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“Year-to-date, General Fund revenues are 3.8% above the prior year and are \$(17.4) million below forecast.”

Summary

September General Fund revenue collections totaled \$800.3 million. Base revenues, which exclude one-time adjustments, were 2.4% above September 2012. This year-over-year change excludes the temporary 1-cent sales tax which expired at the end of May 2013.

This lower than expected revenue growth was caused by a significant amount of Corporate Income Tax refunds processed in early September. These refunds were the result of greater tax credit activity, however due to taxpayer confidentiality, any other information on the September refunds is unavailable.

September revenues fell below the budgeted amount by \$(25.1) million during the month. Year-to-date, General Fund revenues are 3.8% above the prior year and are \$(17.4) million below forecast.

In comparison to revenue of \$800.3 million, September 2013 spending was \$723.0 million which is a decline of \$(23.9) million from the prior year. Fiscal year-to-date, General Fund revenues of \$2.19 billion have been offset by \$3.73 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-October 2013 is \$1.8 billion. In addition, the state’s Budget Stabilization Fund has a balance of \$454.4 million.

Granite Mountain Hotshots – Public Benefits

At an interim meeting of the House Committee on Public Safety, Military, and Regulatory Affairs, the JLBC Staff presented a [Summary of Public Benefits](#) being distributed to survivors of the Granite Mountain Hotshot crew who were killed in the line of duty fighting the Yarnell Hill Fire. In total, survivors of the 19 firefighters are projected to receive annual ongoing benefit payments of \$802,600 per year, along with one-time lump sum benefits totaling \$7.0 million. The amount of public benefits awarded to survivors of each individual firefighter depends on employment and family status, as outlined in the JLBC Staff presentation.

Internet Sales Taxation

At the October 17 meeting of the Joint Task Force on Income Tax Reform, the JLBC Staff presented a summary of fiscal issues related to [Internet Sales Taxation](#) and proposed federal legislation (Marketplace Fairness Act) which would authorize the state to collect sales tax from retailers with no physical presence in Arizona. The presentation reviewed current research estimating the potential revenue gains from the taxation of internet retail sales, and the potential challenges of forecasting the impact of legislation such as the Marketplace Fairness Act.

A frequently cited study by the University of Tennessee has projected that Arizona state and local sales taxes would increase by \$370 million under the Marketplace Fairness Act (the state share would be approximately \$190 million).

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on October 21, 2013.

Summary (Continued)

Upon further analysis, that estimate appears to be significantly overstated. The JLBC Staff will be doing further work with the Department of Revenue to refine an in-state estimate of Arizona’s potential revenue gain.

Child Protective Services (CPS) Funding

At the October 17 meeting of the CPS Oversight Committee, the JLBC Staff made a presentation summarizing [Child Protective Services Funding](#). The presentation outlined the various funding sources for CPS, and highlighted the \$46 million added to the CPS budget in FY 2013 and the additional \$65 million added to CPS in FY 2014.

October FAC Summary

The Finance Advisory Committee (FAC) met on October 4, 2013 to update its 4-sector revenue forecast. The FAC is a 15-member panel of private and public sector economists and their views serve as one of the 4 equal inputs into JLBC’s Consensus Baseline revenue forecast. The remaining 3 inputs are the JLBC Staff forecast and 2 University of Arizona (UA) models. The Consensus forecast provides a perspective on base revenue, which reflects underlying economic conditions and does not include factors such as tax law changes and Urban Revenue Sharing.

The JLBC Staff provided the FAC with a presentation on updated FY 2014 – FY 2017

budget projections, with the key points of the presentation summarized below:

- The state ended FY 2013 with \$201 million more in the ending balance than budgeted.
- Year-to-date FY 2014 revenue growth has been slightly below forecast.
- Using the 4-sector forecast, revenues are projected to grow by 5.3% to 5.5% annually between FY 2015 and FY 2017.
- Under these assumptions, the state would gradually spend down the significant accumulated General Fund balance, as ongoing spending is expected to exceed ongoing revenue through FY 2017.
- The projected FY 2015 ending balance is \$163 million. General Fund shortfalls would begin in FY 2016, with a projected ending balance of \$(202) million. Excluding the FY 2016 shortfall, the FY 2017 ending balance is estimated to be \$(303) million. The ending balance estimates exclude the \$454 million Rainy Day Fund.

The FAC also heard presentations on the current status of the U.S. economy and state cash flows.

The JLBC Staff has both a [Narrative Summary](#) and a [Slideshow Presentation](#) of the updated budget updates.

“For the first quarter of the fiscal year, sales tax collections are 7.0% above the prior year and are \$13.1 million above forecast.”

September Revenues

	General Fund Revenues (\$ in Millions)		
	FY 2014 Collections	Difference From Budget Forecast	Difference From FY 2013
September	\$ 800.3	\$ (25.1)	\$ (62.8)
Year-to-Date	\$ 2,190.1	\$ (17.4)	\$ (113.3)

Sales Tax collections of \$335.8 million were 6.7% above September 2012 and \$4.8 million above the forecast for the month. The year-over-year change amounts exclude the temporary 1-cent sales tax which expired at the end of May 2013.

For the first quarter of the fiscal year, sales tax collections are 7.0% above the prior year and are \$13.1 million above forecast.

Table 2 displays the September growth rates for the largest sales tax categories.

Retail and contracting together account for about 60% of all sales tax revenues. September retail, which reflects August sales, increased by 9.8%. This continues the relatively strong growth in the retail category, with 4 consecutive months exceeding 8%.

Contracting collections have generally been much more volatile than retail. However, the September increase of 14.3% represents the fifth consecutive month of double-digit increases compared to the prior year.

September Revenues (Continued)

Table 2

Sales Tax Growth Rates Compared to Prior Year

	<u>September</u>	<u>YTD</u>
Retail	9.8%	8.9%
Contracting	14.3%	16.9%
Use	10.0%	6.6%
Restaurant & Bar	0.7%	1.7%

Individual Income Tax net revenues were \$371.8 million in September, which was 12.5% greater than the prior year. Collections were \$27.3 million above the forecast for the month. Year-to-date, revenue has grown 6.7% over the prior year, and is \$14.0 million above the budget forecast.

The September positive forecast variance was primarily due to the increase in withholding collections. As indicated in *Table 3*, withholding was up 11.1% for the month. This compares to the (1.4)% decrease in August. The September increase was mainly due to variances in processing days between the 2 months. The September increase brings withholding tax collections for the fiscal year to 5.7% over the prior year. This amount is \$(9.8) million below the budget forecast.

September estimated and final payments were 16.0% above last year, and were \$(1.8) million below forecast. Year-to-date, payments are \$(0.6) million below the forecast.

September refunds were 10.6% above last year, and were \$6.5 million below forecast. Year-to-date, refunds are \$20.6 million below forecast.

Table 3

Individual Income Tax Growth Rates Compared to Prior Year

	<u>September</u>	<u>YTD</u>
Withholding	11.1%	5.7%
Estimated + Final Payments	16.0%	16.8%
Refunds	10.6%	19.5%

Corporate Income Tax net collections were \$97.9 million in September, which is \$(35.0) million less than September of the prior year. Collections were \$(37.9) million below the budget forecast. The September shortfall was largely due to increased tax credit activity.

Year-to-date, collections are down (24.2)% compared to the prior year, and are \$(43.6) million below the budget forecast.

Highway User Revenue Fund (HURF) revenues consist of gasoline and use fuel (diesel) tax, motor carrier fees (commercial carriers), vehicle license tax and registration fees, and various other fees. HURF collections of \$102.8 million in September were up \$2.5 million, or 2.5%, compared to September of last year. Year-to-date revenues are 2.6% above collections in the prior year, and are \$4.9 million above the budget forecast.

“The September increase brings withholding tax collections for the fiscal year to 5.7% over the prior year.”

Table 4

General Fund Revenue: Change from Previous Year and FY 2014 Enacted Budget Forecast September 2013

	Current Month					FY 2014 YTD (Three Months)				
	Actual September 2013	Change From September 2012		Enacted Forecast		Actual September 2013	Change from September 2012		Enacted Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$335,831,770	\$21,026,238	6.7 %	\$4,790,673	1.4 %	\$1,005,504,442	\$66,160,142	7.0 %	\$13,096,590	1.3 %
Income - Individual	371,782,566	41,309,188	12.5	27,292,988	7.9	952,940,524	59,697,191	6.7	14,047,867	1.5
- Corporate	97,909,483	(35,014,434)	(26.3)	(37,866,610)	(27.9)	133,534,520	(42,582,375)	(24.2)	(43,565,237)	(24.6)
Property	42,361	(13,794)	(24.6)	(57,639)	(57.6)	250,703	(63,472)	(20.2)	(149,297)	(37.3)
Luxury - Tobacco	2,220,000	149,653	7.2	0	0.0	6,119,472	(249,606)	(3.9)	(190,528)	(3.0)
- Liquor	2,340,000	701,757	42.8	0	0.0	8,119,985	1,010,537	14.2	839,985	11.5
Insurance Premium	29,042,831	(5,638,924)	(16.3)	(17,132,369)	(37.1)	111,967,295	(2,026,101)	(1.8)	(10,907,005)	(8.9)
Estate	0	0	--	0	--	0	0	--	0	--
Other Taxes	40,292	14,489	56.2	(34,708)	(46.3)	292,509	178,584	156.8	67,509	30.0
Sub-Total Taxes	\$839,209,303	\$22,534,173	2.8 %	(\$23,007,665)	(2.7) %	\$2,218,729,449	\$82,124,899	3.8 %	(\$26,760,117)	(1.2) %
Other Revenue										
Lottery	3,969,739	820,299	26.0	469,739	13.4	7,287,764	1,228,384	20.3	787,764	12.1
License, Fees and Permits	2,054,382	140,519	7.3	154,382	8.1	7,270,259	(149,521)	(2.0)	(29,741)	(0.4)
Interest	3,175	1,377	76.6	3,175	--	4,210	(351)	(7.7)	4,210	--
Sales and Services	2,084,196	(215,093)	(9.4)	(415,804)	(16.6)	4,146,882	(129,732)	(3.0)	(853,118)	(17.1)
Other Miscellaneous	(734,692)	(2,742,356)	--	(2,234,692)	--	3,081,868	(2,291,597)	(42.6)	(618,132)	(16.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	437,293	(817,495)	(65.2)	(62,707)	(12.5)	1,767,954	507,446	40.3	267,954	17.9
Sub-Total Other Revenue	\$7,814,093	(\$2,812,749)	(26.5) %	(\$2,085,907)	(21.1) %	\$23,558,937	(\$835,371)	(3.4) %	(\$441,063)	(1.8) %
TOTAL BASE REVENUE	\$847,023,396	\$19,721,424	2.4 %	(\$25,093,572)	(2.9) %	\$2,242,288,386	\$81,289,528	3.8 %	(\$27,201,180)	(1.2) %
Other Adjustments										
Urban Revenue Sharing	(46,709,330)	(3,910,660)	9.1	40,770	(0.1)	(140,617,223)	(12,221,213)	9.5	(366,923)	0.3
Budget Plan Transfers	0	0	--	0	--	85,786,473	49,786,473	138.3	7,541,148	9.6
Sales Tax - 1¢ Increase	0	(78,565,390)	(100.0)	0	--	2,611,367	(232,120,047)	(98.9)	2,611,367	--
Sub-Total Other Adjustments	(46,709,330)	(82,476,050)	-- %	40,770	(0.1) %	(52,219,384)	(194,554,788)	-- %	9,785,591	(15.8) %
TOTAL GENERAL FUND REVENUE	\$800,314,066	(\$62,754,626)	(7.3) %	(\$25,052,802)	(3.0) %	\$2,190,069,002	(\$113,265,260)	(4.9) %	(\$17,415,589)	(0.8) %
Non-General Funds										
Highway User Revenue Fund	\$102,824,363	\$2,510,283	2.5 %	\$1,507,143	1.5 %	\$306,900,159	\$7,858,870	2.6 %	\$4,868,457	1.6 %

Recent Economic Indicators

NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** decreased (2.6)% in September, but was 16.5% above the prior year's measure. The monthly decrease was thought to be the result of a lowered job outlook and recent performance of equity markets. As the latest reading was taken for September, it may not yet include changes due to the federal government shutdown.

The Conference Board's **U.S. Leading Economic Index** grew by 0.7% in August and by 4.2% above the reading in August 2012. August's growth follows on strong growth of 0.5% in July. The measure's improvement in August was largely due to improvement in labor and financial market components of the index.

The Semiconductor Industry Association (SIA) reported that **Semiconductor Billings** (3-month moving average) in the Americas increased 2.5% in August, to \$5.15 billion. This reading represented the fourth consecutive month of growth in billings and the largest year-over-year growth (23.3%) since February 2011. Semiconductors are Arizona's largest international export industry.

Due to the federal government shutdown, updated figures are not available for several national economic indicators usually covered in the Monthly Fiscal Highlights.

ARIZONA

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

In August, 40 out of 50 states had increases in their coincident indexes. Arizona's coincident index increased by 0.2% compared to the prior month. Year-over-year, the Arizona index is 2.3% above last year, which is the thirty-first highest growth rate in the country. While this is a significant improvement, Arizona's index is still (9.8)% below its peak, which occurred in August 2007. *See Appendix A – Tracking Arizona's Recovery* for additional historical information.

The Federal Reserve Bank of Philadelphia also publishes a **leading index** for each state that

forecasts economic conditions for the next 6 months. In addition to the coincident index, Arizona's leading index is based on Arizona housing permits, Arizona initial unemployment insurance claims, national manufacturing delivery times, and the interest rate spread between the 3-month and 10-year Treasury instruments.

Using a 3-month average, Arizona's leading index projects that state GDP will grow at an annualized rate of 3.4% over the next 6 months. This is higher than the revised 3.3% growth projection in July and higher than the 2.6% projection in August 2012.

Housing

The number of Maricopa County **pending foreclosures** decreased from 6,881 in August to 6,526 in September. The September total is significantly below the peak in December 2009 (51,466). *See Appendix A – Tracking Arizona's Recovery.*

The total housing inventory in the greater Phoenix area increased from 22,862 in September 2012 to 23,384 in September 2013, a 2.3% increase.

In the Metropolitan Phoenix area, the **median price of a single family home** was \$192,000 in August. This represents a (1.1)% decrease from July, and a 28.0% increase from August of last year.

Another measure of the health of the Arizona real estate market is permitting activity. For the 3-month period through August, a total of 1,700 **single-family building permits** had been issued statewide, a 9.8% increase from last year. While permitting activity has seen gains, the current level of permitting remains far below a more normal 3-month average of 3,000 to 4,000 permits. *See Appendix A – Tracking Arizona's Recovery.*

The multi-family housing sector has also seen gains, with the 3-month period ending in August resulting in a total of 352 **multi-family building permits** being issued in the state. However, this figure remains well below the peak of activity in April 2007.

"The Conference Board's U.S. Consumer Confidence Index decreased (2.6)% in September... it may not yet include changes due to the federal government shutdown."

Recent Economic Indicators (Continued)

State Agency Data

At the beginning of October, total **AHCCCS** caseloads equaled 1.27 million members, a (0.9)% decrease from the prior month. Overall, AHCCCS caseloads are currently (1.0)% below October 2012 levels. The traditional acute care AHCCCS population, which consists primarily of lower income children and their parents, decreased by (0.7)% since last month while decreasing (0.9)% from a year ago. The total population in this program is almost 900,000.

The childless adult program has not allowed new participants since July 2011 but will allow new participants again beginning on January 1, 2014. Since July 2011, the population has declined (153,648) to 70,844. As a whole, the Proposition 204 program has declined (1.0)% compared to the prior month, and (11.2)% from the prior year.

KidsCare I provides coverage for 5,762 children with incomes above those in the traditional population. Its enrollment has declined since a freeze was implemented in January 2010. Enrollment declined (14.9)% compared to the prior month and (35.4)% from the prior year. AHCCCS has indicated that the large decrease from the prior month is likely the combination of premium non-payment and shifts to the traditional program.

Beginning on May 1, 2012, AHCCCS began a new program, entitled KidsCare II. The state match is provided by voluntary payments from political subdivisions. As of the beginning of October, 39,560 children were enrolled in KidsCare II. KidsCare II expires on December 31, 2013. At that time, children in both KidsCare I and KidsCare II up to 133% of the Federal Poverty Level will transfer to the traditional acute care program.

There were 37,725 **TANF recipients** in the state in August, a monthly caseload increase of 3.1%. Year-over-year, the number of TANF recipients has declined by (10.6)%. The statutory lifetime limit on cash assistance is 24 months.

The appropriation for TANF cash assistance in the FY 2014 budget funds an average monthly caseload of approximately 34,346 recipients in FY 2014. The 37,725 TANF

recipients includes 1,722 tribal recipients. These recipients belong to tribes that operate their own TANF program but contract with the state for program administration, meaning there were 36,003 state-funded TANF recipients in August.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In August, there were a total 1.1 million food stamp recipients in the state, a 0.8% increase over the prior month. Compared to the same month last year, food stamp participation was down by (0.8)%. The number of SNAP recipients began increasing steadily in July 2007, after several years in the 550,000 to 575,000 range.

“At the beginning of October, total AHCCCS caseloads equaled 1.27 million members, a (0.9)% decrease from the prior month. Overall, AHCCCS caseloads are currently (1.0)% below October 2012 levels.”

Recent Economic Indicators (Continued)

Table 5

ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
- Unemployment Rate (SA)	August	8.3%	0.3 %	0.0%
- Initial Unemployment Insurance Claims	September	18,652	(9.0)%	3.5%
- Unemployment Insurance Recipients	September	40,828	(8.7)%	(13.6)%
- Non-Farm Employment - Total	August	2.49 million	1.6%	2.0%
Manufacturing	August	154,900	(1.1)%	(0.8)%
Construction	August	125,200	(1.5)%	4.7%
- Average Weekly Hours, Manufacturing	August	41.7	1.0%	1.7%
- Contracting Tax Receipts (3-month average)	July-Sept	\$43.2 million	(2.2)%	16.9%*
- Retail Sales Tax Receipts (3-month average)	July-Sept	\$157.3 million	(1.7)%	8.9%*
- Residential Building Permits (3-month moving average)				
Single-family	Jun-Aug	1,700	(4.7)%	9.8%
Multi-unit	Jun-Aug	352	(39.3)%	14.5%
- Greater Phoenix Home Sales				
Single-Family	August	8,113	(9.3)%	(12.0)%
Townhouse/Condominium	August	1,188	(4.5)%	(5.6)%
- Greater Phoenix Median Home Price				
Single-Family	August	\$192,000	(1.1)%	28.0%
Townhouse/Condominium	August	\$118,000	(4.1)%	31.1%
- Greater Phoenix S&P/Case-Shiller Home Price Index (Jan. 2000 = 100)	July	139.36	1.5%	18.9%
- Foreclosure Activity, Maricopa County	September	6,526	(5.2)%	(55.3)%
Pending Foreclosures (Active Notices)				
- Greater Phoenix Total Housing Inventory, (ARMLS)	September	23,384	9.4%	2.3%
- Phoenix Sky Harbor Air Passengers	August	3.31 million	(0.7)%	(2.7)%
- Revenue Per Available Hotel Room	August	\$45.68	0.2%	6.5%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	July	\$4.46	(8.6)%	7.7%
- Arizona Consumer Confidence Index (1985 = 100)	3rd Quarter 2013	72.5	4.2%	N/A
- Arizona Coincident Index (July 1992 = 100)	August	182.38	0.2%	2.3%
- Arizona Leading Index -- 6 month projected growth rate	June-Aug	3.4%	0.2%	0.8%
- Arizona Personal Income	2nd Quarter 2013	\$243.1 billion	1.5%	2.6%
- Arizona Population	July 1, 2012	6.55 million	N/A	1.3%
- AHCCCS Recipients	October	1,273,584	(0.9)%	(1.0)%
Acute Care Traditional		887,906	(0.9)%	(0.7)%
Prop 204 Childless Adults		70,844	(1.7)%	(26.5)%
Other Prop 204		147,981	(0.6)%	(1.5)%
Kids Care I		5,762	(14.9)%	(35.4)%
Kids Care II		39,560	0.7%	101.4%
Long-Term Care – Elderly & DD		54,221	0.2%	2.3%
Emergency Services		67,310	(1.4)%	5.1%
- TANF Recipients	August	37,725	3.1%	(10.6)%
- SNAP (Food Stamps) Recipients	August	1,118,512	0.8%	(0.8)%
- ADC Inmate Growth (3-month average)	Jun-Aug	40,677	70 inmates	827 inmates
- Probation Caseload				
Non-Maricopa	August	17,708	(51)	(394)
Maricopa County	August	25,108	(131)	(375)
United States				
- Gross Domestic Product (Chained 2005 dollars, SAAR)	2 nd Quarter 2013 (3 rd Estimate)	\$15.7 trillion	2.5%	1.6%
- Consumer Confidence Index (1985 = 100)	September	79.7	(2.6)%	16.5%
- Leading Indicators Index (2004 = 100)	August	96.6	0.7%	4.2%
- U.S. Semiconductor Billings (3-month moving average)	June-August	\$5.15 billion	2.5%	23.3%
- Consumer Price Index, SA (1982-84 = 100)	August	233.5	0.1%	1.5%

* Excludes the temporary 1¢ increase that expired at the end of May 2013.

Summary of Recent Agency Reports

AHCCCS – Report on Graduate Medical Education Distributions – Pursuant to an FY 2014 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to notify the JLBC before expending any Graduate Medical Education (GME) monies in excess of \$160.2 million in FY 2014. AHCCCS reports that they intend to distribute \$186.5 million in total funds in FY 2014. The GME program reimburses hospitals with GME programs for the additional costs of treating AHCCCS members with graduate medical students. Statute allows local, county, and tribal governments, along with public universities, to provide the state match for GME, and entities may designate the recipients of such funds. The voluntary contributions receive an approximate 2:1 match from the Federal government. (Amy Upston)

AHCCCS – Report on Disproportionate Share Hospital Payment Distributions – Pursuant to an FY 2014 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to notify the JLBC before expending any Disproportionate Share Hospital (DSH) payments from the voluntary match portion of the program in excess of \$28.5 million in FY 2014. AHCCCS reports that they intend to distribute \$43.3 million in total funds in FY 2014 for voluntary DSH payments. The DSH program provides supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. The FY 2014 budget appropriated \$3.0 million from the General Fund (\$9.3 million in total funds) to private hospitals for DSH payments. The FY 2014 Health and Welfare Budget Reconciliation Bill also continues to allow local, county, and tribal governments, along with public universities, to provide state match for additional DSH payments, and entities may designate the recipients of such funds. The voluntary contributions receive an approximate 2:1 match from the Federal government. (Amy Upston)

AHCCCS – Report on Safety Net Care Pool Program – Pursuant to an FY 2014 General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on the monies received from local government hospital assessments for the Safety Net Care Pool (SNCP) program in FY 2013. The SNCP program funds unreimbursed costs incurred by hospitals in caring for uninsured and AHCCCS recipients. Local governments or public universities provide the state match, and the voluntary contributions receive an approximate 2:1 match from the federal government. As a federal condition of participating in the program, some of the monies must be used for coverage expansion of the KidsCare and the childless adult population.

In April 2012, AHCCCS received federal approval to establish the SNCP program. The program was expanded a year later using monies collected from a City of Phoenix hospital assessment. AHCCCS reports that these payments resulted in an additional \$376.3 million in total fund distributions to hospitals in FY 2013 and \$48.8 million in total funds expended for coverage expansion. In June 2013, this resulted in an additional 36,026 children covered through KidsCare II program and 1,588 additional persons covered through the childless adult program. More detail is provided in the table below.

In addition to the Phoenix hospital assessment, 4 other cities (Casa Grande, Globe, Mesa, and Tucson) have requested to expand the SNCP program using state match monies from a hospital assessment. At the time of this writing, AHCCCS is still awaiting approval from the federal government to expand the program using additional assessment monies. (Amy Upston)

Table 6

FY 2013 SNCP and Coverage Expansion
(\$ in Millions)

	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>
Original SNCP Agreement	\$72.6	\$158.8	\$231.5
City of Phoenix SNCP Agreement	49.7	95.1	144.8
Total Safety Net Care Pool Payments to Hospitals	122.3	254.0	376.3
KidsCare II and Childless Adult Coverage Expansion	<u>11.0</u>	<u>37.8</u>	<u>48.8</u>
Grand Total	\$133.3	\$291.7	\$425.0

Attorney General – Report on Incarceration Costs Offset by Monetary Judgments – Pursuant to A.R.S. § 31-238, the Office of the Attorney General (OAG) is required to report semiannually on the use of monetary judgments awarded to inmates to offset the costs of incarceration. From January 1, 2013 to June 30, 2013, the state did exercise its right to offset the costs of incarcerating inmates under this statute. In *Shepler v. State of Arizona*, the inmate's cost of incarceration exceeded \$296,000. The OAG served the inmate's attorney an Offer of Judgment in the amount of \$2,500, which was accepted. (Matt Gress)

Arizona Criminal Justice Commission - Report on Anti-Racketeering Revolving Fund - Pursuant to A.R.S. § 13-2314.01, the Arizona Criminal Justice Commission (ACJC) is required to report by September 30 each year on the Anti-Racketeering Revolving Fund (ARRF) by compiling Attorney General, department, and agency reports into a single comprehensive report of sources and expenditures.

Summary of Recent Agency Reports (Continued)

In FY 2013, ARRF received revenues totaling \$42.1 million and had expenditures totaling \$24.8 million. Seizures by investigating and prosecuting agencies were highest in Maricopa County in FY 2013 at \$21.4 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2013 with \$17 million in ARRF monies spent.

ARRF consists of monies derived from seized property and assets that result from judgments pursuant to anti-racketeering statutes. Once a settlement or conviction is reached, the Attorney General disperses the monies to the involved state and local investigative and prosecutorial agencies. Additionally, assets seized as part of a federal investigation are deposited into the fund and used in accordance with state and federal guidelines. Monies in the ARRF are used to help fund the investigation and prosecution of any offense defined as racketeering pursuant to Arizona statutes. (Krista MacGahan)

Department of Corrections - Report on Transition Program Fund – Pursuant to the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1), the State Department of Corrections (ADC) is required to submit a report on or before October 1, 2013 on the uses of the Transition Program Fund (TPF) established by A.R.S. § 31-284, so as to allow the Legislature to consider returning the use of these monies to the intended statutory purpose in the FY 2015 budget. Fund revenue consists of 5% of gross wages earned by non-DUI inmates and from cost savings resulting from the implementation of the Transition Program. Beginning in FY 2012, the appropriation was increased by \$2,750,000 and legislative authorization has allowed the fund to be used for operating expenditures.

For FY 2013, the fund started with a balance of \$1,175,100. The fund generated \$1,006,600 in revenue from non-DUI inmate wages, \$897,100 from the Transition Program cost savings, and \$533,300 from the one-time transfer of all revenues, expenditures, and fund balances from the Transition Services Fund, which was merged into the TPF. ADC reported that they used \$1,758,300 for operating expenses for offender operations and community correction services. ADC utilized \$1,146,900 for the Transition Program, including payments to a private vendor for case management and programming. ADC reports 447 inmates completed the Transition Program and their early supervised lease for a savings of 50,589 bed days. At the end of FY 2013, the TPF balance was \$706,900.

For FY 2014, the \$1,866,600 in fund revenue will consist of \$1,006,600 from non-DUI inmate wages and \$860,000 from the cost savings from the Transition Program. The FY 2014 budget reduced the amount available to be allocated for operating expenditures to \$1.2 million. ADC allocates a total of \$1.2 million for operating expenditures in the report. In addition, the fund will also expend \$1,300,000 for the

Transition Program. This will leave the TPF with a balance of \$31,300 at the end of FY 2014. (Micaela Larkin)

Department of Corrections - Report on Transition Release Program – Pursuant to A.R.S. § 31-285, the State Department of Corrections (ADC) is required to submit an annual report that details the cost reductions to the department from an inmate early release Transition Program and the number of participants who did not receive an early release under the Transition Program. Statute requires ADC to contract with a private or nonprofit entity to provide eligible drug offenders with transition services. The ADC Transition Release Program allows eligible inmates in the Transition Program to be released 3 months earlier than the inmate's earliest release date.

In FY 2013, the department reports that 840 participants successfully completed the Transition Program and their term of community supervision while an additional 447 participants completed the Transition Program and continued their term of community supervision. A total of 68 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is responsible for 50,589 bed days saved which translates into a savings of \$860,013. (Micaela Larkin)

Department of Economic Security - Report on Annual Child Care Expenditures - A.R.S. § 46-810 requires the Department of Economic Security (DES) to provide an annual child care report to the Committee. The FY 2013 report shows that the average number of children served decreased to 25,696, or (7.7)% below FY 2012; the number of families served decreased by (7.2)%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) decreased (18.5)%, CPS-related placements increased by 9.0%, and the number of Temporary Assistance for Needy Families-related children decreased by (10.4)%, while the number of children receiving transitional child care decreased by (10.1)%.

The amount spent by DES on child care subsidies decreased to \$107.1 million, or (7.4)% below FY 2012. The average monthly subsidy paid per child increased 0.4% to \$347.25. The total amount of co-payments decreased (17.3)% from FY 2012 to \$5.8 million. (Ben Beutler)

Department of Economic Security - Report on Reimbursement Rates for Developmental Disabilities Programs - Pursuant to A.R.S. § 36-2959, the Department of Economic Security (DES) has provided its annual study of Medicaid reimbursement rates to service providers in the Developmental Disabilities program. The study states that the provider network meets the test of

Summary of Recent Agency Reports (Continued)

maintaining a sufficient number and mix of providers. The study further states that the FY 2014 rates are adequate and appropriate. (Tom Ritland)

Department of Health Services - Annual Report on Individuals with a Serious Mental Illness – Pursuant to A.R.S. § 36-3415, as added by Laws 2013, 2nd Session, Chapter 299, the Arizona Department of Health Services (DHS) is required to report annually on behavioral health demographics, utilization and expenditures. The DHS report focuses on members with a Serious Mental Illness (SMI), including demographics, service utilization and expenditures, medical necessity oversight practices, tracking of high cost beneficiaries, mortality trends, placement trends, program integrity, and access to services.

DHS states that of the 39,621 members with an SMI diagnosis enrolled in Arizona's public behavioral health system in FY 2013, 51% resided in Maricopa County. Of enrolled SMI members, 73% were Medicaid-eligible. In FY 2013, the annual per capita expenditure was \$10,600 for Medicaid-eligible members and \$2,900 for Non-Medicaid-eligible members. DHS attributes the discrepancy to the benefit package available to the latter group, which is more limited than what is used by Medicaid-eligible members. DHS reports that the annual per capita expenditure rate outside of Maricopa County was \$5,700 compared to \$11,200 inside Maricopa County.

The most widely used services by members during FY 2013 were case management, pharmacy/medications, and peer support. Of all members, 98% used case management services, 70% were prescribed medications, and 33% relied on peer support services. Additionally, 17% of members accessed at least once during FY 2013 hospital, in-home, or mobile crisis intervention services that stabilize or prevent a sudden or potentially dangerous behavioral health episode. (Matt Gress)

JLBC Staff – FY 2013 Reports on Credit Card Transactions – A.R.S. § 35-142 requires agencies that accept credit cards to annually report the number and dollar amount of those transactions, compared to the number and dollar amount of all transactions. Statute also requires information on the total dollar amounts of any discount, processing, or convenience fees paid. Lastly, each agency must issue a cost benefit report when its percentage of electronic transactions exceeds 30%. Unchanged from FY 2012, no agency issued a cost benefit report to accompany its FY 2013 transaction report.

Credit card transaction volumes varied widely among the agencies that submitted reports. The total number of transactions and their respective dollar amounts may have been understated for both FY 2012 and FY 2013

due to reporting issues. In FY 2013, the total number of transactions processed by these agencies was 2.2 million, of which electronic transactions totaled 1.0 million. The total dollar amount of all transactions was at least \$715.0 million. Electronic transactions accounted for \$530.4 million of that total. The amount of discount and processing fees were \$1.7 million. Convenience charges that totaled \$474,475 offset those fees. (Matt Gress)

Department of Revenue – Annual Enforcement Goals Report – Pursuant to 2 General Appropriation Act footnotes, the Department of Revenue (DOR) is required to report on their FY 2014 revenue enforcement goals, and to provide an annual progress report to the Committee on the effectiveness of the department's overall enforcement and collections program for FY 2013.

In FY 2013, DOR's enforcement goal was \$488.5 million, but they actually collected \$504.0 million. DOR's FY 2014 goal for enforcement collections totals \$488.8 million.

DOR's General Fund FY 2014 revenue enforcement goal is \$381.2 million, which is \$26.5 million, or 7.5%, above FY 2013 actual collections. Compared to actual FY 2013 General Fund enforcement revenue, DOR's FY 2014 goals consist of:

- An increase in audit revenue of \$1.5 million, or 1.7%.
- An increase in collections revenue of \$53.3 million, or 33.1%.
- A decrease in accounts receivables revenues of \$(28.4) million, or (26.6)%.

Audit enforcement revenue includes revenue due to DOR's auditing of taxpayer returns, and finding and licensing unlicensed businesses. Accounts receivable revenue includes taxpayer accounts paid before they would have been moved to collections, which allows DOR's collectors to work on other accounts. After certain periods of time, unpaid taxpayer accounts are moved from accounts receivable to DOR's Collections Section. (Eric Billings)

Arizona Department of Transportation – Annual Report on Motor Vehicle Division Wait Times – A FY 2013 General Appropriation Act footnote requires the Arizona Department of Transportation to report to the Legislature annually on customer wait times in Motor Vehicle Division field offices and vehicle registration renewal by mail turnaround times. In metropolitan areas, the average customer wait time from receiving a ticket until arriving at the counter increased from 26.2 minutes in FY 2012 to 31.6 minutes in FY 2013. In non-metropolitan areas, the average customer wait time increased from 13.9 minutes in FY 2012 to 14.9 minutes in FY 2013. ADOT partially attributes the increase in wait times to the introduction of the Photo First project, which is a fraud

Summary of Recent Agency Reports (Continued)

prevention measure requiring all drivers' license and identification card customers to take a photo upon arrival to an MVD office, increasing the number of photos taken by 30%. Average customer wait times in metropolitan areas ranged from 16.8 minutes in the Apache Junction office to 42.3 minutes in the Glendale office in FY 2013.

The average turnaround time for vehicle registration renewal by mail decreased by (31.3)% from 1.6 days in FY 2012 to 1.1 in FY 2013. (Ben Beutler)

Universities – Performance Funding Report – Pursuant to a footnote in the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1, Section 95), the Arizona Board of Regents (ABOR) is to report to the

Joint Legislative Budget Committee (JLBC) by July 1, 2013 on the final allocation of performance funding for each university. ABOR received a new allocation of \$5.0 million in FY 2014 for a performance-based funding model. According to ABOR, they allocated \$2.7 million to Arizona State University, \$1.1 million to Northern Arizona University, and \$1.2 million to the University of Arizona. These allocations are based on a performance funding model recently adopted by ABOR, which includes the following: 1) incremental degrees awarded, 2) incremental completed student credit hours, and 3) incremental external research and public service dollars brought into the university system. (Art Smith)

September Spending

September 2013 General Fund spending of \$723.0 million was \$(23.9) million lower than September 2013. Year-to-date, spending is \$3.7 billion, or \$(114.2) million below last year.

(See Tables 7 & 8).

- The Department of Education spent \$45.7 million more year-to-date due to increased per-student funding for the agency as part of the FY 2014 budget.
- Department of Economic Security expenditures are \$36.7 million greater through September due to increased funding levels for the agency in FY 2014.

	<u>Sept 13</u>	<u>Change From Sept 12</u>	<u>Year-to-Date</u>	<u>YTD Change from FY 13</u>
Agency				
AHCCCS	104.9	(16.9)	323.2	(14.7)
Corrections	73.4	1.7	227.9	11.8
Economic Security	7.8	15.8	419.6	36.7
Education	233.0	(37.0)	1,602.4	45.7
Health Services	15.9	2.6	414.8	(36.2)
Public Safety	1.9	0.1	11.9	1.3
School Facilities	0.1	(0.7)	152.8	11.2
Board				
Universities	246.5	(2.3)	330.8	8.0
Leaseback Debt	0.0	0.0	84.1	0.0
Service				
Other	<u>39.6</u>	<u>12.8</u>	<u>162.6</u>	<u>22.0</u>
Total	723.0	(23.9)	3,730.2	85.8
Budget Stabilization				
Fund Deposit	0.0	0.0	0.0	(200.0)
Grand Total	723.0	(23.9)	3,730.2	(114.2)

General Fund Spending				
(\$ in Thousands)				
Agency	Sept 13	Change from Sept 12	Year-to-Date	YTD Change from FY 13
Department of Administration	10,183.5	9,566.8	13,958.0	7,165.2
ADOA Sale/Leaseback Debt Service	-	-	84,119.8	-
Office of Administrative Hearings	92.6	10.9	238.8	19.8
Department of Agriculture	575.2	(33.0)	2,213.0	135.0
AHCCCS	104,861.7	(16,890.0)	323,219.5	(14,726.9)
Arts, AZ Commission on the	-	-	-	-
Attorney General	1,601.2	144.3	6,449.5	835.6
AZ Capital Post Conviction Public Defender	-	(0.0)	-	(4.1)
State Board of Charter Schools	9.8	(41.4)	250.3	42.2
AZ Commerce Authority	2,625.0	-	7,875.0	-
Community Colleges	222.4	(43.0)	16,338.5	(223.4)
Corporation Commission	35.4	(6.3)	120.9	(0.5)
Department of Corrections	73,402.4	1,721.9	227,909.2	11,778.3
AZ State Schools for the Deaf & Blind	1,087.5	(833.6)	5,406.1	(1,056.9)
Department of Economic Security	7,775.1	15,767.6	419,591.2	36,708.9
Department of Education	233,023.4	(36,967.0)	1,602,412.1	45,725.2
DEMA	451.0	59.1	1,637.2	459.9
DEQ – WQARF	-	-	-	(7,000.0)
Office of Equal Opportunity	14.5	3.6	46.9	(1.8)
State Board of Equalization	51.0	1.3	190.7	(10.9)
Board of Executive Clemency	47.4	10.6	237.7	26.8
Department of Financial Institutions	320.6	120.7	878.2	224.3
Department of Fire, Bldg and Life Safety	131.5	111.0	562.6	52.9
State Forester	204.4	(11.4)	794.1	(202.1)
Arizona Geological Survey	56.4	(12.2)	181.0	1.6
Governor/OSPB	656.6	87.1	2,049.9	253.1
Department of Health Services	15,926.7	2,564.0	414,750.8	(36,153.7)
Arizona Historical Society	231.7	32.3	1,076.9	58.1
Prescott Historical Society of AZ	49.7	(45.2)	167.7	(13.9)
Independent Redistricting Comm.	175.3	(11.1)	518.3	169.7
Commission of Indian Affairs	3.3	4.4	10.2	(4.0)
Department of Insurance	351.7	31.6	1,450.6	165.3
Judiciary				
Supreme/Superior Court	2,033.8	253.9	23,317.8	1,057.6
Court of Appeals	996.3	1.9	3,402.4	72.4
Department of Juvenile Corrections	2,996.8	(372.2)	9,566.9	(946.0)

Agency	Sept 13	Change from Sept 12	Year-to-Date	YTD Change from FY 13
State Land Department	658.4	581.4	2,428.3	2,291.0
Law Enforcement Merit System	-	(5.1)	-	(15.1)
Legislature				
Auditor General	1,393.4	147.2	4,443.9	501.6
House of Representatives	864.9	(89.5)	2,692.3	255.2
Joint Legislative Budget Comm.	142.1	7.6	475.7	55.3
Legislative Council	1,010.8	616.8	2,082.2	650.5
Senate	574.2	27.3	1,791.7	194.0
Mine Inspector	90.9	20.9	344.9	21.1
Nav. Streams & Adjudication	9.6	(0.0)	27.5	(7.5)
Phoenix Convention Center	-	-	20,449.0	14,854.0
Pioneers' Home	24.5	25.5	437.5	(44.1)
Comm. for Postsecondary Ed.	-	-	44.0	(44.0)
Department of Public Safety	1,865.4	58.6	11,914.6	1,253.8
Arizona Department of Racing	-	-	1,779.5	-
Radiation Regulatory Agency	29.7	(21.8)	404.1	64.9
Real Estate Department	177.2	34.2	769.5	316.5
Department of Revenue	5,049.8	2,796.3	16,583.9	4,370.5
School Facilities Board	108.0	(659.7)	152,807.2	11,216.0
Secretary of State	2,818.8	(85.6)	4,225.2	(2,369.9)
Tax Appeals Board	17.6	1.7	84.7	3.6
Office of Tourism	163.5	(514.5)	485.6	(822.1)
Department of Transportation	0.3	(3.3)	0.5	(12.4)
Commission on Uniform State Laws	8.7	8.7	55.7	55.7
Universities				
Board of Regents	5,107.2	308.6	6,024.2	716.8
Arizona State University	109,009.8	(1,358.8)	145,878.7	3,159.6
Northern Arizona University	37,057.3	636.7	50,182.3	1,910.1
University of Arizona	95,336.6	(1,839.5)	128,718.9	2,176.9
Department of Veteran Services	396.6	84.9	1,292.0	100.5
Department of Water Resources	791.7	102.0	2,423.4	366.5
Department of Weights & Measures	107.2	(15.4)	278.5	(12.6)
Other - JP Salaries Distribution	21.9	21.9	85.6	(22.6)
Other	-	-	-	-
Total	723,030.4	(23,886.1)	3,730,152.9	85,791.3
Budget Stabilization Fund Deposit	-	-	-	(200,000.0)
Grand Total	723,030.4	(23,886.1)	3,730,152.9	(114,208.7)

Tracking Arizona's Recovery

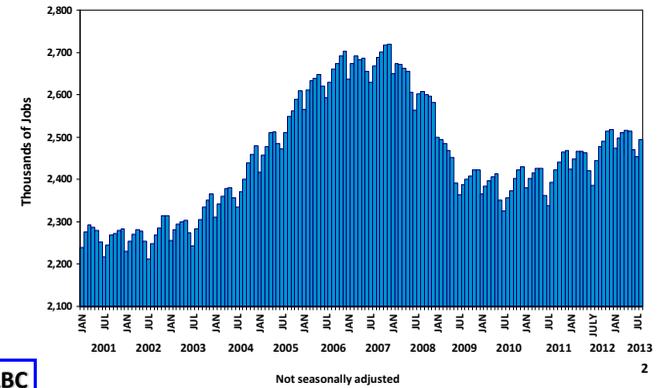
October 2013
Appendix A

Slide:

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

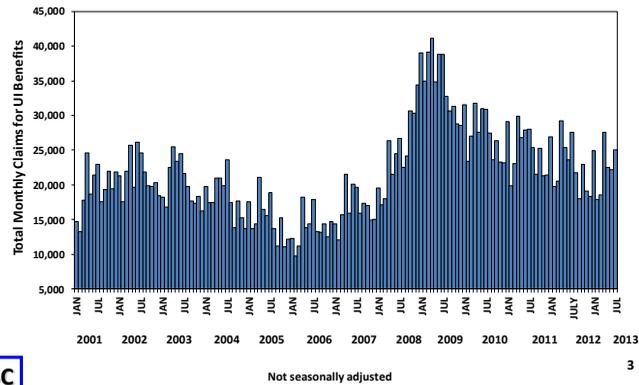
JLBC

Total Non-Farm Employment



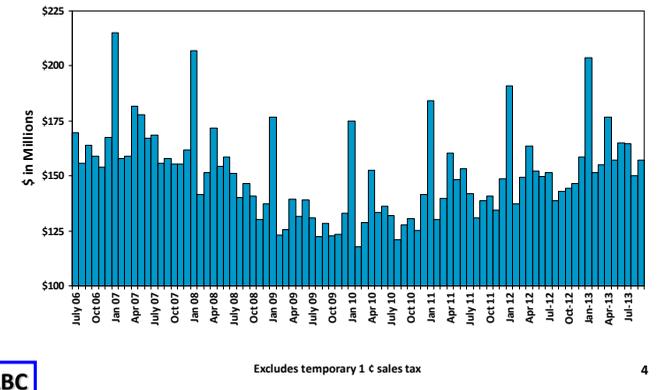
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Initial Claims for Unemployment Insurance



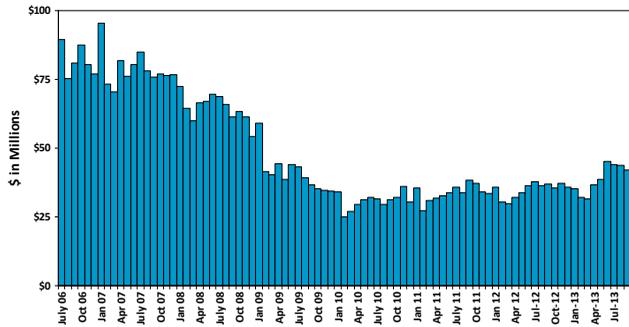
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State Sales Tax Collections – Retail Category



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State Sales Tax Collections – Contracting Category

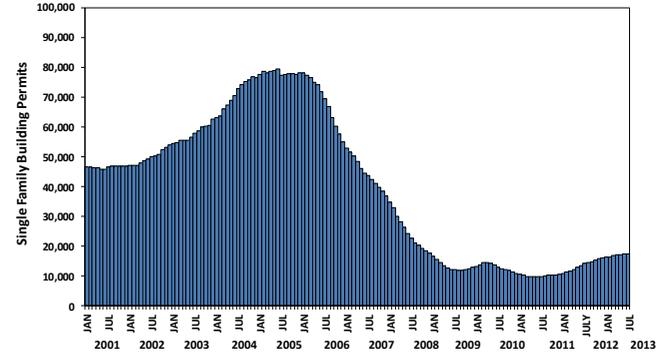


Excludes temporary 1 ¢ sales tax

JLBC

5

Single Family Building Permits

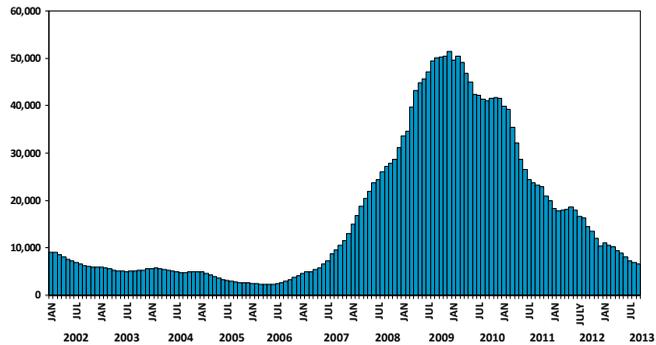


12-Month Moving Sum

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Maricopa County Pending Foreclosures

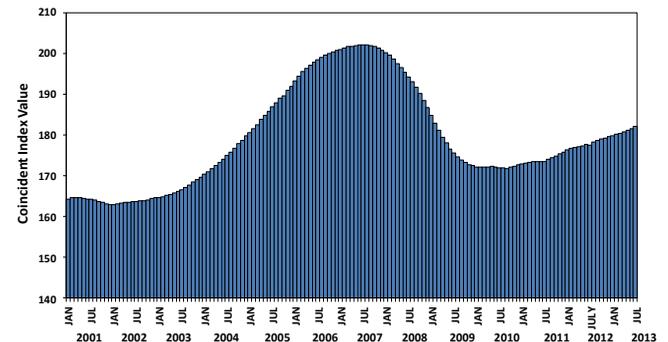


An initial notice of trustee sale has been recorded but final sale has not yet occurred

JLBC

7

Economic Activity Index



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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