

JLBC - Monthly Fiscal Highlights

September 2016

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

Summary

In August 2016, General Fund revenues were \$759.3 million, a change of 12.7% above the prior year. These collections were \$37.5 million above the enacted budget forecast.

The forecast gain for the month essentially occurred in 2 revenue categories: Individual Income Tax and Insurance Premium Tax.

The Individual Income Tax forecast overage was driven by an increase in withholding, which grew by 14.8% over August 2015. This gain appears to be related to a technical timing issue, as August 2016 had one more processing day than August 2015.

Insurance Premium Tax (IPT) revenues were also aided by technical issues. In the August *Monthly Fiscal Highlights*, JLBC Staff noted that the significant decline in IPT's July collection was caused by a delay in processing, with \$16 million of deposits being recorded in August that would have otherwise occurred in July. With these collections being shifted to August, the Insurance Premium Tax category grew by 74.9% and was \$15.2 million above forecast.

Year-to-date, excluding Urban Revenue Sharing and one-time revenues, General Fund collections are 3.6% above the prior year and are \$22.0 million above forecast.

The operating fund balance consists of the General Fund and certain dedicated funds.

The operating balance as of mid-September 2016 is \$1.6 billion, an amount which is approximately \$(345) million below September 2015.

The state's Budget Stabilization Fund has a balance of \$455.1 million, an increase of \$33 million from the prior month. The FY 2017 General Appropriation Act authorized a bridge loan for both DCS and DES and allowed each of these agencies to use up to \$35 million of BSF monies to provide funding for reimbursement grants. This authority was only used by DES and the loan has been repaid to the Budget Stabilization Fund.

Preliminary FY 2016 Ending Balance Report

As prior *Monthly Fiscal Highlights* have discussed, the General Appropriation Act requires the Executive Branch to provide a preliminary estimate of the FY 2016 ending balance by September 15, 2016. The Executive is currently estimating the FY 2016 ending balance to be \$243 million.

In July, JLBC Staff had made an initial FY 2016 ending balance projection of \$222 million. The enacted budget had assumed an ending balance of \$225 million. The impact of the higher ending balance will be incorporated into the latest revenue estimates, which will be updated at the October 5th Finance Advisory Committee meeting.

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August Revenues

Table 1

	General Fund Revenues (\$ in Millions)		
	<u>FY 2017 Collections</u>	<u>Difference From Budget Forecast</u>	<u>Difference From FY 2016</u>
August	\$ 759.3	\$ 37.5	\$ 85.8
Year-to-Date	\$ 1,419.9	\$ 22.0	\$ 43.8

Sales Tax (preliminary) collections of \$368.2 million were 4.3% above August 2015 and \$4.9 million above the forecast for the month. Year-to-date, collections have increased by 4.6% and are \$13.1 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 \$354.9 million in August were \$37.8 million more than the prior year and \$19.0 million above forecast for the month. Year-to-date, revenue has grown 5.0% over the prior year.

As indicated in Table 2, withholding increased by 14.8% above last year and was \$21.7 million above the forecast. The monthly increase may largely be explained by an increase in the number of processing days relative to August 2015. Year-to-date withholding collections are 5.8% above FY 2016.

August estimated and final payments of \$23.1 million were (0.4)% below last year and \$(0.8) million below the forecast. Year-to-date, payments are 3.5% above those collected during the same period of FY 2016.

August Individual Income Tax refunds totaled \$(18.6) million – this compares to \$(11.3) million in August 2015 and a forecasted amount of \$(16.6) million. The increase in refunds may have largely been the result of an increase in the number of refund batches processed relative to August 2015.

Table 2

Individual Income Tax Growth Rates Compared to Prior Year

	<u>August</u>	<u>YTD</u>
Withholding	14.8%	5.8%
Estimated/Final Payments	(0.4)%	3.5%
Refunds	64.6%	18.9%

Corporate Income Tax net collections were \$4.8 million in August, which was \$2.5 million more than in the prior year and \$(3.8) million below the forecast. Year to date, collections are \$(27.5) million below prior year collections. This decrease is probably the result of the multi-year statutory decline in the Corporate Income Tax rate.

Insurance Premium Tax collections of \$73.9 million in August were \$31.6 million above the prior year and \$15.2 million above the forecast. The large increase above August 2015 is partly the result of a processing delay whereby \$16.3 million in collections that were received in July were not recorded in the state's accounting system until August. Year-to-date, collections are 11.4% above last year.

The **Lottery Commission** reports that August ticket sales were \$57.8 million, which is \$(1.1) million, or (1.8)%, below sales in August 2015. Year-to-date ticket sales are \$130.3 million, which is 9.5% above last year's sales. General Fund Lottery distributions associated with the July and August sales are not expected to occur until October.

Highway User Revenue Fund (HURF) collections of \$111.3 million in August were up 2.7% compared to August of last year and were \$1.2 million above forecast. Year-to-date collections are 4.3% above last year.

Due to delays in reporting final July revenues for sales and luxury taxes, DOR has made **technical adjustments** to prior month collection figures. For August, DOR has increased the amount of prior General Fund revenue collections by \$0.3 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 August 2016

	Current Month					FY 2017 YTD (Two Months)				
	Actual August 2016	Change From				Actual August 2016	Change from			
		August 2015		Budget Forecast			August 2015		Budget Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$368,207,729	\$15,180,184	4.3 %	\$4,903,095	1.3 %	\$734,942,498	\$32,630,775	4.6 %	\$13,107,680	1.8 %
Income - Individual	354,939,880	37,807,404	11.9	18,981,718	5.7	663,534,689	31,886,422	5.0	12,440,974	1.9
- Corporate	4,798,742	2,468,889	106.0	(3,754,497)	(43.9)	7,087,694	(27,523,470)	(79.5)	(20,227,511)	(74.1)
Property	107,058	(285,474)	(72.7)	(176,018)	(62.2)	519,029	(99,248)	(16.1)	(104,330)	(16.7)
Luxury - Tobacco	2,160,276	(12,503)	(0.6)	0	0.0	4,128,966	98,552	2.4	184,167	4.7
- Liquor	1,900,217	(157,949)	(7.7)	0	0.0	4,976,119	(46,633)	(0.9)	(189,977)	(3.7)
Insurance Premium	73,883,134	31,636,145	74.9	15,213,676	25.9	94,987,128	9,713,254	11.4	10,860,517	12.9
Other Taxes	527,531	499,633	--	289,013	121.2	1,099,259	1,014,495	--	533,701	94.4
Sub-Total Taxes	\$806,524,568	\$87,136,330	12.1 %	\$35,456,987	4.6 %	\$1,511,275,383	\$47,674,147	3.3 %	\$16,605,221	1.1 %
<u>Other Revenue</u>										
Lottery	0	0	--	0	--	0	0	--	0	--
License, Fees and Permits	4,187,697	710,285	20.4	1,009,009	31.7	5,579,703	614,377	12.4	65,577	1.2
Interest	(6,911)	(6,254)	--	(10,243)	--	(50,133)	(50,519)	--	(54,525)	--
Sales and Services	1,290,368	865,615	203.8	10,276	0.8	8,438,257	7,792,330	--	6,512,308	338.1
Other Miscellaneous	1,043,218	798,128	325.6	(89,473)	(7.9)	2,961,580	554,957	23.1	(145,565)	(4.7)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	1,534,154	1,158,593	308.5	1,129,898	279.5	1,820,564	(3,542,131)	(66.1)	(977,348)	(34.9)
Sub-Total Other Revenue	\$8,048,525	\$3,526,368	78.0 %	\$2,049,468	34.2 %	\$18,749,972	\$5,369,014	40.1 %	\$5,400,447	40.5 %
TOTAL BASE REVENUE	\$814,573,093	\$90,662,697	12.5 %	\$37,506,455	4.8 %	\$1,530,025,355	\$53,043,161	3.6 %	\$22,005,668	1.5 %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(55,298,514)	(4,828,986)	9.6	0	0.0	(110,597,028)	(9,657,972)	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 %	(110,135,428)	(9,196,372)	9.1 %	0	0.0 %
TOTAL GENERAL FUND REVENUE	\$759,274,579	\$85,833,711	12.7 %	\$37,506,455	5.2 %	\$1,419,889,927	\$43,846,789	3.2 %	\$22,005,668	1.6 %
<u>Non-General Funds</u>										
Highway User Revenue Fund	\$111,346,903	\$2,891,197	2.7 %	\$1,243,643	1.1 %	\$230,075,266	\$9,421,662	4.3 %	\$5,797,292	2.6 %

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 1.1% 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 and exports and a reduction in drag from low business investment and federal spending. Improved performance in these categories was partly offset by decreases in business inventories, residential investment and state and local government spending. Economists largely agree that the low growth for the quarter is driven by seasonal fluctuations in inventories and may be offset by a higher rate of growth in the third quarter.

The Conference Board's **U.S. Consumer Confidence Index** increased by 4.6% to 101.1 in August, the index's highest reading since September 2015. The monthly increase reflected improved optimism by consumers about economic and job circumstances currently and 6 months in the future. Economists think part of the August increase was a reversal of greater pessimism in July in the aftermath of Britain's vote to leave the European Union.

The Conference Board's **U.S. Leading Economic Index** increased by 0.4% in July and stands (0.1)% below its July 2015 reading. Of the index's 10 components, 8 made positive contributions in July. Manufacturing workers' average work week made its greatest positive contribution since January, rebounding from its June decrease. Stock prices and movement in interest rates were also particularly strong positive components, while average consumer expectations was the sole negative component for the month.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, were unchanged in July and 0.8% above July 2015 prices. Energy prices decreased 1.6% during the month due to a sharp decrease in the gasoline index, ending a four month trend of energy index increases. Core inflation (all items less food and energy) increased by 0.1% during the month. Indexes for shelter, medical care, new vehicles and motor vehicle insurance increased in July. In contrast, indexes for airline fares, used cars and trucks, communication and recreation saw monthly decreases.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the **U.S. Personal Consumption Expenditure Price Index (PCEPI)** was flat in July, relative to June. The overall index stands 0.8% above the July 2015 level, which is well below the Federal Reserve

Bank's 2% annual inflation target. The low measure is largely due to a (11.7)% year-over-year decrease in energy prices. Annual growth in the core index (all items except food and energy) has grown by a steadier rate of 1.6% through July.

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 3.5% compared to July 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 23,889, or 19.0% more than a year ago. The comparable single-family permit growth rate for the entire U.S. is 9.2%. See

The 12-month total of multi-family building permits has started to increase again. Arizona's total of 10,199 **multi-family building permits** is 13.0% 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 (5.9)% lower than 2015.

Employment

According to information released by the Office of Economic Opportunity (OEO), the state added 29,600 net new **nonfarm jobs** in August over July. This was a significantly smaller increase than what is typical for this month. The average employment increase in August in the prior 10 years was 44,200.

Compared to the same month in the prior year, the state added 54,200 nonfarm jobs in August. This represents a net job growth rate of 2.1%, which is the lowest reading since June 2015. The national year-over-year job increase in August was 1.3%.

The state's **unemployment rate** declined from 6.0% in July to 5.8% in August. This means that the state's jobless rate returned to the same level as in June. The U.S. unemployment rate remained unchanged for the third consecutive month in August at 4.9%.

Monthly Indicators (Continued)

In July, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This workload was equal to the level during the prior month and (0.6)% below the level in July 2015.

The **Average Hourly Earnings** received by private sector workers was \$23.71, which is (0.3)% below the average in the prior month. July earnings were still 3.0% above the average in July 2015, and represent the sixth consecutive month of 3.0% growth or more.

OEO reported that 18,945 **initial claims for unemployment insurance** were filed in August, an increase of 8.8% compared to the same month last year. This was the first year-over-year increase of initial jobless claims for the month of August since 2009.

According to OEO, the state had a total of 35,654 **claimants receiving unemployment insurance benefits** in August, the same amount of claimants as in July. This figure was (5.0)% below the August 2015 level, and represented the lowest number of claimants receiving jobless benefits for the month of August in 10 years.

Tourism

Revenue per available room was \$56.96 in July, which was 6.0% above the amount in July 2015. Year-to-date, revenue per available room is 4.1% above the 2015 year-to-date amount through July. Ridership during July through Phoenix Sky Harbor Airport was down (5.6)% compared to July 2015.

State Agency Data

At the beginning of September 2016, the total **AHCCCS** caseload was 1.8 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 582,500 members.

Total monthly enrollment increased by 17,700 members, or 1.0%, during August. The overall August increase was concentrated in the Traditional population of low income parents and children. Enrollment in this population increased 11,200, or 1.0%, in August. At a combined level of 1,267,800 members, the Traditional and Proposition 204 parent populations were 3.8% higher than a year ago.

Laws 2016, Chapter 112 reopened enrollment in the KidsCare program for children with family incomes above those in the Traditional population. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by August 2016. Through September 1, enrollment in the program reached 2,800, or 2,300 more than the prior month's enrollment.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In August 2016, the childless adult population increased by 1,700, or 0.5%. At 313,000, this population is 6.7% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 400 in August and now totals 80,500 individuals. Enrollment is 12.6% higher than a year ago. The federal government is currently paying 100% of this cost through the end of calendar year 2016.

There were 19,286 **TANF recipients** in the state in August, representing a 4.1% increase from July. The year-over-year number of TANF recipients has declined by (18.8)%. The statutory lifetime limit on cash assistance declined from 24 months to 12 months in July 2016.

The Supplemental Nutrition Assistance Program

(SNAP), formerly known as Food Stamps, provides assistance to low-income households to purchase food. In August, 977,333 people received food stamp assistance in the state, representing a 0.9% increase over July caseloads. Compared to August caseloads last year, the level of food stamp participation has declined by (3.2)%.

The **inmate population** was 42,808 as of August 31, 2016. This is a (0.1)% decrease since last August. The population decreased by (0.3)% since July 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 August 31, 2016, ADC held 38,605 male prisoners.

Based on information the Department of Child Safety provided for May 2016, **reports of child maltreatment** totaled 48,940 over the last 12 months, a decrease of (3.6)% over the prior year. There were 18,622 **children in out-of-home care** as of May 2016, or 4.4% more than in May 2015. Compared to the prior month, the number of out-of-home children decreased by (1.3)%.

Table 4

MONTHLY INDICATORS

Indicator	Time Period	Current Value	Change From Prior Period	Change From Prior Year
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	August	18,945	(14.5)%	8.8%
- Unemployment Insurance Recipients	August	35,654	0.0%	(5.0)%
- 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	July	34.4	0.0%	(0.6)%
- Average Hourly Earnings, Private Sector	July	\$23.71	(0.3)%	3.0%
<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	July	23,889	(1.4)%	19.0%
Multi-family	July	10,199	(3.1)%	13.0%
- Maricopa County/Other, Home Sales (ARMLS)				
Single-Family (Pending Sales)	July	5,614	(14.8)%	0.5%
- Maricopa County/Other, Median Home Price (ARMLS)				
Single-Family (Pending Sales)	July	\$243,000	1.3%	10.5%
- Phoenix S&P/C Home Price Index (2000 = 100)	June	160.69	0.7%	5.1%
- Maricopa Pending Foreclosures	July	3,695	(0.2)%	(23.9)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	July	23,627	(4.1)%	3.4%
<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	July	282,570	25.4%	10.6%
- Revenue Per Available Hotel Room	July	\$56.96	(8.2)%	6.0%
<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)	July	221.57	0.0%	3.5%
- Arizona Leading Index -- 6 month projected growth	July	0.2%	(0.4)%	(5.0)%
- Arizona Personal Income	1 st Q 2016	\$274.7 billion	1.1%	4.8%
- 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	September 1 st	1,840,633	1.0%	4.7%
Acute Care Traditional		1,083,907	1.0%	(1.1)%
Prop 204 Childless Adults		312,968	0.5%	6.7%
Other Prop 204		183,897	0.5%	47.3%
Adult Expansion		80,461	0.6%	12.6%
Kids Care I		2,819	433.9%	204.1%
Long-Term Care – Elderly & DD		58,463	0.2%	2.0%
Emergency Services		118,118	1.0%	4.2%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	May 2016	48,940	(0.7)%	(3.6)%
DCS Out-of-Home Children	May	18,622	(1.3)%	4.4%
Filled Caseworkers (1406 Budgeted)	August	1,358	(8)	101
- ADC Inmate Growth	August	42,808	(0.1)%	(0.3)%
- Department of Economic Security				
- TANF Recipients	August	19,286	4.1%	(18.8)%
- SNAP (Food Stamps) Recipients	August	977,333	0.9%	(3.2)%
- Judiciary Probation Caseload				
Non-Maricopa	May	18,525	(42)	229
Maricopa County	May	27,689	(45)	856
United States				
- Gross Domestic Product	2 nd Q, 2016	\$16.6 trillion	1.2%	1.1%
(Chained 2009 dollars, SAAR)	(2 nd Estimate)			
- Consumer Confidence Index (1985 = 100)	August	101.1	4.6%	(0.2)%
- Leading Indicators Index (2010 = 100)	July	124.3	0.4%	(0.1)%
- Consumer Price Index, SA (1982-84 = 100)	July	239.8	0.0%	0.8%
- Personal Consumption Price Index (2009 = 100)	July	110.7	0.0%	0.8%

Summary of Recent Agency Reports

AHCCCS – Report on Graduate Medical Education Residency Positions – Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System (AHCCCS) has submitted its annual report on the number of residency positions funded by local, county, or tribal governments. The agency indicates that these contributions in FY 2015 provided partial funding for 1,541 residency positions at the following 12 hospitals: Maricopa Medical Center, Kingman Regional Medical Center, Banner University Medical Center (UMC) Phoenix, Banner UMC South, Banner UMC Tucson, John C. Lincoln North Mountain, Phoenix Children's Hospital, Scottsdale Healthcare-Osborne, Scottsdale Healthcare-Shea, St. Joseph's, Tucson Medical Center, and Yuma Regional Medical Center.

The positions were funded by local contributions of \$51.9 million and a federal match of \$111.1 million, resulting in \$163.0 million total funding. (Patrick Moran)

Department of Child Safety – Quarterly Report on Foster Care and Medicaid – Pursuant to Laws 2013, Chapter 220 as amended by Laws 2016, Chapter 273, the Department of Child Safety (DCS) is required to report on foster care and Medicaid eligibility.

During the fourth quarter of FY 2016, DCS reports the following trends in foster care and Medicaid eligibility:

1. There were 17,712 children eligible for Medicaid in foster care at the end of the fourth quarter, up 1.2% from 17,381 at the end of the third quarter of FY 2016.

2. The percentage of foster care children eligible for Medicaid declined from 95% at the end of the third quarter of FY 2016 to 94% at the end of the fourth quarter of FY 2016.
3. The amount of non-Medicaid behavioral health group home expenditures used by DCS to supplement Medicaid behavioral health placement services was \$1.3 million in the fourth quarter of FY 2016.
4. The amount of non-Medicaid behavioral health evaluation/counseling expenditures used by DCS to supplement Medicaid behavioral health services was \$114,867 in the fourth quarter of FY 2016. (Ben Beutler)

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 August 2016. (See Table 5 below).

Direct Line Child Safety Staff – Since January 2016, the number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers awaiting training and hotline staff) increased by 63 to 1,358. The budgeted staffing level is 1,406. The number of staff directly working cases increased by 23 FTE Positions to 958. The monthly turnover rate for direct line staff increased from January to August, going from 2.8% in January 2016 to 3.8% in August 2016. From July to August, the number of direct line staff declined by (8).

Table 5

Change in the Department of Child Safety Staff since January 2016

	January 2016	August 2016	Change from January 2016
Direct Line Staff			
Caseworkers	935	958	23
Hotline Staff	74	76	2
Staff in Training	286	324	38
Subtotal - Direct Line	1,295	1,358	63
Non-Direct Line Staff			
Asst. Program Managers	40	39	(1)
Unit Supervisors	217	214	(3)
Case Aides	280	245	(35)
OCWI	75	82	7
Contracts and Procurement	17	16	(1)
Child Safety Support Admin.	54	84	30
CMDP Administration	56	69	13
Inspections Bureau	35	44	9
Other Non-Direct Line Staff	621	555	(66)
Subtotal - Non-Direct Line	1,395	1,348	(47)
Grand Total	2,690	2,706	16

Summary of Recent Agency Reports (Continued)

Non-Direct Line Child Safety Staff - Since January 2016, non-direct line child safety staff has decreased by (47) to 1,348. The budgeted staffing level is 1,417 excluding Attorney General positions. One of the most significant changes in filled positions was associated with case aides, which declined by (35) positions from January. The non-direct line staff turnover rate increased from 1.9% January 2016 to 2.1% in August 2016. From July to August, the number of non-direct line staff increased by 5. (Ben Beutler)

County Treasurers' Report – Report on the Government Property Lease Excise Tax – Laws 2015, Chapter 10, Section 8 requires each county treasurer to report to the Joint Legislative Budget Committee (JLBC) by February 15 of each year the amount of Government Property Lease Excise Tax (GPLET) collected in the preceding calendar year.

GPLET was enacted in 1996 to replace the tax on possessory interests that was repealed in 1995. GPLET is a local excise tax that is levied based on the square footage of a building rather than its assessed value. The tax is levied on entities that lease the property of a city, town, county or county stadium district for commercial or industrial purposes for at least 30 days.

The table below shows the reported GPLET collections by county in CY 2015.

Table 6	
<u>County</u>	<u>Total GPLET Collections</u>
Apache	\$ 0
Cochise	11,810
Coconino	1,008,224
Gila	0
Graham	4,800
Greenlee	0
La Paz	0
Maricopa	7,581,441
Mohave	0
Navajo	8,528
Pima	158,516
Pinal	7,450
Santa Cruz	0
Yavapai	0
Yuma	0
Statewide Total	\$8,780,769

As shown in Table 6, the Maricopa County Treasurer reported total GPLET collections of \$7.6 million in CY 2015, which represented 86% of statewide collections. Several counties, including Apache, Gila, Greenlee, La Paz, Mohave, Santa Cruz, Yavapai and Yuma, reported that no GPLET revenue was collected in CY 2015. (Hans Olofsson)

Department of Economic Security – Report on Filled FTE Positions for Developmental Disabilities Programs – Pursuant to a FY 2017 General Appropriation Act footnote, the Department of Economic Security has submitted its report on the number of filled FTE Positions for case managers and non-case managers within the Division of Developmental Disabilities (DDD) as of June 30, 2016.

Table 7 below shows the total number of filled positions by classification. A total of 1,946 FTE Positions were filled in DDD as of June 30, 2016, including 1,044 case management FTE Positions and 902 non-case management FTE Positions. By comparison, the FY 2017 budget appropriates 2,093.7 FTE Positions across DDD line items, including 1,156.2 case management FTE Positions and 937.5 non-case management FTE Positions. DES is required to submit an expenditure plan to the Committee for its review if the Department intends to hire non-case manager positions beyond the 902 FTE Positions included in the report. (Patrick Moran)

Table 7	
DDD Filled FTE Positions as of June 30, 2016	
<u>Classification</u>	<u>FTE Positions</u>
Case Management	1,044
Direct Care	700
Managed Care	202
Total	1,946

Department of Economic Security – Report on Cost Effectiveness Study Rates for Developmental Disabilities Programs – Pursuant to A.R.S. § 36-2960, the Department of Economic Security (DES) has provided its annual report of the cost-effectiveness study (CES) rate for persons receiving services from the Division of the Developmental Disabilities. The CES reflects a federal requirement for Arizona's Medicaid program that the net cost of home and community-based services (HCBS) for a DDD client enrolled in ALTCS may not exceed the net cost of institutional services for that client.

Summary of Recent Agency Reports (Continued)

Table 8 below displays the CES for each DDD institutional setting. The CES ranges from approximately \$13,400 per month (\$160,800 in annual costs) for clients that would be placed in an Intermediate Care Facility for Individuals with Intellectual Disabilities (ICF/ID) to \$33,500 monthly (\$401,500 annually) for individuals that would be placed in a nursing home with the most intensive level of supervision.

The FY 2017 budget continues to include \$120,000 from the Special Administration Fund to allow clients with HCBS costs that exceed the CES to continue receiving services at home or in the community. (Patrick Moran)

Table 8
DDD Cost Effectiveness Study Rates

<u>Institutional Setting</u>	<u>Monthly Cost</u>
ICF/ID ^{1/}	\$13,394.89
Nursing Home Level II	\$15,846.17
Nursing Home Level III	\$18,432.80
Nursing Home Level IV	\$33,458.33
Behavioral Health Residential Facility	\$24,424.58

^{1/} Intermediate Care Facility for Individuals with Intellectual Disabilities.

Department of Insurance – Annual Report on Insurance Premium Tax Credits – Pursuant to A.R.S. § 20-224I, as amended by Laws 2016, Chapter 358, the Arizona Department of Insurance is required to report by September 30 of each year on the amounts of insurance premium tax credits used in the previous fiscal year.

The agency reports that a total of \$33.5 million in insurance premium tax credits were used in FY 2016. Of this amount, \$25.8 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 disabled children. The dollar impacts of the specific credits are listed in Table 9, below. (Jon Stall)

Table 9

FY 2016 INSURANCE PREMIUM TAX CREDITS

(\$ in millions)

	<u>Annual Cost</u>
<u>Credits</u>	
Health Insurance Premium ^{1/}	\$ 3.6
Military Reuse Zone	0.0
New Employment	4.1
Private School Tuition Organization	
- Low Income Students ^{2/}	22.8
Private School Tuition Organization	
- Disabled/Displaced Students ^{3/}	3.0
Total Value of Credits	\$33.5

^{1/} Credit is capped at \$5.0 million annually.

^{2/} Credit was capped at \$51.6 million in FY 2016 between corporate and insurance premium taxpayers.

^{3/} Credits is capped at \$5.0 million annually between corporate income and insurance premium taxpayers.

School Facilities Board – Report on Costs for Building Renewal and New Construction at the Arizona State Schools for the Deaf and the Blind - The School Facilities Board (SFB) is required to biennially report on the resources needed to fulfill the new construction requirements for the Arizona State Schools for the Deaf and the Blind (ASDB). ASDB operates 2 campuses, a campus in Phoenix and a campus in Tucson. According to SFB, new construction costs would total \$22.6 million for ASDB to meet minimum space requirements. This cost pertains to a space deficiency at the ASDB Phoenix campus, which has capacity for 169 students and a current enrollment of 344 students. The ASDB Tucson campus does not have a space deficiency, as it has capacity for 388 students and a current enrollment of 146 students. (Rebecca Perrera)

Supreme Court – Report on Current and Future Automation Projects – Pursuant to a FY 2017 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) has provided its FY 2017 report to the JLBC on current and future automation projects coordinated by the AOC. The AOC estimates total state automation expenditures in FY 2017 will be approximately \$24.6 million. Of this amount, approximately \$3.4 million, or 13.8%, will be spent on 9 ongoing or new projects; \$14.1 million, or 57.3%, will be spent on shared infrastructure; and \$7.1 million, or 28.9%, will be spent on ongoing automation support in FY 2017.

Summary of Recent Agency Reports (Continued)

The 9 ongoing or new projects include:

- Updating outdated software within the statewide case management system in limited jurisdiction courts (\$689,500).
- Updating the Adult Probation Enterprise Tracking System (APETS) to extend the life of the application (\$108,600).
- Continuing an update to the Juvenile On-Line Tracking System (JOLTS) in the remaining 10 counties without the update (\$200,500).
- Continued roll out of new e-filing for the general jurisdiction (Superior Court) case management system (\$825,200).
- Construction of web service that moves case information into the case management system (\$100,000).
- Replacement of the Wide Area Application Services (WAAS) to enhance the speed of transmission across the court's intranet network (\$1,223,000).
- Improving the communication between entities involved in collections processing (\$27,600).
- Constructing a central data repository for information requests (\$80,000).
- Streamlining and standardizing the E-Bench program that allows judges to access relevant electronic documents while on the bench (\$149,000).

The top 3 funding sources for automation projects included in this plan are the Judicial Collection Enhancement Fund (\$9.2 million), the Grants and Special Revenues Fund (\$6.2 million), and the General Fund (\$4.3 million). Together these 3 funds comprise 80.0% of the proposed funding in FY 2017. (Eric Billings)

August Spending

August 2016 General Fund spending was \$787.1 million, which represents an increase of \$10.6 million above August 2015. (See *Tables 10 & 11*).

- Year-to-date, Department of Education spending is \$46.7 million greater than last year.
- In FY 2017, the only agency receiving significant Medicaid funding outside of AHCCCS is DES, which has resulted in the agencies' high spending level of \$425.8 million year-to-date due to the transfer of Medicaid funds to AHCCCS.
- Prior to FY 2017, DHS used to administer the state's Medicaid Behavioral Health program. Beginning in FY 2017, this responsibility has been shifted to AHCCCS. Due to this shift, DHS will no longer be making its beginning of the year Medicaid transfer, causing DHS year-to-date spending to decline by \$(420.5) million compared to the prior year.

Table 10				
General Fund Spending (\$ in Millions)				
		Change From		YTD Change
	<u>August 16</u>	<u>August 15</u>	<u>Year-to-Date</u>	<u>from FY 16</u>
Agency				
AHCCCS	118.6	(22.9)	308.9	42.3
Corrections	100.3	(10.7)	193.5	13.3
Child Safety	18.8	(1.6)	50.5	3.2
Economic Security	5.1	(5.0)	425.8	72.7
Education	247.6	9.7	1,490.1	46.7
Health Services	13.2	(4.1)	19.9	(420.5)
Public Safety	4.3	(0.0)	26.7	0.8
School Facilities Board	170.6	9.2	170.7	9.3
Universities	56.5	17.8	105.7	25.6
Leaseback Debt Service	0.0	0.0	84.1	0.0
Other	<u>52.1</u>	<u>18.2</u>	<u>151.1</u>	<u>34.2</u>
Total	787.1	10.6	3,027.0	(172.4)

Table 11

General Fund Spending (\$ in Thousands)				
Agency	August 16	Change from August 15	Year-to-Date	YTD Change from FY 16
Dept. of Admin./Automation Projects Fund	2,183.0	694.0	15,581.8	13,385.3
ADOA – Sale/Leaseback Debt Service	-	-	84,117.4	2.8
Office of Administrative Hearings	124.1	40.9	176.7	45.8
Commission of African-American Affairs	12.5	5.6	23.2	9.7
Department of Agriculture	1,006.8	412.1	1,761.8	537.5
AHCCCS	118,576.2	(22,943.2)	308,871.2	42,345.6
Attorney General	2,445.9	715.0	4,129.5	680.1
State Board of Charter Schools	92.7	(8.7)	179.6	23.1
Department of Child Safety	18,793.3	(1,585.8)	50,469.7	3,197.6
AZ Commerce Authority	1,791.7	(416.6)	3,583.4	(833.2)
Community Colleges	71.4	71.4	12,428.7	122.5
Corporation Commission	65.0	16.7	105.6	13.7
Department of Corrections	100,316.3	(10,677.3)	193,450.1	13,250.2
AZ State Schools for the Deaf & Blind	3,755.2	1,483.9	5,661.0	923.3
Department of Economic Security	5,138.9	(4,998.9)	425,833.6	72,708.2
State Board of Education	91.1	27.9	191.0	(26.1)
Department of Education	247,578.9	9,676.8	1,490,063.1	46,706.0
DEMA	683.9	378.7	1,254.9	801.7
Office of Equal Opportunity	32.9	23.2	33.0	13.7
State Board of Equalization	71.0	(58.7)	118.1	(40.3)
Board of Executive Clemency	59.9	(4.1)	116.1	(16.8)
Department of Financial Institutions	288.8	69.2	494.9	68.6
Department of Fire, Bldg and Life Safety	(5.0)	(359.2)	(4.3)	(453.1)
Department of Forestry and Fire Management	805.7	215.7	1,678.8	677.9
Department of Gaming	-	(1,779.5)	1,779.5	(14.9)
Governor/OSPB	952.9	166.5	1,756.5	199.3
Department of Health Services	13,236.8	(4,099.2)	19,935.7	(420,469.0)
Arizona Historical Society	303.4	88.1	640.9	88.4
Prescott Historical Society of AZ	85.6	4.6	159.6	(11.7)
Department of Housing	126.4	126.4	182.4	182.4
Independent Redistricting Comm.	68.5	27.0	190.9	84.1
Department of Insurance	482.1	35.4	811.9	31.9
Judiciary				
Supreme/Superior Court	3,428.2	1,567.1	20,135.5	1,759.6
Court of Appeals	1,490.2	453.6	2,512.4	418.0
Department of Juvenile Corrections	3,559.8	504.1	6,673.0	514.0

Table 11 (Continued)

Agency	August 16	Change from August 15	Year-to-Date	YTD Change from FY 16
State Land Department	889.0	132.2	1,668.5	212.6
Legislature				
Auditor General	2,188.2	(771.8)	3,648.4	660.1
House of Representatives	1,321.0	6.0	2,212.5	302.4
Joint Legislative Budget Comm.	296.0	128.7	476.6	141.4
Legislative Council	587.4	212.5	1,234.8	41.8
Senate	858.3	278.5	1,500.8	246.6
Mine Inspector	112.2	52.2	206.0	52.5
Nav. Streams & Adjudication	16.2	7.3	25.7	9.2
Arizona State Parks Board	-	-	-	(272.8)
Phoenix Convention Center	-	-	20,449.0	-
Comm. for Postsecondary Ed.	305.0	305.0	349.0	261.0
Department of Public Safety	4,340.1	(9.7)	26,655.6	822.8
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	152.7	74.8	443.6	71.5
Real Estate Department	310.0	110.5	525.4	170.8
Department of Revenue	3,143.6	(1,781.6)	4,999.9	(5,083.8)
School Facilities Board	170,561.1	9,205.7	170,670.1	9,295.3
Secretary of State	1,447.6	572.0	5,527.2	4,054.2
Tax Appeals Board	26.3	(26.1)	43.5	(25.6)
Office of Tourism	-	-	1,777.6	(708.7)
Governor's Office on Tribal Relations	9.6	8.1	16.7	14.1
Universities				
Board of Regents	6,142.6	5,142.8	6,330.1	189.6
Arizona State University	23,743.7	8,068.3	47,487.3	16,136.6
Northern Arizona University	6,541.7	7.0	11,788.7	134.9
University of Arizona	20,049.2	4,569.9	40,098.4	9,139.9
Department of Veteran Services	677.3	191.1	1,163.7	360.6
Department of Water Resources	1,073.1	114.8	1,918.3	323.8
Department of Weights & Measures	-	(103.6)	-	(173.7)
Other - JP Salaries Distribution	53.5	(195.0)	177.7	(93.8)
Total	787,060.4	10,559.2	3,026,993.3	(172,403.8)

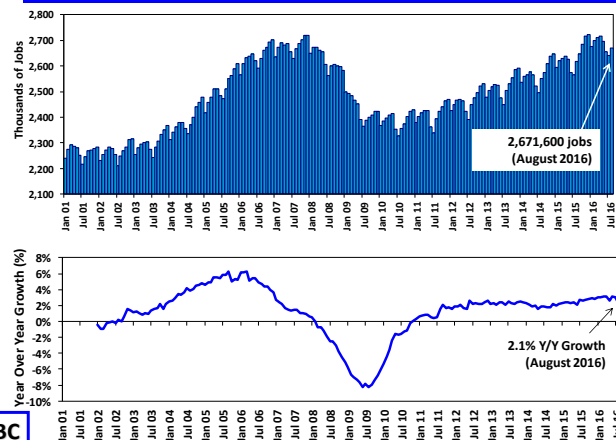
Arizona Economic Trends

September 2016
Appendix A

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- 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
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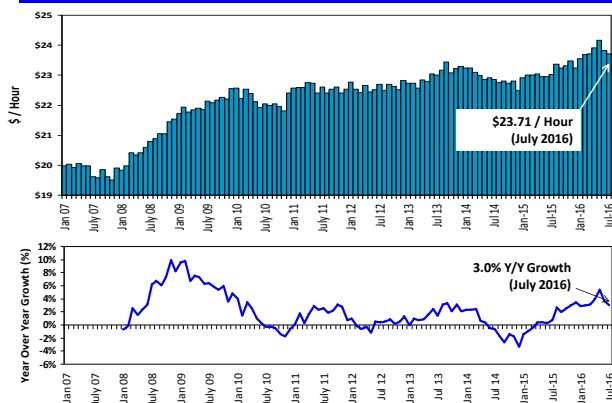
Total Non-Farm Employment



JLBC

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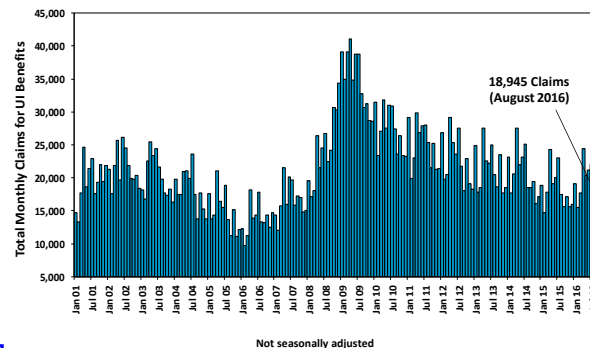
Average Hourly Earnings – Private Sector



JLBC

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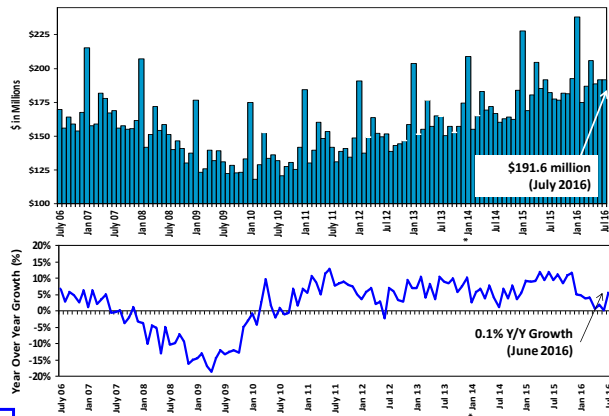
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



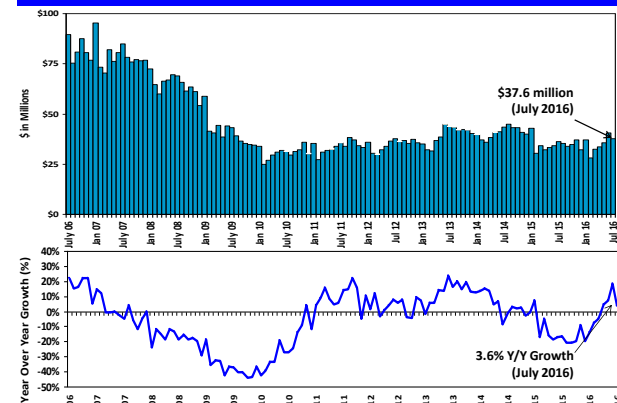
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Excludes temporary 1 ¢ sales tax

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

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State Sales Tax Collections – Contracting Category

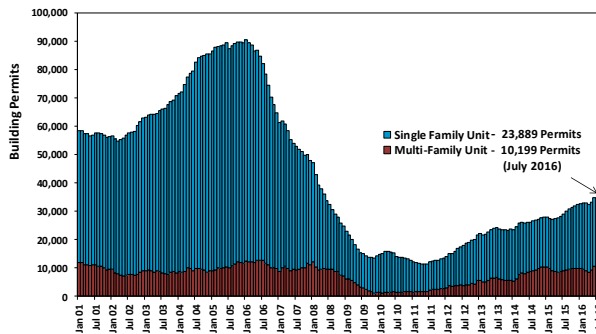


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Excludes temporary 1 ¢ sales tax

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Residential Building Permits

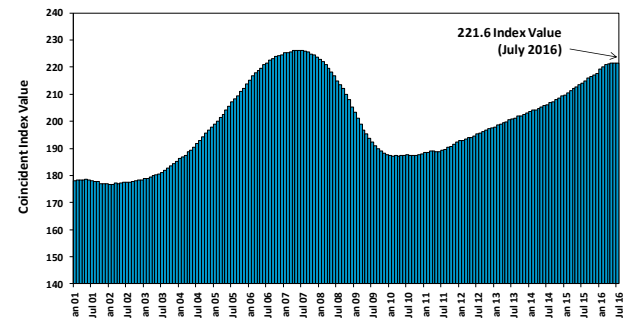


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12-Month Moving Sum

7

Economic Activity Index



JLBC

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

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