# JLBC - Monthly Fiscal Highlights

July 2018

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"The FY 2018

[General Fund

revenue]

results

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enacted

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This report has been prepared for the Arizona Legislature by the Joint Legislative Budget Committee Staff on July 20, 2018.

# **Summary**

The state's Fiscal Year 2018 ended on June 30th. Based on preliminary data, the state has recorded its highest level ever of General Fund revenues during FY 2018. General Fund revenue collections totaled \$10.11 billion, compared to the previous peak of \$9.63 billion in FY 2007.

Using this revenue data along with spending information received so far, this *Monthly Fiscal Highlights* provides an initial estimate of the FY 2018 ending balance.

The state will continue its book closing process over the next several months. The Executive Branch is required to provide a preliminary estimate of the FY 2018 ending balance by September 15, 2018. By law, the Department of Administration is required to publish its final FY 2018 accounting by December 1, 2018.

The following summarizes preliminary information on the state's financial status for FY 2018:

 Total June General Fund collections declined by (4.8)%, however, revenues for the month were \$61 million above forecast. A significant portion of the June decline in revenues was related to a lower level of one-time fund transfers, which was expected given the lower amount of fund transfers in the FY 2018 budget compared to the FY 2017 budget.

- In terms of the \$61 million forecast gain for June, this was due to the following revenue categories: 1) Other Miscellaneous revenues were \$48 million above forecast, caused by a significant increase in unclaimed property revenues for the state; 2) Corporate Income Tax collections grew by 16.8% and were \$22.0 million above forecast; and 3) Sales Tax collections were \$18.9 million above forecast
- During FY 2018, excluding fund transfers and Urban Revenue Sharing, General Fund revenues were 7.0% above the prior year. After factoring in these adjustments, General Fund revenues were 6.4% above FY 2017.
- FY 2018 General Fund revenues were \$410 million above the <u>January Baseline forecast</u>.
   Given that the enacted budget incorporated \$172 million of additional revenue, the FY 2018 results represent a forecast gain of \$238 million above the <u>enacted budget forecast</u>.
- The level of FY 2018 spending was relatively close to the amount assumed in the enacted budget. FY 2018 spending of \$9.83 billion exceeded the budgeted spending amount by approximately \$11 million.

### **Table of Contents**

Summary	AHCCCS – Medical and Dental Report10
• FY 2018 Results	AHCCCS – Behavioral Health Services10
• FY 2019 Potential Impacts2	AHCCCS – Arnold v. Sarn11
• FY 2018 Revenues	AHCCCS – GME Residency Positions11
• FY 2018 Spending 3	AHCCCS – Reconciliation Payments11
Operating Fund Balance3	DCS – Monthly Hiring Report11
June Revenues 4	ADC – Medicaid Health Care Credits12
Monthly Indicators7	ADC – Third-Party IT Report on AIMS12
Summary of Recent Agency Reports	• DES - Coolidge Campus Placements12
ADOA - Health and Dental Plans10	June Spending13
ADOA – Report on Private Leases 10	Arizona Economic TrendsAppendix A

### Summary (Continued)

### FY 2018 Results

The enacted budget from the 2018 Regular Session assumed an FY 2018 ending balance of \$205 million. The FY 2018 ending balance is now projected to be \$432 million. This updated estimate is based on the FY 2018 revenue forecast gain of \$238 million (as compared to the enacted revenue forecast) and a loss of \$11 million from higher than expected spending, for a net increase of \$227 million.

### **FY 2019 Potential Impacts**

The enacted budget 3-year plan projected the following ending cash balances in future years: FY 2019, \$236 million; FY 2020, \$187 million; FY 2021, \$102 million. In terms of structural balances (ongoing revenue compared to ongoing spending), the budget plan assumed the following: FY 2019, \$150 million; FY 2020, \$45 million; FY 2021, \$2 million.

All else being equal, the improved FY 2018 results would increase the state's projected balances in these years. However, additional analysis is needed to determine whether any of the state's FY 2018 revenue gains are one-time and unlikely to continue in future years.

Based on preliminary data, some of the FY 2018 forecast gains could be viewed as a one-time resource. Approximately two-thirds of the Individual Income Tax forecast gain was related to payments, which are typically the most volatile component of the category. In addition, the state saw gains in the Corporate Income Tax category, which has seen significant fluctuations over the past several years.

### FY 2018 Revenues

As noted above, FY 2018 General Fund revenues were the highest level ever recorded in the state, and were 6.4% above the prior year.

Total FY 2018 General Fund resources were \$10.26 billion. This amount consists of \$10.11 billion from current FY 2018 revenue collections combined with a \$151 million beginning balance that was carried forward from FY 2017.

The growth in FY 2018 General Fund revenues was largely caused by the Individual Income Tax and Sales Tax categories. The Individual Income Tax (IIT) category grew by 10.0%, fueled by significant payment growth. The IIT growth during FY 2018 was the highest for the category since FY 2013. Individual Income Tax posted the largest forecast gain of the state's major revenue categories, coming in at \$218 million above the January Baseline forecast.

Sales Tax collections grew by 6.2% during FY 2018, the highest growth rate seen since the "economic bubble"

year of FY 2006. The total level of Sales Tax collections (\$4.79 billion) represents an all-time record for the state. Sales Tax collections were \$97 million above the January Baseline forecast.

The Corporate Income Tax category posted a modest increase of 1.3% during FY 2018, reversing several years of significant declines. This increase was surprising since we are still in the multi-year process of phasing down Corporate Income Tax rates. The category was \$68 million above forecast for the year.

Table 1 displays the performance of the state's major revenue categories as compared to the January Baseline forecast.

# Table 1 Growth Rates and Collections Compared to Enacted Forecast By Revenue Category

	<u>Jan.</u> Forecast	<u>Prelim.</u> <u>Actual</u>	Above/ (Below) Forecast
Sales	4.1%	6.2%	\$97 M
Individual Income	4.7%	10.0%	\$218 M
Corporate Income	(17.0)%	1.3%	\$68 M
Insurance Premium	1.2%	1.0%	\$(1) M

### Sales Tax

Sales and Use tax revenue increased by 6.2% in FY 2018, which was \$97.4 million above the January Baseline forecast.

FY 2018 Sales Tax collections by category are shown in *Table 2* below. The 5 major categories of the state's Sales Tax shown in the table account for approximately 90% of total collections.

Table 2 FY 2018 Sales Tax Growth Rates Compared to Prior Year						
Retail	5.5%					
Contracting 15.1%						
Use 8.7%						
Restaurant & Bar 5.7%						
Utilities	3.9%					

In terms of Sales Tax growth, FY 2018 was the best performing year since FY 2006. As shown in *Table 2*, 4 of the 5 largest sales tax categories increased by 5.5% or more. The largest growth rate was

# Summary (Continued)

recorded for the prime contracting category, which increased by 15.1% and exceeded \$500 million in collections for the first time since FY 2009.

This rapid contracting growth can be at least partially explained by the double-digit percentage increase in building permitting activity that occurred throughout most of the fiscal year. While the utilities category increased by slightly less than 4%, this category had nonetheless its fastest growth rate since FY 2013.

### <u>Individual Income Tax</u>

Individual Income Tax grew by 10.0% in FY 2018 and ended up \$218 million above the January Baseline forecast. Most of the forecast overage is related to estimated and final payments, which grew by 16.1% to a total of \$1.6 billion, the highest total since FY 2007. The growth in Individual Income Tax collections exceeds Arizona personal income growth of 4.3% in CY 2017.

Of the total year-over-year IIT growth during FY 2018, approximately 40% occurred in December. As noted in prior *Monthly Fiscal Highlights*, some amount of this overage may have been due to the passage of the federal tax legislation, which capped the deductibility of state and local taxes (SALT) to \$10,000 beginning in TY 2018. This would have lead taxpayers to make advanced payments in December 2017 to avoid the SALT cap, and with no change in tax liability, would have resulted in an increase in these taxpayer's April refunds.

April tax filing data suggests that the FY 2018 Individual Income Tax growth is probably only partially related to federal tax policy changes. The overall performance of the economy appears to be the primary driver of the gains in Individual Income Tax collections during FY 2018.

#### Corporate Income Tax

Following 2 consecutive years with double-digit decline, Corporate Income Tax collections increased by 1.3% in FY 2018. Actual net collections exceeded the Baseline forecast by \$67.6 million. Although Corporate Income Tax revenue grew modestly in FY 2018, the amount of collections (\$373 million) was the second lowest in the last 16 fiscal years.

The improvement in Corporate Income Tax collections occurred in the second half of FY 2018, during which time net collections increased by 31%, primarily due to a (46)% decline in refunds. However, without access to timely Corporate Income Tax return data, it is difficult to determine the exact reasons for the large refund

decline in the second half of the fiscal year. Possible explanations include increased profitability (and hence underlying tax liability) and less carryover of previously earned tax credits.

### <u>Insurance Premium Tax</u>

Insurance Premium Tax revenues grew by 1.0% in FY 2018 and were \$(1.1) million below the January Baseline forecast. FY 2018 continued a slowing trend from FY 2017, when the growth rate was 2.8%, following growth of over 9% in FY 2015 and FY 2016. The high growth rates in FY 2015 and FY 2016 were largely driven by increased Medicaid enrollment following the January 1, 2014 expansion of coverage.

Detailed data of FY 2018 collections by insurance line will not be available until September 2018. It is likely, though, that the FY 2018 slowdown in Insurance Premium Tax collections again reflects trends in Medicaid enrollment growth, which has slowed from 8.3% in FY 2016 to 3.8% in FY 2017, to a (3.8)% decline in FY 2018.

### FY 2018 Spending

Based on preliminary spending data from the state's General Accounting Office (GAO), FY 2018 General Fund spending is estimated to be \$9.83 billion, which is an increase of 2.8% over the prior year.

Given the overall size of the state's General Fund budget, the FY 2018 spending level was relatively close to the amount assumed in the enacted budget. The FY 2018 spending of \$9.83 billion exceeded the budgeted spending amount by approximately \$11 million.

### **Operating Fund Balance**

The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The ending FY 2018 operating balance was \$2.8 billion, compared to \$2.3 billion a year earlier. As of midJuly, the operating fund balance has fallen to \$1.5 billion, primarily due to large K-12 rollover payments that occur in the beginning of the fiscal year.

In addition, the state's Budget Stabilization Fund (BSF) balance at the end of FY 2018 was approximately \$457 million.

### **June Revenues**

Table 3			
	General Fund	Revenues (\$ in Millions)	
	FY 2018 <u>Collections</u>	Difference From Baseline Forecast	Difference From FY 2017
June	\$ 1,242.0	\$ 61.3	\$ (62.3)
Year-to-Date	\$ 10,112.8	\$ 409.9	\$ 610.3

Sales Tax collections of \$426.4 million were 1.6% above June of last year and \$18.9 million above the forecast for the month. Total FY 2018 Sales Tax revenue of \$4.79 billion was 6.2% above the amount collected in FY 2017 and \$97.4 million above the January Baseline forecast.

The reason for the modest year-over-year growth rate of 1.6% in June is mainly technical. Large businesses are required to make an advance payment in June, which is credited against their sales tax liability in July. These amounts, referred to as the "June estimated payment," can vary significantly from one year to the next. Absent the June estimated payment, Sales Tax revenue for the month increased by 6.8%, year over year.

**Individual Income Tax** net revenues of \$419.6 million in June were \$(4.1) million below the forecast for the month. Year-to-date, revenue has grown 10.0% over the prior year.

As indicated in *Table 4*, June withholding revenues decreased by (0.1)% from last year and were \$(16.0) million below the forecast. Year-to-date withholding collections are 5.8% above FY 2017 and \$56.7 million above the forecast.

June estimated and final payments of \$136.1 million were 11.6% above last year and \$4.8 million above the forecast. Year-to-date, payments are 16.1% above FY 2017 and \$147.8 million above the forecast.

June Individual Income Tax refunds totaled \$(38.4) million, compared to \$(42.0) million in the prior year. With a forecasted refund level of \$(45.4) million, the lower level of refunds produced a forecast gain of \$7.1 million. Year to date, refunds have produced a forecast gain of \$13.1 million.

Table 4		
Individual Income Ta	x Growth Rat	es
Compared to F	Prior Year	
	<u>June</u>	YTD
Withholding	(0.1)%	5.8%
Estimated/Final Payments	11.6%	16.1%
Refunds	(8.6)%	3.5%

Corporate Income Tax net revenue was \$83.5 million in June, which was \$12.0 million above the amount collected in the prior year and \$22.0 million above the forecast for the month. Total FY 2018 collections of \$373.1 million were 1.3% above the prior year and \$67.6 million above the January Baseline forecast.

The improvement in Corporate Income Tax revenue was entirely attributable to the second half of the fiscal year when refunds declined by (46)%. As discussed in the *Summary Section*, the reasons for the large decline in refunds during this period cannot be determined at this point.

Insurance Premium Tax collections of \$92.4 million in June were (3.1)% less than the prior year and are \$2.8 million above forecast. Year-to-date, collections are 1.0% above last year and \$(1.1) million below the forecast.

The **Lottery Commission** reports that June ticket sales were \$78.3 million, which is \$2.4 million, or 3.1% above sales in June 2017. Year-to-date sales are 15.2% above the prior year.

In terms of General Fund Lottery revenues, due to a delay in Lottery's June deposit, June revenues are simply reported at forecast. The Lottery Commission intends to make this deposit in the next several weeks. The final amount of this deposit, and how it will be recorded (as FY 2018 revenues or FY 2019 revenues) remains unclear at the time.

Highway User Revenue Fund (HURF) collections of \$127.9 million in June were up 3.9% compared to June of last year and were \$5.4 million above forecast. Year-to-date collections are 2.8% above last year.

Other Miscellaneous revenues of \$89.6 million in June were 75.4% above the prior year and \$47.6 million above forecast. The significant increase in collections for this category relates to Unclaimed Property revenues, which are deposited to the

# June Revenues (Continued)

General Fund in June. Unclaimed Property collections were \$81.4 million in June 2018 compared to \$48.9 million in June 2017. Year-to-date, Other Miscellaneous revenues are \$29.7 million above the Baseline forecast.

One-Time Transfers revenue, which reflect enacted fund transfers to the General Fund, were \$48.4 million in June and were \$74.4 million in total during FY 2018. This level of fund transfers was a significant decline from the prior year, due to a lower level of fund transfers being enacted for FY 2018. During FY 2018, however, enacted fund transfers were \$20.0 million above forecast. The state received a \$20.0 million transfer from the Attorney General Volkswagen Settlement in FY 2018 which was originally budgeted for FY 2019.

Due to delays in reporting final May revenues for various revenues sources, DOR has made **technical adjustments** to prior month collection figures. For May, DOR has increased the amount of prior General Fund revenue collections by \$0.1 million 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 June 2018

		Currer	nt Month				FY 2018 YTD (1	welve Months	<b>s</b> )	
		Change From				Change from				
	Actual	June 201	7	Baseline Fore	cast	Actual	June 201	7	Baseline Fore	cast
	June 2018	Amount	Percent	Amount	Percent	June 2018	Amount	Percent	Amount	Percent
<u>Taxes</u>										
Sales and Use	\$426,358,985	\$6,893,777	1.6 %	\$18,947,578	4.7 %	\$4,787,647,197	\$281,486,130	6.2 %	\$97,409,268	2.1 %
Income - Individual	419,633,878	17,024,084	4.2	(4,146,068)	(1.0)	4,543,179,061	412,280,337	10.0	217,701,798	5.0
- Corporate	83,531,819	12,026,460	16.8	21,980,829	35.7	373,072,103	4,935,659	1.3	67,620,259	22.1
Property	4,714,224	1,798,020	61.7	227,223	5.1	38,719,634	6,181,136	19.0	6,253,209	19.3
Luxury - Tobacco	2,256,403	95,225	4.4	0	0.0	22,385,717	(544,076)	(2.4)	(769,734)	(3.3)
- Liquor	2,887,191	(30,905)	(1.1)	0	0.0	35,961,172	1,252,641	3.6	646,753	1.8
Insurance Premium	92,429,259	(2,960,395)	(3.1)	2,843,657	3.2	509,276,003	4,936,711	1.0	(1,091,601)	(0.2)
Other Taxes	686,547	651,842		614,948	858.9	7,650,496	4,909,754	179.1	5,408,785	241.3
Sub-Total Taxes	\$1,032,498,306	\$35,498,108	3.6 %	\$40,468,167	4.1 %	\$10,317,891,381	\$715,438,291	7.5 %	\$393,178,735	4.0 %
Other Revenue										
Lottery	6,222,764	1,936,964	45.2	0	0.0	74,648,126	(4,042,317)	(5.1)	(8,220,059)	(9.9)
License, Fees and Permits	2,921,057	(711,366)	(19.6)	(2,243,551)	(43.4)	37,969,904	(466,600)	(1.2)	(2,017,269)	(5.0)
Interest	21,746,585	4,325,199	24.8	3,961,942	22.3	22,013,090	5,012,131	29.5	2,977,090	15.6
Sales and Services	6,216,686	(7,932,654)	(56.1)	(8,393,555)	(57.4)	34,120,886	(7,941,172)	(18.9)	(7,539,903)	(18.1)
Other Miscellaneous	89,622,232	38,540,539	75.4	47,606,594	113.3	108,245,472	24,354,930	29.0	29,731,086	37.9
Disproportionate Share	83,704,660	(10,616,990)	(11.3)	(11,541,840)	(12.1)	83,704,660	(10,616,990)	(11.3)	(11,541,840)	(12.1)
Transfers and Reimbursements	7,454,597	(26,370,114)	(78.0)	(8,582,675)	(53.5)	40,598,579	(23,530,955)	(36.7)	(6,695,514)	(14.2)
Sub-Total Other Revenue	\$217,888,582	(\$828,421)	(0.4) %	\$20,806,916	10.6 %	\$401,300,718	(\$17,230,972)	(4.1) %	(\$3,306,408)	(0.8) %
TOTAL BASE REVENUE	\$1,250,386,888	\$34,669,687	2.9 %	\$61,275,083	5.2 %	\$10,719,192,099	\$698,207,318	7.0 %	\$389,872,327	3.8 %
Other Adjustments										
Urban Revenue Sharing	(56,730,840)	(1,432,326)	2.6	0	(0.0)	(680,770,080)	(17,187,912)	2.6	0	(0.0)
One-Time Transfers	48,367,728	(95,532,272)	(66.4)	0	0.0	74,391,728	(70,699,820)	(48.7)	20,000,000	36.8
Sub-Total Other Adjustments	(8,363,112)	(96,964,598)	%	0	(0.0) %	(606,378,352)	(87,887,732)	17.0 %	20,000,000	(3.2) %
TOTAL GENERAL FUND REVENUE	\$1,242,023,776	(\$62,294,911)	(4.8) %	\$61,275,083	5.2 %	\$10,112,813,747	\$610,319,586	6.4 %	\$409,872,327	4.2 %
Non-General Funds										
Highway User Revenue Fund	\$127,865,076	\$4,746,076	3.9 %	\$5,387,549	4.4 %	\$1,455,778,913	\$39,255,913	2.8 %	\$4,478,913	0.3 %

### **Monthly Indicators**

#### **NATIONAL**

According to the U.S. Department of Commerce Bureau of Economic Analysis (BEA), the third and final estimate of the **U.S. Real Gross Domestic Product (GDP)** increased at an annual rate of 2.0% in the first quarter of 2018. This was a (0.2)% downward revision from the second (or preliminary) real GDP estimate released by BEA in May. There was an upward revision to business fixed investment, which was more than offset by downward revisions to net exports, inventory investment, and personal consumption expenditures. Compared to the same quarter in 2017, real GDP is up by 2.8%.

The Conference Board's **U.S. Consumer Confidence Index** decreased by (1.9)% or (2.4) points to 126.4 in June, thereby largely offsetting last month's increase. The decrease in confidence was mainly driven by a decline in consumer expectations. Consumer's assessment of current conditions remained essentially unchanged. (The gap between consumers' expectations and their view of the present situation has widened in recent months.) The percentage of survey respondents planning to buy a vehicle in the next 6 months fell to its lowest level since October 2015, while the proportion of those with plans to purchase major household appliances was the lowest since July 2017.

According to the U.S. Department of Commerce Bureau of Economic Analysis, the U.S. Personal Consumption Expenditure (PCE) Price Index increased by 0.2% from April to May. Compared to May 2017, the price index is up by 2.3%. The "core" PCI price index, which excludes food and energy prices, is the Federal Reserve Bank's (Fed) preferred inflation measure and it increased (year over year) by 2.0% in May. This was the first time since a brief period in early 2012 that the core PCE price index increased by at least 2.0%.

Consumer prices, as measured by the **U.S. Consumer Price Index (CPI)**, increased by 0.1% in June and by 2.8% over the same month in the prior year. The annual inflation rate, as measured by the CPI, has been trending up over the last 12 months. Most of the month-overmonth increase in May was attributable to rising gasoline prices.

The Conference Board's **U.S. Leading Economic Index** increased 0.2% in May to 109.5 and is 6.1% above its May 2017 reading. The strongest positive contributor for the month was the Institute for Supply Management (ISM) new orders index followed by the interest rate spread index. These increases more than offset declines in the indexes for average workweek of production workers and building permits. Of the index's 10 components, 7 made positive contributions for the month, including the indexes for consumer expectations and stock prices.

#### **ARIZONA**

### **Housing**

Single-family housing construction is increasing. In May, Arizona's 12-month total of **single-family building permits** was 28,939, or 13.5% more than a year ago. The comparable single-family permit growth rate for the entire U.S. was 8.7%.

The 12-month total of multi-family building permits has been up and down. In May, Arizona's total of 10,739 multi-family building permits was (8.1)% less than in 2017. Nationwide multi-family permits were 6.6% more than in 2017.

### **Tourism**

**Revenue per available room** was \$79.65 in May, which was 5.8% above the amount in May 2017. **Ridership** through Phoenix Sky Harbor Airport in May increased by 1.0% over the prior month and was up by 2.3% compared to May 2017.

### **Employment**

According to the latest employment report released by the Office of Economic Opportunity (OEO), the state lost (44,900) **nonfarm jobs** in June compared to the prior month. This was less than the 10-year average job loss of (52,500) for the month of June. Job losses typically occur in June when schools are in recess.

Compared to the same month in the prior year, Arizona added 70,700 net new jobs in June, which is a year-over-year increase of 2.6%. The largest year-overyear job gains in June came from the following industries: Education and Health Services (+14,800), Construction (+14,600), and Professional and Business Services (+10,600).

Manufacturing employment increased by 5.5% or 9,000 jobs, year over year, in June. Most of the job gains in this industry came from the high-paying computer and electronic parts sector. The manufacturing industry employed 173,200 persons in June, which is the highest level since July 2008.

In June, the state's regular **unemployment rate** was 4.7%, which was unchanged from the prior month. The jobless rate has remained close to 4.7% in each of the last 12 months. The U.S. unemployment rate increased from 3.8% to 4.0% in June.

OEO reported that 18,492 **initial claims for unemployment insurance** were filed in June, a decrease of (10.2)% compared to the same month last year.

### Monthly Indicators (Continued)

In May, the **Average Weekly Hours** worked by individuals in Arizona's private sector was 34.8 hours. This was (1.7)% below the level during the prior month, and 0.9% above the level in May 2017.

The Average Hourly Earnings received by private sector workers in May was \$25.48, which was (0.4)% below the average in the prior month. Year-over-year growth in earnings increased from 1.6% in April to 1.9% in May.

### State Agency Data

At the beginning of July 2018, the total **AHCCCS caseload** was 1.80 million members. Since the federal health care expansion in January 2014, the overall AHCCCS population has grown by 543,300 members.

Total monthly enrollment increased by 0.3% during June but was (3.8)% lower than a year ago. Parent and child enrollment in the Traditional population was up 0.2% in June but was (4.2)% lower than a year ago.

Laws 2016, Chapter 112 reopened enrollment in KidsCare program in September 1, 2016. Following the enrollment freeze in January 2010, the KidsCare caseload had dropped to 500 members by August 2016. Through July 1, 2018, enrollment in the program was 29,700, which was 37.5% above June 2017.

In January 2014, the state started accepting new enrollment to the Proposition 204 childless adults program. In June 2018, the childless adult population increased by 1,400, or 0.5%. At 307,100, this population is (3.1)% lower than a year ago.

The state also opted to expand adult Medicaid coverage to 133% of FPL. Their enrollment increased by 300, or 0.4% in June and totals 76,500 individuals. Enrollment is (6.9)% lower than a year ago. The federal share of this population's cost decreased from 95% to 94% in January 2018.

There were 14,531 **TANF recipients** in the state in June, representing a 0.4% monthly caseload increase from May. The year-over-year number of TANF recipients has declined by (17.0)%. The statutory lifetime limit on cash assistance is 24 months.

The Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps, provides assistance to low-income households to purchase food. In June, 845,232 people received food stamp assistance in the state, representing a 1.0% increase over May. Compared to June caseloads last year, the level of food stamp participation has declined by (7.3)%.

The **inmate population** was 42,113 as of June 30, 2018. This is a (0.02)% decrease since May, and a (0.5)% decrease since last June.

Based on information the Department of Child Safety provided for June 2018, **reports of child maltreatment** totaled 47,159 over the last 12 months, a decrease of (0.2)% over the prior year. There were 14,869 **children in out-of-home care** as of April 2018, or (12.3)% less than in April 2017. Compared to the prior month, the number of out-of-home children decreased by (0.4)%.

According to the most recent information from the Administrative Office of the Courts, the Maricopa County **probation caseload** was 28,591 as of April 2018. This was an decrease of 73 below the prior month, and a 144 increase since last April. In addition, the state's non-Maricopa County probation caseload was 19,233. This was an increase of 59 above the prior month, and an increase of 69 since last April. These figures represent standard and intensive probation caseloads, including both adult and juvenile probation.

Table 6  MONTHLY INDICATORS							
<u>Indicator</u>	Time Period	Current Value	Change From Prior Period	Change From <u>Prior Year</u>			
Arizona							
Employment							
Regular Unemployment Rate	June	4.7%	0.0%	(0.1)%			
- Total Unemployment Rate	1st Q 2018	9.3%	(0.2)%	(1.6)%			
(discouraged/underemployed)			, ,	` ,			
Initial Unemployment Insurance Claims	June	18,492	(6.0)%	(10.2)%			
Unemployment Insurance Recipients	May	25,336	5.7%	(12.0)%			
Non-Farm Employment - Total	June	2,794,200	(1.6)%	2.6%			
Manufacturing	June	173,200	0.9%	5.5%			
Construction	June	161,300	2.9%	10.0%			
Average Weekly Hours, Private Sector	May	34.8	(1.7)%	0.9%			
Average Hourly Earnings, Private Sector	May	\$25.48	(0.4)%	1.9%			
Building	-						
- Residential Building Permits (12-							
month avg) Single-family	May	28,939	0.8%	13.5%			
Multi-family	May	10,739	(3.0)%	(8.1)%			
- Maricopa County/Other, Home Sales	-						
(ARMLS) Single-Family (Pending	May	6,617	(5.1)%	(3.8)%			
Sales)	•						
- Maricopa County/Other, Median Home Price							
(ARMLS) Single-Family (Pending Sales)	May	\$283,900	1.4%	9.6%			
- Phoenix S&P/C Home Price Index (2000 = 100)	April	178.97	0.8%	6.8%			
- Maricopa Pending Foreclosures	May	2,744	(1.2)%	(5.7)%			
- Greater Phoenix Total Housing Inventory, (ARMLS)	May	20,676	(5.0)%	(12.1)%			
<u>Tourism</u>	,		, ,	. ,			
Phoenix Sky Harbor Air Passengers	May	3,901,646	1.0%	2.3%			
- National Park Visitors	December	792,536	(14.3)%	22.7%			
- State Park Visitors	May	272,699	(15.8)%	(0.6)%			
- Revenue Per Available Hotel Room	May	\$79.65	(19.5)%	5.8%			
General Measures							
- Arizona Leading Index 6 month projected growth	May	7.1%	3.3%	0.8%			
- Arizona Personal Income (SAAR)	1st Q 2018	\$300.2 billion	5.5%	4.3%			
Arizona Population	July 2017	7,016,270	N/A	1.6%			
- State Debt Rating	-						
Standards & Poor's/Moody's	May	AA / Aa2	N/A	N/A			
Outlook	May	Stable	N/A	N/A			
Agency Measures	3						
- AHCCCS Recipients	July 1st	1,801,471	0.3%	(3.8)%			
Acute Care Traditional	3	1,032,412	0.2%	(4.2)%			
Prop 204 Childless Adults		307,068	0.5%	(3.1)%			
Other Prop 204		182,944	0.5%	(5.8)%			
Adult Expansion		76,547	0.4%	(6.9)%			
Kids Care I		29,740	0.0%	37.5%			
Long-Term Care - Elderly & DD		62,077	0.4%	3.6%			
Emergency Services		110,683	0.0%	(8.2)%			
Department of Child Safety (DCS)				• •			
Annual Reports of Child Maltreatment (12-month	June	47,159	(0.5)%	(0.2)%			
total)	April	14,869	(0.4)%	(12.3)%			
DCS Out-of-Home Children	•		. ,	• • • • • • • • • • • • • • • • • • • •			
Filled Caseworkers (1406 Budgeted)	June	1,332	25	(13)			
ADC Inmate Growth	June	42,113	0.0%	(0.5)%			
- Department of Economic Security				` '			
- TANF Recipients	June	14,531	0.4%	(17.0)%			
- SNAP (Food Stamps) Recipients	June	845,232	1.0%	(7.3)%			
Judiciary Probation Caseload				(,			
Non-Maricopa	April	19233	59	69			
Maricopa County	April	28,591	(73)	144			
United States	la	1211	(, 5)				
Gross Domestic Product	1st Q, 2018 (Final	\$17.4 trillion	2.0%	2.8%			
(Chained 2009 dollars, SAAR)	Estimate)	u		2.0,0			
Consumer Confidence Index (1985 = 100)	June	126.4	(1.9)%	7.8%			
Leading Indicators Index (2016 = 100)	May	109.5	0.2%	6.1%			
- Consumer Price Index, SA (1982-84 = 100)	June	250.9	0.1%	2.8%			

### **Summary of Recent Agency Reports**

**Arizona Department of Administration** – Report on Performance Standards for Health and Dental Plans -Pursuant to A.R.S. § 38-658B, the Arizona Department of Administration (ADOA) submitted its report on performance standards for health and dental plans during Plan Year (PY) 2017. If a vendor fails to meet any of the measures within the specified performance range, the vendor is required to submit a Corrective Action Plan detailing why the measure was missed and any actions taken to address the issue and improve performance to meet the standard. A percentage of the vendor's annual payment, or a previously agreed upon amount, is then withheld by ADOA as a performance penalty. ADOA estimates that performance penalties paid to Benefit Services Division related to PY 2017 will total \$325,600. In comparison. ADOA collected \$294,000 from PY 2016 penalties. (Rebecca Perrera)

Arizona Department of Administration – Report on Private Leases – Pursuant to A.R.S. § 41-792D, the Arizona Department of Administration (ADOA) is biennially required to submit a report on all approved office leases that exceeded the Lease Cost Review Board's (LCRB) estimated average cost per square foot for privately-owned office space during the prior 2 years. ADOA approved 95 leases in FY 2017 and FY 2018. Nine of the leases approved in FY 2018 exceeded the LCRB's \$21.02 average cost per square foot. (Rebecca Perrera)

Arizona Health Care Cost Containment System – Quarterly Report on the Comprehensive Medical and Dental Program (CMDP) – Pursuant to Laws 2016, Chapter 273, the Arizona Health Care Cost Containment System (AHCCCS) is required to report quarterly on the financial and program accountability trends of CMDP, the foster care medical program. AHCCCS' most recent report covers Federal Fiscal Year 2017 (October 1, 2016 through September 30, 2017). AHCCCS reports the following findings:

- The percentage of CMDP children receiving behavioral health services in September 2017 was 74.6%.
- The services utilized by the highest percentage of CMDP members using services in September 2017 included support services (94.9%), treatment services (52.0%), and rehabilitation services (13.7%). <u>Support services</u> for foster children include case management, peer support, and transportation to appointments. <u>Ireatment services</u> include individual and group counseling as well as behavioral health diagnostic evaluations. <u>Rehabilitation services</u> include living skills training, cognitive rehabilitation (such as memory training)

- or anger management), and behavioral health education and prevention activities.
- The services that accounted for the greatest share of CMDP program costs in September 2017 included support services (39%), treatment services (19%), and inpatient services (16)%.
   Inpatient services primarily consist of inpatient psychiatric services provided by hospitals. (Patrick Moran)

Arizona Health Care Cost Containment System – Annual Report on Behavioral Health Services- Pursuant to A.R.S. § 36-3415, the Arizona Health Care Cost Containment System (AHCCCS) reported the following data on behavioral health services for FY 2017:

- Expenditures: AHCCCS expended \$2.12 billion Total Funds on behavioral health services for Medicaid-eligible clients and \$222.2 million Total Funds for non-Medicaid clients in FY 2017.
- <u>Client Income</u>: Of the members receiving Medicaid services, 89.2% had incomes at or below 100% of the Federal Poverty Level.
- Medical Necessity Oversight Practices: AHCCCS
  health plans are required by contract to use
  Medical Management programs to support
  medical necessity oversight, including prior
  authorization, concurrent and retrospective
  review of utilization in institutional settings, and
  utilization data analysis and management.
- <u>Tracking of High-Cost Beneficiaries</u>: The High Needs/High Cost (HNHC) program identifies members with complex physical and behavioral health needs to facilitate coordination of care between the Regional Behavioral Health Authorities (RBHAs) and AHCCCS health plans. As of October 1, 2017, there were 558 enrollees in the HNHC program.
- Mortality Trends: Using data from the Department of Health Services, AHCCCS reports that suicide was the 8<sup>th</sup> leading cause of mortality in Arizona in 2016, and that drug-related mortality grew by 10% in 2016 compared to the prior year. Among AHCCCS members, there were 834 accidental deaths in FY 2017, which could include suicide, drug overdoses, and other causes of death.
- Placement Trends: AHCCCS reports expanded capacity for behavioral health residential facilities and associated increases in utilization of such facilities for members leaving jail, individuals with opioid use disorders, specialty children's services, and Seriously Mentally III (SMI) services. Inpatient psychiatric hospital utilization also increased, according to AHCCCS, due to increased collaboration with first responders, reduced emergency department holds, opioid use disorder treatment needs, expansion of services for youth

### Summary of Recent Agency Reports (Continued)

- with autism, and increased capacity for crisis services.
- Program Integrity: The AHCCCS Office of Inspector General (OIG) maintains responsibility for prevention and detection of improper payments, and reviews AHCCCS health plan fraud prevention efforts. AHCCCS does not have data on Medicaid-related fraud recoveries specific to behavior health, but does report non-Medicaid behavioral health recoveries of \$141,900 from 10 cases in FY 2017.
- Access to Services: The RBHAs are required by contract to ensure that 90% of their members are within a specified distance to certain behavioral health providers. AHCCCS reports these standards were met in Maricopa County, but were not always met by the RBHAs in Non-Maricopa Counties. The health plans are also required to schedule behavioral health assessments and services within specified timeframes. AHCCCS reports that these timeframes are generally met by the RBHAs at least 90% of the time. (Patrick Moran)

Arizona Health Care Cost Containment System – Report on Arnold v. Sarn – Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Health Care Cost Containment System (AHCCCS) reported on its implementation of the Arnold v. Sarn joint agreement. The state has been a longstanding defendant in the Arnold v. Sarn litigation concerning the level of services provided to the Seriously Mentally III (SMI) population in Maricopa County. In January 2014, a joint agreement was filed with the court to terminate the lawsuit, and the agreement received court approval in February 2014.

The agreement requires availability of certain behavioral health services for individuals with a serious mental illness in Maricopa County ("class members"). These services include assertive community treatment teams, peer support services, supported employment, supportive housing, and crisis services. AHCCCS continues to comply with these service capacity requirements.

AHCCCS estimates that the annual cost of providing Arnold v. Sarn services is \$60.4 million, including \$26.3 million from the General Fund. The General Fund amounts consists of:

- \$5.0 million for Assertive Community Treatment
- \$494,700 for Peer Support Services.
- \$437,800 for Supported Employment.
- \$20.4 million for Supported Housing, which consists of \$11.8 million for rental subsidies and \$8.6 million for support services. (Patrick Moran)

AHCCCS - Report on Graduate Medical Education Residency Positions - Pursuant to A.R.S. § 36-2903.01, the Arizona Health Care Cost Containment System (AHCCCS) submitted its annual report on the number of residency positions funded by local, county, or tribal governments. The agency reported that these contributions in FY 2017 provided \$290.2 million for partial funding of 1,644 residency positions at 16 hospitals. The largest recipients included Banner University Medical Center - Tucson (\$63.5 million), Maricopa Medical Center (\$55.6 million), Banner University Medical Center - Phoenix (\$42.0 million), St. Joseph's Hospital - Phoenix (\$35.8 million), and Phoenix Children's Hospital (\$30.8 million).

The \$290.2 million in Total Funds included local contributions of \$89.5 million and a federal match of \$200.7 million. The local government contributors included University of Arizona (\$54.1 million), Maricopa Integrated Health System (\$19.8 million), Arizona State University (\$12.5 million), the City of Tucson (\$2.1 million) and Mohave County (\$966,000). (Patrick Moran)

AHCCCS - Report on Reconciliation Payments - Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Arizona Health Care Cost Containment System (AHCCCS) submitted its report on reconciliation payments and penalties received and deposited during FY 2018. AHCCCS reports that during that 12-month period they deposited \$315,050 into the General Fund and \$7.5 million into the Hospital Assessment Fund, and used the remaining \$33.8 million to offset Federal Medicaid Authority expenditures from reconciliation payments and penalties/sanctions.

The state limits financial risks and profits for health plans and RBHAs for most Medicaid populations (the maximum percentage of loss and profit varies by Medicaid population). Reconciliation payments are made by health plans/RBHAs to the state if profits exceed the set level. A penalty, or sanction, may be assessed against health plans/RBHAs for the failure to demonstrate compliance with their contractual responsibilities. Reconciliation payments received in FY 2018 totaled \$40.7 million while penalties and sanctions totaled \$900,900. (Patrick Moran)

Department of Child Safety – Monthly Report on Hiring – Pursuant to an FY 2018 General Appropriation Act footnote, the Department of Child Safety (DCS) reported on its progress in hiring and retaining child safety staff through June 2018. (See Table 7 below.)

The number of direct line child safety staff (caseworkers, caseworkers in training, caseworkers

### Summary of Recent Agency Reports (Continued)

awaiting training and hotline staff) was 1,332 in June, or (74) fewer staff than the number of funded positions. Most of the difference between funded positions and filled positions was driven by lower-than-budgeted staffing of caseworkers. Total direct line staff increased by 25 positions since May.

There were also 1,429 non-direct line child safety staff in June, or (82) fewer staff than the funded staffing level. The budgeted staffing level is 1,511 excluding Attorney General positions. Total non-direct line positions increased by 5 compared to May. (Patrick Moran)

Department of Corrections – Report on Health Care Credits Taken Against Payments To Health Care

Vendor – The state can seek Medicaid reimbursement for the costs of outside medical care for eligible inmates. To receive reimbursement, the care is paid by the Arizona Health Care Cost Containment System (AHCCCS). The Department of Corrections (ADC) pays the state match portion, and AHCCCS covers the federal portion. Since ADC already pays for all health care of inmates in state facilities in the inmate health care services contract, the total dollar amount of Medicaid expenditures is offset on subsequent invoices by the vendor. The savings to the department is the federal portion.

A.R.S. § 35-142.01 allows the department in the current fiscal year to take credit against payments for the total expenditures paid for hospitalization and outside medical care from the current fiscal year or previous years. Pursuant to statute, ADC submitted its report on the credits taken for the previous fiscal year.

For FY 2018, the department took \$11.8 million in credits. The department paid \$1.5 million for the state match, and received \$10.3 million in net savings. Of the net savings, \$122,700 was for services rendered in FY 2016, \$2.7 million was for services rendered in FY 2017, and \$7.5 million was for services rendered in FY 2018. ADC utilizes the net savings to augment funding

for the inmate health care contracted services. (Geoffrey Paulsen)

Arizona Department of Corrections - Third-Party Report on Arizona Inmate Management System (AIMS) Replacement - Pursuant to an FY 2017 General Appropriation Act footnote, the Arizona Department of Corrections (ADC) provided quarterly updates of the AIMS Replacement project for the period ending March 31, 2018. As of February 2018, ADC projects activating the system by June 30, 2018.

This quarterly report for the period ending March 31, 2018 and updated through April 25, 2018 indicated that 79% of the tasks were completed, with about 25% of the tasks late. The third-party reviewer indicated the project "is on the right path" and has made progress since the last report, but the department and developer need to increase their collaboration, ensure that the right staff are assigned to the right activities, and bring more accountability to the remaining tasks. The third-party reviewer stated the project leaders need to determine when they can proceed to testing the live system. Subsequent to the report, ADC indicated they will provide JLBC Staff with a revised timeline for completion of the project. (Micaela Larkin)

**Department of Economic Security** – Report on Arizona Training Program at Coolidge (ATP-C) Campus and Other Placements - An FY 2018 General Appropriation Act footnote requires the Department of Economic Security (DES) to report on placements of developmentally-disabled (DD) clients into stateowned Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF-IID) or at the ATP-C campus in FY 2018. DES reports that there was 1 temporary 3day placement into a state-operated ICF-IID in Phoenix in FY 2018 to provide care to a member with multiple behavioral issues while the member's family traveled. No other qualified vendors were available. There were no new placements into any other staterun ICF-IID or the ATP-C campus in FY 2018. (Patrick Moran)

Table 7			
DCS Filled FTE Posi	tions as of Jun	e 2018	
	<u>Funded</u>	<u>June</u>	<u>Difference</u>
Caseworkers	1,190	1,053	(137)
Hotline Staff	76	70	(6)
Staff in Training	<u>140</u>	<u>209</u>	<u>69</u>
Subtotal - Direct Line	1,406	1,332	(74)
Subtotal - Non-Direct Line Staff	<u>1,511</u>	<u>1,429</u>	<u>(82)</u>
Grand Total 1/	2,917	2,761	(156)
1/ Excludes 276.2 Attorney General Staff			

# **June Spending**

June 2018 General Fund spending was \$682.0 million, which is an increase of \$0.4 million above June 2017. (See Tables 8 & 9).

Year-to-date, FY 2018 General Fund spending is \$9.83 billion, or \$263.2 million above the prior year.

Table 8							
General Fund Spending (\$ in Millions)							
		Change From		YTD Change			
	<u>June 18</u>	<u>June 17</u>	Year-to-Date	from FY 17			
Agency							
AHCCCS	151.1	5.7	1,763.0	13.1			
Corrections	88.0	(10.9)	1,066.6	22.3			
Child Safety	40.2	10.2	376.7	(0.2)			
Economic Security	15.7	0.1	571.4	42.7			
Education	268.6	(1.7)	4,200.8	119.9			
Health Services	7.4	10.2	89.0	12.1			
Public Safety	2.9	(2.4)	110.6	(2.7)			
School Facilities Board	0.2	(14.0)	302.3	74.4			
Univ ersities	58.7	2.9	704.8	11.6			
Leaseback Debt Service	0.0	0.0	84.1	(0.0)			
Other	49.2	0.3	<u>563.2</u>	(30.0)			
Total	682.0	0.4	9,832.5	263.2			

Table 9									
G	eneral Fund Spen								
(\$ in Thousands)									
Change from YTD Change									
Agency	June 18	June 17	Year-to-Date	from FY 17					
Dept. of Admin./Automation Projects Fund	1,823.3	101.3	32,653.8	(1,808.0)					
ADOA – Sale/Leaseback Debt Service	-	-	84,115.1	(2.3)					
Office of Administrative Hearings	58.0	(4.1)	870.9	10.4					
Commission of African-American Affairs	10.3	1.4	128.2	5.4					
Department of Agriculture	1,149.1	315.9	9,310.2	145.7					
AHCCCS	151,132.8	5,717.9	1,763,017.4	13,093.5					
Attorney General	3,601.1	640.1	25,955.4	1,873.2					
State Board of Charter Schools	144.7	50.4	1,077.6	67.2					
Department of Child Safety	40,241.4	10,201.8	376,699.4	(217.6)					
AZ Commerce Authority	1,791.7	-	21,800.0	(180.9)					
Community Colleges	93.1	20.2	55,277.0	964.3					
Corporation Commission	81.1	(19.5)	1,586.7	727.0					
Department of Corrections	88,047.4	(10,865.2)	1,066,630.9	22,299.2					
County Funding	-	-	15,650.7	1,650.2					
AZ State Schools for the Deaf & Blind	2,232.5	1,020.1	22,701.9	1,581.5					
Office of Economic Opportunity	41.7	(56.6)	458.6	(550.1)					
Department of Economic Security	15,656.9	148.5	571,414.3	42,747.9					
State Board of Education	105.7	10.5	1,078.7	153.6					
Department of Education	268,637.4	(1,663.4)	4,200,840.2	119,946.6					
DEMA	3,270.2	(1,841.0)	12,625.2	115.6					
DEQ – WQARF	-	-	2,823.6	-					
Office of Equal Opportunity	22.0	6.7	190.5	3.5					
State Board of Equalization	45.5	(22.2)	513.1	(62.3)					
Board of Executive Clemency	71.1	17.0	920.2	185.1					
Department of Financial Institutions	257.8	(63.0)	2,155.0	(770.0)					
Department of Fire, Bldg and Life Safety	-	(2.4)	-	(0.1)					
Department of Forestry and Fire Management	592.0	(72.3)	15,101.8	4,522.6					
Department of Gaming	-	-	1,779.5	(200.0)					
Governor/OSPB	802.7	228.9	10,881.7	1,927.5					
Department of Health Services	7,429.5	10,203.9	88,953.9	12,081.4					
Arizona Historical Society	413.1	221.3	3,179.8	28.6					
Prescott Historical Society of AZ	65.3	(15.9)	805.1	(19.3)					
Department of Housing	0.0	(13.2)	246.1	(565.4)					
Independent Redistricting Comm.	-	(86.5)	0.8	(1,052.9)					
Department of Insurance	545.8	36.6	5,454.8	376.7					
Judiciary									
Supreme/Superior Court	2,773.4	119.7	97,392.8	875.6					
Court of Appeals	1,363.3	(146.3)	14,673.1	450.5					
Department of Juvenile Corrections	3,008.2	134.4	19,081.6	(4,262.1)					

		Change from		YTD Change
Agency	June 18	June 17	Year-to-Date	from FY 17
State Land Department	1,337.7	310.9	11,988.4	(56.5)
Legislature				
Auditor General	(191.3)	14.6	19,518.9	1,582.8
House of Representatives	962.9	(21.4)	13,854.5	537.9
Joint Legislative Budget Comm.	178.1	(43.1)	2,387.8	78.2
Legislative Council	632.3	(85.0)	6,572.1	(124.2)
Senate	739.8	113.9	9,301.7	396.1
Mine Inspector	99.8	(31.9)	1,130.8	(41.6)
Nav. Streams & Adjudication	8.7	(0.9)	120.7	(6.2)
Arizona State Parks Board	-	-	4.4	4.4
Phoenix Convention Center	-	-	22,499.0	2,050.0
Comm. for Postsecondary Ed.	-	-	1,848.9	452.1
Department of Public Safety	2,943.3	(2,431.9)	110,567.3	(2,677.1)
Public Safety Personnel Retirement System	-	-	6,000.0	-
Radiation Regulatory Agency	(2.6)	(7.1)	784.4	(778.8)
Real Estate Department	252.0	50.4	2,614.6	160.4
Department of Revenue	4,281.8	706.5	31,036.3	(226.5)
Rio Nuevo Distribution	13,562.7	(425.8)	13,562.7	(425.8)
School Facilities Board	166.3	(14,024.6)	302,336.5	74,373.8
Secretary of State	(5.5)	(875.9)	13,722.2	(11,401.7)
Tax Appeals Board	20.8	2.1	277.4	10.3
Office of Tourism	-	-	7,112.0	-
Department of Transportation	5.1	(7.3)	49.8	(0.6)
Governor's Office on Tribal Relations	21.1	8.7	56.6	(0.4)
Universities				
Board of Regents	560.5	64.5	6,875.3	(29,241.1)
Arizona State University	26,685.8	1,248.6	320,256.6	21,859.0
Northern Arizona University	9,051.1	611.4	108,612.8	7,385.8
University of Arizona	22,419.9	962.3	269,038.6	11,547.5
Department of Veteran Services	509.8	(110.8)	5,709.9	(211.0)
Department of Water Resources	2,236.9	56.5	15,211.3	3,171.6
Department of Weights & Measures	-	-	(1.0)	(1.8)
Other - State Treasurer/JP Salaries	27.7	(26.7)	1,101.2	18.8
Other - ADOT Capital	-	-	-	(31,500.0)
Other	-	-	276.9	95.2
Total	682,013.0	382.9	9,832,474.1	263,172.3

### **Arizona Economic Trends**

### July 2018 Appendix A

#### Page:

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











