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

Summary

Beginning with this February report, the *Monthly Fiscal Highlights* will compare actual revenue collections to the Baseline forecast published last month. The Baseline forecast is based on the 4-sector consensus revenue estimates that were presented at the January Finance Advisory Committee meeting.

January General Fund revenues totaled \$1.05 billion, which represents a (2.9)% decline compared to January 2018. While the drop in January revenues was small in percentage terms, these collections were significantly below the Baseline forecast for the month, resulting in a forecast loss of \$(91.0) million.

A forecast loss of this magnitude after only one month of benchmarking against the Baseline forecast raises concerns about the state's ability to meet the JLBC Baseline revenue forecast through the remainder of the fiscal year. Any revenue shortfall would mainly affect the state's long-term budget projections – in the short-term, if revenues were to ultimately come in below forecast during FY 2019, the state's significant cash balance would be sufficient to offset any revenue losses.

Individual Income Tax Payment Decline
Individual Income Tax (IIT) payments are due from taxpayers by January 15th, and in practice are generally received by the state

during late December through mid-January. Given this schedule, payments can play an outsized role in the January revenue results. The forecast loss during January was almost entirely due to a significant decline in IIT payments.

As noted in prior *Monthly Fiscal Highlights*, the state experienced a significant surge of payments in December 2017/January 2018. Given uncertainty about the cause of this surge, the Baseline forecast expected that payments would recede to a more reasonable level during the current year (*see Table 1 below*). The Baseline forecast assumed an FY 2019 level of payments (\$310 million) that showed modest growth above a more "normal" level seen 2 years ago during FY 2017 (\$277 million).

	\$ in M
FY '17	277
FY '18	434
FY '19 (Forecast)	310
FY '19 (Actual)	213

The drop in payments, however, was much steeper than expected. Given the decline seen during January, the combined December/January payment total of \$213 million was significantly below even the \$277 million level of FY 2017.

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Summary (Continued)

Based on data from other states, it appears that declining IIT payments is not happening only in Arizona – however, Arizona's decline was more significant than many other states. There are several potential reasons for the drop in IIT payments which are difficult to quantify.

The 9% overall decline in the stock market during December may have reduced capital gains or created capital losses, thereby reducing IIT payments. In this circumstance, this trend could well extend to final IIT payments in April.

In addition, federal tax law changes may be affecting taxpayer filing behavior, as the \$10,000 State and Local Tax (SALT) Deduction cap reduces the incentives for high income individuals to make final payments in advance. Prior to the SALT cap, taxpayers may have preferred to transmit a larger estimated payment by the end of December to claim a deduction on the following April's tax return.

Core State Revenue Collections

In contrast to the performance of IIT payments, the state's core revenue categories which are most responsive to broad-based economic conditions are doing very well.

Sales Tax collections have increased by 7.0% year-to-date, with gains across all of its major subcomponents (Retail, Contracting and Restaurant/Bar). In particular, Prime Contracting revenues are up to 16.8% during FY 2019, bolstered by significant growth in building permit activity. In just January, Sales Tax revenue grew by 6.3% above the prior year.

In addition, Withholding collections are up 6.3% year-to-date, helped by consistent wage and employment growth through FY 2019. So far during FY 2019, average wage growth has been approximately 2%, along with annual employment growth in the 2% - 3% range. January Withholding growth was relatively disappointing at 0.1% for the month – but this appears to be the result of technical timing issues related to the number of processing days in the month.

FY 2019 Forecast Implications

As noted above, the January forecast loss has potential implications for the overall FY 2019 revenue forecast. The trend of revenue collections through the end of FY 2019 will depend on several factors:

- IIT Payments – The recent drop in IIT payments may represent a net loss for the state, if the decline was due to economic performance (such as the poor stock market performance in December). In contrast, the state may recoup some of the payment loss in April if the payment decline was due to technical timing issues (such as with the SALT cap).

- Core State Revenue Collections – Continued strong revenue performance for Sales Tax and Withholding have the potential to produce some forecast gains for the State.
- Corporate Income Tax – Year-to-date, Corporate Income Tax (CIT) revenues have increased by 61.8% above the prior year. Given the Baseline forecast of 17% for the category, CIT has the potential to generate forecast gains during FY 2019. Given the historical volatility of Corporate collections, however, future performance of this tax category is difficult to predict with any certainty.

Year-to-Date Results/Other Economic Data

Year-to-date, excluding Urban Revenue Sharing and fund transfers, FY 2019 General Fund revenues are 4.4% above the prior year.

In comparison to January revenue collections of \$1.05 billion, January 2019 spending was \$788.0 million, which is a decrease of \$(4.0) million below the prior year.

Fiscal year-to-date, General Fund revenues of \$6.32 billion have been offset by \$6.91 billion of expenditures.

The operating fund balance consists of the General Fund and certain dedicated funds. The operating balance as of mid-February 2019 is \$1.93 billion.

In addition, the state Budget Stabilization Fund (BSF) has a balance of \$438.6 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.

January FAC Summary

The Finance Advisory Committee (FAC) met on January 24, 2019 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 FAC heard presentations on General Fund Revenue collections, the U.S. economy, and state cash flows. The JLBC Staff provided members with the [FY 2019 – FY 2022](#) Baseline revenue estimates along with projected ending balance estimates.

Summary (Continued)

The JLBC Staff presentation also included a comparison to the Executive revenue forecast. Both the JLBC Baseline and Executive revenue forecast exclude the impact of federal tax conformity.

The January 4-sector forecasted net revenue growth of 7.0% in FY 2019, 3.9% in FY 2020, 3.4% in FY 2021, and 3.8% in FY 2022. Under the January updated revenue and spending projections, the FY 2020 Baseline would have a projected ending balance of \$945 million in FY 2019 and \$1.3 billion in FY 2020. Of this amount, an estimated \$200+ million would be available for ongoing initiatives.

In addition to the JLBC Staff presentation, panel members heard formal presentations from economist Elliott Pollack of Elliott D. Pollack and Company and Deputy Treasurer Mark Swenson. The general assessment by presenters and FAC panel members is that the state is likely to experience strong growth in FY 2019, followed by more moderate growth rates through FY 2022. Additional information is available on our website at [January FAC Meeting](#).

State Appropriations Limit Report

JLBC Staff is required to annually report by February 15 on how state spending compares to the constitutional appropriations limit. The Arizona Constitution limits the appropriation of certain state revenues to no more than 7.41% of Arizona personal income. Total FY 2019 state appropriations (both General and Other Funds) are \$17.91 billion, or 5.68% of personal income. Under the

JLBC Baseline, projected FY 2020 spending is \$18.65 billion, which would be 5.52% of personal income.

Truth in Taxation (TNT Report)

JLBC Staff recently reported the new Truth in Taxation (TNT) rates for FY 2020, as required by A.R.S. § 41-1276. Due to the growth in values for new properties being higher than expected, the cost of the FY 2020 Basic State Aid formula will be \$(1.6) million lower than the JLBC Baseline. The purpose of TNT is to offset the annual change in the value of existing property statewide with proportional Qualifying Tax Rate and State Equalization Tax Rate changes.

January Revenues

	<u>FY 2019 Collections</u>	<u>Difference From Baseline Forecast</u>	<u>Difference From FY 2018</u>
January	\$ 1,047.1	\$ (91.0)	\$ (30.8)
Year-to-Date	\$ 6,323.1	\$ (91.0)	\$ 405.3

Sales Tax collections of \$477.5 million were 6.3% above January of last year and \$1.1 million above the forecast for the month. January tax collections reflect sales activity in December. Year-to-date, sales tax collections are 7.0% above the prior year.

Tax collections by category for January are shown in *Table 3*. The 5 major categories of the state's sales tax

in the table account for approximately 90% of total collections.

The retail category, which makes up approximately half of total sales tax collections, increased (year over year) by 4.9% in January. This was slightly higher than the post-recession average growth rate of 4.3% for this month.

January Revenues (Continued)

Prime contracting continued to outperform other sales tax categories in January with a year-over-year increase of 23.1%. Year to date, prime contracting tax revenue is up by 16.8% and is currently on pace to have its best year since FY 2006 when collections grew by 27.6%.

	<u>January</u>	<u>YTD</u>
Retail	4.9%	6.9%
Contracting	23.1%	16.8%
Use	12.8%	8.7%
Restaurant & Bar	0.0%	5.7%
Utilities	4.5%	0.0%

Individual Income Tax net revenues of \$581.7 million in January were \$(88.4) million below forecast for the month. Year-to-date, Individual Income Tax revenues are (1.2)% below the prior year.

January estimated and final payments of \$162.2 million were (24.9)% below last year and \$(96.9) million below forecast. Individual income tax payments have declined (24.9)% year-to-date.

The decline in individual income tax payments continues a trend from December, when these payments had declined by (76.6)% from the prior year. In FY 2018, the state received an unusually large amount of individual income tax payments in December and January. While the forecast anticipated a decline in FY 2019, the extent of the decline is more dramatic than anticipated. The JLBC Staff lacks information to explain the severity of the reduction.

It remains possible that some of the decline in payments will be offset by higher final income tax payments during tax filing season. Previously, taxpayers could deduct the full amount of their state and local tax payments from their federal taxes. This deduction may have given some taxpayers an incentive to pay a greater share of their overall tax liability in December, so that it could be deducted in that tax year. The recent federal Tax Cuts and Jobs Act capped this deduction at \$10,000, thereby reducing this incentive.

As indicated in *Table 4*, January withholding revenues of \$427.2 million were 0.1% above last year and \$3.0 million above the forecast. Withholding has grown by 6.3% YTD.

January Individual Income Tax refunds totaled \$(7.7) million, which compares to \$(10.5) million from last year. With a forecasted refund level of \$(13.2) million, the lower level of refunds produced a forecast gain of \$5.5 million.

Table 4
Individual Income Tax Growth Rates
Compared to Prior Year

	<u>January</u>	<u>YTD</u>
Withholding	0.1%	6.3%
Estimated/Final Payments	(24.9)%	(24.9)%
Refunds	(26.4)%	10.1%

Corporate Income Tax net collections were \$(21.8) million in January. The large negative amount is largely the result of a timing issue with December and January refunds. Collections, however, remain strong through the fiscal year, up 61.8% year-to-date.

Insurance Premium Tax net collections were \$(14,700) in January due to refunds. January is a historically low collection month in which no payments are due. Year-to-date collections are 2.9% above the prior year.

In December, **tobacco tax** revenues were \$2.0 million. This amount is \$(0.1) million below the prior year. **Liquor collections** during the month were \$3.4 million. This amount is \$0.1 million, or 4.5% above December 2017. Due to the delay in receiving January data, January collections are reported at forecast.

The **Lottery Commission** reports that January ticket sales were \$87.7 million, which is \$(6.1) million, or (6.6)% below sales in January 2018. Year-to-date, ticket sales are \$614.0 million and 10.6% above the prior year. General Fund distributions in January were \$34.7 million, which is \$3.8 million higher than forecast.

Highway User Revenue Fund (HURF) collections of \$129.3 million in January were up 6.7% compared to January of last year and were \$2.9 million above the forecast. Year-to-date, collections have increased by 5.3% above the prior year and are \$16.2 million above forecast.

Due to delays in reporting final December revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For December, DOR has increased the amount of prior General Fund revenue collections by \$226,156 and the adjustment has been included in the reported year-to-date results.

Table 5

General Fund Revenue: Change from Previous Year and Baseline Forecast January 2019

	Current Month					FY 2019 YTD (Seven Months)				
	Actual January 2019	Change From January 2018		Baseline Forecast		Actual January 2019	Change from January 2018		Baseline Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$477,533,483	\$28,477,864	6.3 %	\$1,115,824	0.2 %	\$2,950,547,240	\$192,832,198	7.0 %	\$1,115,824	0.0 %
Income - Individual	581,716,207	(50,521,800)	(8.0)	(88,353,533)	(13.2)	2,982,537,301	(37,290,607)	(1.2)	(88,353,533)	(2.9)
- Corporate	(21,820,604)	(29,955,412)	--	(5,599,792)	34.5	250,034,147	95,487,727	61.8	(5,599,792)	(2.2)
Property	1,201,772	(668,302)	(35.7)	(720,233)	(37.5)	17,258,966	(3,133,394)	(15.4)	(720,233)	(4.0)
Luxury - Tobacco	1,603,646	(18,116)	(1.1)	0	--	12,651,277	(281,054)	(2.2)	0	0.0
- Liquor	3,579,230	(159,626)	(4.3)	0	--	21,338,097	404,952	1.9	0	0.0
Insurance Premium	(14,705)	581,625	--	(2,818,567)	--	214,100,583	6,070,217	2.9	(2,818,567)	(1.3)
Other Taxes	742,547	(216,410)	(22.6)	47,118	6.8	5,444,779	4,231,660	348.8	47,118	0.9
Sub-Total Taxes	\$1,044,541,576	(\$52,480,177)	(4.8) %	(\$96,329,183)	(8.4) %	\$6,453,912,390	\$258,321,699	4.2 %	(\$96,329,183)	(1.5) %
<u>Other Revenue</u>										
Lottery	34,722,630	10,471,780	43.2	3,750,285	12.1	76,105,807	24,789,570	48.3	3,750,285	5.2
License, Fees and Permits	2,161,775	(1,290,339)	(37.4)	(928,391)	(30.0)	19,628,877	(4,513,004)	(18.7)	(928,391)	(4.5)
Interest	4,644	8	0.2	52,497	--	1,582,373	1,311,335	483.8	52,497	3.4
Sales and Services	2,616,218	1,027,928	64.7	1,462,130	126.7	13,299,967	2,434,943	22.4	1,462,130	12.4
Other Miscellaneous	971,036	(3,190,156)	(76.7)	(162,447)	(14.3)	7,274,278	(7,373,003)	(50.3)	(162,447)	(2.2)
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	10,222,661	6,098,988	147.9	1,196,314	13.3	23,423,612	5,430,188	30.2	1,196,314	5.4
Sub-Total Other Revenue	\$50,698,964	\$13,118,210	34.9 %	\$5,370,387	11.8 %	\$141,314,915	\$22,080,030	18.5 %	\$5,370,387	4.0 %
TOTAL BASE REVENUE	\$1,095,240,540	(\$39,361,967)	(3.5) %	(\$90,958,796)	(7.7) %	\$6,595,227,305	\$280,401,730	4.4 %	(\$90,958,796)	(1.4) %
<u>Other Adjustments</u>										
Urban Revenue Sharing	(56,233,703)	497,137	(0.9)	(0)	0.0	(393,635,922)	3,479,958	(0.9)	(0)	0.0
One-Time Transfers	4,200,000	4,200,000	--	0	0.0	98,358,056	98,358,056	--	0	0.0
Public Safety Transfers	3,851,318	3,851,318	--	(0)	(0.0)	23,107,908	23,107,908	--	(0)	(0.0)
Sub-Total Other Adjustments	(48,182,385)	8,548,455	(15.1) %	(0)	0.0 %	(272,169,957)	124,945,923	(31.5) %	(0)	0.0 %
TOTAL GENERAL FUND REVENUE	\$1,047,058,155	(\$30,813,513)	(2.9) %	(\$90,958,796)	(8.0) %	\$6,323,057,348	\$405,347,653	6.8 %	(\$90,958,796)	(1.4) %
<u>Non-General Funds</u>										
Highway User Revenue Fund	129,292,577	8,167,759	6.7 %	2,897,497	2.3 %	880,432,844	44,652,317	5.3 %	16,156,703	1.9 %

Monthly Indicators

NATIONAL

Due to the recent federal government shutdown, the U.S. Department of Commerce Bureau of Economic Analysis' (BEA) has not released any new data on the **U.S. Real Gross Domestic Product (GDP)** since the release of the January Monthly Fiscal Highlights.

The Conference Board's **U.S. Consumer Confidence Index**, which is based on consumers' perceptions of current conditions, as well as their expectations 6 months into the future, decreased by (5.1)%, or (6.4) points, from 126.6 in December to 120.2 in January, its lowest reading since July 2017. December's value was also revised down. The January decline was primarily driven by worsened consumer expectations, which were likely related to the 35-day long federal government shutdown. Improved stock market performance and lower gasoline prices may have helped to limit the decline of the index.

Due to the recent federal government shutdown, the U.S. Department of Commerce Bureau of Economic Analysis' (BEA) has not released any new data on the **U.S. Personal Consumption Expenditure (PCE) Price Index** since the release of the January Monthly Fiscal Highlights.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, were unchanged in January and increased 1.6% above January 2018 prices. A broad-based (3.1)% decline in the energy index, headlined by a (5.5)% decrease in the gasoline index, was offset by several index increases. Those increases include the indexes for food, shelter, apparel, and medical care. Like the previous 4 months, core inflation (all items less food and energy) increased 0.2% for the month. The indexes for airline fares and vehicle insurance saw monthly decreases.

The Conference Board's **U.S. Leading Economic Index** decreased (0.1)% in December to 111.7 and is 4.3% above its December 2017 reading. The decline was primarily driven by decreases in the indexes for stock prices and Institute of Supply Management (ISM) new orders. Those decreases were partially offset by positive contributions from the index for average weekly initial claims. Of the index's 10 components, 7 made positive contributions for the month.

ARIZONA

Housing

Single-family housing construction is increasing. In November, Arizona's 12-month total of **single-family building permits** was 30,636, or 12.0% more than a year

ago. The comparable single-family permit growth rate for the entire U.S. was 4.7%.

The 12-month total of multi-family building permits has been up and down. In November, Arizona's total of 10,473 **multi-family building permits** was (2.3)% less than in 2017. Nationwide multi-family permits were 4.0% more than in 2017.

Tourism

Revenue per available room was \$61.50 in December, 4.1% above the same month in the prior year.

Ridership through Phoenix Sky Harbor Airport during the month was up 4.0% above December 2017. The number of **visitors to state parks** declined (2.3)% year-over-year, possibly the result of colder temperatures.

Employment

Due to the annual revision of employment date (also known as "benchmarking"), January's employment and unemployment figures will not be released until the second week of March. For this reason, this month's issue of *Monthly Fiscal Highlights* does not include these employment statistics.

The U.S. Bureau of Labor Statistics releases estimates quarterly for a broader measure of labor underutilization called the **total unemployment rate**. Besides the "regularly" unemployed, the measure also includes persons who are available to work but stopped looking for a job ("discouraged workers"), and persons who had to settle for part-time employment ("underemployed workers"). The Arizona rate averaged 9.1% during the 4 quarters of 2018. This rate is (0.2)% below the reading issued for the prior period. The state's 9.1% rate was the fifth highest of any state. The national average for the measure was 7.7% during the quarter.

Average Weekly Hours

In December, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.4 hours. This was (0.3)% below the level during the prior month, and (1.1)% below the level in December 2017.

Average Hourly Earnings

The **Average Hourly Earnings** received by private sector workers in December was \$26.02, which was 2.0% above the average in the prior month. Year-over-year growth in earnings increased from (0.3)% in November to 1.8% in December.

State Agency Data

At the beginning of February 2019, the total **AHCCCS caseload** was 1.82 million members. Since the federal

Monthly Indicators (Continued)

health care expansion in January 2014, the overall AHCCCS population has grown by 561,800 members.

Total monthly enrollment was flat in February but was 0.6% higher than a year ago. Parent and child enrollment in the Traditional population declined by (0.2)% in February and was (1.0)% lower than a year ago.

Through February 1, 2019, enrollment in the KidsCare program was 32,900, an increase of 1.2% from the month prior and 39.1% above last year.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In February 2019, the childless adult population increased by 0.6%. At 318,400, this population is 3.5% higher than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased 0.6%, in February and totals 77,900 individuals. Enrollment is (0.3)% lower than a year ago. The federal share of this population's cost was reduced to 93% in January 2019.

Based on information the Department of Child Safety provided for December 2018, **reports of child maltreatment** totaled 46,827 over the last 12 months, a decrease of (1.3)% over the prior year. There were 13,967 **children in out-of-home care** as of November 2018, or (9.1)% less than in November 2017. Compared to the prior month, the number of out-of-home children declined by (1.4)%.

The **inmate population** was 41,861 as of January 31, 2019. This was a (0.2)% decrease from December 31, and a (0.1)% decrease since January 2018.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County **probation caseload** was 28,424 as of November 2018. This was an increase of 63 above the prior month, and an increase of 141 since last November. In addition, the state's non-Maricopa County probation caseload was 18,884. This was a decrease of (105) below the prior month, and a decrease of (266) since last November. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

Table 6

MONTHLY INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
Arizona				
<u>Employment</u>				
- Regular Unemployment Rate	December	4.8%	0.1%	0.1%
- Total Unemployment Rate (discouraged/underemployed)	4 th Q 2018	9.1%	(0.2)%	(0.4)%
- Initial Unemployment Insurance Claims	December	12,964	(6.0)%	(9.6)%
- Unemployment Insurance Recipients	December	12,853	(34.8)%	(37.1)%
- Non-Farm Employment - Total	December	2,932,100	(0.2)%	3.3%
Manufacturing	December	177,600	0.4%	4.5%
Construction	December	170,300	0.4%	12.7%
- Average Weekly Hours, Private Sector	December	34.4	(0.3)%	(1.1)%
- Average Hourly Earnings, Private Sector	December	\$26.02	2.0%	1.8%
<u>Building</u>				
- Residential Building Permits (12-month avg) Single-family	November	30,636	0.0%	12.0%
Multi-family	November	10,473	(1.2)%	(2.3)%
- Maricopa County/Other, Home Sales (ARMLS) Single-Family (Pending Sales)	December	3,352	(23.6)%	(10.3)%
- Maricopa County/Other, Median Home Price (ARMLS) Single-Family (Pending Sales)	December	\$282,482	(0.9)%	6.4%
- Phoenix S&P/C Home Price Index (2000 = 100)	November	187.47	0.3%	8.1%
- Maricopa Pending Foreclosures	December	2,726	2.3%	(10.6)%
- Greater Phoenix Total Housing Inventory, (ARMLS)	December	20,694	(3.6)%	3.4%
<u>Tourism</u>				
- Phoenix Sky Harbor Air Passengers	December	4,352,380	NIA	4.0%
- State Park Visitors	December	171,288	NIA	(2.3)%
- Revenue Per Available Hotel Room	December	\$61.50	(23.0)%	4.1%
<u>General Measures</u>				
- Arizona Leading Index – 6-month projected growth	November	2.6%	(1.7)%	(0.4)%
- Arizona Personal Income	3rd Q 2018	\$313.1 billion	1.3%	4.7%
- Arizona Population	July 2018	7,171,646	N/A	1.7%
- 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	February 1st	1,819,954	0.0%	0.6%
Acute Care Traditional		1,028,885	(0.2)%	(1.0)%
Prop 204 Childless Adults		318,398	0.6%	3.5%
Other Prop 204		185,491	(0.1)%	1.2%
Adult Expansion		77,962	0.6%	(0.3)%
Kids Care		32,899	1.2%	39.1%
Long-Term Care – Elderly & DD		64,121	0.3%	5.0%
Emergency Services		112,198	(0.3)%	(2.8)%
- Department of Child Safety (DCS)				
Annual Reports of Child Maltreatment (12-month total)	December	46,827	(0.3)%	(1.3)%
DCS Out-of-Home Children	November	13,967	(1.4)%	(9.1)%
Filled Caseworkers (1406 Budgeted)	December	1,329	3	8
- ADC Inmate Growth	January	41,861	(0.2)%	(0.1)%
- Department of Economic Security				
- TANF Recipients	December	14,512	(2.2)%	(14.1)%
- SNAP (Food Stamps) Recipients	December	824,623	(1.2)%	(6.7)%
- Judiciary Probation Caseload				
Non-Maricopa	November	18,884	(105)	(266)
Maricopa County	November	28,424	63	141
United States				
- Gross Domestic Product (Chained 2012 dollars, SAAR)	3rd Q, 2018 (3rd Estimate)	\$18.7 trillion	3.4%	3.0%
- Consumer Confidence Index (1985 = 100)	January	120.2	(5.1)%	(3.3)%
- Leading Indicators Index (2016 = 100)	December	111.7	(0.1)%	4.3%
- Consumer Price Index, SA (1982-84 = 100)	January	252.7	0.0%	1.6%
- Personal Consumption Expenditure Price Index (2012 = 100)	November	108.9	0.1%	1.8%

Summary of Recent Agency Reports

Arizona Department of Administration – Report on Building Renewal Spending – Pursuant to an FY 2019 Capital Outlay Bill footnote, the Arizona Department of Administration (ADOA) reported the status of building renewal projects and building renewal expenditures. As of January 31, 2019, ADOA has spent \$6.6 million of its \$8.3 million FY 2018 building renewal appropriation. The majority of FY 2018 projects have been completed with the remaining projects encumbering an additional \$355,600. In addition, ADOA has spent \$1.4 million of its \$12.0 million FY 2019 building renewal appropriation. The majority of FY 2019 projects are in progress encumbering an additional \$1.9 million. (Morgan Dorcheus)

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

Through the second quarter of FY 2019, the AG has received \$50,000 of its \$100,000 FY 2019 General Fund appropriation to the fund. The AG has not yet expended any of these funds and does not presently have an expenditure plan. (Adam Golden)

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 second quarter of FY 2019, the AG has received \$225,000 in lottery revenues for deposit into the ICAC Enforcement Fund. A total of \$304,900 was expended from the fund balance in the second 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 December 31, 2018, the ICAC Enforcement Fund had a fund balance of \$2,240,800 and no outstanding encumbrance. (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 - 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 second quarter of FY 2019, the AG deposited a total of \$4.3 million into various consumer accounts. Of that amount, \$3.3 million was deposited into the CPCF Revolving Fund, \$5,000 into the Antitrust Enforcement Revolving Fund, \$947,200 into the Consumer Restitution Subaccount, and \$30,800 into the Consumer Remediation Subaccount. The AG made no deposits to the General Fund.

Deposits to the CPCF Revolving Fund

The AG deposited \$3.3 million 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, \$3.2 million is the remainder of funds awarded to compensate outside counsel from a settlement with Volkswagen. Small legal settlements of less than \$250,000 contributed an additional \$69,900, and \$1,000 came from other revenue sources. The remaining \$91,500 was the result of a transfer into the fund.

Deposits to Antitrust Enforcement Revolving Fund

The AG deposited \$5,000 into the appropriated Antitrust Enforcement Revolving Fund, which may be used for antitrust enforcement expenses, excluding attorney compensation. All these funds resulted from small legal settlements of less than \$250,000.

Deposits to the Consumer Restitution Subaccount

The AG deposited \$974,200 into the non-appropriated Consumer Restitution Subaccount to compensate specific entities for economic loss resulting from consumer fraud. Of that amount, \$933,500 resulted from unclaimed funds from a nationwide class action settlement with Western Union in 2009, \$6,500 from small legal settlements of less than \$250,000, and the remaining \$34,200 from interest income.

Summary of Recent Agency Reports (Continued)

Deposits to the Consumer Remediation Subaccount

The AG deposited \$30,800 into the partially-appropriated Consumer Remediation Subaccount, which is used to rectify violations of consumer protection laws. All these funds resulted from interest income. (Adam Golden)

Department of Child Safety – DCS/ECDHB Joint Report –

Pursuant to a provision in the FY 2019 Human Services Budget Reconciliation Bill (Laws 2018, Chapter 282), the Department of Child Safety (DCS) and the Early Childhood Development and Health Board (ECDHB) reported on the level of coordination among DCS, ECDHB, and community groups to promote the well-being of children and families that are identified in reports of abuse or neglect. The systemic collaborative efforts include:

- **Court Teams Program:** ECDHB funds teams that are intended to improve how the courts, child welfare, and child serving organizations work together to protect infants and toddlers in the child welfare system from further harm. The agencies estimate that a total of 6,300 infants and toddlers were impacted by the court teams in FY 2018.
- **Child Care Funding and Quality Improvement:** ECDHB provided \$30 million of matching dollars to draw down \$37 million of matching federal monies in federal fiscal year (FFY) 2018. These monies provide child care scholarships to low-income families to reduce instances of abuse or neglect associated with children being cared for in unsafe environments. ECDHB also reports that the number of child care providers with at least a 3-star quality rating increased from 25% in FY 2013 to 74% in FY 2018, which it attributes to its Quality First initiative.
- **Early Childhood Mental Health Consultations (ECMHC):** ECDHB operates the ECMHC program, which provides children with socio-emotional and behavioral issues, including DCS-involved children, with consultation from trained mental health professionals to reduce the incidence of poor classroom behaviors and lower expulsion rates from preschool and child care. The program also provides training to teachers of children with socio-emotional or behavioral issues. In FY 2018, 477 child and preschool providers received a consultation from the program in an effort to prevent child expulsions and 106 children were referred to services to address their behavioral health needs.

Aside from these system-level collaborations, DCS and ECDHB collaborate in other programs as well. For example, the Healthy Families Arizona program, which is a home visitation program for families during the first 5 years of a child's life, is funded jointly by ECDHB, DCS,

and the Department of Health Services (DHS). In FY 2018, 4,330 families were served statewide. (Elizabeth Dagle)

Department of Corrections – Report on Building Renewal Expenditures – Pursuant to an FY 2019 Capital Outlay Bill (Laws 2018, Chapter 277) footnote, the Arizona Department of Corrections (ADC) reported the status of all current building renewal projects and building renewal expenditures. As of December 31, 2018, ADC has spent or encumbered \$1.7 million of its \$5.5 million FY 2019 building renewal appropriation, or 30.0%. ADC also reports it has spent or encumbered 79.8% of its \$5.5 million FY 2018 building renewal appropriation and 78.6% of its \$1.5 million FY 2018 appropriation for locking system replacements. ADC reports that all pre-FY 2018 building renewal projects are complete and it has reverted \$424,400 of the appropriations from FY 2015, FY 2016 and FY 2017. ADC also expects to revert up to an additional \$54,900 from the FY 2015 appropriation. (Geoffrey Paulsen)

Judiciary – Report on Probation Officer Pay Adjustments – Pursuant to an FY 2019 General Appropriation Act footnote, the Administrative Office of the Courts (AOC) submitted a report on the county-approved salary adjustments provided to probation officers since the last report on February 1, 2018. The report includes the approved percentage salary increase by year, net increase in the amount allocated to each probation department by the AOC for each year, the average number of probation officers by year, and the average salary of probation officers by year.

The report indicates that the number of state-funded Adult Probation officers increased by 10, from 275.8 in FY 2017 to 285.8 in FY 2018. The number of Juvenile Probation officers decreased by 1, from 66.41 to 65.41. These numbers include both case-carrying and non-case-carrying officers.

AOC reports that the average statewide salary for Adult Probation officers increased from \$45,820 in FY 2017 to \$46,308 in FY 2018. The average statewide salary for Juvenile Probation officers increased from \$48,211 in FY 2017 to \$48,307 in FY 2018. These salaries include both case-carrying and non-case-carrying officers.

AOC projects that 6 of the 15 Arizona counties' probation payroll will increase in FY 2019. The projected increases ranged from 2.5% to 3.0%.

The AOC reports that the amount of General Fund support to counties increased \$500,000 in FY 2018, or

Summary of Recent Agency Reports (Continued)

1.5%, to help cover the cost of probation officer salary increases. (Geoffrey Paulsen)

Public Safety Personnel Retirement System (PSPRS) – Report on Shared Cost Structure, Funding Status and Rate of Return – Pursuant to A.R.S. § 38-848.02, PSPRS is required to report annually on the shared cost structure of the employees and employers, the funding status and the rate of return for the system. Besides administering its own system, PSPRS is also responsible for the Correctional Officers Retirement Plan (CORP) as well as the Elected Officials’ Retirement Plan (EORP). *Table 1* shows the contribution rates, funded status and rate of return for FY 2020, based on valuation data from June 30, 2018.

The employer contribution rates and the funded status have been shown in the aggregate. In PSPRS and CORP, however, there is significant variation in the actuarial status of individual employer groups. Individual employer contribution rates and funded ratios are available on the PSPRS website.

A 7-year smoothing period is used to calculate the investment rate of return. This smoothing technique is a tool used to reduce short-term volatility of assets by deferring a portion of gains and losses over time. This smoothing process is used under the condition that the

maximum deferred gain or loss remains within 20% of market value. *Table 7* shows 1-year market-based returns, in addition to the 7-year smoothing technique. (Josh Hope)

Department of Revenue – Repeal of Unused Tax Credits – Pursuant to A.R.S. § 43-224, the Department of Revenue (DOR) submitted its annual report on unused income tax credits. If an income tax credit goes unused in 4 consecutive state fiscal years, statute requires DOR to terminate the recognition and service of that credit for subsequent tax years and to include the repeal of the statute authorizing that credit in technical tax correction legislation. This legislation must be enacted for the repeal to become effective. For taxable years 2019 and beyond, DOR has determined that the individual income tax credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers as established by A.R.S. § 43-1083.04 be discontinued. While the credit will no longer be available for individual filers, including members of limited liability companies (LLCs) and shareholders of S corporations, the tax credit will remain available to corporate taxpayers pursuant to A.R.S. § 43-1164.05. (Adam Golden)

	<u>PSPRS</u>	<u>CORP</u>	<u>EORP</u>
Tier 1/2			
FY 20 Contribution Rates ^{1/}			
Employer ^{2/}	52.31%	27.59%	61.43%
Employee	7.65%/11.65% ^{3/}	8.41% ^{4/}	7.00%
Tier 3			
FY 20 Contribution Rates ^{1/}			
Employer ^{2/}	47.51%	25.01%	N/A
Employee	9.85%	7.00% ^{5/}	N/A
Funded Status ^{1/2/6/}	46.9%	54.1%	31.3%
Rate of Return			
1-year market value basis	7.07%	7.07%	7.07%
7-year smoothing basis	6.0%	6.0%	6.0%
^{1/} Based on June 30, 2018 valuation.			
^{2/} Employer contribution rates and funded statuses for PSPRS and CORP are shown in the aggregate, as there is significant variation in the actuarial status between individual employer groups.			
^{3/} Employees hired prior to January 2012 pay 7.65%. Employees hired between January 2012 and June 2017 pay 11.65%.			
^{4/} Pursuant to A.R.S. § 38-891H and I, the employee rate is 7.96% for full-time dispatchers and 8.41% for all others.			
^{5/} Due to provisions in Laws 2017, Chapter 163, state employees hired after June 30, 2018 will be enrolled in a Defined Contribution Plan with a fixed employee contribution rate of 7%.			
^{6/} Funded status is adjusted to exclude retiree health.			

Summary of Recent Agency Reports (Continued)

Arizona Department of Revenue – Report on Data Center Equipment Upgrade – Pursuant to A.R.S. § 18-104A1(g), the Department of Revenue (DOR) submitted a quarterly report from Gartner on the status of the department's data center equipment upgrade project.

Gartner reported that the key objectives of the project have been completed, including migration of data and applications to the Phoenix I/O facility. Of the 28 assessment areas, 2 remain marked as yellow, or "manageable" risk categorization. These two areas include the decommissioning of remaining hardware at DOR's current building on Monroe, and the disaster recovery plan - which DOR shifted from a full disaster recovery site to a data bunker. Gartner reported that data transfer to the data bunker contractor, Amazon Web Services, can occur relatively quickly, but DOR still needed to determine how to migrate the data, how it will interact with the data once there, as well as provide a 45-day notice to the IRS. (Jeremy Gunderson)

School Facilities Board – Quarterly Report on Credit Enhancement Program – Pursuant to A.R.S. § 15-2158, the School Facilities Board (SFB) is required to submit quarterly reports on the Public School Credit Enhancement Program. The program is operated by the Governor's Office of Education. Since September 30, 2018, no new schools have qualified for the program. As of December 31, 2018, 8 schools have been approved financing through the program – Academy of Math and Science (2 projects), Arizona Agribusiness and Equine Center, Great Hearts Academies (2 projects), BASIS Schools (2 projects), and Vista College Preparatory. The total outstanding principal amount is \$152.6 million. To date, there are no guaranteed financings for which the program has been required to disperse funds. The Credit Enhancement Fund balance is \$105.7 million and has a leverage ratio of 1.44 (based only on the outstanding principal of issued financing). The statutory limit for the program's leverage ratio is 3.5. (Rebecca Perrera)

Supreme Court – Report on Criminal Case Proceedings, Enforcement of Court Orders, and State Aid to Courts Fund Expenditures – Pursuant to A.R.S. § 12-102.01D, the Supreme Court reported to the JLBC on the progress of criminal case processing projects and the enforcement of court orders including the collection of court ordered fees, fines, penalties, sanctions and forfeitures. Additionally, pursuant to A.R.S. § 12-102.02D, the Supreme Court reported to the JLBC on the expenditure of monies from the State Aid to the Courts Fund for the prior fiscal year and the progress made in improving criminal case processing.

Since 2003, the Supreme Court has contracted with an outside vendor to increase compliance with court orders, resulting in total collections of \$45.2 million from backlogged cases in FY 2018, or 0.7% above FY 2017. Additionally, the Supreme Court utilizes a debt setoff program to match outstanding criminal fines or fees to outstanding tax and governmental liabilities. Tax and lottery interceptions in the debt setoff program were \$14.2 million in FY 2018, or (0.7)% below FY 2017.

Expenditures from the State Aid to the Courts Fund were \$1.9 million in FY 2018. These monies were disbursed to Superior and Justice Courts for the processing of criminal cases.

The Supreme Court reports that the funds help address specific issues with public safety, protection of victims' rights, restitution collection, and systemic overcrowding. (Geoffrey Paulsen)

January Spending

January 2019 General Fund spending was \$788.0 million, which is a decrease of \$(4.0) million below January 2018. (See Tables 8 & 9).

- Year-to-date, Department of Education (ADE) spending has increased by \$267.0 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.
- Year-to-date, Department of Corrections (ADC) spending has increased by \$61.7 million compared to the prior year. The FY 2019 General Appropriation Act added a footnote requiring ADC to transfer its entire annual employer contribution to the Corrections Officer Retirement Plan by August 1. In prior years, ADC's employer contributions were made throughout the fiscal year.

Agency	Change From		Year-to-Date	YTD Change from FY 18
	Jan 19	Jan 18		
AHCCCS	143.0	(11.9)	1,100.8	(23.1)
Corrections	115.3	(3.2)	722.5	61.7
Child Safety	29.8	(6.3)	194.2	(28.3)
Economic Security	8.6	(5.5)	554.3	35.7
Education	342.9	69.2	3,112.2	267.0
Health Services	9.2	0.3	56.4	(0.1)
Public Safety	3.5	(13.7)	88.4	22.6
School Facilities Board	9.7	(40.9)	211.3	(50.3)
Universities	66.6	8.5	429.1	16.4
Leaseback Debt Service	0.0	0.0	84.1	(0.0)
Other	<u>59.4</u>	<u>(0.5)</u>	<u>358.2</u>	<u>(5.8)</u>
Total	788.0	(4.0)	6,911.5	295.8

General Fund Spending				
(\$ in Thousands)				
Agency	Jan 19	Change from Jan 18	Year-to-Date	YTD Change from FY 18
Dept. of Admin./Automation Projects Fund	1,051.3	(949.3)	10,309.8	(14,074.1)
ADOA – Sale/Leaseback Debt Service	-	-	84,112.0	(3.1)
Office of Administrative Hearings	134.5	(0.0)	571.7	(19.2)
Commission of African-American Affairs	11.4	(2.2)	63.3	(18.8)
Department of Agriculture	1,095.7	44.1	6,357.5	395.6
AHCCCS	142,980.3	(11,876.3)	1,100,753.2	(23,106.2)
Attorney General	2,748.5	318.7	15,286.5	286.0
State Board of Charter Schools	115.5	1.2	673.4	42.3
Department of Child Safety	29,816.7	(6,282.2)	194,169.6	(28,276.8)
AZ Commerce Authority	1,866.7	75.0	12,766.9	75.0
Community Colleges	12,980.7	196.4	40,847.4	278.5
Corporation Commission	85.6	9.0	1,247.6	(102.9)
Department of Corrections	115,325.3	(3,193.4)	722,533.1	61,709.6
County Funding	-	-	20,566.2	4,915.5
AZ State Schools for the Deaf & Blind	2,502.5	(1,286.3)	12,947.8	(1,878.8)
Office of Economic Opportunity	47.4	(2.1)	267.2	(28.6)
Department of Economic Security	8,559.6	(5,535.7)	554,299.2	35,700.6
State Board of Education	174.0	114.4	513.3	(125.4)
Department of Education	342,934.9	69,181.3	3,112,217.7	267,037.1
DEMA	511.5	29.8	4,063.1	(1,919.1)
DEQ – WQARF	-	-	-	(2,823.6)
Office of Equal Opportunity	-	(19.4)	0.1	(114.9)
State Board of Equalization	26.8	(8.4)	307.3	(59.7)
Board of Executive Clemency	111.2	27.1	631.3	38.4
Department of Financial Institutions	128.2	(109.5)	982.9	(233.9)
Department of Forestry and Fire Management	878.9	(167.8)	5,461.4	(719.3)
Department of Gaming	-	-	1,779.5	-
Governor/OSPB	1,022.8	(535.3)	6,632.0	(830.3)
Department of Health Services	9,205.2	293.5	56,408.0	(130.3)
Arizona Historical Society	258.2	(7.3)	1,500.2	0.9
Prescott Historical Society of AZ	86.9	5.5	544.3	41.5
Department of Housing	-	2.9	-	(246.0)
Independent Redistricting Comm.	-	(0.0)	-	(0.8)
Department of Insurance	476.9	(166.2)	3,184.2	(138.6)
Judiciary				
Supreme/Superior Court	10,493.4	410.6	60,269.4	2,201.8
Court of Appeals	1,699.6	72.6	9,572.4	881.8
Department of Juvenile Corrections	3,418.6	116.2	14,440.5	1,423.7

Table 9 (Continued)

Agency	Jan 19	Change from Jan 18	Year-to-Date	YTD Change from FY 18
State Land Department	1,063.1	31.7	6,720.7	(251.7)
Legislature				
Auditor General	2,587.3	197.1	13,001.0	(189.5)
House of Representatives	1,764.3	113.7	8,468.0	149.5
Joint Legislative Budget Comm.	268.6	15.3	1,450.0	(46.5)
Legislative Council	660.1	3.6	3,796.5	(154.9)
Senate	1,120.1	13.1	5,738.5	241.8
Mine Inspector	107.2	(13.3)	702.1	(23.8)
Nav. Streams & Adjudication	11.7	(0.4)	76.5	(2.1)
Phoenix Convention Center	-	-	22,996.3	497.3
Comm. for Postsecondary Ed.	823.4	-	1,646.8	-
Department of Public Safety	3,518.4	(13,702.1)	88,416.4	22,604.1
Public Safety Personnel Retirement System	-	-	7,000.0	1,000.0
Radiation Regulatory Agency	-	(23.8)	-	(646.6)
Real Estate Department	254.3	(4.1)	1,556.3	(19.6)
Department of Revenue	1,868.1	(576.2)	16,779.8	(673.4)
School Facilities Board	9,710.2	(40,859.3)	211,268.0	(50,268.1)
Secretary of State	1,854.3	404.2	10,254.6	861.1
Tax Appeals Board	36.7	(8.8)	181.7	(0.2)
Office of Tourism	1,564.6	142.2	5,262.9	(1,137.9)
Department of Transportation	935.4	934.6	8,197.2	8,168.2
Governor's Office on Tribal Relations	6.7	4.6	39.4	23.1
Universities				
Board of Regents	101.9	79.1	5,426.2	(133.2)
Arizona State University	31,508.4	4,820.1	193,773.8	6,956.0
Northern Arizona University	10,106.7	1,055.7	66,081.8	2,724.3
University of Arizona	24,903.1	2,518.9	163,770.2	6,866.7
Department of Veteran Services	754.0	144.7	3,551.0	181.2
Department of Water Resources	1,512.7	(42.9)	8,249.3	(1,224.8)
Department of Weights & Measures	-	-	-	1.0
Other - State Treasurer/JP Salaries	227.0	43.5	784.6	113.8
Other	-	-	-	-
Total	788,017.3	(3,956.3)	6,911,469.3	295,788.8

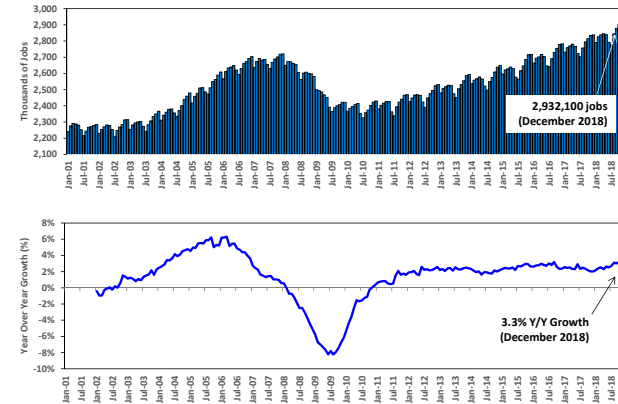
Arizona Economic Trends

February 2019
Appendix A

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

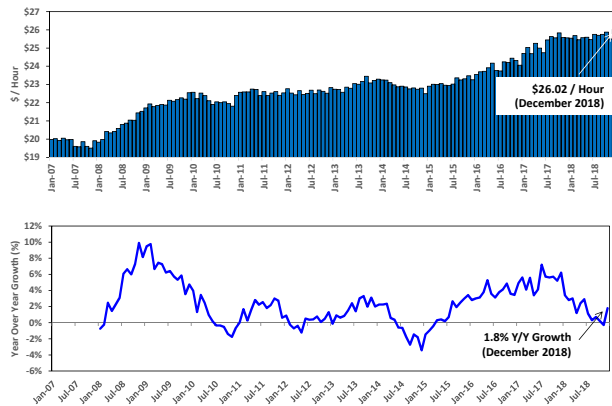
Total Non-Farm Employment



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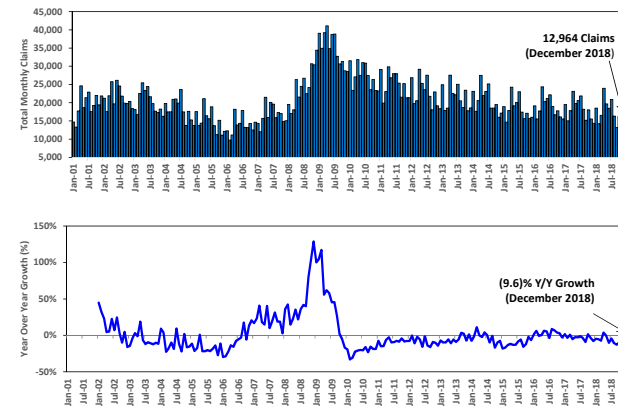
Average Hourly Earnings – Private Sector



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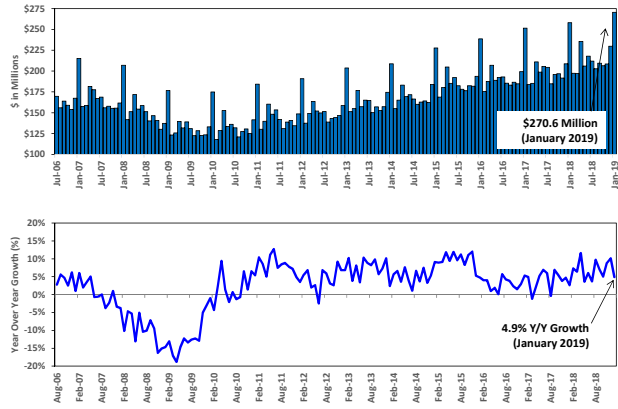
Initial Claims for Unemployment Insurance



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State Sales Tax Collections – Retail Category



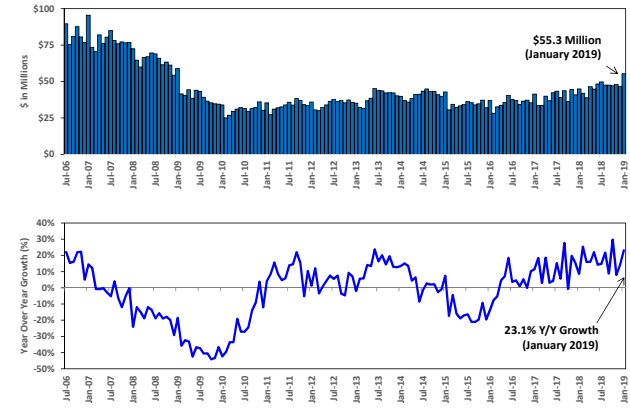
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Excludes temporary 1-cent sales tax

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

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State Sales Tax Collections – Contracting Category

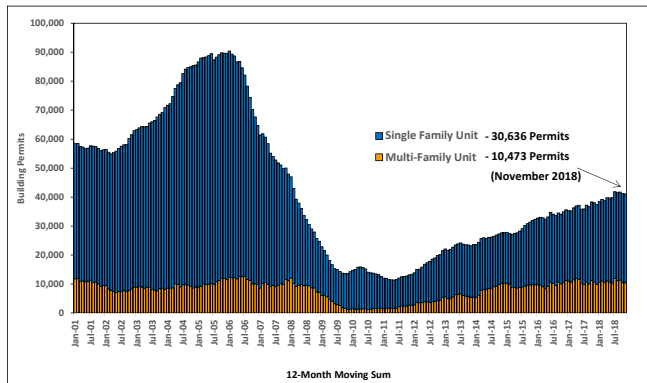


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Excludes temporary 1-cent sales tax

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Residential Building Permits



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