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"Year-to-date...General Fund revenues are 4.1% above the prior year and are \$30.1 million above the enacted forecast."

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

Summary

During September 2016, General Fund collections totaled \$869.4 million, an increase of 5.3% above the prior year. Revenues during the month were \$13.4 million above the enacted budget forecast.

Growth rates across the state's revenue categories showed mixed results. Sales Tax and Individual Income Tax had modest growth, increasing by 3.4% and 3.9% during September, respectively. Collections in both categories were essentially at forecast for the month.

Corporate Income Tax collections declined by (11.5)% during September and were \$(2.0) million below forecast.

Insurance Premium Tax (IPT) had the strongest growth of the main revenue categories, increasing by 15.1% for the month. Year-to-date, the category has increased by 12.6% above FY 2016. With the recent growth pattern for the category, IPT is now forecasted to exceed Corporate Income Tax collections during FY 2017. Given this change, IPT was included in the 4-sector revenue forecast for the first time at the October Finance Advisory Committee meeting.

Year-to-date, excluding Urban Revenue Sharing and one-time fund transfers, General Fund revenues are 4.1% above the prior year and are \$30.1 million above the enacted forecast.

At the time of publication of the October *Monthly Fiscal Highlights*, the Arizona Department of Administration had not yet released September General Fund expenditure data.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid- October 2016 is \$1.53 billion, while the state's Budget Stabilization Fund has a current balance \$454.5 million.

October FAC Summary

The Finance Advisory Committee (FAC) met on October 5, 2016 to update its 4-sector revenue forecast. The FAC is a 14-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 JLBC Staff provided the FAC with a presentation on updated FY 2017 – FY 2020 budget projections. Under the updated forecast, base revenue growth is projected to remain near 4% over the next 2 years. Due to the elimination of \$200 million in one-time spending allocated for FY 2017, spending growth in FY 2018 is expected to be flat.

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Under the updated revenue and spending projections, the state is expected to have a cash balance of \$101 million in FY 2018. The structural balance – the difference between ongoing revenue and ongoing spending – is projected to be \$24 million.

The cash balance is subject to several risk factors. These include pending litigation that could significantly affect spending as well as a possible recession, based on the length of the current economic expansion compared to the historical averages. For more information, please see the [JLBC Staff Budget Update](#) and [October FAC meeting materials](#).

September Revenues

	FY 2017 Collections	Difference From Budget Forecast	Difference From FY 2016
September	\$ 869.4	\$ 13.4	\$ 43.5
Year-to-Date	\$ 2,284.0	\$ 30.1	\$ 82.1

Sales Tax (preliminary) collections of \$366.7 million were 3.4% above September 2015 and \$1.4 million above the forecast for the month. Year-to-date, collections have increased by 3.7% and are \$9.5 million above the enacted budget forecast.

Sales tax collections by category were not available as of the *Monthly Fiscal Highlights* publication date.

Individual Income Tax net revenues of \$409.1 million in September were \$15.3 million more than the prior year and \$0.4 million above forecast for the month. Year-to-date, revenue has grown 4.6% over the prior year.

As indicated in *Table 2*, withholding increased by 8.6% above last year and was \$11.1 million above the forecast. There are no particular seasonal factors that explain this very strong withholding growth. Year-to-date withholding collections are 6.7% above FY 2016.

September estimated and final payments of \$125.1 million were (5.6)% below last year and \$(9.4) million below the forecast. Year to date, payments are (3.4)% below those collected during the same period of FY 2016.

September Individual Income Tax refunds totaled \$(13.5) million – this compares to \$(12.7) million in September 2015 and a forecasted amount of \$(12.2) million. Year-to-date refunds have led to a \$(3.2) million loss compared to the enacted forecast.

	September	YTD
Withholding	8.6%	6.7%
Estimated/Final Payments	(5.6)%	(3.4)%
Refunds	6.2%	15.1%

Corporate Income Tax net collections were \$78.5 million in September, which was \$(10.2) million less than in the prior year and \$(2.0) million below the forecast. Year to date, collections are \$(37.7) million below prior year collections. This decrease is probably the result of the multi-year statutory decline in the Corporate Income Tax rate and a decline in corporate profits during the last year.

Insurance Premium Tax collections of \$50.1 million in September were \$6.6 million above the prior year and \$5.6 million above the forecast. Year-to-date, collections are 12.6% above last year. September revenues for Insurance Premium Tax consist almost entirely of collections from the state's AHCCCS health plans. In the past year, overall AHCCCS enrollment has grown by 4.5%.

The **Lottery Commission** reports that September ticket sales were \$58.5 million, which is \$(4.9) million, or (7.8)%, below sales in September 2015. Year-to-date ticket sales are \$188.8 million, which is 3.5% above last year's sales. General Fund Lottery distributions associated with the July, August and September sales are not expected to occur until October.

Highway User Revenue Fund (HURF) collections of \$115.4 million in September were up 4.6% compared to September of last year and were \$3.2 million above forecast. Year-to-date collections are 4.4% above last year.

Due to delays in reporting final August revenues for sales and luxury taxes, DOR has made **technical adjustments** to prior month collection figures. For September, DOR has reduced the amount of prior General Fund revenue collections by \$(5.2) million, and the adjustment has been included in the reported year-to-date results.

Table 3

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

	Current Month					FY 2017 YTD (Three Months)				
	Actual September 2016	Change From September 2015		Budget Forecast		Actual September 2016	Change from September 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
Taxes										
Sales and Use	\$366,652,069	\$12,056,258	3.4 %	\$1,412,816	0.4 %	\$1,096,532,221	\$39,624,687	3.7 %	\$9,458,150	0.9 %
Income - Individual	409,053,512	15,347,847	3.9	427,341	0.1	1,072,588,201	47,234,270	4.6	12,868,314	1.2
- Corporate	78,542,658	(10,213,520)	(11.5)	(1,996,133)	(2.5)	85,630,352	(37,736,990)	(30.6)	(22,223,644)	(20.6)
Property	245,798	176,830	256.4	141,819	136.4	764,828	77,582	11.3	37,489	5.2
Luxury - Tobacco	2,153,959	151,587	7.6	0	0.0	5,974,041	(58,745)	(1.0)	(124,717)	(2.0)
- Liquor	2,332,526	56,830	2.5	0	0.0	7,443,659	145,210	2.0	(54,964)	(0.7)
Insurance Premium	50,081,084	6,560,487	15.1	5,647,871	12.7	145,068,212	16,273,741	12.6	16,508,388	12.8
Other Taxes	34,472	433	1.3	(676,321)	(95.2)	1,133,731	1,014,927	854.3	(142,620)	(11.2)
Sub-Total Taxes	\$909,096,078	\$24,136,751	2.7 %	\$4,957,393	0.5 %	\$2,415,135,244	\$66,574,681	2.8 %	\$16,326,397	0.7 %
Other Revenue										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	3,154,024	983,043	45.3	948,827	43.0	8,733,727	1,597,420	22.4	1,014,404	13.1
Interest	152,126	147,529	--	147,451	--	101,993	97,011	--	92,926	--
Sales and Services	3,250,342	1,385,851	74.3	987,204	43.6	11,688,600	9,178,182	365.6	7,499,511	179.0
Other Miscellaneous	2,868,987	3,285,583	--	2,549,698	798.6	5,830,568	3,840,540	193.0	2,404,133	70.2
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	6,133,472	18,377,423	--	3,768,973	159.4	7,954,037	14,835,291	--	2,791,626	54.1
Sub-Total Other Revenue	\$15,558,952	\$24,179,430	-- %	\$8,402,153	117.4 %	\$34,308,924	\$29,548,444	620.7 %	\$13,802,600	67.3 %
TOTAL BASE REVENUE	\$924,655,030	\$48,316,180	5.5 %	\$13,359,546	1.5 %	\$2,449,444,168	\$96,123,125	4.1 %	\$30,128,997	1.2 %
Other Adjustments										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	(0)	0.0	(165,895,542)	(14,486,959)	9.6	(0)	0.0
One-Time Transfers	0	0	--	0	--	461,600	461,600	--	0	0.0
Sub-Total Other Adjustments	(55,298,514)	(4,828,986)	9.6 %	(0)	0.0 %	(165,433,942)	(14,025,359)	9.3 %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$869,356,516	\$43,487,194	5.3 %	\$13,359,546	1.6 %	\$2,284,010,226	\$82,097,766	3.7 %	\$30,128,997	1.3 %
Non-General Funds										
Highway User Revenue Fund	\$115,422,899	\$5,025,315	4.6 %	\$3,245,200	2.9 %	\$345,498,165	\$14,446,977	4.4 %	\$9,042,493	2.7 %

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 1.4% in the second quarter of 2016. This estimate represents a modest pickup from the weak growth of 0.8% in the first quarter of 2016. The acceleration relative to the prior quarter was primarily due to growth in consumption, exports and business investment. Improved performance in these categories was partly offset by decreases in business inventories, residential investment and state and local government spending.

The Conference Board's **U.S. Consumer Confidence Index** increased by 2.3% to 104.1 in September, the index's highest reading since August 2007. The monthly increase reflected improved optimism by consumers about current economic and job circumstances. Year-over-year growth for the index reached 1.5% in September.

The Conference Board's **U.S. Leading Economic Index** decreased by (0.2)% in August and stands 1.1% above its August 2015 reading. Of the indexes 10 components, 6 made negative contributions in August. After providing a strong positive contribution last month, manufacturing workers' average workweek reversed course to tie the ISM new orders index for the strongest negative contributor in August.

Consumer prices, as measured by the U.S. **Consumer Price Index (CPI)**, increased 0.2% in August and 1.1% above August 2015 prices. Core inflation (all items less food and energy), the primary contributor to the monthly increase, increased 0.3% in August, its largest rise since February. Energy prices were unchanged in August, as increased indexes for natural gas and electricity offset decreased indexes for gasoline and fuel oil. Indexes for shelter, medical care, motor vehicle insurance, apparel, communication and tobacco increased, while indexes for used cars and trucks, household furnishings, recreation and airlines fares declined.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** grew 0.1% in August, relative to July. The overall index stands 1.0% above the August 2015 level, which is well below the Federal Reserve Bank's 2% annual inflation target. The low measure is largely due to a (9.9)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy) has grown by a steadier rate of 1.7% through August.

ARIZONA

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

Arizona's coincident index increased by 3.4% compared to August 2015. Over the same time period, the U.S. coincident index increased by 3.0%. See *Appendix A – Arizona Economic Trends* for additional historical information.

Housing

Single-family housing construction is increasing. Multi-family construction had previously peaked, but has recently started to increase again. Arizona's 12-month total of **single-family building permits** is 23,955, or 15.3% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 9.7%. See *Appendix A – Arizona Economic Trends* for historical information.

The 12-month total of multi-family building permits has started to increase again. Arizona's total of 9,594 **multi-family building permits** is 2.2% more than 2015. Arizona's rate of increase is now greater than the comparable multi-family permit growth for the U.S. as a whole, which is (6.5)% lower than 2015.

Employment

In August, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.3 hours. This workload was equal to the level during the prior month and (2.3)% below the level in August 2015.

The **Average Hourly Earnings** received by private sector workers was \$24.17, which is 1.8% above the average in the prior month. August earnings were 3.5% above the average in August 2015, and represent the seventh consecutive month of 3.0% growth or more.

The U.S. Department of Commerce Bureau of Economic Analysis quarterly releases estimates of annual **Personal Income** received in each state. This measure includes wages and salaries, proprietors' income, dividends, interest, rent, and various supplements to income while excluding capital gains, contributions for government social insurance, and pension benefit payments. In the second quarter of 2016, Arizona personal income increased year-over-year by 3.3%, to \$275.3 billion. This growth represents the lowest year-over-year rate since the fourth quarter of 2013. The slowdown was partly driven by government transfer income growth of only 3.1% during

Monthly Indicators (Continued)

the quarter, the lowest rate of growth since the second quarter of 2013.

OEO reported that 16,699 **initial claims for unemployment insurance** were filed in September, an increase of 6.9% compared to the same month last year. This was the first year-over-year increase of initial jobless claims for the month of September since 2013.

According to OEO, the state had a total of 29,966 **claimants receiving unemployment insurance benefits** in September, a decrease of (16.8)% from August. This figure was (8.7)% below the September 2015 level, and represented the lowest number of claimants receiving jobless benefits for the month of September in 10 years.

Tourism

Revenue per available room was \$53.83 in August, which was 5.5% above the amount in August 2015. Year-to-date, revenue per available room is 4.2% above the 2015 year-to-date amount through August. The Arizona Office of Tourism reports that visits to state parks during the month were (5.0)% below visits in August 2015.

State Agency Data

At the beginning of October 2016, the total **AHCCCS** caseload was 1.9 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 594,600 members.

Total monthly enrollment increased by 12,100 members, or 0.7%, during September. Nearly half of the overall enrollment increase was concentrated in the Traditional population of low income parents and children, which grew by 5,700 members, or 0.5%, in September.

Laws 2016, Chapter 112 reopened enrollment in the KidsCare program for children with family incomes above those in the Traditional population, beginning September 1, 2016. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by August 2016. Through October 1, enrollment in the program reached 5,900, or 3,100 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In September 2016, the childless adult population increased by 1,300, or 0.4%. At 314,300, this population is 5.2% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 200 in September and now totals 80,700 individuals. Enrollment is 10.1% higher than a year ago. The federal government is currently paying 100% of this cost through the end of calendar year 2016.

There were 20,209 **TANF recipients** in the state in September, representing a 4.8% monthly caseload increase from August. The year-over-year number of TANF recipients has declined by (16.8)%. The statutory lifetime limit on cash assistance is 12 months in August, the first month in which a legislative change to lifetime limits (24 months to 12 months) takes effect.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In September, 978,433 people received food stamp assistance in the state, representing a 0.1% increase above August. Compared to September 2015, the level of food stamp participation has declined by (3.1)%.

The **inmate population** was 42,692 as of September 30, 2016. This is a (0.2)% decrease since last September. The population decreased by (0.1)% since August 2016. Laws 2016, Chapter 119 included a provision that if the male inmate count exceeds 39,762 by November 2016, the department may open 1,000 additional private prison beds. As of September 30, 2016, ADC held 38,613 male prisoners.

Based on information the Department of Child Safety provided for July 2016, **reports of child maltreatment** totaled 48,885 over the last 12 months, a decrease of (4.7)% over the prior year. There were 18,183 **children in out-of-home care** as of July 2016, or (0.2)% less than in July 2015. Compared to the prior month, the number of out-of-home children decreased by (0.6)%.

Table 4

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	August	5.8%	(0.2)%	(0.2)%
- Total Unemployment Rate (discouraged/underemployed)	2 nd Q 2016	11.3%	(0.4)%	(2.5)%
- Initial Unemployment Insurance Claims	September	16,699	(11.9)%	6.9%
- Unemployment Insurance Recipients	September	29,966	(16.8)%	(8.7)%
- Non-Farm Employment - Total	August	2,671,600	(0.1)%	2.1%
Manufacturing	August	159,100	(0.7)%	(0.3)%
Construction	August	135,600	(3.1)%	4.7%
- Average Weekly Hours, Private Sector	August	34.3	0.0%	(2.3)%
- Average Hourly Earnings, Private Sector	August	\$24.17	1.8%	3.5%
<u>Sales</u>				
- Retail Taxable Sales				
Motor Vehicles/Misc. Auto	May	\$1.01 billion	(4.3)%	5.7%
Furniture/Home Furnishings	May	\$333.9 million	1.6%	6.1%
Building Material/Lawn & Garden	May	\$440.2 million	3.7%	(0.9)%
<u>Building</u>				
- Residential Building Permits (12-month avg)				
Single-family	August	23,955	0.3%	15.3%
Multi-family	August	9,594	(5.9)%	2.2%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	August	6,030	7.4%	11.6%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	August	\$243,900	0.4%	8.9%
- Phoenix S&P/C Home Price Index (2000 = 100)	July	161.94	0.8%	5.2%
- Maricopa Pending Foreclosures	July	3,695	(0.2)%	(23.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	August	23,680	0.2%	5.6%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	July	3,690,679	(0.8)%	(5.6)%
- National Park Visitors	March	1,114,134	70.9%	(1.3)%
- State Park Visitors	August	184,610	(34.7)%	(5.0)%
- Revenue Per Available Hotel Room	August	\$53.83	(5.5)%	5.5%
<u>General Measures</u>				
- Arizona Consumer Confidence Index (1985 = 100)	3 rd Q 2016	88.4	10.5%	4.9%
- Arizona Coincident Index (July 1992 = 100)	August	221.97	0.6%	3.4%
- Arizona Leading Index -- 6 month projected growth	August	2.0%	3.5%	(2.9)%
- Arizona Personal Income	2 nd Q 2016	\$275.3 billion	1.2%	3.3%
- Arizona Population	July 2015	6,828,065	N/A	1.5%
- State Debt Rating				
Standards & Poor's/Moody's	May	AA / Aa2	N/A	N/A
Outlook	May	Stable	N/A	N/A
<u>Agency Measures</u>				
- AHCCCS Recipients	October 1 st	1,852,717	0.7%	4.5%
Acute Care Traditional		1,089,591	0.5%	4.5%
Prop 204 Childless Adults		314,277	0.4%	5.2%
Other Prop 204		184,131	0.1%	0.0%
Adult Expansion		80,693	0.3%	10.1%
Kids Care I		5,911	109.7%	570.2%
Long-Term Care – Elderly & DD		58,608	0.2%	1.9%
Emergency Services		119,506	1.2%	3.9%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	July	48,885	(0.5)%	(4.7)%
DCS Out-of-Home Children	July	18,183	(0.6)%	(0.2)%
Filled Caseworkers (1406 Budgeted)	September	1,321	(37)	64
- ADC Inmate Growth	August	42,692	(0.1)%	(0.2)%
- Department of Economic Security				
- TANF Recipients	September	20,209	4.8%	(16.8)%
- SNAP (Food Stamps) Recipients	September	978,433	0.1%	(3.1)%
- Judiciary Probation Caseload				
Non-Maricopa	June	18,679	154	350
Maricopa County	June	27,715	26	773
United States				
- Gross Domestic Product	2 nd Q, 2016	\$16.6 trillion	1.3%	1.4%
(Chained 2009 dollars, SAAR)	(3 rd Estimate)			
- Consumer Confidence Index (1985 = 100)	September	104.1	2.3%	1.5%
- Leading Indicators Index (2010 = 100)	August	124.1	(0.2)%	1.1%
- Consumer Price Index, SA (1982-84 = 100)	August	240.31	0.2%	1.1%
- Personal Consumption Price Index (2009 = 100)	August	110.9	0.1%	1.0%

JLBC Meeting

At its September 21, 2016 meeting, the Joint Legislative Budget Committee considered the following issues:

Arizona Department of Administration – Consider Approval of Maximum Lodging and Per Diem Reimbursement Rates – The Committee approved ADOA's proposal to adopt the Federal Fiscal Year (FFY) 2017 lodging rates and to establish a flat meal reimbursement rate of \$13 and \$20 for employees who travel for at least 6 hours or 12 hours, respectively, without an overnight stay. As part of its approval, the Committee included a provision stating that Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs.

Arizona Department of Administration – Review of ASET Projects (Automation Projects Fund) – The Committee gave a favorable review of \$1.0 million in non-lapsing FY 2016 monies and \$13.4 million in proposed FY 2017 expenditures from the APF for Information Technology (IT) projects for the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The favorable review includes numerous provisions including reporting requirements.

Arizona Department of Administration – Review of ASET E-Procurement Project – The Committee gave a favorable review of ADOA's \$300,000 allocation for replacement of the state's e-procurement system with the provision that the Committee review does not commit the Legislature to any additional funding above currently allocated \$15.1 million to replace the e-procurement system. In addition, the Committee received the Risk Management Annual Report pursuant to Rule 14. The Committee requested that future annual reports continue to include specified information.

Arizona Department of Administration/Department of Child Safety – Review of CHILDS (Automation Projects Fund) – The Committee gave a favorable review of DCS' \$6.2 million FY 2016 expenditure plan from the Automation Project Fund for the Children's Information Library and Data Source (CHILDS) replacement project to implement the mobile solution, develop more Requests for Proposal (RFPs), and fund other components of the project. The favorable review included provisions with reporting requirements.

AHCCCS/Department of Economic Security/Department of Child Safety – Review of Proposed Capitation Rate Changes – The Committee gave a favorable review of AHCCCS' proposed plan year 2017 capitation rate changes for AHCCCS Acute Care, Arizona Long Term Care System (ALTCs) Elderly &

Physically Disabled, Children's Rehabilitative Services, DCS/Comprehensive Medical & Dental Program, and ALTCs/DES Developmentally Disabled (DD). The favorable review included provisions that AHCCCS submit Behavioral Health Services capitation rates for plan year 2017 and report to the Committee by October 28, 2016 on the expansion of Hepatitis C drug coverage.

Attorney General – Review of Uncollectible Debts – The Committee gave a favorable review of the AG's FY 2016 list of \$78.3 million in uncollectible debt.

Attorney General – Review of FY 2017 Internet Crimes Against Children (ICAC) Expenditure Plan – The Committee gave a favorable review of the AG's expenditure plan for the \$1.3 million FY 2017 appropriation to the ICAC Enforcement line item.

Department of Child Safety – Review of DCS's Financial Processes – The Committee gave a favorable review of an audit of DCS' internal financial processes with a provision that DCS contract with Moss-Adams for follow-up audits in October 2016 and April 2017. These audits would measure DCS' progress in meeting the recommendations in Moss-Adams' initial report. Moss-Adams' full report for both of the audits would be shared with the Committee in Executive Session.

Department of Child Safety – Review of FY 2016 Fourth Quarter Benchmarks – The Committee gave a favorable review of DCS' fourth benchmark report, which assessed the progress made in increasing the department's number of FTE Positions and in reducing the number of backlog cases.

Department of Child Safety – Review of FY 2017 Second Quarter Funding for New Case Aides and Overtime – The Committee gave a favorable review of \$765,200 for New Case Aides and \$2,092,500 for Overtime Pay in FY 2017 for second quarter funding. A total of \$1,530,300 for new Case Aides and \$4,185,000 for Overtime Pay will be reviewed upon further updates on the progress of reducing the backlog of non-active cases.

Department of Child Safety – Review of Alternative Use of Backlog Privatization Resources – The Committee gave a favorable review of DCS' plan to transfer \$2.2 million from FY 2016 backlog privatization line item to the Out-of-Home Support Services line item for contracted permanency services. The favorable review included provisions that the transfer of funds does not occur until the backlog of 60-day cases is under 1,000 cases, that DCS report the terms

JLBC Meeting (Continued)

and conditions of the contracts to JLBC, and DCS provide quarterly reports to JLBC on the number of children who receive permanency in the most recent quarter compared to the fourth quarter.

Arizona Commerce Authority – Review of Progress on Auditor General Recommendations – The Committee gave a favorable review of ACA's report. The favorable review included a provision that the ACA report back to the Committee once all the Auditor General's recommendations have been implemented.

Department of Economic Security – Review of Division of Developmental Disabilities Salary Adjustments and Hiring – The Committee gave a favorable review of DES' plan for DDD salary adjustments and hiring. The favorable review included provisions with reporting requirements.

Arizona Department of Education – Review of Joint Technical Education District (JTED) Quarterly Report – The Committee gave a favorable review to ADE's June 30, 2016 JTED quarterly report, with the exception of the Food Products and Processing systems program,

which was held for further consideration at the next JLBC meeting.

Arizona Department of Environmental Quality – Review of Safe Drinking Water Expenditure Plan – The Committee gave a favorable review of the ADEQ's expenditure plan for \$1.8 million from the Emissions Inspection Fund for the Safe Drinking Water Program.

Department of Public Safety – Review of Border Strike Force Expenditure Plans – The Committee gave a favorable review of DPS' \$1.3 million expenditure plan for the Border Strike Force's ongoing and one-time line items.

JCCR Meeting

At its September 21 meeting, the Joint Committee on Capital Review considered the following issues:

Arizona Department of Corrections – Review of Reallocation of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review to ADC's reallocation of \$2.1 million from the FY 2017 Building Renewal appropriation. The favorable review included numerous provisions with reporting requirements.

Arizona Game and Fish Department – Review of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review to the expenditure of \$182,800 from the Game and Fish Fund for the Arizona Game and Fish Department's FY 2017 Building Renewal Allocation. The favorable review included numerous provisions with reporting requirements.

Department of Juvenile Corrections – Review of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review of \$350,000 for building renewal projects. DJC shall determine how to allocate the funding from among the projects in their request. Any review of additional funding will occur after the

Committee considers DJC's long-term facilities plan. The favorable review includes numerous provisions including reporting requirements.

Arizona State Parks Board – Review of FY 2017 Capital Expenditure Plan and Reallocation of Prior Year Capital Expenditure Plans – The Committee gave a favorable review of the expenditure of \$2.5 million for the FY 2017 Capital Expenditure Plan projects and for the reallocation of the \$1.4 million in monies from FY 2014, FY 2015, and FY 2016, with the reallocated funding being used for the expansion of projects previously reviewed by the Committee along with the new project of developing a use plan for Rockin' River Ranch State Park. The favorable review included numerous provisions with reporting requirements.

Arizona State Parks – Review of Cabin Installation Proposal – The Committee gave a favorable review to the expenditure of \$963,300 for the purchase of 100 pre-engineered cabins. Of this amount, ASPB will allocate \$463,900 from the State Parks Revenue Fund (SPRF) and \$500,000 from the State Lake Improvement (SLIF). The favorable review included a reporting requirement.

JCCR Meeting (Continued)

Arizona State Parks Board – Review of Cattail Cove State Park Redevelopment Plan – The Committee gave a favorable review to the expenditure of \$6.4 million for the redevelopment of Cattail Cove State Park. Of the \$6.4 million, \$5.3 million is from SLIF monies and \$1.1 million is from Federal Land and Water Conservation Fund (LWCF) monies. The favorable review included numerous provisions with reporting requirements.

Arizona Department of Transportation – Review of FY 2017 Building Renewal Allocation Plan – The Committee gave a favorable review to the expenditure of \$4.2 million for ADOT's FY 2017 Building Renewal Allocation Plan. Of this amount, ADOT will allocate \$4.0 million from the State Highway Fund and \$232,300 from the State Aviation Fund. The favorable review also included a provision that ADOT report any project reallocations above \$100,000.

Universities – Northern Arizona University – Review of FY 2017 Capital Improvement Plan for One-time Appropriation – The Committee gave a favorable review of NAU's \$4.0 million expenditure plan.

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Telecommunications Program Office – Pursuant to A.R.S. § 41-712, the Arizona Department of Administration (ADOA) is required to submit an annual report on the Telecommunication Program Office (TPO), including the current rate structure of telecommunications charges, and payments made by all AZNet 2 participants for FY 2016 and FY 2017. AZNet 2 participants pay a variety of fees for different purposes, including a third-party vendor to operate and maintain the system, a separate third-party vendor who aggregates an agency's bills and manages expenses, as well as an amount paid to TPO for their administration of the system as a whole. In FY 2016, total charges paid by all entities were \$42.7 million. In FY 2017, the estimated total charges paid by all entities is also \$42.7 million.

Pursuant to A.R.S. § 41-713, ADOA is additionally submitting their annual report on the Telecommunication Fund, which includes the sources and uses of received monies, for FY 2016, as well as estimates for FY 2017. The Telecommunication Fund primarily consists of monies paid by agencies, as well as other AZNet 2 participants, to TPO to administer the system as a whole. In FY 2016, the Telecommunication Fund received \$1.5 million from AZNet 2 participants to administer the system. In FY 2017, the Telecommunication Fund is estimated to receive

\$1.8 million from AZNet 2 participants to administer the system. (Rebecca Perrera)

Arizona Department of Administration – Report on Information Technology FTE Positions – Pursuant to Laws 2016, Chapter 117, the Arizona Department of Administration (ADOA) is submitting their report on the structure, allocation and fund sources for all information technology (IT) FTE Positions within the department. ADOA has 154.5 IT FTE Positions, which accounts for 25% of their total FTE Positions. These employees work within 4 divisions: the Arizona Strategic Enterprise Office (114.35 FTE), Human Resources Division (19.25 FTE), the General Accounting Office (9.9 FTE), and the Telecommunications and 911 Office (11 FTE). These FTE Positions are funded through 6 internal ADOA funds, primarily the Automation Operations Fund, but also including the IT Fund, Personnel Division Fund, Arizona Financial Information System Collection Fund, Telecommunications Fund, and the 911 Emergency Services Fund. (Rebecca Perrera)

AHCCCS – Report on Uncompensated Hospital Costs and Hospital Profitability – Pursuant to A.R.S. § 36-2903.08, AHCCCS is required to report on the uncompensated hospital costs and hospital profitability for Arizona hospitals for the previous fiscal year. AHCCCS used data from the 2014 and 2015 Uniform Accounting Reports (UAR), statutorily required audited financial statements.

From 2014 to 2015, total uncompensated care costs decreased by \$(237.7) million, from \$584.0 million to

Summary of Recent Agency Reports (Continued)

\$346.3 million (40.7% decrease). The average uncompensated care costs per hospital decreased from \$5.7 million to \$3.4 million during this time. Total net operating profitability decreased by \$(165.2) million, from \$854.3 million in 2014 to \$689.1 million in 2015 (19.3% decrease).

As indicated above, hospital profitability from 2014 to 2015 decreased despite reductions in uncompensated care during that time. This was partly due to a \$(94.3) million reduction in Safety Net Care Pool payments made to hospitals. AHCCCS' report indicates that decreased revenue from other sources caused the majority of the remaining decrease in net operating profit, as total hospital expenditures of \$14.2 billion were largely unchanged during this time. Figures above exclude impacts to the publicly-operated Maricopa Medical Center. (Jon Stall)

Attorney General – Quarterly Reports on Legal Settlements – Statute requires the Attorney General (AG) to report quarterly to the JLBC on the receipts to and disbursements from the Antitrust Enforcement Revolving Fund, the Consumer Protection - Consumer Fraud (CPCF) 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 2017, the AG deposited a total of \$115,800 into various consumer accounts. Of that amount, \$24,200 was deposited into the CPCF Revolving Fund, \$78,400 into the Restitution Subaccount, and \$13,200 into the Remediation Subaccount. No monies were deposited into the General Fund or Antitrust Enforcement Revolving Fund this quarter. Only the \$13,200 deposit to the Remediation Subaccount requires JLBC review prior to expenditure.

Deposits to the Antitrust Enforcement Revolving Fund
The AG did not deposit any revenues to the appropriated Antitrust Enforcement Revolving Fund in the first quarter of FY 2017. Monies deposited into the Antitrust Enforcement Revolving Fund are used to pay for antitrust enforcement expenses undertaken by the AG.

Deposits to the CPCF Revolving Fund
The AG deposited \$24,200 in the first quarter of FY 2017 to the appropriated CPCF Revolving Fund, which may be used for any purpose permitted by statute. The amount was derived from small legal settlements.

Deposits to the Consumer Restitution Subaccount
The AG deposited \$78,400 in the first quarter of FY 2017 to the non-appropriated Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$78,100 came from small legal settlements and the remainder came from interest income.

Deposits to the Consumer Remediation Subaccount
The AG deposited \$13,200 in the first quarter of FY 2017 to the partially-appropriated Remediation Subaccount to rectify violations of consumer protection laws. These revenues were interest income on the fund balance. An expenditure plan must be reviewed by the JLBC before any funds are spent from this account. Those reviews have not yet occurred. (Eric Billings)

Auditor General – Report on Permanency Practices – Pursuant to the FY 2016 Human Services Budget Reconciliation Bill (Laws 2015, Chapter 18), the Auditor General has reported on the Department of Child Safety's (DCS) permanency practices.

After a child is placed in out-of-home care, DCS is responsible for helping to find a permanent placement for that child. A permanent placement could include reunification with family, adoption, or permanent legal guardianship.

Findings
The department is required to participate in juvenile court hearings that determine permanency decisions for out-of-home children. The audit found that DCS caseworkers sometimes submit court reports that are late, not sufficiently detailed, or that do not clearly highlight progress on case plan goals. For example, the audit cited a 2016 informal analysis of court reports in Maricopa County which found that 32% of DCS court reports were submitted late and 6% of reports were not submitted at all.

Department policy also requires DCS caseworkers to attend Foster Care Review Board (FCRB) reviews. The FCRB makes recommendations to the juvenile courts on achieving permanency for each child. The audit found that DCS caseworkers only attended between 57% and 65% of FCRB reviews in each month since June 2015.

The department performs kinship searches to identify relatives with whom out-of-home children may stay temporarily. The audit found that DCS caseworkers do not always document their searches for kin, which may result in duplicative efforts. In addition, DCS' family locate unit had a backlog of 452 kinship search requests from caseworkers in September 2016.

Summary of Recent Agency Reports (Continued)

Recommendations

The audit recommends that DCS track and analyze court report submission dates, develop guidance regarding supervisory review of court reports to ensure adequate detail is included, work with the juvenile courts to better present case plan progress in court reports, and develop policies and procedures to improve caseworker attendance at FCRB reviews.

For kinship searches, the audit recommends that DCS establish a monitoring process for documentation of these searches, establish a formal timeframe to process requests, and transfer some requests to other DCS staff.

DCS did not agree to the recommendations listed above. The department claims that measuring timeliness for submissions of court reports without tracking data from the courts is not possible, that the current court report template complies with statute and administrative code, and that caseworker attendance at FCRB reviews is not required by state or federal law. For the kinship search recommendations, DCS claims that the recommendations would not increase the percentage of children placed with kin, and that the percentage of children placed with kin in Arizona (42.2%) is already above the national average of 22.2%.

The audit also recommended that DCS continue to implement existing plans related to permanency practices, including: 1) Reducing time before permanency is achieved 2) Timeliness of filing Termination of Parental Rights (TPR) petitions for children with a permanency goal of adoption 3) Retention and recruitment of foster homes and 4) Increasing foster children's connections to their family and community. DCS agreed to implement these recommendations. (Patrick Moran)

Department of Child Safety – Monthly Report on Hiring – Pursuant to a FY 2017 General Appropriation Act footnote, the Department of Child Safety (DCS) has reported on its progress in hiring and retaining child safety staff through September 2016. (See Table 5 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) was 1,321 in September 2016, or (85) fewer staff than the number of funded positions. Most of the difference between funded positions and filled positions was driven by lower-than-budgeted staffing of caseworkers, which was partly offset by higher-than-budgeted staff in training. Total direct line staff decreased by (37) since August, while the turnover rate for direct line staff decreased from 4.5% in August to 2.9% in September.

There were 1,349 non-direct line child safety staff in September 2016, or (162) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. There was an increase of 1 non-direct line position since August, while the non-direct line staff turnover rate increased from 2.3 % in August to 2.4% in September. (Patrick Moran)

Department of Child Safety – Report on Risk Assessment Practices – Pursuant to a FY 2017 General Appropriation Act Footnote (Laws 2016, Chapter 117), the Department of Child Safety (DCS) has reported its progress on implementing changes to its risk assessment practices recommended by the Auditor General in September 2015.

DCS' safety and risk assessment procedures determine whether a child involved in a report of neglect or abuse should be removed from the home and temporarily placed in state care. Auditors found that DCS' Child Safety and Risk Assessment (CSRA) tool lacks sufficient structure to guide caseworkers in documenting child safety and risk information, that caseworkers do not

Table 5

DCS Filled FTE Positions as of September 2016

	<u>Funded</u>	<u>September</u>	<u>Difference</u>
Caseworkers	1,190	954	(236)
Hotline Staff	76	71	(5)
Staff in Training	<u>140</u>	<u>296</u>	<u>156</u>
<i>Subtotal - Direct Line</i>	<i>1,406</i>	<i>1,321</i>	<i>(85)</i>
<i>Subtotal - Non-Direct Line Staff</i>	<i><u>1,511</u></i>	<i><u>1,349</u></i>	<i><u>(162)</u></i>
Grand Total ^{1/}	2,917	2,670	(247)

^{1/} Excludes 276.2 Attorney General Staff

Summary of Recent Agency Reports (Continued)

always adequately engage families during the Team-Decision Making (TDM) meetings regarding child safety plans, and that caseworkers and supervisors receive inadequate mentoring and coaching in conducting safety and risk assessments.

Recommendation: DCS should review actions taken by other child welfare agencies to improve safety and risk assessment practices

DCS completed its review of reports regarding changes in safety and risk assessment practices adopted by child welfare agencies in other states, and concluded that staff training is key to improvements in safety and risk assessment practices.

Recommendation: DCS should modify or replace its CSRA tool

DCS is not modifying the existing CSRA tool in the Children's Information Library and Data Source (CHILDS), the state's current automated child welfare information system. However, DCS is receiving technical assistance to update decision-making guides used by caseworkers to make safety and risk assessment decisions. The updated decision-making guide will be incorporated into Guardian, which the department expects will replace CHILDS in late FY 2017 or early FY 2018.

Recommendation: DCS should analyze data on factors leading to child removal decisions

DCS is collecting and analyzing data to evaluate the appropriateness of child removal decisions. A Multidisciplinary Review Team will collect and analyze data on cases that resulted in cases involving fatalities or near fatalities.

Recommendation: DCS should reduce wait-list for in-home services

DCS is implementing procedures to improve the in-home service referral process, and has recently issued new contracts to in-home providers to increase capacity for in-home services.

Recommendation: DCS should develop and implement continual training on TDM for DCS staff

DCS has provided a training academy that includes TDM training for experienced DCS caseworkers, and is currently developing a new TDM training program for supervisors of caseworkers.

Recommendation: DCS should ensure that caseworkers and supervisors receive sufficient training on safety and risk assessment practices

DCS is assigning a mentor for new caseworkers for the first 22 weeks of employment. The department is in the process of developing similar mentoring and

shadowing opportunities for caseworker supervisors. (Patrick Moran)

Arizona Community Colleges – Report on Dual Enrollment Threshold - Pursuant to A.R.S. § 15-1821.01, the Arizona Community Colleges are required to report by October 1 of each year if dual enrollment by high school freshman and sophomore students at a community college are in excess of 25% of the high school students enrolled in dual enrollment at that college.

Glendale Community College (GCC) had 877 high school freshmen and sophomore dual enrollment students in the 2015-2016 school year, which was 28.7% of their total dual enrollment of 3,054. GCC states that the increased enrollments were in specific courses that the high schools promoted and encouraged underclassmen high school students to take. GCC states that they will monitor the enrollment of freshman and sophomore high school students on a weekly basis to ensure compliance with the state statute. GCC will also require a request to exceed the 25% limit, signed by the high school liaison, and approved by the Executive Vice Chancellor and Provost. (Tom Ritland)

Arizona Criminal Justice Commission – Report on Anti-Racketeering Revolving Fund – Pursuant to A.R.S. § 13-2314.01 and A.R.S. § 13-2314.03, 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, agency, county attorney, and political subdivision reports into a single comprehensive report of sources and expenditures.

In FY 2016, ARRF received revenues totaling \$63.6 million and had expenditures totaling \$66.1 million (including monies from prior year balances). Revenues for investigating and prosecuting agencies were highest in Maricopa County in FY 2016 at \$32.7 million. Agencies participating in Maricopa County cases also accounted for the highest expenditure total for FY 2016 with \$33.4 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. (Josh Hope)

Summary of Recent Agency Reports (Continued)

Arizona Criminal Justice Commission – Report on Non-Compliance with Reporting Requirements – Pursuant to a FY 2017 General Appropriation Act footnote, on or before August 31, 2016, the Arizona Criminal Justice Commission (ACJC) is required to report on its noncompliance with statutory reporting requirements. Statute requires ACJC to provide a comprehensive annual report summarizing the Anti-Racketeering Fund information from both the Arizona Attorney General's office, including all the departments and agencies that report to the Attorney General's office, and from each of the 15 County Attorney's offices, including all of the political subdivisions that report to the County Attorney's offices. ACJC was not in compliance with this requirement. Based on revisions to its report, ACJC is now in compliance with its statutory reporting requirements. (Josh Hope)

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 report on the adequacy and appropriateness of Medicaid reimbursement rates for service providers that contract with the Division of Developmental Disabilities (DDD). The analysis was conducted by an independent consultant.

Since FY 2009 the number of service users has grown faster than the rate of overall DDD enrollment for 8 of the top 10 most-used services. In aggregate, the number of units of service per user has increased by 9.2% over the same time period. The number of DDD providers has decreased by (41.3)%, but the number of units of service per provider increased 133.1%, which

the consultant believes "reflects the ability of the provider network to deliver the required number of services."

The analysis also found that all top 10 most used DDD services have adopted rates that are below the benchmark rate, and 5 of the top 10 services have rates that are less than 80% of the benchmark rate, including habilitation, respite, attendant care, group home room and board, and some group supported employment settings (see Table 6). The benchmark rates were established in the division's most recent rate rebase study. The consultant considered any rate below 80% of the benchmark to not be adequate and appropriate.

The consultant concluded overall that DDD provider rates are adequate and appropriate based on measures of access to services, but are "somewhat inadequate" as measured by how the adopted rates compare to the benchmark rates. The consultant therefore "strongly recommend(s) that any monies that may be available for rate increases be prioritized for those services with adopted to benchmark ratios of less than 80%." (Patrick Moran)

Department of Economic Security – Report on Temporary Assistance for Needy Families (TANF) Grant Diversion Program – Pursuant to A.R.S. § 46-298, the Department of Economic Security (DES) has provided the 2016 annual report on the TANF Grant Diversion Program. The program's purpose is to divert applicants from long-term TANF cash assistance by offering immediate, one-time assistance to resolve a financial crisis. In FY 2016, 8,890 applicant households chose the grant diversion option and were diverted from long-term assistance. A total of 4,970 households obtained

Table 6

FY 2017 Adopted Rate to Benchmark Rate Ratio for Top 10 DDD Services

<u>Service</u>	<u>Ratio</u>	<u>FY 2016 Expenditures (\$ in M)</u>
Group Home	87.71%	\$225.4
Respite	73.21%	83.0
Habilitation	73.79%	83.0
Attendant Care	76.23%	72.4
Day Treatment & Training	98.36%	70.0
Adult Developmental Home	94.13%	41.7
Nursing	80.80%-91.36%	41.1
Day Treatment & Training, Intense	89.56%	29.2
Group Home Room & Board	61.91%-73.65%	21.7
Group Supported Employment	75.75%-100.0%	21.6
Total		\$689.1

Summary of Recent Agency Reports (Continued)

employment within 90 days of receiving assistance under the diversion program during the 12-month period of April 2015 through March 2016. Through February 2016, the most recent month for which complete data is available, 567 of 5,996 households, or 9.5%, reapplied for long-term assistance within 180 days of their participation in the diversion program. Complete data for FY 2015 indicates 819 of the total 8,573 households receiving diversion payments, or 9.5%, reapplied within 180 days. (Chris Gustafson)

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 2016 report shows that the average number of children served increased to 30,000, or 16.1% above FY 2015; the number of families served increased by 17.7%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) increased by 46.2%, child welfare-related placements increased by 7.6%, the number of Temporary Assistance for Needy Families-related children decreased by (15.1)%, and the number of children receiving transitional child care increased by (2.2)%. DES conducted 6 releases of the waiting list in FY 2015 after an increase of \$4.0 million in its federal share of the Child Care and Development Fund, contributing to the increase in Low Income Working clients served.

The amount spent by DES on child care subsidies increased to \$129.4 million, or 17.3% above FY 2015. The average monthly subsidy paid per child increased 1.0% to \$359.43. The total amount of co-payments collected increased by 32.3% over FY 2015 to \$7.6 million. (Chris Gustafson)

Arizona Department of Environmental Quality (ADEQ) – Report on Progress of Water Quality Assurance Revolving Fund Sites – Pursuant to a FY 2017 General Appropriation Act footnote, DEQ is required to report the progress of each site listed on the Water Quality Assurance Revolving Fund (WQARF) registry. There are 11 potential steps in the WQARF process. At the end of FY 2016, DEQ reports 34 WQARF sites. Early Response Actions were conducted at 7 sites in FY 2016 and work will be continued on 3 of these sites in FY 2017. Three out of 6 of the FY 2016 Remedial Investigation sites are expected to be completed and advance to the Feasibility Study stage in FY 2017. No sites were removed from the WQARF registry in FY 2016.

By the end of FY 2017, DEQ anticipates 33 WQARF sites, after 1 site is removed from the registry. At least 20 registry sites are planned for stage completion or advancement to the next stage of the WQARF process in FY 2017. In FY 2017, DEQ expects that 17 of the 32 non-registry sites that underwent preliminary investigations in FY 2016 will not require further investigation or action. (Josh Hope)

Department of Environmental Quality – Third-Party Report on E-Licensing Project – Pursuant to a FY 2015 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) has provided a quarterly update of the E-Licensing project. The vendor gave an overall favorable evaluation of DEQ's progress in incorporating recommendations from the previous third-party report and provided 7 recommendations. The report emphasized that DEQ continues to lack an enterprise data management framework and discussed how this remains an obstacle to success. The vendor believes an agencywide strategic vision is needed regarding data management, including analytics and business intelligence. To accomplish this, the vendor recommends creating a DEQ data governance plan board. DEQ has made some progress in developing a data management framework by hiring an Enterprise Data Architect since the last report. No foreseeable project end date or total estimated projects costs were provided. (Josh Hope)

Department of Environmental Quality – Report on Water Quality Assurance Revolving Fund for FY 2016 – Pursuant to an annual General Appropriation Act footnote, the Department of Environmental Quality (DEQ) is required to report by September 1 to the Joint Legislative Budget Committee (JLBC) on the progress of activities in the Water Quality Assurance Revolving Fund (WQARF) Program. The WQARF Program is similar to the federal Superfund program and is designed to remediate contaminated groundwater at specified sites. The report lists total FY 2016 expenditures at \$13.8 million. Revenues totaled \$10.9 million, including \$7.0 million from Corporate Income Taxes, \$3.4 million in fees, \$378,400 recovered from responsible parties, and \$41,700 in other revenues. Unexpended funds at the end of FY 2016 totaled \$2.8 million.

In FY 2017, DEQ plans to spend \$15.3 million on the WQARF Program for 34 sites, including \$8.3 million for registry sites and preliminary investigations; \$6.5 million for administration; and \$440,000 for aid to municipalities, transfers to the Department of Health Services and the Department of Water Resources, and for prior year adjustments. (Josh Hope)

Summary of Recent Agency Reports (Continued)

Arizona Department of Homeland Security – Report on Homeland Security Funding – Pursuant to A.R.S. § 41-4255, the Arizona Department of Homeland Security has submitted its annual report detailing grant allocations and expenditures for Homeland Security grants from Federal Fiscal Year (FFY) 2013 through FFY 2015. The report indicates that 24.4% of the FFY 2015 allocation has been expended. Information for FFY 2013 - FFY 2015 is included in *Table 7* below.

The state was allocated and the Arizona Department of Homeland Security awarded \$22.0 million in Homeland Security grants for FFY 2015. The department reported total expenditures of \$5.4 million, leaving \$16.6 million unexpended. State agencies were awarded \$1.7 million, of which \$235,900 has been expended. Local governments were awarded \$20.3 million, of which \$15.1 million has been expended. The largest local grantee was the Pima County Sheriff's Department (\$1.6 million). The largest state grantee was the Department of Public Safety (\$1.7 million). The largest individual grant of \$1.2 million went to the Pima County Sheriff's Department for overtime and mileage payments while working in support of U.S. Customs and Border Protection border security efforts.

Total combined state and local awards for FFY 2015 represented an increase from the amount received in FFY 2013, but did not reach the funding level of FFY 2014. Arizona received \$22.7 million in total combined state and local awards in FFY 2014 and \$21.3 million in FFY 2013. Of the funds received, 100% have been expended for FFY 2013 and 90.6% have been expended for FFY 2014. (Josh Hope)

JLBC Staff – County Flexible Revenue Report – The FY 2017 Revenue Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 125) permits counties with a population

under 250,000 persons according to the 2010 Census to use any source of county revenue for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2017, but limits this authority to no more than \$1,250,000 used for purposes other than the purpose of the revenue source. The FY 2017 Revenue BRB requires counties to report on their use of this provision.

Of the 12 eligible counties, 5 reported using the flexibility:

- Apache County: \$1.2 million from the Community College District, Library District, and juvenile detention to the General Fund and Jail District for law enforcement and the jail;
- Coconino County: \$493,700 from the Jail District to the General Fund for facility maintenance, technology replacement, phone system migration, the DUI/Drug Court, and overtime payments to sworn officers;
- La Paz County: \$596,500 from Vehicle License Tax disbursements and the Waste Tire Fund to the General Fund to cover the structural deficit;
- Navajo County: \$1.2 million from the Library District and Flood Control District to the General Fund for general expenditures;
- Yuma County: \$51,000 from the Highway User Revenue Fund and 4 special taxing districts to the General Fund for long-term planning and the cleaning and maintenance of the South County facility.

The following 7 eligible counties did not utilize this provision:

Cochise, Gila, Graham, Greenlee, Mohave, Santa Cruz, and Yavapai Counties. (Josh Hope)

Table 7

Awards and Expenditures by Homeland Security Grant Recipients

	FFY 2013	FFY 2014	FFY 2015
State Awards	\$1,495,500	\$2,159,100	\$1,710,300
Local Government Awards	<u>19,779,700</u>	<u>20,497,900</u>	<u>20,260,900</u>
Total Awards	\$21,275,200	\$22,657,000	\$21,971,200
State Expenditures	\$1,477,200	\$1,868,500	\$235,900
Local Government Expenditures	<u>19,797,900</u>	<u>18,663,700</u>	<u>5,119,800</u>
Total Expenditures	\$21,275,100	\$20,532,200	\$5,355,700
Percentage of Total Awards Currently Expended	100%	90.6%	24.4%

Summary of Recent Agency Reports (Continued)

Judiciary – Report on Probation Officer Pay Adjustments – Pursuant to a FY 2017 General Appropriation Act footnote, on or before October 1, 2016, the Administrative Office of the Courts is required to report on the overall salary adjustments provided to county probation officers in FY 2017. The FY 2017 budget included an increase of \$601,200 in General Fund monies that, in addition to \$500,600 in pre-existing General Fund monies in the Juvenile Intensive and Juvenile Standard Probation line items, were intended to be utilized to offset previously-approved probation officer salary increases and associated Employee Related Expenditures (ERE) for adult probation officers. AOC reports that all but 2 counties (Apache and Santa Cruz) of the 14 counties that are eligible to receive state monies for probation received additional funds. Apache and Santa Cruz Counties did not receive additional funding as existing state resources to those counties and vacancy savings were able to absorb prior-year salary increases. Maricopa County does not receive state probation funding. The allocation and percentage General Fund increase amounts by county are included in *Table 8* below.

**Table 8
Probation Salary and ERE Increases by County**

<u>County</u>	<u>Amount of Increase</u>	<u>Percentage Increase over FY 2016 General Fund Allocations</u>
Apache	\$ 0	0.0%
Cochise	26,587	3.09%
Coconino	157,892	11.2%
Gila	41,477	9.56%
Graham	130,093	21.21%
Greenlee	29,075	11.88%
La Paz	6,875	3.9%
Mohave	80,709	6.76%
Navajo	71,366	8.62%
Pima	306,781	5.01%
Pinal	72,212	3.11%
Santa Cruz	0	0.0%
Yavapai	126,035	6.12%
Yuma	52,700	2.1%
Total	\$1,101,802	5.62%

These monies funded prior year's salary increases that totaled an estimated 5.6%, or \$2,766 per officer. The probation officers receiving funds will have an estimated new average annual salary of \$51,933. The monies were also used for increased ERE contributions due to the higher salaries which equated to \$1,390 per officer. (Eric Billings)

State Mine Inspector – Report on Abandoned Mines Safety Fund Expenditures and Contributions – The State Mine Inspector is required by A.R.S. § 27-131 to establish a program to address public safety hazards at abandoned mines. A.R.S. § 27-131 created the Abandoned Mines Safety Fund (AMSF) to fund the program. The Mine Inspector must submit an annual report to JLBC on or before December 1 detailing the contributions to the AMSF, and the expenditures by the fund during the preceding fiscal year.

For FY 2016, the State Mine Inspector reports that the AMSF received \$35 in new revenue. The State Mine Inspector located, inventoried, and evaluated mine sites during FY 2016, 5 of which were closed using AMSF monies. The Mine Inspector expended \$188,800 on these activities and financed these activities through the fund's carry-forward balance. The Mine Inspector has completed preliminary planning for closure of 19 mine sites in FY 2017, at an estimated cost of \$43,100. (Henry Furtick)

Department of Revenue – Report on Income Tax Credits – Pursuant to A.R.S. § 43-224, the Arizona Department of Revenue is required to report by September 30 of each year on the amounts of individual income and corporate income tax credits used during the prior fiscal year.

The agency reports that 1,784,214 claimants used a total \$394.8 million in individual income tax credits in FY 2016. Of the total amount used, \$147.8 million was for the "income taxes paid to other states" credit, \$97.8 million for school tuition organization credits and \$46.2 million for the public school extracurricular activity fee credit. Use of the other 34 credits, including the credit for contributions to charities and the Proposition 301 sales tax credit, totaled \$103 million in FY 2016. The number of claims and dollar impacts of credits are listed in *Table 9*, below.

**Table 9
FY 2016 Individual Income Tax Credits
(\$ in millions)**

<u>Credits:</u>	<u># of Claims</u>	<u>Annual Cost</u>
Income Taxes Paid to Other States	62,437	\$147.8
School Tuition Organizations	138,720	97.8
Public School Extracurriculars	169,879	46.2
Contributions to Charities	130,527	36.5
Prop 301 Sales Tax Credit	646,632	31.7
Other Credits	636,019	34.8
Total Value of Credits	1,784,214	\$394.8

Summary of Recent Agency Reports (Continued)

The Department of Revenue reports that 536 claimants used a total \$148.7 million in corporate income tax credits in FY 2016. Of the total amount used, \$96.6 million was for research and development credits and \$30.2 million was for school tuition organization credits. Use of the other 22 credits, including the credits for renewable energy production and new employment, totaled \$21.9 million in FY 2016. The number of claims and dollar impacts of credits are listed in *Table 10*, below. (Jon Stall)

Table 10

FY 2016 Corporate Income Tax Credits
(\$ in millions)

Credits:	# of Claims	Annual Cost
Research and Development	375	\$96.6
School Tuition Organizations	86	30.2
Renewable Energy Production	9	9.5
New Employment	22	5.3
Other Credits	44	7.1
Total Value of Credits	536	\$148.7

Department of Revenue – Report on Annual Enforcement Goals – Pursuant to 2 General Appropriation Act footnotes, the Department of Revenue (DOR) is required to report on their FY 2017 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 2016. In FY 2016, DOR’s total enforcement goal was \$478.9 million but they actually collected \$562.3 million. DOR’s FY 2017 goal for total enforcement collections totals \$479.0 million.

DOR’s General Fund FY 2017 revenue enforcement goal is \$343.9 million, which is \$(42.0) million, or (10.9)% below FY 2016 actual collections. Compared to actual FY 2016 General Fund enforcement revenue, DOR’s FY 2017 goals consist of:

- A decrease in audit revenue of \$(63.5) million, or (61.4)%
- An increase in collections revenue of \$1.2 million, or 0.7%
- An increase in accounts receivables revenue of \$20.3 million, or 18.5%.

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. (Jeremy Gunderson)

Arizona State University – Report on the School of Civic and Economic Thought and Leadership –

In conjunction with an annual state General Fund appropriation of \$3.0 million, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires Arizona State University (ASU) to establish the School of Civic and Economic Thought and Leadership and report on the school’s 1) total funding, 2) faculty and courses, 3) student enrollment, and 4) community events, initiatives, and publications.

ASU reports that the school will function as a standalone academic entity — as required by the General Appropriation Act — within the College of Liberal Arts and Sciences and will contain 2 previously existing centers, the Center for the Study of Economic Liberty and the Center for Political Thought and Leadership.

In addition to the state funding, the university will contribute \$300,000 to the school per year, for a total budget of \$3.3 million. This amount will fund the following: the school’s director, 9 faculty instructors, staff, visiting fellows, post-graduate training, conferences and symposiums, and general operations. ASU reports that the 2 existing centers receive “their own funding streams from the university and private sources, which will remain unchanged in the school,” and that “plans are currently underway to hire . . . a budget office manager to strategize and coordinate the school’s funding.”

ASU reports that the school intends to begin matriculating students in the 2017-2018 academic year and will develop both undergraduate and graduate degree programs. As presented at the September Arizona Board of Regents meeting, the school’s projected third year enrollment includes 50 Bachelor of Science and 50 Bachelor of Arts students. Undergraduate major requirements will include an internship, capstone experience, and coursework in 4 areas: the history of moral and political thought, the history of economic thought, American political and economic thought, and the possibilities and problems of leadership.

The school intends to partner with the 2 centers to offer lectures and panel discussions, establish a website and newsletter, and host a community launch event in the spring of 2017. (Matt Beienburg)

Summary of Recent Agency Reports (Continued)

University of Arizona – Report on the Center for the Philosophy of Freedom – In conjunction with an annual state General Fund appropriation of \$2.5 million, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) requires the University of Arizona (UA) to report on the center's 1) total funding, 2) faculty and courses, 3) student enrollment, and 4) community events, initiatives, and publications.

In addition to state funding in FY 2017, the university will contribute \$343,700 from appropriated and non-appropriated funds, and the center will receive another \$286,600 from private donors and foundations, for a total budget of \$3.1 million.

The funding supports a center director, co-director, and 4 other faculty instructor positions. UA reported a

list of 14 courses offered through the center. A total of 401 undergraduate and 16 graduate students participated in those courses during the 2015-2016 academic year.

The center has started an initiative with high schools to provide a dual-enrollment course on Ethics, Economy, and Entrepreneurship. A total of 14 teachers were trained in the summer of 2016 and 8 high schools have adopted the curriculum for the current academic year. UA anticipates enrollment to be over 300 students, half of whom are expected to enroll at UA for dual-enrollment credit.

The center's faculty and students produced 1 book, edited 3 journals, and published 9 academic articles in 2015 and 2016. (Tom Ritland)

September Spending

At the time of publication of the October *Monthly Fiscal Highlights*, the Arizona Department of Administration had not yet released September General Fund expenditure data.

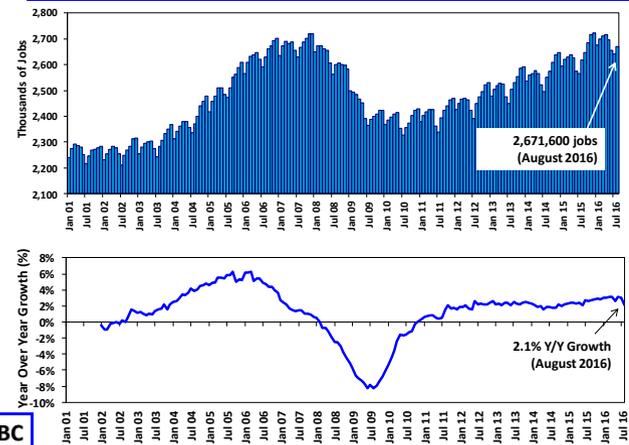
Arizona Economic Trends

October 2016
Appendix A

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- 4.....Initial Claims for Unemployment Insurance
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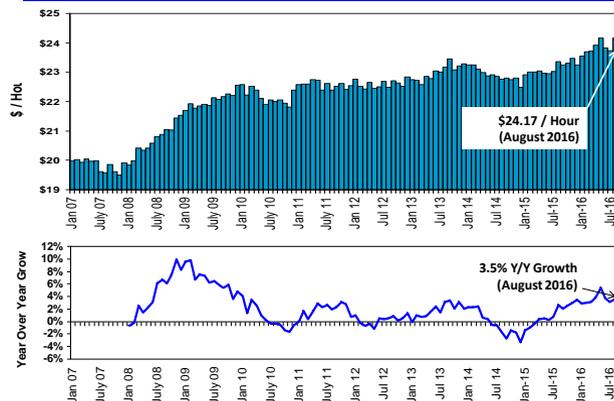
Total Non-Farm Employment



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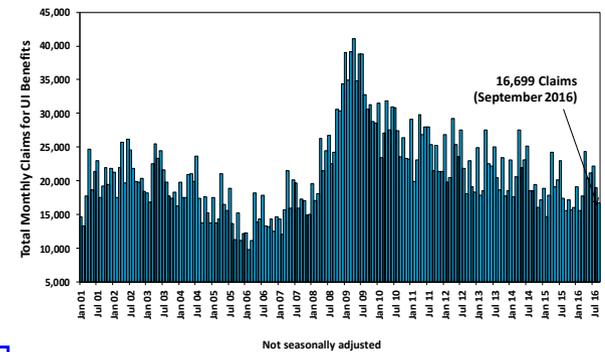
Average Hourly Earnings – Private Sector



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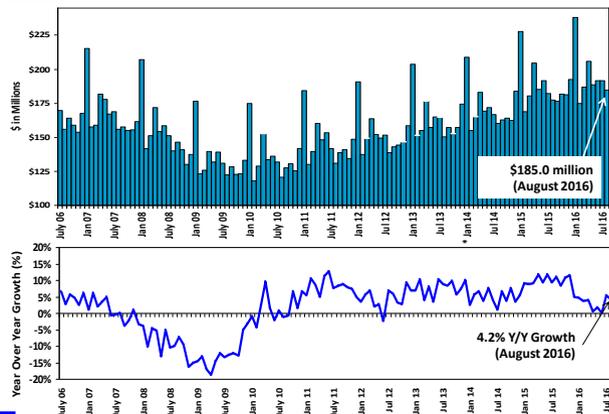
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



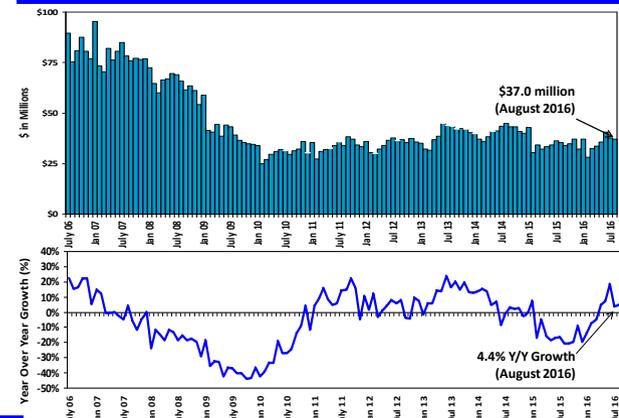
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Excludes temporary 1 c sales tax

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

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State Sales Tax Collections – Contracting Category

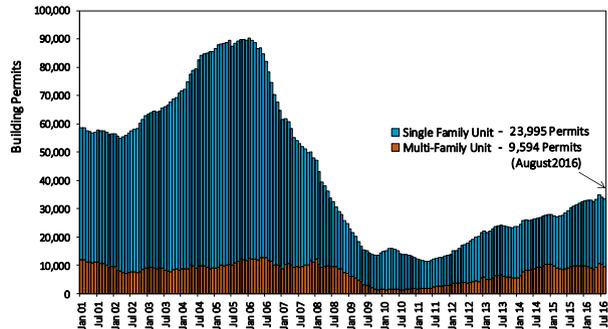


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Excludes temporary 1 c sales tax

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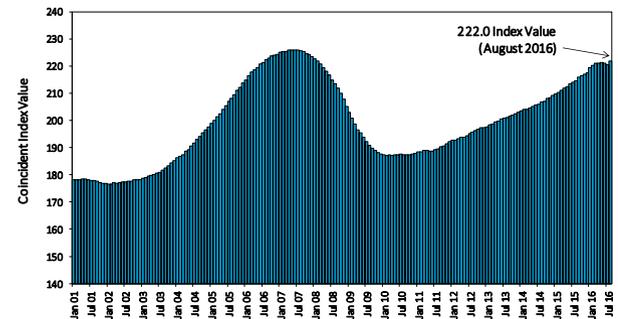
Residential Building Permits



JLBC

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Economic Activity Index



JLBC

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

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