORS				
<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	September	4.8%	(0.1)%	(0.1)%
- Total Unemployment Rate (discouraged/underemployed)	3rd Q 2019	9.1%	(0.1)%	(0.2)%
- Initial Unemployment Insurance Claims	October	17,202	11.6%	5.7%
- Unemployment Insurance Recipients	October	20,610	(10.0)%	(11.5)%
- Non-Farm Employment - Total	October	2,975,800	1.1%	2.5%
Manufacturing	October	179,900	0.0%	4.7%
Construction	October	177,800	0.1%	8.5%
- Average Hourly Earnings, Private Sector	September	\$26.88	1.3%	4.4%
<u>Building</u>				
- Residential Building Permits (12-month avg) Single-family	September	32,028	1.4%	5.5%
Multi-family	September	10,564	(3.4)%	(7.5)%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	September	5,755	5.1%	31.4%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	September	\$299,900	2.0%	5.3%
- Phoenix S&P/C Home Price Index (2000 = 100)	August	195.76	0.9%	6.3%
- Maricopa Pending Foreclosures	September	2,312	(0.6)%	(11.8)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	September	17,792	1.7%	(11.9)%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	September	3,453,778	(5.4)%	6.5%
- State Park Visitors	August	227,538	(27.2)%	9.2%
- Revenue Per Available Hotel Room	September	\$72.93	14.9%	2.5%
<u>General Measures</u>				
- Arizona Leading Index – 6-month projected growth	September	3.5%	1.9%	0.0%
- Arizona Personal Income, SAAR	2nd Q 2019	\$335.1 billion	6.3%	6.3%
- Arizona Population	July 2018	7,171,646	N/A	1.7%
- State Debt Rating				
Standards & Poor's/Moody's Outlook	May	AA / Aa2	N/A	N/A
	May	Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	November 1st	1,837,811	(0.3)%	1.4%
Acute Care Traditional		1,029,911	(0.3)%	(0.2)%
Prop 204 Childless Adults		331,053	(0.1)%	6.5%
Other Prop 204		186,162	(0.6)%	0.7%
Adult Expansion		76,632	(1.2)%	0.2%
KidsCare		35,723	(0.9)%	12.0%
Long-Term Care – Elderly & DD		66,384	0.3%	4.9%
Emergency Services		111,946	(0.5)%	(0.4)%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	September	46,250	0.0%	(2.1)%
DCS Out-of-Home Children Filled Caseworkers (1406 Budgeted)	August	14,296	1.2%	0.9%
September	September	1,329	19	(1)
- ADC Inmate Growth	October	42,716	0.3%	1.5%
- Department of Economic Security				
- TANF Cash Assistance Recipients	September	13,252	(1.5)%	(8.8)%
- SNAP (Food Stamps) Recipients	September	818,908	(0.5)%	(3.6)%
- Judiciary Probation Caseload				
Non-Maricopa	June	19,283	11	27
Maricopa County	June	27,825	(296)	(610)
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	3rd Q, 2019 (1st Estimate)	\$19.1 trillion	1.9%	2.0%
- Consumer Confidence Index (1985 = 100)	October	125.9	(0.3)%	(8.7)%
- Leading Economic Index (2016 = 100)	September	111.9	(0.1)%	0.4%
- Consumer Price Index, SA (1982-84 = 100)	October	257.3	0.4%	1.8%
- Personal Consumption Expenditure Price Index (2012 = 100)	August	109.9	0.0%	1.3%

JLBC/JCCR Meeting Follow-Up

Arizona Department of Administration – Report on Business One-Stop – Pursuant to a Committee provision from the September 2019 JLBC meeting, the Arizona Department of Administration (ADOA) submitted a report on the scope of the Business One-Stop prototype. ADOA reports that the prototype will be limited to the agencies and functionality required to create a new domestic Liability Corporation (LLC), Professional LLC, Sole Proprietorship, or General Partnership in Arizona. This includes:

- Submission of the Arizona Joint Tax Application (JT-1) (excluding foreign entities and contractors) (Department of Revenue)
- Trade Name search and status verification (Secretary of State)
- Creation of a new Arizona LLC or PLLC by domestic entities (Corporation Commission)
- New entity name reservations (Corporation Commission and Secretary of State)

- Integration with the Arizona Department of Transportation web portal.
- Small business checklist that provides users with relevant resources and links to additional out-of-scope requirements such as permits and licenses. (Arizona Commerce Authority)

In addition, ADOA reports that it is the intent to have a functioning public-facing prototype. However, if during the implementation the functionality is too limited then the prototype may require additional development prior to public use. (Rebecca Perrera)

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Administrative Adjustments – Pursuant to A.R.S § 35-191, the Arizona Department of Administration (ADOA) submitted their report on administrative adjustments. A.R.S § 35-191 allows administrative adjustments for goods and services received after the end of the fiscal year if written documentation is provided by an agency and approved by ADOA. Statute requires ADOA to report any approvals for goods or services ordered in one fiscal year but received beyond August 30 of the following fiscal year. For FY 2019, ADOA granted approval to the Department of Public Safety for office furniture totaling \$197,700 which was received after August 30, 2019. In addition, ADOA approved 4 vehicles for ADOA totaling \$127,200, which were also received after August 30, 2019. (Rebecca Perrera)

Arizona Department of Administration – Report on Arizona Financial Information System Transactions– Pursuant to A.R.S. § 41-740.01, the Arizona Department of Administration (ADOA) reported on the Arizona Financial Information System (AFIS) transaction counts by agency and fund source for FY 2019 and the proposed FY 2021 AFIS Transaction Fee. For FY 2019, the total number of transactions were 24.9 million compared to 27.8 million in FY 2018. The FY 2021 AFIS transaction fee is calculated by dividing FY 2021 AFIS operating costs by the FY 2019 total transactions. Therefore, the FY 2021 transaction fee will be 38 cents,

an increase of 4 cents from FY 2020. Annual AFIS transactions continue to decline while the operating costs remains consistent which accounts for the increased fee. (Rebecca Perrera)

Arizona Department of Administration – Report on the State Monument and Memorial Repair Fund – Pursuant to A.R.S § 41-1365, the Arizona Department of Administration (ADOA) submitted their annual report on monies deposited into the State Monument and Memorial Repair Fund. The fund consists of donations designated for the maintenance of specific monuments or memorials. Monies in the fund are subject to appropriation. In FY 2019, ADOA received a donation of \$1,400 for the Fallen Firefighter and Emergency Medical Technician Memorial. The total balance in the fund is \$217,000 designated for 6 specific monuments or memorials. The amount includes:

- Father Albert Braun Memorial \$1,000
- Arizona Law Enforcement Canine Memorial \$300
- Earnest W. McFarland Monument \$42,800
- Bill of Rights Monument \$36,100
- Fallen Firefighter and Emergency Medical Technician Memorial \$115,400
- Enduring Freedom Memorial \$21,400

Summary of Recent Agency Reports (Continued)

The FY 2019 budget appropriated \$25,300 of undesignated monies from the fund to ADOA for general maintenance and repairs at Wesley Bolin Plaza. ADOA reported that while completing the repairs, the department reviewed the fund's documentation and discovered that a portion of the undesignated monies were actually dedicated to the Enduring Freedom Memorial. ADOA established a new subaccount and reimbursed the memorials account with its FY 2019 General Fund Appropriation. The FY 2019 expenditures funded repairs at the World War I Memorial, Vietnam Memorial, Enduring Freedom Memorial, Desert Storm Memorial, and the Wesley Bolin Plaza Plaque. (Rebecca Perrera)

Arizona Department of Administration – Report on Motor Vehicle Fleet – Pursuant to A.R.S. § 41-803R, the Arizona Department of Administration reported on the FY 2019 year-end inventory of state-owned alternative fuel vehicles. Of the 12,588 state vehicles, 5,300, or 42%, are subject to the alternative fuel vehicle requirements. (Law enforcement and certain other vehicles are exempt.)

Of the 5,300 state vehicles subject to the alternative fuel vehicle requirements, 3,789, or 71%, are alternative fuel vehicles. This percentage is (5)% less than the prior year but exceeds the 40% target established by statute. Statute also requires 90% of the state vehicles in Maricopa County to be capable of using alternative fuels. The state reports that 79% of its Maricopa County vehicles are alternative fuel vehicles. This is decrease of (3)% from the prior year.

A.R.S. § 41-803G additionally requires that 75% of new vehicle purchases in Maricopa, Pima, and Pinal Counties be capable of using alternative fuels. Of the 602 eligible vehicles purchased in these counties in 2018, 63% were capable of using alternative fuels.

ADOA reports that these statutory mandates were missed in FY 2019 because one agency, the Department of Child Safety, purchased 150 new vehicles which did not meet the alternative fuel requirements. Prior models of the vehicle did meet the alternative fuel requirements.

Notwithstanding the number of vehicles capable of using alternative fuel, only 2.6% of the state fleet's fuel budget was spent on alternative fuels. (Rebecca Perrera)

Arizona Department of Administration – Automation Projects Fund Quarterly Report and Third-Party Reports – Pursuant to an FY 2020 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) provided its first quarter FY 2020 update of all

current projects funded through the Automation Projects Fund (APF). ADOA evaluates the health of each project on a quarterly basis and labels each as on track, at risk, or off track. Of the 17 active projects, ADOA has labeled 8 on track, 2 at risk, 4 not yet started and 1 complete. Additionally, ADOA has labeled the following 2 projects as off track:

Insider Threat Risk Management (ADOA)

ADOA has labeled this project as off track-complete. ADOA reported that the project was at risk primarily due to ongoing issues with the vendor. ADOA and the vendor disagree on the scope of the project and whether the budget included the costs of onboarding participating agencies. The FY 2018 appropriation lapsed at the end of FY 2019. ADOA requested and received a 90-day extension by GAO to expend APF funds. At the end of the first quarter, the project was closed with the full deployment of the User and Entity Behavior Analytics scope not implemented. The vendor is working with another entity to allow them to process more of ADOA's data. A total of \$491,100 lapsed into the APF.

Adult Inmate Management System (AIMS) replacement (ADC)

ASET continues to label this project as off track due to several issues including the change orders in the last quarter of FY 2019 and the delayed completion date. However, ADOA reports that the Arizona Department of Corrections (ADC) status "trends upward" as the department mitigates risk in development and user acceptance in anticipation of the go-live date of November 29, 2019.

Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5 million must receive third-party analysis from an independent contracted vendor. The third-party vendor is required to review and provide guidance on the project and submit quarterly reports on project progress. The IVV reports were submitted for the following projects: Data Center Facility Migration (ADOA), Electronic Visit Verification project (AHCCCS), Provider Management System upgrade (AHCCCS), CHILDS replacement (Department of Child Safety), Adult Inmate Management System Replacement (ADC), Mainframe migration (Department of Economic Security), Criminal Justice Information System upgrade (Department of Public Safety), Arizona Access Voter Information Database (AVID) (Secretary of State), and Motor Vehicle Modernization Project (Arizona Department of Transportation).

The reports provided commentary on project progress that matched that of the quarterly APF

Summary of Recent Agency Reports (Continued)

reports from ASET with one possible exception. While ADOA classifies the Secretary of State AVID project as at-risk, the third-party report indicates the project has consistently had a higher status of "red-level" risk for 8 months primarily due to delays in implementation and testing which have resulted in multiple changes to the go-live date. The project is now expected to go-live on November 25, 2019. ADOA's assessment is based on the delay being less than 10% of the overall schedule and no change in the budget or scope while the third-party report is based on several additional detailed indicators of project health including project, budget, schedule, contract, and resource management (Rebecca Perrera)

Arizona Department of Administration – Report on State Personnel System – Pursuant to A.R.S. § 41-743, the Arizona Department of Administration (ADOA) submitted their annual report on the State Personnel System (SPS). The SPS includes all agencies in the Executive branch excluding employees in the Department of Public Safety, Arizona Schools for the Deaf and the Blind, Cotton Research Council, Peace Officer Standards Training Board, and the Arizona Board of Regents and State Universities. ADOA reports that there were 32,997 SPS employees at the end of FY 2019, a reduction of (203) employees from FY 2018. The average salary in FY 2019 was \$49,988, a 3.1% increase from the prior year. This amount includes salary increases for select public safety employees as implemented in the FY 2020 budget. The statewide employee turnover rate remains at the FY 2018 level of 18%.

In addition, statute requires ADOA to provide an advisory recommendation for state employee salaries. However, ADOA makes no specific recommendation for employee compensation. ADOA reports that current third-party analysis suggests that market rates exceed state employee base salaries by 21.6%. In addition, ADOA reports that within the last 5 years, the minimum wage has increased by almost 50% while the median state salary increase has been 9%. (Rebecca Perrera)

AHCCCS – Report on CMDP Program and Financial Accountability Trends – Pursuant to Laws 2018, Chapter 152, AHCCCS reported its CMDP program and financial accountability trends spanning from October 1, 2017 to September 30, 2018.

Statewide, the percentage of foster care eligible members served dropped from 76.2% in October 2017 to 71.7% in September 2018. Monthly utilization, too, declined by \$(1.9) million, with total encounters costing \$10.7 million in October 2017 as compared to \$8.8 million in September 2018. In contrast, new monthly enrollment increased by 60 persons, from 735 to 795.

AHCCCS is currently unable to determine how many grievances reported by RBHAs can be attributed to the CMDP population, as CMDP is not broken out separately. AHCCCS reported it is working to find ways to provide the relevant data for future submissions. (Maggie Rocker)

AHCCCS – Report on Uncompensated Hospital Costs and Hospital Profitability – Pursuant to A.R.S. § 36-2903.08, AHCCCS reported on uncompensated hospital costs and hospital profitability for Arizona hospitals for Hospital Fiscal Year (HFY) 2018. AHCCCS defines uncompensated care as the total amount of "bad debt" and "charity care" costs incurred by each hospital. Bad debt consists of care provided for which the hospital expected to be paid, but was not, while charity care represents hospital services provided for free or a reduced charge. To estimate the amount of uncompensated care, AHCCCS determined the charges for bad debt and charity care for each hospital and adjusted the expense based on a "cost-to-charge" ratio, or each hospital's ratio of actual expenses compared to gross charges and other revenues. The average hospital cost-to-charge ratio was 20% in HFY 2018.

The report included the following findings:

- Total uncompensated care costs increased by \$9.6 million, from \$410.1 million to \$419.7 million. As a share of overall hospital expenses, however, uncompensated care held steady at 2.5%.
- Total net operating profitability increased by \$205.4 million, from \$919.0 million in 2017 to \$1.1 billion in 2018. As a result, the average hospital operating margin increased 1.0%, from 5.3% to 6.3%, and the share of hospitals with a positive operating margin increased from 71.2% to 73.5%.
- There continued to be differences in uncompensated care between different hospital types. Rural hospitals, non-profit hospitals, and high Medicaid-volume hospitals had higher uncompensated care as a share of overall hospital expenses compared to their counterparts. (Maggie Rocker)

Attorney General – Quarterly Report on Child and Family Advocacy Center Fund Expenditures – Pursuant to A.R.S. § 41-191.11, the Attorney General (AG) submitted its quarterly report on expenditures from the Child and Family Advocacy Center Fund (CFAF), which funds nonprofit and government entities that serve victims of child abuse or investigate and prosecute their abusers.

Through the first quarter of FY 2020, the AG has not received its \$500,000 FY 2020 appropriation and has

Summary of Recent Agency Reports (Continued)

not expended any monies out of the fund. (Josh Hope)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – Pursuant to A.R.S. § 41-199, the Attorney General (AG) submitted its quarterly report on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund receives an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age restricted areas. Monies in the fund are utilized to support the ICAC Task Force, which is housed within the Phoenix Police Department and works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the first quarter of FY 2020, the AG has not received revenues for deposit into the ICAC Enforcement Fund. A total of \$339,800 was expended from the fund balance in the first quarter of FY 2020 to help pay for the operating costs of the ICAC Task Force. As of September 30, 2019, the ICAC Enforcement Fund had a fund balance of \$2,332,600 and \$596,100 in outstanding encumbrances. (Josh Hope)

Attorney General – Quarterly Reports on Legal Settlements – The Attorney General (AG) submitted its statutorily-required quarterly reports on the receipts to and disbursements from the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund, the Antitrust Enforcement Revolving Fund, and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the first quarter of FY 2020, the AG deposited a total of \$506,400 into various consumer accounts. Of that amount, \$454,700 was deposited into the CPCF Revolving Fund, \$3,000 into the Antitrust Enforcement Revolving Fund, \$48,700 into the Consumer Restitution Subaccount, and no deposits were made into the Consumer Remediation Subaccount. The AG made no deposits into the General Fund from settlements.

Deposits to the CPCF Revolving Fund

The AG deposited \$454,700 in the first quarter of FY 2020 into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. This amount resulted from small legal settlements of less than \$250,000. The fund also received \$500 from interest income.

Deposits to Antitrust Enforcement Revolving Fund

The AG deposited \$3,000 in the first quarter of FY 2020 into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. This amount resulted from small legal settlements of less than \$250,000.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$48,700 in the first quarter of FY 2020 into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. This amount resulted from small legal settlements of less than \$250,000. The subaccount also received \$30,200 from interest income.

Deposits to the Consumer Remediation Subaccount

The AG received \$99,200 in interest income in the first quarter of FY 2020 into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. The AG did not receive any new settlement monies in this account in the first quarter.

Deposits to the General Fund

The AG deposited no revenue in the first quarter of FY 2020 into the General Fund. (Josh Hope)

Arizona Commerce Authority – Annual Report on Arizona Competes Fund

– Pursuant to A.R.S. § 41-1545.04, the Arizona Commerce Authority (ACA) provided its annual report on: 1) grants from the previous fiscal year and other projects currently funded from the Arizona Competes Fund, and 2) performance measures for the recipients including job creation, capital investment and average wages.

New FY 2019 Grants

ACA awarded 14 grants from the Arizona Competes Fund totaling \$12.3 million in FY 2019.

ACA awarded 4 new grants totaling \$10.8 million for the purpose of expanding or retaining businesses in Arizona. Of this total, Lucid Motors USA was awarded \$5.0 million, Deloitte Consulting was awarded \$2.5 million, Nationwide Mutual Insurance Company was awarded \$2.5 million, and Boeing Company was awarded \$800,000.

Each recipient agreed, as part of the granting process, to meet certain metrics regarding job creation. The 4 recipients agree, over the next 3 years, to create a collective total of 4,613 new jobs, retain 5,216 existing jobs, provide average annual wages above the county median wage, make a

Summary of Recent Agency Reports (Continued)

collective capital investment of \$854.0 million, and pay for at least 65% of health insurance costs. Additionally, ACA awarded \$1.5 million in new grants as part of the Arizona Innovation Challenge (AIC) grant program to 10 early-stage companies for the purposes of funding the start-up costs of small businesses. Starting with the FY 2019 grant recipients, performance milestones are tied to passage of coaching sessions and therefore do not involve job creation milestones.

There were no grants awarded under the Rural Economic Development Grant (REDG) program in FY 2019. Grants made under this program are meant to fund rural infrastructure projects that will generate or retain private sector jobs.

Performance Measures

ACA awarded 37 grants from FY 2012 through FY 2019 totaling \$60.6 million for the purpose of expanding or retaining business in Arizona. Of these amounts, 5 grants were rescinded totaling \$6.5 million. Through FY 2019, these grantees created 12,554 jobs with average annual wages of \$81,100 and capital investment of \$1.6 billion. This compares to commitments of 23,106 jobs created, average annual wages of \$67,900, and capital investment of \$2.3 billion. The grantees have 3 years to reach the agreed upon metrics. Grantees that did not perform the agreed upon metrics were only funded for the job creation and capital investments that were completed.

From FY 2012 through FY 2019, ACA made 100 REDG and AIC grants totaling \$24.4 million for the purpose of supporting rural and small businesses. As of June 30, 2019, these grantees created 2,257 jobs and \$195.1 million in capital investment compared to commitments of 3,015 jobs and \$389.8 million in capital investment. These grantees also created an additional \$13.4 million in capital investment that was not subject to a contractual commitment. The average wage of the jobs created was \$41,000.

Fund Status

The Arizona Competes Fund typically receives a General Fund deposit of \$11.5 million and an additional deposit of \$3.5 million in lottery revenues. The FY 2019 Revenues Budget Reconciliation Bill reduced the General Fund deposit to \$5.5 million for FY 2020 and thereafter. As of September 30, 2019, the Arizona Competes Fund had a balance of \$53.8 million. (Elliot Chau)

County Attorneys – Report on Deferred Prosecution – Pursuant to A.R.S. § 11-362, each county attorney that oversees an established Deferred Prosecution Program shall submit an annual evaluation of their respective program that includes the following metrics:

- The number of persons who were enrolled in deferred prosecution programs during the previous fiscal year.
- The number of persons who successfully completed deferred prosecution programs during the previous fiscal year.
- If available, the number of persons who were enrolled in deferred prosecution programs during the previous fiscal year and who were subsequently convicted of a new felony offense.

For FY 2019, all 15 counties submitted reports. A total of at least 8,519 individuals were enrolled in a deferred prosecution program in FY 2019. Of these individuals, 5,109 successfully completed the program during FY 2019, with another 1,034 individuals still enrolled. Two counties, Maricopa County and Pinal County, reported data on recidivism of program participants. Maricopa reported that 7% of participants in FY 2016 and FY 2017 were subsequently convicted of a new felony offense within 2 years. Pinal reported a recidivism rate of 6%.

Deferred prosecution allows individuals who commit non-dangerous, non-serious crimes to avoid prosecution through the completion of a program that may involve restitution, community service, substance abuse treatment, counseling, or other means by which the individual can make amends for their crime. After the completion of the program, the charges are dismissed. (Geoffrey Paulsen)

Department of Economic Security – Report on Arizona Training Program at Coolidge (ATP-C) Campus Total Costs

– An FY 2019 General Appropriation Act footnote requires the Department of Economic Security (DES) to report on total costs associated with the ATP-C for FY 2019. DES reports \$20.3 million in total costs. This is a (5.8)% decrease from the \$21.6 million spent in FY 2018. The total number of Intermediate Care Facility clients decreased (6.5)% from FY 2018 while the number of clients in State Operated Group Homes decreased by (5.2)%.. (Elizabeth Dagle)

Arizona Department of Education – Report on K-12 Aggregate Expenditure Limit – Pursuant to A.R.S. § 15-911B, the Department of Education recently reported that currently budgeted expenditures for school districts collectively for FY 2019 are \$(49.3) million below the aggregate expenditure limitation (AEL) established for school districts in the State Constitution. The difference for FY 2019 was \$(231.0) million.

Summary of Recent Agency Reports (Continued)

The AEL caps spending for all school districts combined at 110% of the FY 1980 statewide level adjusted for subsequent enrollment growth and inflation. It does not apply to exempted items like overrides, bonding and Proposition 301 funding or to charter schools. The gap between school district's budgeted spending and the AEL is decreasing in FY 2020 because funding for teacher pay raises and Additional Assistance restorations is causing district spending to grow faster than enrollment and inflation combined in the current year.

School districts will likely exceed the AEL in FY 2021 due to additional teacher salary increases and Additional Assistance restorations budgeted in advance for that year. If so, A.R.S. § 15-911C allows the Legislature to authorize school district spending above the AEL for a current fiscal year with a two-thirds majority vote in both the House of Representatives and Senate. A permanent increase in the AEL would require a voter-approved change to the State Constitution. (Patrick Moran)

Board of Executive Clemency – Report on FY 2019 Caseload – Pursuant to a footnote in the FY 2020 General Appropriation Act, the board is required to submit a report on its FY 2019 caseload by November 1, 2019.

The board conducted 2,848 case hearings in FY 2019, as described below:

Phases 1 and 2 Commutation (185): After reviewing an inmate's request to have their sentence commuted, the board can decide to deny the request or allow the request to move to a Phase 2 Commutation hearing.

Pardon (13): The board may recommend that the Governor pardon an offender.

Absolute Discharge (15): The board can discharge a person from imprisonment or parole supervision prior to the sentence expiration date or prior to the expiration of parole.

Modification (0): The board can recommend to the Governor that an inmate's sentence be modified or commuted.

Reprieve (0): The board can make a recommendation to the Governor to delay or temporarily suspend the carrying out of an inmate's punishment.

Parole (479): These hearings only apply to offenders sentenced prior to 1994. The board may place these offenders on parole or deny their application for parole and return them to the Department of Corrections.

Violator (2,156): These hearings are conducted when an offender has violated the terms of community supervision. (Jordan Johnston)

Department of Health Services – Report on Public Health Emergencies Fund FY 2019 Spending – Pursuant to A.R.S. § 36-122 the Arizona Department of Health Services (DHS) is required to report to JLBC any expenditures from the Public Health Emergencies Fund. Monies in the fund are spent on responses to public health emergencies in the state as declared by the Governor. The fund had expenditures of \$5,100 in FY 2019. The department reports that these expenditures were incorrectly charged to the fund and a correction eliminating the expenditures will be made in FY 2020. (Morgan Dorcheus)

School Facilities Board – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 15-2158, the School Facilities Board (SFB) is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is operated by the Governor's Office of Education. Since September 30, 2018, 1 new school, Highland Prep, has qualified for the program. As of September 30, 2019, 9 schools have been approved financing through the program – Academy of Math and Science (2 projects), Arizona Agribusiness and Equine Center, Great Hearts Academies (2 projects), BASIS Schools (2 projects), Vista College Preparatory, and Highland Prep. The total outstanding principal amount is \$162.9 million. To date, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$105.9 million and has a leverage ratio of 1.54 (based only on the outstanding principal of issued financing). The statutory limit for the program's leverage ratio is 3.5. (Rebecca Perrera)

Supreme Court – Report on Adult Probation Services Fund and the Juvenile Probation Fund – Pursuant to a General Appropriation Act footnote and A.R.S. § 12-262, the Administrative Office of the Courts (AOC) reported on the FY 2019 actual, FY 2020 estimated, and FY 2021 requested amounts for the following: 1) the number of authorized and filled case carrying and non-case carrying probation positions by county; 2) the total receipts and expenditures by county and fund source for each of the probation Special Line Items (SLI), including the Personal Services expended from each revenue source of each account; and 3) the amount of monies from the probation SLIs that the AOC does not distribute as direct aid to counties. The figures in this report are

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for all counties except Maricopa as the state does not pay any of that county's costs of probation.

Adult Standard Probation

Adult Standard Probation state expenditures for county probation officers statewide were \$44.0 million in FY 2019, of which \$14.7 million were General Fund monies and \$3.2 million were non-General Fund state expenditures. The remaining \$26.1 million were county expenditures. These monies funded 243.5 case carrying and 354.1 non-case carrying positions. AOC estimates total expenditures of \$47.2 million in FY 2020 and \$49.6 million in FY 2021.

Adult Intensive Probation

AOC reports statewide Adult Intensive Probation state expenditures for county probation officers of \$9.9 million in FY 2019, of which \$9.4 million were General Fund monies and \$0.5 million were non-General Fund state expenditures. These monies funded 92.0 case carrying and 60.2 non-case carrying positions. AOC estimates total expenditures of \$11.6 million in FY 2020 and \$12.3 million in FY 2021.

Juvenile Standard Probation

Juvenile Standard Probation state expenditures for county probation officers statewide were \$17.0 million in FY 2019, of which \$3.3 million were General Fund monies. The remaining \$13.7 million were county expenditures. These monies funded 48.5 case carrying and 342.8 non-case carrying positions. AOC estimates total expenditures of \$17.5 million in both FY 2020 and FY 2021.

Juvenile Intensive Probation

AOC reports statewide Juvenile Intensive Probation state expenditures for county probation officers of \$4.9 million in FY 2019, all of which were General Fund monies. These monies funded 36.7 case carrying and 28.0 non-case carrying positions. AOC estimates total expenditures of \$5.6 million in both FY 2020 and FY 2021. (Geoffrey Paulsen)

Universities – Report on University Research Infrastructure Income – Pursuant to A.R.S. § 15-1670, Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA) are required to submit an annual report on the amount of the previous year's income from licensure and royalty payments and the sale or transfer of intellectual property developed by the university.

Laws 2019, Chapter 266 amended A.R.S. § 15-1670 to state that beginning in FY 2019 universities will no longer deposit a portion of income generated by licensure and royalties to the General Fund but will transfer 20% of cumulative net income exceeding \$1.0 million to the

Arizona Financial Aid Trust (AFAT). Chapter 266 also defines net income as payments received from individual licensure and royalty agreements and the sale or transfer of intellectual property developed by the university net expenses related to individual agreements.

In FY 2019 ASU and NAU reported no gross royalties and UA reported \$5.9 million in gross royalties. In FY 2019, UA had \$2.8 million in cumulative net income exceeding \$1.0 million. Pursuant to A.R.S. § 15-1670, UA will deposit \$556,900 into the AFAT. (Alexis Pagel)

Department of Veterans' Services – Report on Capital Projects – Pursuant to A.R.S. § 41-610, the Department of Veterans' Services (DVS) is required to submit an annual report on capital projects for which they have requested federal monies in the past 12 months.

The FY 2015 and FY 2017 budgets appropriated \$9.2 million and \$10.0 million, respectively, from the General Fund for the state's portion (35%) of the construction cost for veterans' homes in Yuma and Flagstaff. In addition, the FY 2019 Capital Outlay Bill appropriated \$8.0 million from the State Home for the Veterans' Trust Fund (\$4.0 million for the Yuma Home and \$4.0 million for the Flagstaff Home). This additional funding was allocated to: 1) cover the state's share of the 10% cost increase; and 2) allow sufficient funds to cover the state-only cost of DVS increasing the size of both facilities from 60-beds to 80-beds, as DVS had applied for federal funding for 60-bed facilities.

DVS reports that Federal Funds are available in the department's Payment Management System in the amounts of \$20.3 million for Flagstaff and \$18.6 million for Yuma but have not yet been used. The department is preparing their first draw-down request to submit during November 2019. (Elizabeth Dagle)

October Spending

October 2019 General Fund spending was \$1.03 billion, which is an increase of \$277.4 million above October 2018. Year-to-date, General Fund spending of \$5.19 billion is an increase of \$432.8 million above the prior year. (See Tables 6 & 7).

- Year-to-date, Department of Education (ADE) spending has increased by \$150.6 million compared to the prior year. The FY 2020 budget added funding for: 1) a 5% teacher salary increase, which is the second year of a phased in 20% increase; 2) \$136 million to continue the restoration of K-12 "Additional Assistance" funding.
- Year-to-date, Department of Economic Security (DES) spending has decreased by \$(60.3) million compared to the prior year. This decline is related to the technical timing of Medicaid spending.
- State spending has increased due to the deposit of General Fund monies into the Budget Stabilization Fund (BSF). The enacted budget authorized 2 deposits from the state General Fund to the Budget Stabilization Fund: \$271 million in FY 2019 (which was made in June 2019) and \$271 million in FY 2020. As of mid-August the entire FY 2020 deposit was completed.

Agency	Change From			YTD Change from FY 19
	October 19	October 18	Year-to-Date	
AHCCCS	149.3	(2.9)	593.3	(33.1)
Corrections	86.4	8.3	477.6	24.4
Child Safety	21.9	(11.6)	110.2	(8.3)
Economic Security	187.8	170.1	464.6	(60.3)
Education	406.4	137.6	2,320.3	150.6
Health Services	8.3	1.0	36.3	1.8
Public Safety	10.1	(33.5)	43.0	(37.1)
School Facilities Board	9.5	(22.0)	194.7	(6.6)
Universities	71.8	4.0	260.2	13.6
Leaseback Debt Service	0.0	0.0	77.7	(6.4)
Budget Stabilization Fund Deposit	0.0	0.0	271.1	271.1
Other	<u>82.7</u>	<u>26.4</u>	<u>342.1</u>	<u>123.1</u>
Total	1,034.2	277.4	5,191.1	432.8

General Fund Spending				
(\$ in Thousands)				
Agency	October 19	Change from October 18	Year-to-Date	YTD Change from FY 19
Dept. of Admin./Automation Projects Fund	680.8	81.1	16,324.2	8,465.6
ADOA – Sale/Leaseback Debt Service	-	-	77,709.3	(6,402.7)
Office of Administrative Hearings	155.7	18.5	407.0	35.3
Commission of African-American Affairs	8.9	1.3	45.5	9.4
Department of Agriculture	738.2	(15.8)	3,704.4	(218.6)
AHCCCS	149,251.0	(2,879.0)	593,282.2	(33,097.0)
Arts, AZ Commission on the	500.0	500.0	1,200.0	1,200.0
Attorney General	1,754.0	(38.6)	9,257.8	49.5
State Board of Charter Schools	90.3	9.5	570.8	166.5
Department of Child Safety	21,860.9	(11,626.5)	110,217.1	(8,321.5)
AZ Commerce Authority	2,985.5	1,618.8	5,693.9	1,743.8
Community Colleges	22,813.9	9,813.2	45,656.5	19,474.4
Corporation Commission	48.2	(44.5)	213.4	(835.6)
Department of Corrections	86,353.4	8,288.0	477,558.5	24,442.3
County Funding	-	-	-	-
AZ State Schools for the Deaf & Blind	3,680.6	1,078.4	10,866.8	3,016.8
Office of Economic Opportunity	163.1	131.0	412.9	262.1
Department of Economic Security	187,752.2	170,053.5	464,614.5	(60,310.0)
State Board of Education	76.1	2.7	427.1	180.4
Department of Education	406,434.3	137,557.6	2,320,285.2	150,632.8
DEMA	370.6	(182.0)	5,524.6	3,249.3
DEQ – WQARF	-	-	-	-
Office of Equal Opportunity	-	(0.1)	-	(0.1)
State Board of Equalization	67.6	(59.7)	287.1	58.7
Board of Executive Clemency	65.6	7.5	304.0	(94.2)
Department of Financial Institutions	316.9	(38.0)	971.5	328.3
Department of Forestry and Fire Management	2,046.8	1,214.9	4,639.8	1,257.7
Department of Gaming	-	-	2,509.5	730.0
Governor/OSPB	603.3	(160.6)	3,547.9	(282.2)
Department of Health Services	8,287.1	1,016.0	36,284.4	1,839.3
Arizona Historical Society	232.1	31.4	1,299.3	446.3
Prescott Historical Society of AZ	61.8	(1.6)	323.0	31.7
Department of Housing	3,750.0	3,750.0	7,500.0	7,500.0
Independent Redistricting Comm.	-	-	-	-
Department of Insurance	356.5	18.7	1,980.3	(57.1)
Judiciary				
Supreme/Superior Court	19,407.0	745.2	49,095.9	4,304.3
Court of Appeals	1,131.3	(17.2)	5,463.5	(119.3)
Department of Juvenile Corrections	2,793.5	1,396.9	13,171.5	4,877.1

Agency	October 19	Change from October 18	Year-to-Date	YTD Change from FY 19
State Land Department	1,794.0	1,052.5	4,523.9	818.7
Legislature				
Auditor General	1,653.1	(13.3)	7,531.0	394.5
House of Representatives	1,196.0	165.5	5,117.2	434.9
Joint Legislative Budget Comm.	207.4	25.8	823.7	(11.4)
Legislative Council	476.9	(275.6)	2,274.8	15.1
Senate	767.1	45.8	3,381.8	139.1
Mine Inspector	102.9	27.0	471.8	32.8
Nav. Streams & Adjudication	7.9	(4.1)	36.6	(11.9)
Phoenix Convention Center	-	-	23,500.0	503.7
Comm. for Postsecondary Ed.	7.5	7.5	841.1	17.7
Department of Public Safety	10,071.2	(33,463.9)	42,968.4	(37,069.8)
Public Safety Personnel Retirement System	-	-	6,000.0	(1,000.0)
Real Estate Department	154.3	(4.5)	923.3	(35.2)
Department of Revenue	3,376.4	1,203.9	12,892.8	2,109.1
Rio Nuevo Distribution	-	-	-	-
School Facilities Board	9,532.2	(22,032.5)	194,698.9	(6,627.7)
Secretary of State	843.1	(78.1)	3,468.9	(1,764.0)
Tax Appeals Board	35.9	(17.0)	118.0	0.9
Office of Tourism	-	-	1,778.0	(355.6)
Department of Transportation	-	(881.4)	29,030.2	25,297.6
Governor's Office on Tribal Relations	10.5	(1.2)	29.9	0.2
Universities				
Board of Regents	4,560.2	643.0	4,984.7	628.7
Arizona State University	30,520.7	1,563.6	115,999.9	6,135.1
Northern Arizona University	10,539.5	432.7	39,852.2	1,830.2
University of Arizona	26,186.0	1,316.6	99,362.7	5,026.0
Department of Veteran Services	482.5	(56.2)	2,133.5	60.7
Department of Water Resources	6,581.3	5,399.8	45,456.2	40,578.9
Other - State Treasurer/JP Salaries	222.2	59.2	461.4	(41.9)
Other - Budget Stabilization Fund Deposit	-	-	271,107.0	271,107.0
Other	-	-	-	-
Total	1,034,166.0	277,385.6	5,191,117.3	432,776.9

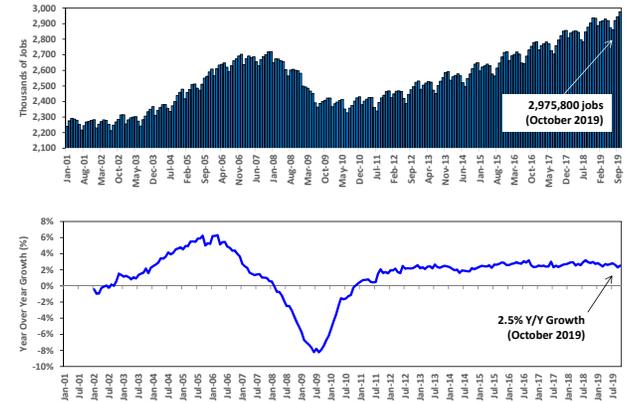
Arizona Economic Trends

November 2019
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

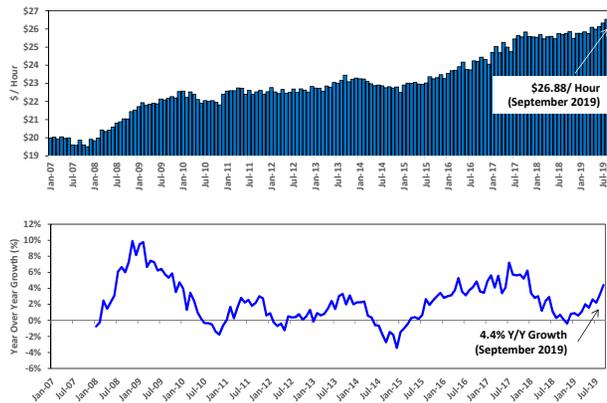
Total Non-Farm Employment



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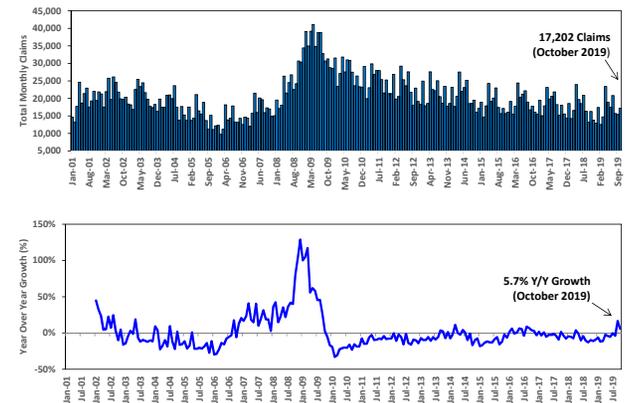
Average Hourly Earnings – Private Sector



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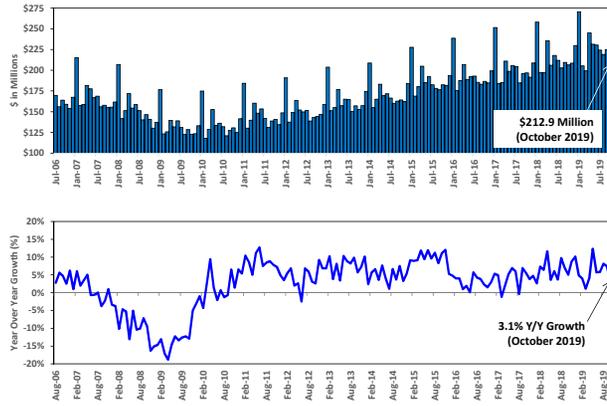
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



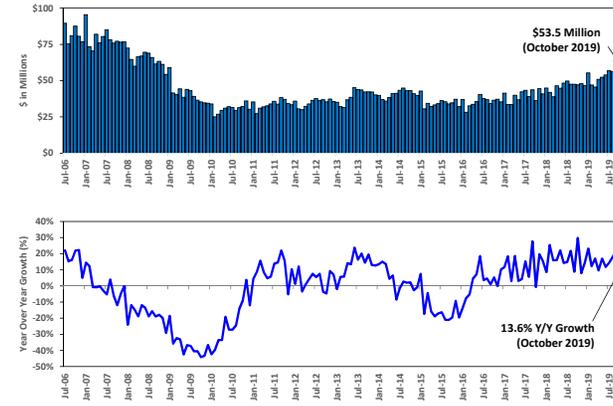
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Excludes temporary 1-cent sales tax

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

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State Sales Tax Collections – Contracting Category

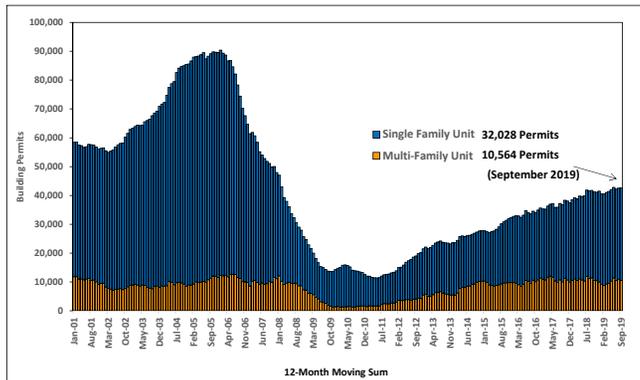


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Excludes temporary 1-cent sales tax

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Residential Building Permits



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