

1716 W. Adams
Phoenix, AZ 85007

Phone:
(602) 926-5491



www.azleg.gov/jlbc.htm

“Year-to-date

...FY 2019

General Fund

revenues are

10.5% above

the prior year

and are \$177.8

million above

forecast.”

Summary

September 2018 was another month of significant General Fund revenue growth, with collections totaling \$1.04 billion, or an increase of 15.8% over the prior year. September revenues were \$92.1 million above the enacted budget forecast.

Continuing a pattern seen so far during FY 2019, September collections showed broad-based gains across a variety of revenue categories.

Sales Tax revenues grew by 8.0% and were \$18.2 million above forecast. Sales Tax saw strong growth in each of its subcomponents, in particular retail and contracting.

Individual Income Tax (IIT) grew by 11.7% during September and was \$30.0 million above forecast. September IIT growth was largely driven by a double-digit increase in withholding collections.

Corporate Income Tax (CIT) increased by 62.2%, and collections for the category were \$36.3 million above forecast. The large gain for the month was related to a dramatic increase in CIT payments.

Bottom-line revenue collections also continue to be helped by enacted budget transfers. During September, \$7.7 million of these transfers were deposited into the General Fund.

Year-to-date, excluding Urban Revenue Sharing and fund transfers, FY 2019 General

Fund revenues are 10.5% above the prior year and are \$177.8 million above forecast.

In comparison to September revenue collections of \$1.04 billion, September 2018 spending was \$686.1 million, which is an increase of \$30.3 million above the prior year.

Fiscal year-to-date, General Fund revenues of \$2.76 billion have been offset by \$3.99 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-September 2018 is \$1.55 billion.

In addition, the state Budget Stabilization Fund (BSF) has a balance of \$435.8 million. This amount is lower than the typical balance (approximately \$460 million), due to the Department of Public Safety's usage of BSF bridge loan authority. This bridge loan was authorized by the FY 2019 budget.

Year-to-Date Results

As noted above, so far during FY 2019 the state has experienced significant growth in revenues across the state's major revenue categories. A portion of these gains are in revenue categories that reflect improving economic conditions for individual consumers – such as Sales Tax (retail and restaurant/bar) and Individual Income Tax withholding.

In addition, the revenue data also reflects improving business performance. During the first quarter of FY 2019, Corporate Income Tax collections are 82% above last year. Fiscal

Table of Contents

Summary

- Year-to-Date Results 1
- October FAC Summary 2
- September Revenues** 2
- Monthly Indicators** 5
- JLBC Summary** 8
- JCCR Summary** 9
- Summary of Recent Agency Reports**
- ADOA – Vehicle Maintenance Savings 11
- AHCCCS – Uncompensated Care 11
- AHCCCS – Immigration Verification 11
- Atty. Gen. – Internet Crimes Report 11
- Atty. Gen. – Legal Settlements Report 11
- Corrections – Data System Project 12
- Corrections – Transition Release Program 12

- DES – Child Care Expenditures 12
- DES – DD Reimbursement Rates 13
- ADE – Override Report 13
- DEQ – Water Quality Revolving Fund 13
- DHS – Public Health Emergencies Fund 13
- DOI – Insurance Premium Tax Credits 13
- JLBC Staff – County Flexibility Report 14
- DOR – Income Tax Credits 14
- ABOR – Cost Containment Report 15
- ASU – School of Civic/Economic Thought 16
- NAU – Economic Policy Institute 16
- UA – Center for the Philosophy of Freedom 17
- September Spending** 18
- Arizona Economic Trends** Appendix A

Summary (Continued)

year-to-date Individual Income Tax payments (which in part reflect payments made by "pass-through" businesses) are 15% above FY 2018. We face a significant challenge, however, in explaining the cause of these trends with any real certainty. Due to Department of Revenue confidentiality concerns, our understanding of business filing behavior is very limited. There are several possible reasons for the business-related gains, including:

- 1) Corporations may have shifted some of their income from Tax Year (TY) 2017 into TY 2018 to take advantage of lower federal corporate tax rates that went into effect this year. Since state corporate income taxes use the federal definition of income, any "income shifting" would affect Arizona collections. We have very little data to confirm this behavior. We do know that state CIT collections fell by (12)% between July 2017 and January 2018. This may suggest at least some income shifting into TY 2018. While we lack definitive information, companies had at least a significant theoretical incentive to income shift as the Federal Tax Cuts and Jobs Act (TCJA) reduced the corporate tax rate from 35% in TY 2017 to 21% for TY 2018.
- 2) One other explanation of the FY 2019 growth is that corporations may be increasing their state estimated payments based on assuming the state will conform with the provisions of TCJA. As with income shifting, there appears to be no hard data to support this conclusion. Businesses would not seem to have a theoretical reason, however, to increase their state estimated payments for TCJA. At least at the state level, TCJA conformity is not expected to significantly affect the state tax liability of businesses. (Conformity is expected to generate most of its revenue on the individual side).

We would normally suspect that increased corporate profitability would also play a role in the state's growing Corporate Income Tax collections. However, current data seems to suggest that nationwide corporate profits are increasing on an after-tax basis, likely due to the significant federal tax reductions. In contrast, before-tax

corporate earnings, which is the income which would be reported for state tax purposes, appears to be relatively flat compared to the prior year.

October FAC Summary

The Finance Advisory Committee (FAC) met on October 11, 2018 to update its 4-sector revenue forecast. The FAC is a 12-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 2019 – FY 2022 budget projections. The updated projections were revised upwards significantly from the FY 2019 enacted budget projections for 2 main reasons: 1) FY 2018 revenue came in well above forecast; 2) The FY 2019 revenue growth rate is now expected to be 6.0% compared to the enacted budget forecast of 4.6%.

Given these upward revisions, JLBC Staff is now projecting the state will have a cash balance of \$1.15 billion in FY 2020. Given that the state's long-term structural balance is approximately \$200 million, only that amount (\$200 million) is available for ongoing initiatives, such as tax reductions or spending increases. The remaining amount (\$900+ million) is available for one-time use.

The state's long-term financial projections are subject to several larger risks. These include economic risks due to the historic length of the current expansion, along with pending litigation risks that could significantly affect state spending levels. For more information, please see the [JLBC Staff Budget Update](#) for a narrative description of the current budget projections and the [October FAC meeting packet](#).

September Revenues

| | General Fund Revenues (\$ in Millions) | | |
|--------------|--|--|--------------------------------|
| | <u>FY 2019 Collections</u> | <u>Difference From Budget Forecast</u> | <u>Difference From FY 2018</u> |
| September | \$ 1,038.4 | \$ 92.1 | \$ 141.4 |
| Year-to-Date | \$ 2,755.3 | \$ 177.8 | \$ 371.2 |

Sales Tax collections of \$416.4 million were 8.0% above September of last year and \$18.2 million above the forecast for the month. Sales tax collections by category for September are shown in *Table 2*. The 5

major categories of the state's sales tax shown in the table account for approximately 90% of collections.

September Revenues (Continued)

As noted in *Table 2* below, all the major sales tax categories performed well in September, with growth of 6% or higher. The retail class increased, year-over-year, by 7.0% in September, and is up by 6.7%, year to date.

Year-to-date, Sales Tax collections have increased by 7.1% and are \$41.6 million above forecast.

| | <u>September</u> | <u>YTD</u> |
|------------------|------------------|------------|
| Retail | 7.0% | 6.7% |
| Contracting | 8.8% | 14.8% |
| Use | 15.3% | 6.1% |
| Restaurant & Bar | 6.0% | 7.5% |
| Utilities | 6.5% | 1.3% |

Individual Income Tax net revenues of \$478.2 million in September were \$30.0 million above the forecast for the month. Year-to-date, Individual Income Tax revenues are 9.7% above the prior year and are \$65.5 million above forecast.

As indicated in *Table 3*, September withholding revenues increased by 10.3% from last year and were \$18.1 million above forecast. The strong YTD growth in the withholding category of 8.8% has been helped by accelerating job and wage growth – combined job and wage growth has trended upward since the beginning of the year and has been above 5% in recent months.

September estimated and final payments of \$151.8 million were 14.3% above last year and \$14.8 million above forecast.

September Individual Income Tax refunds totaled \$(19.1) million, which compares to \$(17.6) million from last year. With a forecasted refund level of \$(16.3) million, the higher level of refunds produced a forecast loss of \$(2.8) million.

| | <u>September</u> | <u>YTD</u> |
|--------------------------|------------------|------------|
| Withholding | 10.3% | 8.8% |
| Estimated/Final Payments | 14.3% | 15.3% |
| Refunds | 8.0% | 10.9% |

Corporate Income Tax net collections were \$104.8 million in September, which was \$40.2 million more than the prior year and \$36.3 million above the forecast. Year-to-date, collections are \$66.4 million, or 81.6%, above the prior year. As noted in the Summary section, the significant increase in Corporate Income Tax collections

is due to several possible reasons – including corporations shifting income into TY 2018 to take advantage of the new lower federal corporate tax rate that went into effect this year.

Insurance Premium Tax net collections were \$61.5 million in September, a decline of \$(0.3) million from a year prior but \$7.6 million above the forecast. Year-to-date, collections are \$(6.9) million below the prior year.

In August, **tobacco** tax revenues were \$(0.3) million, or (14.9)% below the prior year and \$(0.1) million below the forecast. **Liquor** collections during the month were \$0.2 million, or 10.1% above August 2017 and \$0.2 million above forecast. Due to the delay in receiving September data, September collections are reported at forecast.

The **Lottery Commission** reports that September ticket sales were \$74.4 million, which is \$5.5 million, or 8.0% above sales in September 2017. Year-to-date, ticket sales are \$235.3 million, an amount which is (0.1)% below sales in the prior year. General Fund distributions during September were \$14.8 million, which is \$1.8 million higher than forecast.

Highway User Revenue Fund (HURF) collections of \$127.7 million in September were up 5.9% compared to September of last year and were \$3.6 million above the forecast. Year-to-date, collections have increased by 4.5% above the prior year and are \$1.9 million above forecast.

Public Safety Transfers revenue, which reflects certain enacted fund transfers to the General Fund, totaled \$7.7 million in September 2018. Laws 2018, Chapter 265 establishes a new highway safety fee to be charged on car registrations at a level to fund 110% of the Highway Patrol budget. Based on the related changes to the DPS budget, the FY 2019 budget assumed the state General Fund would benefit from \$72 million of additional revenues – \$42 million from the transfer of Vehicle Licenses Tax monies and \$30 million transferred from the ADOT HELP Fund.

Due to delays in reporting final August revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For September, DOR has increased the amount of prior General Fund revenue collections by \$36,500, and the adjustment has been included in the reported year-to-date results.

Table 4

General Fund Revenue: Change from Previous Year and Budget Forecast September 2018

| | Current Month | | | | | FY 2019 YTD (Three Months) | | | | |
|------------------------------------|--------------------------|-------------------------------|-----------------|---------------------|----------------|----------------------------|-------------------------------|-----------------|----------------------|----------------|
| | Actual September 2018 | Change From September 2017 | | Budget Forecast | | Actual September 2018 | Change from September 2017 | | Budget Forecast | |
| | | Amount | Percent | Amount | Percent | | Amount | Percent | Amount | Percent |
| Taxes | | | | | | | | | | |
| Sales and Use | \$416,392,278 | \$30,847,103 | 8.0 % | \$18,157,984 | 4.6 % | \$1,233,244,132 | \$81,963,226 | 7.1 % | \$41,607,176 | 3.5 % |
| Income - Individual | 478,168,599 | 49,953,499 | 11.7 | 30,037,041 | 6.7 | 1,240,519,226 | 110,158,303 | 9.7 | 65,540,404 | 5.6 |
| - Corporate | 104,770,238 | 40,193,002 | 62.2 | 36,301,727 | 53.0 | 147,647,303 | 66,356,319 | 81.6 | 65,730,043 | 80.2 |
| Property | 196,661 | 103,547 | 111.2 | 41,901 | 27.1 | 1,449,816 | 971,887 | 203.4 | 795,868 | 121.7 |
| Luxury - Tobacco | 1,645,477 | 78,318 | 5.0 | 0 | -- | 5,400,761 | (137,776) | (2.5) | 46,409 | 0.9 |
| - Liquor | 2,354,080 | (254,751) | (9.8) | 0 | -- | 7,723,799 | (158,232) | (2.0) | 28,558 | 0.4 |
| Insurance Premium | 61,455,389 | (264,960) | (0.4) | 7,583,778 | 14.1 | 147,925,565 | (6,911,159) | (4.5) | 1,939,066 | 1.3 |
| Other Taxes | 715,345 | 693,516 | -- | 709,084 | -- | 2,318,313 | 2,203,981 | -- | 2,172,123 | -- |
| Sub-Total Taxes | \$1,065,698,067 | \$121,349,273 | 12.9 % | \$92,831,515 | 9.5 % | \$2,786,228,915 | \$254,446,549 | 10.1 % | \$177,859,647 | 6.8 % |
| Other Revenue | | | | | | | | | | |
| Lottery | 14,835,733 | 14,835,733 | -- | 1,766,720 | 13.5 | 14,835,733 | 14,835,733 | -- | 1,766,720 | 13.5 |
| License, Fees and Permits | 2,269,899 | (731,338) | (24.4) | (684,454) | (23.2) | 8,652,199 | (2,408,913) | (21.8) | (1,118,315) | (11.4) |
| Interest | 6,166 | (41,994) | (87.2) | (108,449) | (94.6) | 1,558,109 | 1,302,791 | 510.3 | 1,340,144 | 614.8 |
| Sales and Services | 1,848,056 | (252,177) | (12.0) | (809,728) | (30.5) | 4,385,936 | (444,913) | (9.2) | (858,205) | (16.4) |
| Other Miscellaneous | 1,775,299 | (1,768,012) | (49.9) | (470,467) | (20.9) | 1,408,912 | (1,288,637) | (47.8) | (1,850,573) | (56.8) |
| Disproportionate Share | 0 | 0 | -- | 0 | -- | 0 | 0 | -- | 0 | -- |
| Transfers and Reimbursements | 536,663 | (151,990) | (22.1) | (422,170) | (44.0) | 5,061,344 | 1,418,486 | 38.9 | 636,003 | 14.4 |
| Sub-Total Other Revenue | \$21,271,815 | \$11,890,222 | 126.7 % | (\$728,546) | (3.3) % | \$35,902,233 | \$13,414,546 | 59.7 % | (\$84,225) | (0.2) % |
| TOTAL BASE REVENUE | \$1,086,969,882 | \$133,239,495 | 14.0 % | \$92,102,969 | 9.3 % | \$2,822,131,148 | \$267,861,095 | 10.5 % | \$177,775,421 | 6.7 % |
| Other Adjustments | | | | | | | | | | |
| Urban Revenue Sharing | (56,233,703) | 497,137 | (0.9) | (0) | 0.0 | (168,701,109) | 1,491,411 | (0.9) | (0) | 0.0 |
| One-Time Transfers | 0 | 0 | -- | 0 | -- | 94,158,056 | 94,158,056 | -- | 0 | 0.0 |
| Public Safety Transfers | 7,702,636 | 7,702,636 | -- | 0 | 0.0 | 7,702,636 | 7,702,636 | -- | 0 | 0.0 |
| Sub-Total Other Adjustments | (48,531,067) | 8,199,773 | (14.5) % | (0) | 0.0 % | (66,840,417) | 103,352,103 | (60.7) % | (0) | 0.0 % |
| TOTAL GENERAL FUND REVENUE | \$1,038,438,815 | \$141,439,268 | 15.8 % | \$92,102,969 | 9.7 % | \$2,755,290,732 | \$371,213,198 | 15.6 % | \$177,775,421 | 6.9 % |
| Non-General Funds | | | | | | | | | | |
| Highway User Revenue Fund | 127,674,097 | 7,120,667 | 5.9 % | 3,592,264 | 2.9 % | 369,810,873 | 15,769,890 | 4.5 % | 1,947,079 | 0.5 % |

Monthly Indicators

NATIONAL

According to the U.S. Department of Commerce Bureau of Economic Analysis' (BEA), the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 4.2% in the second quarter of 2018. This figure represents BEA's third estimate of real GDP, which is based on more complete source data than were available for the second estimate issued last month. There was no change to the second quarter real GDP estimate released by BEA last month.

The Conference Board's **U.S. Consumer Confidence Index**, which is based on consumers' perceptions of current conditions, as well as their expectations 6 months into the future, increased by 2.7%, or 3.7 points, from 134.7 in August to 138.4 in September. This was the highest reading since September 2000. The increase in confidence was almost exclusively due to stronger consumer expectations whereas views on the present situation were essentially unchanged from last month. Americans' views on the strength of the current job market continue to improve, as evidenced by the labor index (calculated as the percentage of respondents who think that jobs are plentiful minus the percentage who think that jobs are difficult to find), which increased by 2.3 points in September to a net value of 32.5, the highest value since January 2001.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure (PCE) Price Index** increased by 0.1% from July to August. Compared to August 2017, the price index is up by 2.2%. The "core" PCI price index, which excludes food and energy prices, is the Federal Reserve Bank's (Fed) preferred inflation measure and it increased (year over year) by 2.0% in August, which right in line with the Fed's inflation target of 2.0%.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased 0.1% in September and increased 2.3% above September 2017 prices. The shelter index was the main positive contributor for the month, followed by the indexes for apparel, motor vehicle insurance, recreation and medical care. The energy index decreased by (0.5)%, reversing course from an increase last month. Core inflation (all items less food and energy) increased 0.1% for the month. The indexes for used vehicles, food at home and new vehicles saw monthly decreases.

The Conference Board's **U.S. Leading Economic Index** increased 0.4% in August to 111.2 and is 6.4% above its August 2017 reading. The index for Institute for Supply Management (ISM) new orders was the primary positive contributor. In addition, the indexes for credit conditions,

stock prices and consumer expectations contributed to the monthly increase. The building permits index made a severe negative contribution, nearly offsetting the ISM new orders index's gain. Of the index's 10 components, 7 made positive contributions for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In August, Arizona's 12-month total of **single-family building permits** was 30,407, or 14.9% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 7.2%.

The 12-month total of multi-family building permits has been up and down. In August, Arizona's total of 11,248 **multi-family building permits** was 4.6% more than in 2017. Nationwide multi-family permits were 2.5% more than in 2017.

Tourism

Revenue per available room was \$59.56 in August, which was 3.4% above the amount in August 2017.

Employment

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state added 35,400 **nonfarm jobs** in September over August. This is significantly higher than the average job gain for September in the prior 10 years, which is 25,100.

Compared to September 2017, Arizona added 84,800 net new jobs in September this year, which was an increase of 3.0%. Year over year, the state's job growth has accelerated in each of the last 4 quarters. The number of nonfarm jobs reported for September (2.88 million) is the highest ever. There are almost 488,000 more jobs in the state now than when the Great Recession ended in June 2009.

The largest year-over-year job gains in September came from the following industries: Construction (+16,500), Professional and Business Services (+15,500), and Education and Health Services (+12,400).

The state's regular **unemployment rate** increased from 4.6% in August to 4.7% in September. This is the same jobless rate as in September 2017. The U.S. unemployment rate decreased from 3.9% in August to 3.7% in September, the lowest jobless rate since December 1969.

Monthly Indicators (Continued)

OEO reported that 16,306 **initial claims for unemployment insurance** were filed in August, a decrease of (10.6)% compared to the same month last year.

According to OEO, the state had a total of 28,404 **claimants receiving unemployment insurance benefits** in August, a decrease of (3.7)% from July. This figure is (9.9)% below the August 2017 level.

Average Weekly Hours

In August, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.8 hours. This was (1.4)% below the level during the prior month, and 0.6% above the level in August 2017.

Average Hourly Earnings

The **Average Hourly Earnings** received by private sector workers in August was \$25.77, which was 0.1% above the average in the prior month. Year-over-year growth in earnings decreased from 1.2% in July to 0.6% in August.

State Agency Data

At the beginning of October 2018, the total **AHCCCS caseload** was 1.82 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 558,800 members. Total monthly enrollment increased by 0.3% in October but was (2.9)% lower than a year ago. Parent and child enrollment in the Traditional population was down (0.1)% in October and was (3.7)% lower than a year ago.

Through October 1, 2018, enrollment in the KidsCare program was 34,000, an increase of 11.3% from the month prior and 46.6% above last year.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In October 2018, the childless adult population increased by 1,700, or 0.6%. At 310,800, this population is (2.2)% lower than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 100, or (0.1)%, in October and totals 76,900 individuals. Enrollment is (6.8)% lower than a year ago. The federal share of this population's cost decreased from 95% to 94% in January 2018.

There were 15,142 **TANF recipients** in the state in September, representing a 0.5% monthly caseload increase from August. The year-over-year number of

TANF recipients has declined by (14.3)%. The statutory lifetime limit on cash assistance is 24 months.

The **Supplemental Nutrition Assistance Program (SNAP)**, formerly known as Food Stamps, provides assistance to low-income households to purchase food. In September, 849,723 people received food stamp assistance in the state, representing a (0.2)% decrease over August caseloads. Compared to September caseloads last year, the level of food stamp participation has declined by (6.9)%.

Based on information the Department of Child Safety provided for August 2018, **reports of child maltreatment** totaled 47,244 over the last 12 months, an increase of 0.2% over the prior year. There were 14,366 **children in out-of-home care** as of July 2018, or (12.0)% less than in July 2017. Compared to the prior month, the number of out-of-home children decreased by (0.9)%.

The **inmate population** was 42,090 as of September 30, 2018. This is a (0.03)% decrease since August, and a (0.3)% decrease since last September.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County probation caseload was 28,435 as of June 2018. This was an increase of 18 above the prior month, and a decrease of (192) since last June. In addition, the state's non-Maricopa County probation caseload was 19,256. This was an increase of 7 above the prior month, and an increase of 117 since last June. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

Table 5

MONTHLY INDICATORS

| <u>Indicator</u> | <u>Time Period</u> | <u>Current Value</u> | <u>Change From Prior Period</u> | <u>Change From Prior Year</u> |
|--|--|----------------------|---------------------------------|-------------------------------|
| Arizona | | | | |
| <i>Employment</i> | | | | |
| - Regular Unemployment Rate | September | 4.7% | 0.1% | 0.0% |
| - Total Unemployment Rate (discouraged/underemployed) | 2 nd Q 2018 | 9.1% | (0.2)% | (1.4)% |
| - Initial Unemployment Insurance Claims | August | 16,306 | (21.9)% | (10.6)% |
| - Unemployment Insurance Recipients | August | 28,404 | (3.7)% | (9.9)% |
| - Non-Farm Employment - Total | September | 2,879,300 | 1.2% | 3.0% |
| Manufacturing | September | 174,500 | 0.6% | 5.3% |
| Construction | September | 165,200 | 0.7% | 11.1% |
| - Average Weekly Hours, Private Sector | August | 34.8 | (1.4)% | 0.6% |
| - Average Hourly Earnings, Private Sector | August | \$25.77 | 0.1% | 0.6% |
| <i>Building</i> | | | | |
| - Residential Building Permits (12-month avg) Single-family | August | 30,407 | 1.6% | 14.9% |
| Multi-family | August | 11,248 | (5.7)% | 4.6% |
| - Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales) | August | 5,125 | (5.3)% | (9.5)% |
| - Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales) | August | \$280,000 | (1.4)% | 8.6% |
| - Phoenix S&P/C Home Price Index (2000 = 100) | July | 183.54 | 0.7% | 7.5% |
| - Maricopa Pending Foreclosures | August | 2,552 | (2.3)% | (8.5)% |
| - Greater Phoenix Total Housing Inventory, (ARMLS) | August | 19,822 | 0.3% | (7.6)% |
| <i>Tourism</i> | | | | |
| - Phoenix Sky Harbor Air Passengers | July | 3,770,453 | 1.2% | 2.3% |
| - State Park Visitors | June | 286,380 | 5.0% | 13.9% |
| - Revenue Per Available Hotel Room | August | \$59.56 | (2.2)% | 3.4% |
| <i>General Measures</i> | | | | |
| - Arizona Leading Index -- 6 month projected growth | August | 5.4% | 0.3% | 1.1% |
| - Arizona Personal Income (SAAR) | 1st Q 2018 | \$300.2 billion | 5.5% | 4.3% |
| - Arizona Population | July 2017 | 7,016,270 | N/A | 1.6% |
| - State Debt Rating | | | | |
| Standards & Poor's/Moody's Outlook | May | AA / Aa2 | N/A | N/A |
| | May | Stable | N/A | N/A |
| <i>Agency Measures</i> | | | | |
| - AHCCCS Recipients | October 1 st | 1,816,913 | 0.3% | (2.9)% |
| Acute Care Traditional | | 1,034,589 | (0.1)% | (3.7)% |
| Prop 204 Childless Adults | | 310,816 | 0.6% | (2.2)% |
| Other Prop 204 | | 184,480 | 0.3% | (4.3)% |
| Adult Expansion | | 76,911 | 0.1% | (6.8)% |
| Kids Care I | | 34,015 | 11.3% | 46.6% |
| Long-Term Care – Elderly & DD | | 63,188 | 0.6% | 4.5% |
| Emergency Services | | 112,914 | 0.2% | (5.9)% |
| - Department of Child Safety (DCS) | | | | |
| Annual Reports of Child Maltreatment (12-month total) | August | 47,244 | (0.2)% | 0.2% |
| | July | 14,366 | (0.9)% | (12.0)% |
| DCS Out-of-Home Children Filled Caseworkers (1406 Budgeted) | August | 1,339 | (1) | 1 |
| - ADC Inmate Growth | September | 42,090 | 0.0% | (0.3)% |
| - Department of Economic Security | | | | |
| - TANF Recipients | September | 15,142 | 0.5% | (14.3)% |
| - SNAP (Food Stamps) Recipients | September | 849,723 | (0.2)% | (6.9)% |
| - Judiciary Probation Caseload | | | | |
| Non-Maricopa | June | 19,256 | 7 | 117 |
| Maricopa County | June | 28,435 | 18 | (192) |
| United States | | | | |
| - Gross Domestic Product (Chained 2012 dollars, SAAR) | 2 nd Q, 2018 (2nd Estimate) | \$18.5 trillion | 4.2% | 2.9% |
| - Consumer Confidence Index (1985 = 100) | September | 133.4 | 2.7% | 14.8% |
| - Leading Indicators Index (2016 = 100) | August | 111.2 | 0.4% | 6.4% |
| - Consumer Price Index, SA (1982-84 = 100) | September | 252.0 | 0.1% | 2.3% |
| - Personal Consumption Expenditure Price Index (2012 = 100) | August | 108.5 | 0.1% | 2.2% |

JLBC Summary

At its September 20, 2018 meeting, the Joint Legislative Budget Committee considered the following issues:

Regular Agenda

AHCCCS/Department of Economic Security/Department of Child Safety – Review of Capitation Rate Changes for Plan Year 2019 – The Committee gave a favorable review of AHCCCS' plans to adjust capitation rates for numerous programs. In aggregate, the rate adjustments are 3.5%. The adjustments are within the budget. The favorable review included reporting requirements for DES.

Arizona Department of Administration/Automation Projects Fund – Review of CHILDS (Department of Child Safety Subaccount) – The Committee gave a favorable review of \$10.4 million in FY 2018 and FY 2019 funds to continue the project. Including unspent prior year monies, the project expenditure plan would be \$13.9 million in FY 2019. The favorable review included a monthly reporting requirement on expenditures on the CHILDS Replacement Project.

Department of Child Safety – Review of FY 2018 Fourth Quarter Benchmarks – The Committee gave a favorable review of the department's FY 2018 fourth quarter benchmark report for assessing progress made in increasing the department's number of FTE Positions, meeting caseload standards of caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care.

Arizona Department of Corrections – Review of FY 2018 Bed Capacity Report – The Committee gave a favorable review of ADC's bed capacity report. At the end of FY 2018, ADC has a permanent bed shortfall of (3,458), but including temporary beds has an overall surplus of 1,925. The FY 2019 plans includes eliminating (120) beds at Florence. ADC will partially offset these losses by reallocating 64 mental health beds at the facility. The favorable review included a reporting requirement for ADC.

Arizona Department of Education – Review of Statewide Assessment Contract Renewal – The Committee gave a favorable review to ADE's proposal to extend the AzMERIT exam 1 additional year (through FY 2019). The favorable review included reporting provisions on the status of ADE procurement for exams for the menu of assessments program.

Arizona Department of Transportation – Review of Motor Vehicle Modernization (MvM) Project Annual Progress Report – The Committee gave a favorable review of an annual progress report submitted by the

Arizona Department of Transportation's third-party consultant for the Motor Vehicle Modernization project. The favorable review included reporting requirements.

Consent Agenda

Arizona Department of Administration – Consider Approval of Maximum Lodging Reimbursement Rates – The Committee approved ADOA's proposal to adopt the Federal Fiscal Year (FFY) 2019 lodging rates. In addition, the Committee approved ADOA's proposal to adopt the FFY 2019 meal rates, less \$10. As part of its approval, the Committee included a provision that Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs.

Arizona Department of Administration/Automation Projects Fund – Review of Microwave System Upgrade Project (Department of Public Safety Subaccount) – The Committee gave a favorable review of the \$1.3 million in proposed expenditures from the APF to upgrade the statewide radio system's microwave backbone. The favorable review included a provision requiring DPS to submit cost estimates on the completion of the project.

Attorney General – Review of Allocation of Settlement Monies – State v. Hyundai Motor Company – The Committee gave a favorable review of the AG's expenditure plan for its \$510,700 allocation from a legal settlement with the Hyundai Motor Company. The AG plans to fund a short-term operation aimed at reducing auto fraud in the state. The expenditure plan includes a temporary attorney and support position for additional prosecution, increased sting operations, and an educational campaign about current practices and laws. The favorable review included a provision that Committee review does not constitute an agreement to fund the temporary staff attorney position once these one-time monies are depleted.

Arizona Criminal Justice Commission – Review of Edward Byrne Memorial Justice Assistance Grant Federal Application – The Committee gave a favorable review of the Edward Byrne Memorial Justice Assistance Grant federal application with the provision requiring ACJC to submit a preliminary proposal to the Committee by May 15, 2019 if the federal guidelines have not yet been received for 2019.

JLBC Summary (Continued)

Arizona Department of Education – Review of K-12 Broadband Connectivity Projects – The Committee gave a favorable review to ADE's June 2018 report on K-12 broadband connectivity construction projects. ADE certified \$11.1 million of state matching monies to help fund \$137 million in total projects for FY 2018 and FY 2019. As of June 2018, ADE reports that projects serving an estimated 48,567 students have already been completed at 51 sites. ADE estimates that the projects they have certified would serve approximately 205,000 students at 234 sites. The favorable review included reporting requirements.

Arizona Department of Education – Review of Joint Technical Education District Quarterly Report – The Committee gave a favorable review to ADE's April 1, 2018 – June 30, 2018 JTED quarterly report on the progress and their subsequent approval or rejection of currently eligible JTED programs and courses for eligibility for state funding. A total of 219 local JTED programs were reviewed during the past quarter. All but 6 were approved.

Arizona Game and Fish Department – Review of Watercraft Grants Line Item – The Committee gave a favorable review of the AGFD's plan to transfer \$1.0 million from an inactive Watercraft Grants line item appropriation to its operating lump sum appropriation. AGFD plans to spend the \$1.0 million on containing invasive species, improving boating safety, and enhancing boating facilities. Of the \$1.0 million, \$385,000 is for ongoing expenses and \$615,000 is for one-time expenses.

Department of Public Safety – Review of Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount – The Committee gave a favorable review for the expenditure plan of \$1.1 million of the \$2.3 million appropriation for Border

Security and Law Enforcement Grants as proposed by the department. Seven county sheriffs will receive funding from the program, which is up from the 3 that were funded last year.

Arizona Board of Regents – Review of FY 2019 Tuition Revenues – The Committee gave a favorable review of ABOR's FY 2019 expenditure plan for all projected tuition and fee revenues by expenditure category. The gross FY 2019 tuition and fee collections are projected to be \$3.07 billion, or \$138.1 million higher than FY 2018. The universities estimate \$(754.7) million in tuition waivers and awards in FY 2019, resulting in \$2.32 billion of net revenues.

Arizona Board of Regents – Review of Qualifying College Credit Examinations – The Committee gave a favorable review of ABOR's list of qualifying examinations and passing scores for the College Credit by Examination Incentive Program (CCEIP) that was submitted to the Arizona Department of Education. ABOR has added 35 examinations, bringing the total number to 60. ABOR changed the passing score for 5 examinations. The favorable review included a clarifying provision.

Executive Session

Arizona Department of Administration – Risk Management Services - Consideration of Proposed Settlements – The Committee approved several settlements under Rule 14, which requires Committee approval of Risk Management settlements above \$250,000 pursuant to A.R.S. § 41-621(N).

JCCR Summary

At its September 20, 2018 meeting, the Joint Committee on Capital Review considered the following issues:

Regular Agenda

Arizona Department of Administration/Arizona Exposition and State Fair Board – Review of Funding for Cooling Units – The Committee gave a favorable

review of \$800,000 to replace cooling units at the Arizona Exposition and State Fair (AESF) grounds. \$400,000 will be spent from AESF capital appropriations, and \$400,000 will be spent from Arizona Department of Administration (ADOA) FY 2018 building renewal monies. The favorable review required AESF to pay \$400,000 in building renewal back to ADOA by no later than FY 2022, paying at least \$100,000 in each fiscal year beginning in FY 2019.

JCCR Summary (Continued)

The review also included a provision repeating conditions from prior reviews.

Pima County Community College District – Review of Revenue Bond Project – The Committee gave a favorable review of a \$65.0 million bond project to construct and renovate the Downtown Campus, East Campus, and West Campus, primarily for public safety, health professions, and applied technology programs. The favorable review included provisions with reporting requirements.

Arizona State University – Consider Approval of Interdisciplinary Science and Technology Building 7 Financing Project – The Committee approved a \$175.0 million bond issuance for construction of the Interdisciplinary Science and Technology Building 7, which will include lab space for biological sciences, computing and engineering. Debt service will be paid with 50% tuition and 50% with Capital Infrastructure Fund appropriations. The approval included standard university financing provisions.

Arizona State University – Review of Information Technology Improvements Financing Project – The Committee gave a favorable review \$32.0 million in system revenue bond issuances to fund information technology infrastructure improvements to strengthen network security, increase data capacity, and prepare for a campus-wide system of sensors to monitor patterns of pedestrian activity and environmental conditions. The favorable review included standard university financing provisions.

Consent Agenda

Department of Emergency and Military Affairs – Review of Tucson Readiness Center – The Committee gave a favorable review of \$6.0 million for construction of a Tucson Army National Guard Readiness Center. These monies include \$3.8 million from the General Fund, \$2.2 million from other state monies, and \$18.1 million from Federal Funds for a total project cost of \$24.1 million. The favorable review included provisions with reporting requirements.

Arizona Game and Fish Department – Review of FY 2019 Building Renewal Allocation Plan and FY 2019 Capital Projects – The Committee gave a favorable review of \$981,000 for 23 items in its FY 2019 building renewal allocation plan, \$300,000 for fish hatchery property maintenance, \$150,000 for dam

maintenance, and \$4.0 million for non-appropriated capital improvement projects. The favorable review included provisions with reporting requirements and a provision restating a statutory requirement for spending from the Headquarters Major Maintenance Fund.

Arizona Pioneers' Home – Review of FY 2019 Capital Improvement Projects – The Committee gave a favorable review of \$600,000 in expenditures from the Miners' Hospital for Miners with Disabilities Land Fund for 6 capital improvement projects. Reviewed projects include: window replacements, lead paint abatement, bathroom renovations, hot water recirculation, fire alarm upgrades, and cemetery roadway and drainage upgrades. The favorable review included provisions with reporting requirements.

Arizona Department of Transportation – Review of FY 2019 Building Renewal Allocation Plan – The Committee gave a favorable review of \$5.5 million for the Arizona Department of Transportation's (ADOT) FY 2019 building renewal allocation plan. These monies included \$5.3 million from the State Highway Fund and \$242,000 from the State Aviation Fund. Reviewed projects include: remodeling, safety improvements compliance, and roofing replacements. The favorable review included provisions with reporting requirements.

Arizona Department of Veterans' Services – Review of Veterans' Homes Construction Projects – The Committee gave a favorable review of \$27.2 million for construction of two new veterans' homes facilities in Yuma and Flagstaff. These monies include \$19.2 million from the General Fund, \$7.7 million from the State Home for Veterans' Trust Fund, and \$38.9 million of Federal Funds for a total project cost of \$65.8 million. The review included reporting requirements regarding appropriations for initial start-up costs at the facilities.

Summary of Recent Agency Reports

Arizona Department of Administration – Report on the Maintenance Savings Achieved by Replacing Vehicles with an Average of 80,000 Miles – Pursuant an FY 2019 General Appropriation Act footnote, the Arizona Department of Administration (ADOA) submitted their required report on the annual maintenance savings achieved by replacing vehicles with an average of 80,000 miles or more. Prior to FY 2017, a budget footnote allowed ADOA to replace vehicles with an average of at least 100,000 miles. ADOA reported that it replaced 109 vehicles in FY 2018 with an average of 156,300 miles. The estimated annual maintenance savings is \$(83,700). Because most of ADOA's vehicles have more than 100,000 miles, ADOA has not yet replaced vehicles with an average of 80,000 miles. (Rebecca Perrera)

AHCCCS – Report on Uncompensated Hospital Costs and Hospital Profitability – Pursuant to A.R.S. § 36-2903.08, AHCCCS reported on uncompensated hospital costs and hospital profitability for Arizona hospitals for Hospital Fiscal Year (HFY) 2017. AHCCCS defines uncompensated care as the total amount of "bad debt" and "charity care" costs incurred by each hospital. Bad debt consists of care provided for which the hospital expected to be paid, but was not, while charity care represents hospital services provided for free or a reduced charge. To estimate the amount of uncompensated care, AHCCCS determined the charges for bad debt and charity care for each hospital and adjusted the expense based on a "cost-to-charge" ratio, or each hospital's ratio of actual expenses compared to gross charges and other revenues. The average hospital cost-to-charge ratio was 21% in HFY 2017.

The report included the following findings:

- Total uncompensated care costs increased by \$8.6 million, from \$401.5 million to \$410.1 million. As a share of overall hospital expenses, however, uncompensated care fell (0.1)%, from 2.6% to 2.5%.
- Total net operating profitability increased by \$165.4 million, from \$753.6 million in 2016 to \$919.0 million in 2017. As a result, the average hospital operating margin increased 0.7%, from 4.6% to 5.3%, and the share of hospitals with a positive operating margin increased from 59.8% to 68.9%.
- There continued to be differences in uncompensated care between different hospital types. Rural hospitals, non-profit hospitals, and high Medicaid-volume hospitals had higher uncompensated care as a share of overall hospital expenses compared to their counterparts. (Patrick Moran)

AHCCCS – Report on Systematic Alien Verification for Entitlements Program – Pursuant to A.R.S. § 36-2903.03, the Arizona Health Care Cost Containment System (AHCCCS) provided its latest report on the collection and verification of documentation associated with the Systematic Alien Verification for Entitlements (SAVE) program.

AHCCCS, in conjunction with the Department of Economic Security (DES), performed 22,254 verifications of immigration status in FY 2018. During this period, AHCCCS and DES referred 40 individuals (32 citizens, 8 non-citizens) for prosecution for fraudulent schemes, prohibited acts, theft, or forgery. AHCCCS and DES identified no fraudulent immigration cases utilizing the SAVE program during FY 2018. (Patrick Moran)

Attorney General – Quarterly Report on Internet Crimes Against Children Enforcement Fund Expenditures – Pursuant to A.R.S. § 41-199, the Attorney General (AG) submitted its quarterly report on expenditures from the Internet Crimes Against Children (ICAC) Enforcement Fund and progress made towards ICAC goals. The ICAC Enforcement Fund was created in FY 2015 with an annual deposit of \$900,000 in revenues from lottery games that are sold from a vending machine in age-restricted areas. Monies in the fund are utilized to support the ICAC Task Force, which is housed within the Phoenix Police Department and works with federal, state, and local law enforcement to investigate technology-facilitated sexual exploitation of children.

Through the first quarter of FY 2019, the AG has not yet received any lottery revenues for deposit into the ICAC Enforcement Fund. A total of \$136,300 was expended from the fund balance in the first quarter of FY 2019 to help pay for the operating costs of the ICAC Task Force.

The FY 2019 expenditure plan for the ICAC Enforcement Fund allocates monies to fund 4 positions within the Phoenix Police Department; 2 positions within the AG office; equipment costs including computers, forensic tools, and other information technology; law enforcement training; and other operational costs.

As of September 30, 2019, the ICAC Enforcement Fund had a fund balance of \$1,772,400 net of encumbrances of \$412,000. (Adam Golden)

Attorney General – Quarterly Reports on Legal Settlements – The Attorney General (AG) submitted its statutorily-required quarterly reports on the receipts to and disbursements from the Consumer Protection -

Summary of Recent Agency Reports (Continued)

Consumer Fraud (CPCF) Revolving Fund, the Antitrust Enforcement Revolving Fund, and the Consumer Restitution and Remediation Revolving Fund (including its 2 subaccounts), as well as deposits made to the General Fund.

In the first quarter of FY 2019, the AG deposited a total of \$1.2 million into various consumer accounts. Of that amount, \$998,700 was deposited into the CPCF Revolving Fund, \$100,000 into the Antitrust Enforcement Revolving Fund, \$94,400 into the Consumer Restitution Subaccount, and \$19,900 into the Consumer Remediation Subaccount. The AG made no deposits to the General Fund.

Deposits to the CPCF Revolving Fund

The AG deposited \$998,700 in the first quarter of FY 2019 into the appropriated CPCF Revolving Fund, which may be used for consumer fraud education and investigation, costs associated with the Tobacco Master Settlement Agreement, or any other purpose permitted by statute. Of the total, \$858,600 resulted from funds that were unable to be distributed to eligible consumers from a 2017 settlement with Theranos, Inc. Small legal settlements of less than \$250,000 contributed an additional \$138,000, and the remaining \$2,000 came from other revenue sources.

Deposits to Antitrust Enforcement Revolving Fund

The AG deposited \$100,000 in the first quarter of FY 2019 into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. All of these funds resulted from small legal settlements.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$94,400 in the first quarter of FY 2019 into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$44,600 resulted from small legal settlements, and the remaining \$49,700 resulted from interest income.

Deposits to the Consumer Remediation Subaccount

The AG deposited \$19,900 in the first quarter of FY 2019 into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. All of these funds resulted from interest income. (Adam Golden)

Department of Corrections – Third-Party Report on Arizona Inmate Management System (AIMS)

Replacement – Pursuant to an FY 2017 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) provided quarterly updates of the AIMS Replacement project for the period ending

August 20, 2018. The project is currently in the testing phase. According to the most recent timeline, the project is expected to be piloted starting December 13, 2018, and to go live systemwide on January 11, 2019.

The third-party reviewer stated that data conversion continues to be an area of high risk and noted that bugs found during testing are not reported immediately. Furthermore, the third-party reviewer found that the current test rate is projected to be insufficient to meet the expected timeline. However, the report found that the project management team members continue to work together through project challenges. (Geoffrey Paulsen)

Department of Corrections – Report on Transition Release Program – Pursuant to A.R.S. § 31-281 and A.R.S. § 31-285, the Arizona Department of Corrections (ADC) submitted its annual report for FY 2018 that details the cost reductions directed to the department from the Transition Program. The Transition Program, as established by A.R.S. § 31-281, allows certain inmates the opportunity to be released 3 months prior to their release date. Statute requires for each bed day saved a transfer of at least \$17 from the State Department of Corrections Revolving Fund to the Transition Program Fund.

ADC reports that an average of 565.5 inmates participated each quarter in the program. In FY 2018, the department reports that 1,319 participants successfully completed the Transition Program and their term of community supervision while an additional 723 participants completed the Transition Program and continued their term of community supervision. A total of 182 participants failed to complete the early transition release by violating their conditions of supervision. In total, the program is responsible for 95,242 bed days saved at the statutorily-mandated rate of \$17 per day, \$1.6 million was transferred to the transition program. (Geoffrey Paulsen)

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 2018 report shows that the average number of children served increased to 29,899, or 4.3% above FY 2017; the number of families served increased by 5.3%. Across categories, the number of children served in the Low Income Working category (including those in special circumstances) increased by 7.1%, child welfare-related placements increased by 4.7%, the number of Temporary Assistance for Needy

Summary of Recent Agency Reports (Continued)

Families-related children increased by 6.5%, and the number of children receiving transitional child care decreased by (4.0)%. The wait list for child care subsidies increased from 3,565 at the beginning of FY 2017 to 6,745 at the beginning of FY 2018.

The amount spent by DES on child care subsidies increased to \$134.3 million, an increase of 5.8% from FY 2017. The average monthly subsidy paid per child increased 1.4% to \$374.18. The total amount of co-payments collected decreased by (5.5)% from FY 2017 to \$6.0 million. (Chris Gustafson)

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) reported on its annual study performed by an independent consulting firm of the adequacy and appropriateness of Medicaid reimbursement rates for service providers that contract with the Division of Developmental Disabilities (DDD). The main findings of the report were as follows:

- The number of in-network service providers increased from 521 in FY 2017 to 547 in FY 2018, a 5% increase.
- The average number of services used per user did not materially change between FY 2017 and FY 2018.
- Total payments to providers for the top 15 services increased by 11% in FY 2018 compared to FY 2017, largely due to Proposition 206 provider rate increases.
- Based on focus groups with providers, the consultant concluded that providers are facing challenges in retaining quality employees due to Proposition 206 and Proposition 414 minimum wage increases.
- There are 4 service categories (child day programs, in-home habilitation, respite, and habilitation with music therapy) that have over 90 members waiting to receive services. (Patrick Moran)

Department of Education – Override Report – Pursuant to A.R.S. § 15-249.04, the Arizona Department of Education (ADE) has reported FY 2019 data on school district budget overrides. Overrides permit school districts to generate and spend additional monies from local property taxes if approved by voters. The ADE report indicates that 93 districts statewide have Maintenance and Operation (M&O) overrides pursuant to A.R.S. § 15-481 in FY 2019, 1 has a “Special Program” override pursuant to A.R.S. § 15-482, and 25 have “District Additional Assistance” overrides pursuant

to A.R.S. § 15-481. The total amounts budgeted for overrides for FY 2019 include \$531.6 million for both types of M&O overrides combined and \$85.9 million for District Additional Assistance overrides. (Steve Schimpp)

Arizona Department of Environmental Quality – Report on Progress of Water Quality Assurance Revolving Fund Sites – Pursuant to an FY 2019 General Appropriation Act footnote, the Department of Environmental Quality (DEQ) reported on 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 2018, DEQ reported 37 WQARF sites. In FY 2018, 1 new site was added to the registry and 1 was removed from the registry as the cleanup was completed. Early Response Actions were conducted at 11 sites in FY 2018 and work will be continued on each of these sites in FY 2019.

By the end of FY 2019, DEQ anticipates 35 WQARF sites after 2 sites are removed from the registry. At least 22 registry sites are planned for stage completion or advancement to the next stage of the WQARF process in FY 2019. In FY 2018, DEQ determined that 8 of 38 non-registry sites will not require further investigation or action. (Josh Hope)

Department of Health Services – Report on Public Health Emergencies Fund FY 2018 Spending – Pursuant to A.R.S. § 36-122 the Arizona Department of Health Services (DHS) is required to report to JLBC any expenditures from the Public Health Emergencies Fund. Monies in the fund are spent on responses to public health emergencies in the state as declared by the Governor. The fund had expenditures of \$106,600 in FY 2018. (Morgan Dorcheus)

Department of Insurance – Annual Report on Insurance Premium Tax Credits – Pursuant to A.R.S. § 20-224I, the Arizona Department of Insurance submitted its annual report on the amounts of insurance premium tax credits used in the previous fiscal year. The agency reports that a total of \$42.0 million in insurance premium tax credits were used in FY 2018. Of this amount, \$33.5 million consists of credits earned for donations made by insurance companies to private school tuition organizations that provide scholarships to children of low-income families or to children with disabilities. The dollar impacts of the specific credits are listed in *Table 6* below. (Adam Golden)

Summary of Recent Agency Reports (Continued)

Table 6

FY 2018 Insurance Premium Tax Credits
(\$ in millions)

| | Annual Cost |
|--|------------------------|
| Credits: | |
| Private School Tuition Organization - Low Income Students ^{1/} | \$30.8 |
| New Employment | 3.9 |
| Health Insurance Premium ^{2/} | 3.7 |
| Private School Tuition Organization - Disabled/Displaced Students ^{3/} | 2.8 |
| Insurance Guaranty Fund | <u>0.9</u> |
| Total Value of Credits | \$42.0 |

- ^{1/} Credit was capped at \$74.3 million in FY 2018 between corporate and insurance premium taxpayers.
^{2/} Credit is capped at \$5.0 million annually.
^{3/} Credits is capped at \$5.0 million annually between corporate income and insurance premium taxpayers.

JLBC Staff – County Flexible Revenue Report – The FY 2019 Revenue Budget Reconciliation Bill (BRB) (Laws 2018, Chapter 283) 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 2019, but limits this authority to no more than \$1,250,000 used for purposes other than the purpose of the revenue source. The FY 2019 Revenue BRB requires counties to report on their use of this provision.

Of the 12 eligible counties, 2 reported using the flexibility:

- Apache County: \$1.25 million from the Community College District, Library District, and Juvenile Jail District to the General Fund and Adult Jail District for law enforcement and Jail District operations. Apache County utilized \$1.2 million last year.
- Navajo County: \$1.25 million from the Flood Control District and Library District to the General Fund for operating expenses. Navajo County did not utilize the flexibility last year.

Last year, 4 eligible counties reported utilizing a total of \$3.0 million of flexibility.

The following 10 eligible counties are not utilizing this provision: Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Santa Cruz, Yavapai, and Yuma Counties. (Josh Hope)

Department of Revenue – Report on Income Tax Credits

– Pursuant to A.R.S. § 43-224, the Arizona Department of Revenue submitted its annual report on the amounts of individual income and corporate income tax credits used during the prior fiscal year.

The agency reports that nearly 1.8 million tax credits, totaling \$473.3 million, were claimed against the individual income tax in FY 2018, a dollar impact growth of approximately 8% over the prior year. Of the total, the "income taxes paid to other states" credit accounted for \$158.3 million, school tuition organization credits accounted for \$113.1 million, the charitable and foster care contributions credits accounted for \$88.9 million, and the public school extracurricular activity fee credit accounted for \$46.3 million. Use of the other 32 credits, including the Proposition 301 Sales Tax Credit, totaled \$66.7 million. The number of claims and dollar impact of credits are listed in *Table 7*, below.

Table 7

FY 2018 Individual Income Tax Credits
(\$ in millions)

| | # of Claims | Annual Cost |
|---|------------------------|------------------------|
| Credits: | | |
| Income Taxes Paid to Other States | 75,539 | \$158.3 |
| School Tuition Organizations | 150,779 | 113.1 |
| Contributions to Charitable and Foster Care Organizations | 197,750 | 88.9 |
| Public School Extracurriculars | 168,833 | 46.3 |
| Prop 301 Sales Tax Credit | 584,227 | 28.4 |
| Other Credits | <u>601,075</u> | <u>38.3</u> |
| Total Value of Credits | 1,778,203 | \$473.3 |

The Department of Revenue reports that taxpayers used a total of \$128.4 million in corporate income tax credits in FY 2018, a dollar impact decline of (9.5)% from the year prior. Of the total amount used, \$70.5 million was for research and development credits and \$34.2 million was for school tuition organization credits. Use of the other 21 credits, including credits for renewable energy production, totaled \$23.7 million in FY 2018. The number of claims and dollar impacts of credits are listed in *Table 8*, below. (Adam Golden)

Summary of Recent Agency Reports (Continued)

Table 8

FY 2018 Corporate Income Tax Credits
(\$ in millions)

| Credits: | # of Claims | Annual Cost |
|--|--------------------|--------------------|
| Research and Development ^{1/} | 413 | \$70.5 |
| School Tuition Organizations | 107 | 34.2 |
| New Employment | 35 | 7.9 |
| Other Credits | <u>40</u> | <u>15.8</u> |
| Total Value of Credits | 595 | \$128.4 |

^{1/} Does not include additional credit for university research due to confidentiality laws. This amount is, however, reflected in the total.

Arizona Board of Regents – Report on Cost Containment – A.R.S. § 15-1650.03B requires the Arizona Board of Regents (ABOR) to annually provide the following information for each of Arizona’s 3 universities: 1) historical increases in tuition and fees, housing, and meal plan rates; 2) growth in university faculty and staff and total salaries; 3) changes in credit hour requirements; 4) faculty time allocation; 5) nontraditional or low-cost degree options; and 6) cost containment actions. The ABOR report does not indicate if dollar amounts are adjusted for inflation.

Increases in Tuition and Fees, Housing, and Meal Plans (FY 2009 – FY 2018)

- Arizona State University (ASU): 68.3%
- Northern Arizona University (NAU): 70.9%
- University of Arizona (UA) between: 80.4%

Growth in University Faculty and Staff and Total Salaries (FY 2009 – FY 2018)

- ASU: Salaries across all employee classifications per FTE: 52.6% increase
- ASU: Number of Faculty: 24.9%, 2,703 FTE increase
- NAU: Salaries across all employee classifications per FTE: 46.4% increase
- NAU: Number of Faculty: 23.2%, 606 FTE increase
- UA: Salaries across all employee classifications per FTE: 40.3% increase
- UA: Number of Faculty: 5.3%, 626 FTE increase

Changes in Credit Hour Requirements

- ASU: No reported change between FY 2003 and FY 2018.
- NAU: One change between FY 2004 and FY 2018: Civil Engineering (1 credit hour increase).
- UA: 10 programs changed credit hour requirements for completion by up to 9 credit hours.

Faculty Time Allocation

At all 3 universities, 20% of faculty time is dedicated to other activities—administrative duties, personal growth, services—while either 40% (ASU and UA) or 50% (NAU) are dedicated specifically to teaching. The remainder of faculty and resources are allocated to research and scholarship.

Non-Traditional or Low-Cost Degree Options

Both NAU and UA offer tuition guarantees that freeze tuition for new, incoming freshmen for 8 consecutive semesters. Some sort of community college pathway program is available at all 3 universities as well as Non-Traditional or Low-Cost degree paths. Examples include:

- ASU: Fast Track for 3-year bachelor’s degree completion, 10% Tuition Reduction for select programs in the new College of Interdisciplinary Arts and Sciences, and Accelerated Degree Programs allowing students to obtain both a bachelor’s and master’s degree.
- NAU: Personalized Learning programs and Concurrent Enrollment allow students to earn select associate’s and bachelor’s degrees in 2.5 years.
- UA: Accelerated Masters Programs (96 available at 10 different sites and online), Distance Campus Networks degrees

Cost Containment Actions

All universities utilized contract renegotiations, refinancing of outstanding debt, and organizational restructuring to contain costs. Additional actions include:

- ASU: Reduction in energy and water usage created an estimated \$11.3 million in savings between FY 2011 and FY 2019. Between 2008 and 2012, eliminated more than 2,000 jobs through layoffs (1,200 jobs), early retirement (150 jobs), and elimination of vacant positions.
- NAU: Reports operating at 14% below their peer median in terms of the number of faculty and staff per student; additionally, faculty and staff salaries are at least 10% below market salary rates. Through shared services and consolidation of activities, estimated additional \$2 million in savings.
- UA: Reports operating at 15% below the peer median based on cost per degree. Created energy efficiency programs that led to a reported \$10.5 million in savings between FY 2012 and FY 2017.

(Elizabeth Dagle)

Summary of Recent Agency Reports (Continued)

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 and a one-time \$1.0 million General Fund appropriation, the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) requires Arizona State University (ASU) to operate the School of Civic and Economic Thought and Leadership (SCETL) 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 7 PhD faculty hired last year have begun teaching in the school, and 7 new faculty positions have been hired to begin teaching during the 2018-2019 school year, with 3 more faculty searches underway.

The school received approval for a B.A. degree and minor in Civic and Economic Thought and Leadership, with enrollment beginning in the Fall 2018 semester. Undergraduate major requirements include an internship, capstone experience, and coursework in 4 areas: the history of moral and political thought, political economy and the history of economic thought, American political and economic thought, and the theory and practice of leadership.

Enrollment in the school's courses has increased from 37 students in 4 courses in fall 2017 to 142 students in 14 courses in fall 2018.

The school has submitted a plan to approve a hybrid M.A. degree in classical education and leadership to prepare teachers in classical academies and intends to hire a director for graduate education to begin implementing the program.

The school's FY 2019 public affairs programming includes, among other activities, individual speaker events, a 2-day conference, a published book of presentations, and a podcast series.

The school used its \$1.0 million of one-time FY 2018 funding to support its public affairs series and speakers, funded fellowships, organized a student learning trip to India, and acquired original copies of significant historical works to present on permanent display and in conjunction with university events. The works include *The Federalist*, *The Wealth of Nations*, *Washington's Farewell Address*, and signed works by Martin Luther King Jr., Susan B. Anthony, and others.

In FY 2019, the school will use its \$1.0 million of one-time FY 2019 funding to hire visiting professors and

order printing of numerous historical documents for distribution (pocket-sized U.S. Constitution, Gettysburg Address, among others). In addition, as required by the FY 2019 budget, \$100,000 is allocated to the "Living Repository of the Arizona Constitution" project.

The school reports a total of \$8.1 million available in FY 2019, including the \$4.0 million of FY 2019 General Fund appropriations, \$3.6 million of unused funds from its FY 2018 General Fund appropriation, \$421,900 of university funds for public outreach and logistical support, and \$10,500 of foundation (donor) support. ASU reports that "the school is not at full operating capacity and will not be until Academic Year 2019-2020." (Morgan Dorcheus)

Northern Arizona University – Report on the Alliance Bank Economic Policy Institute – In conjunction with a one-time \$500,000 General Fund appropriation, the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) requires Northern Arizona University (NAU) to operate the Alliance Bank Economic Policy Institute (EPI) in the College of Business and report 1) total amount of funding received from all sources; 2) a description of faculty positions and courses offered; 3) the total undergraduate and graduate student participation; and 4) significant community events, initiatives, or publications.

The Institute reports receiving a total of \$950,000 in funding for the Economic Policy Institute in FY 2019, including the FY 2019 \$500,000 state appropriation and approximately \$450,000 from grants, fee-for-service projects, and university funding. One grant results from the EPI being selected as the only U.S. Department of Commerce, Economic Development Administration "University Center" in Arizona, with a federal grant totaling \$1 million over 5 years.

The EPI is staffed by an Associate Dean, 2 researchers, and 2 student workers who assist with research. The search for a full-time Executive Director of the EPI will begin in October 2018, with the expectation the position will be filled by the beginning of 2019.

NAU reports no formal student enrollment, as the EPI does not offer any courses as a part of its structure.

Current projects of interest include reviewing the economic contribution to rural communities of extending the season for the North Rim of the Grand Canyon, exploring ways to increase non-gaming revenue in an Arizona tribal community, and researching the economic impact of the potential

Summary of Recent Agency Reports (Continued)

closure of the Navajo Generating Station. In addition, EPI hosts conferences such as the Economic Outlook Conference and the Tribal Economic Outlook Conference and operates a program which provides financial literacy education for Native American youth through the Center for American Indian Economic Development. (Elizabeth Dagle)

Ethics, Economy, and Entrepreneurship. A total of 20 high school teachers were trained in the summer of 2018 and an expected 11 high schools will offer the course during the 2018-2019 academic year to approximately 450 students. (Sam Beres)

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 and a one-time \$1.0 million General Fund appropriation, the FY 2019 General Appropriation Act (Laws 2018, Chapter 276) requires the University of Arizona (UA) to operate the Center for the Philosophy of Freedom ("Freedom Center") and report on the school's 1) total funding; 2) faculty and courses; 3) student enrollment; and 4) community events, initiatives, and publications.

The Center reports receiving a total of \$3.8 million in funding for the Freedom Center in FY 2019, including the \$3.5 million of FY 2019 General Fund appropriations, \$120,300 from tuition and fees, and \$192,800 in donations from foundations and other private donors.

During the 2017-2018 academic year, the Freedom Center had 8 faculty members who were collectively responsible for teaching 40 graduate and undergraduate courses. These courses had total enrollment of 1,491 undergraduate students and 61 graduate students. The center has a total of 11 graduate students currently enrolled. In addition to teaching, the Center reports that its faculty have contributed to the publication of 20 books and academic articles since the start of the 2017-2018 academic year.

The Center reports that the 'Take Charge Today' program has been placed under the Freedom Center as of spring 2018. The Take Charge Today initiative is a personal finance curriculum developed in 2001, and is made available online for free to middle school and high school teachers. The Center estimates that as of summer 2018, approximately 300 teachers nationwide have utilized the materials.

In addition, the center reports the continuation of two ongoing initiatives. In conjunction with major universities around the world, it has created a network of scholars to facilitate the sharing of best practices in the teaching and research of philosophy, politics, and economics. Additionally, the Freedom Center continues to collaborate with high schools in Arizona and Mexico to provide a dual enrollment course on

September Spending

September 2018 General Fund spending was \$686.1 million, which is an increase of \$30.3 million above September 2017. (See Tables 9 & 10).

- Department of Education (ADE) spending has increased by \$179.0 million compared to the prior year. The FY 2019 budget added funding for a 10% teacher salary increase and included \$100 million to restore a portion of K-12 "Additional Assistance" funding.

| Agency | Change From | | | YTD Change from FY 18 |
|-------------------------|--------------|--------------|----------------|--------------------------|
| | Sept 18 | Sept 17 | Year-to-Date | |
| AHCCCS | 134.8 | (8.3) | 474.2 | (61.6) |
| Corrections | 66.2 | (10.4) | 375.1 | 82.5 |
| Child Safety | 5.1 | (24.2) | 75.7 | (25.5) |
| Economic Security | 4.3 | (7.5) | 503.7 | 31.6 |
| Education | 367.2 | 76.5 | 1,900.8 | 179.0 |
| Health Services | 6.6 | 0.2 | 27.2 | (0.1) |
| Public Safety | 2.1 | (2.6) | 36.5 | 2.6 |
| School Facilities Board | 9.7 | 9.5 | 169.8 | (22.6) |
| Universities | 60.5 | (2.4) | 178.7 | 3.3 |
| Leaseback Debt Service | 0.0 | 0.0 | 84.1 | (0.0) |
| Other | <u>29.6</u> | <u>(0.5)</u> | <u>165.6</u> | <u>(4.6)</u> |
| Total | 686.1 | 30.3 | 3,991.4 | 184.6 |

| General Fund Spending | | | | |
|--|----------------|--------------------------------|---------------------|----------------------------------|
| (\$ in Thousands) | | | | |
| Agency | Sept 18 | Change from Sept 17 | Year-to-Date | YTD Change from FY 18 |
| Dept. of Admin./Automation Projects Fund | 587.4 | (587.1) | 7,258.9 | (9,815.8) |
| ADOA – Sale/Leaseback Debt Service | - | - | 84,112.0 | (3.1) |
| Office of Administrative Hearings | 48.3 | (20.0) | 234.5 | (22.4) |
| Commission of African-American Affairs | 7.6 | (1.4) | 28.4 | (2.9) |
| Department of Agriculture | 1,173.3 | 114.9 | 3,169.0 | 366.3 |
| AHCCCS | 134,764.4 | (8,307.9) | 474,249.1 | (61,643.2) |
| Attorney General | 3,451.8 | 1,732.2 | 7,415.7 | 1,437.0 |
| State Board of Charter Schools | 74.2 | (54.3) | 323.4 | 11.2 |
| Department of Child Safety | 5,117.9 | (24,162.3) | 75,703.1 | (25,491.1) |
| AZ Commerce Authority | 1,791.7 | (75.0) | 5,375.1 | (75.0) |
| Community Colleges | 140.9 | (476.7) | 13,181.4 | (5.9) |
| Corporation Commission | 31.7 | (23.5) | 956.3 | 413.9 |
| Department of Corrections | 66,155.9 | (10,352.5) | 375,050.9 | 82,471.9 |
| County Funding | - | - | - | - |
| AZ State Schools for the Deaf & Blind | 1,170.4 | 614.2 | 5,247.9 | (744.1) |
| Office of Economic Opportunity | 43.2 | 11.8 | 118.7 | (14.2) |
| Department of Economic Security | 4,311.7 | (7,460.2) | 503,661.9 | 31,637.2 |
| State Board of Education | 42.7 | (24.2) | 173.3 | (91.3) |
| Department of Education | 367,207.4 | 76,547.4 | 1,900,775.7 | 178,979.9 |
| DEMA | 202.4 | (247.1) | 1,722.7 | (2,222.2) |
| DEQ – WQARF | - | - | - | - |
| Office of Equal Opportunity | - | (8.5) | - | (57.0) |
| State Board of Equalization | 31.0 | 24.4 | 101.1 | (87.4) |
| Board of Executive Clemency | 176.8 | 23.9 | 340.1 | 51.0 |
| Department of Financial Institutions | 101.5 | (102.0) | 288.2 | (207.0) |
| Department of Forestry and Fire Management | 531.9 | (134.6) | 2,550.2 | (964.4) |
| Department of Gaming | - | - | 1,779.5 | - |
| Governor/OSPB | 1,248.7 | (176.8) | 3,066.2 | (19.2) |
| Department of Health Services | 6,588.2 | 233.1 | 27,174.0 | (55.7) |
| Arizona Historical Society | 172.3 | (14.4) | 652.2 | (24.0) |
| Prescott Historical Society of AZ | 64.0 | 5.1 | 227.8 | (0.6) |
| Department of Housing | - | - | - | (248.9) |
| Independent Redistricting Comm. | - | - | - | (0.1) |
| Department of Insurance | 639.2 | (41.3) | 1,699.6 | 65.5 |
| Judiciary | | | | |
| Supreme/Superior Court | 2,099.1 | (3,011.8) | 26,129.8 | 1,365.4 |
| Court of Appeals | 1,621.3 | 228.2 | 4,434.2 | 515.6 |
| Department of Juvenile Corrections | 242.2 | (188.8) | 6,897.8 | 1,269.7 |

| Table 10 (Continued) | | | | |
|---|------------------|--------------------------------|---------------------|----------------------------------|
| Agency | Sept 18 | Change from Sept 17 | Year-to-Date | YTD Change from FY 18 |
| State Land Department | 663.6 | (46.2) | 2,963.7 | (316.1) |
| Legislature | | | | |
| Auditor General | 1,641.2 | (357.1) | 5,470.2 | (458.9) |
| House of Representatives | 1,036.3 | 53.9 | 3,651.9 | 166.6 |
| Joint Legislative Budget Comm. | 185.1 | (46.4) | 653.6 | (15.2) |
| Legislative Council | 492.3 | 124.5 | 1,507.2 | (410.2) |
| Senate | 685.3 | 48.7 | 2,521.4 | 165.4 |
| Mine Inspector | 161.5 | 8.7 | 363.1 | 1.1 |
| Nav. Streams & Adjudication | 3.9 | (10.2) | 36.6 | (0.7) |
| Phoenix Convention Center | - | - | 22,996.3 | 497.3 |
| Comm. for Postsecondary Ed. | 141.7 | 141.7 | 823.4 | 0.9 |
| Department of Public Safety | 2,124.4 | (2,643.3) | 36,503.1 | 2,563.0 |
| Public Safety Personnel Retirement System | - | - | 7,000.0 | 1,000.0 |
| Radiation Regulatory Agency | - | (95.6) | - | (351.0) |
| Real Estate Department | 357.3 | (10.5) | 799.7 | (26.4) |
| Department of Revenue | 4,698.0 | 462.8 | 8,611.3 | (52.9) |
| School Facilities Board | 9,743.2 | 9,548.4 | 169,761.9 | (22,557.7) |
| Secretary of State | 1,332.1 | 288.0 | 4,311.8 | 1,137.8 |
| Tax Appeals Board | 18.1 | 18.1 | 64.2 | (15.5) |
| Office of Tourism | - | - | 2,133.6 | (355.6) |
| Department of Transportation | 961.5 | 961.4 | 2,851.2 | 2,850.5 |
| Governor's Office on Tribal Relations | 3.1 | 2.4 | 18.1 | 12.0 |
| Universities | | | | |
| Board of Regents | 48.2 | (560.9) | 438.8 | (544.1) |
| Arizona State University | 28,445.8 | (487.1) | 80,907.7 | 843.0 |
| Northern Arizona University | 8,976.5 | (829.3) | 27,915.2 | 762.0 |
| University of Arizona | 23,032.6 | (503.9) | 69,467.3 | 2,243.3 |
| Department of Veteran Services | 373.0 | (9.5) | 1,534.0 | 33.0 |
| Department of Water Resources | 1,088.6 | 176.8 | 3,695.8 | 518.5 |
| Department of Weights & Measures | - | - | - | 1.0 |
| Other - State Treasurer/JP Salaries | 4.5 | (32.2) | 340.3 | 77.4 |
| Other | - | - | - | - |
| Total | 686,056.9 | 30,268.1 | 3,991,439.9 | 184,557.7 |

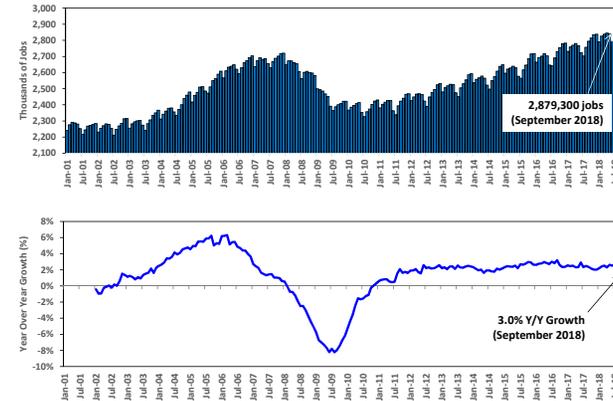
Arizona Economic Trends

October 2018
Appendix A

Page:

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

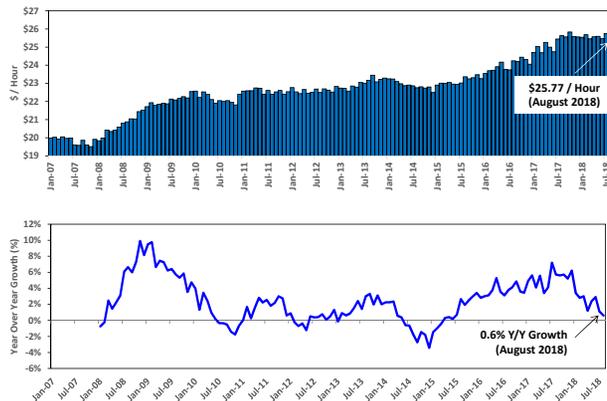
Total Non-Farm Employment



JLBC

2

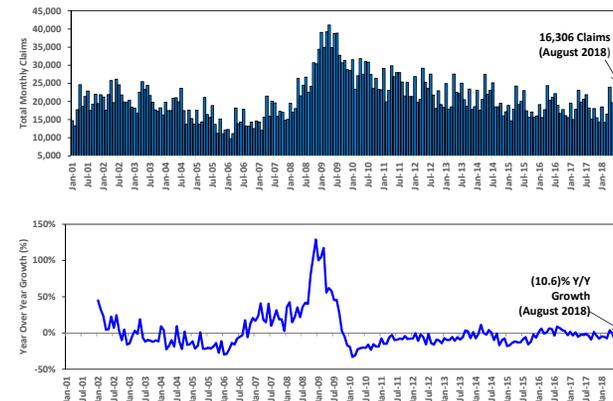
Average Hourly Earnings – Private Sector



JLBC

3

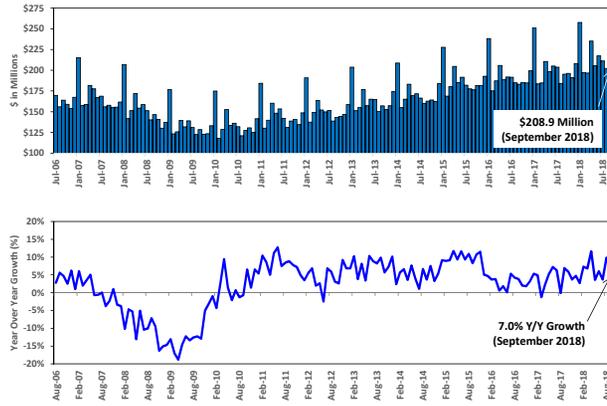
Initial Claims for Unemployment Insurance



JLBC

4

State Sales Tax Collections – Retail Category



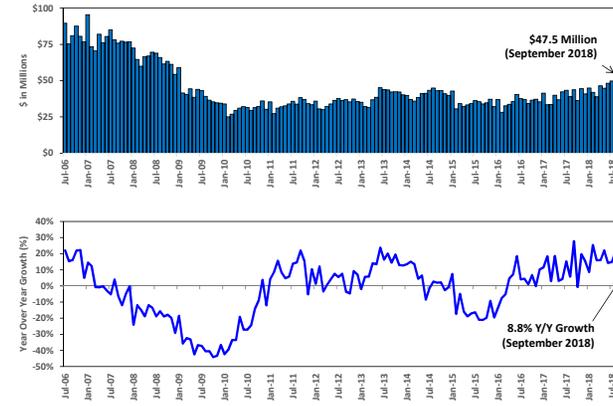
JLBC

Excludes temporary 1-cent sales tax

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

5

State Sales Tax Collections – Contracting Category

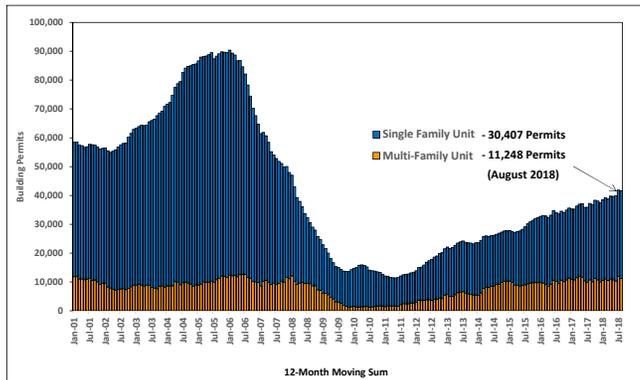


JLBC

Excludes temporary 1-cent sales tax

6

Residential Building Permits



JLBC

7